

Translation from Bulgarian

AVTO UNION AD

**CONSOLIDATED ANNUAL MANAGEMENT REPORT
AND CONSOLIDATED FINANCIAL STATEMENT
31 December 2013**

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<i>General information</i>	<i>i</i>
<i>Consolidated management report</i>	<i>ii</i>
<i>Independent auditor's report to Avto Union AD shareholders</i>	<i>1</i>
<i>Consolidated statement of comprehensive income</i>	<i>3</i>
<i>Consolidated statement of financial position</i>	<i>4</i>
<i>Consolidated statement of changes in equity</i>	<i>5</i>
<i>Consolidated statement of cash flows</i>	<i>6</i>

Explanatory notes to the consolidated financial statement:

<i>1. Corporate information</i>	<i>7</i>
<i>2.1 Basis of preparation</i>	<i>7</i>
<i>2.2 Summary of significant accounting policies</i>	<i>7</i>
<i>2.3 Changes in accounting policies and disclosures</i>	<i>15</i>
<i>3 Significant accounting judgements, estimates and assumptions</i>	<i>18</i>
<i>4 Standards issued but not yet effective</i>	<i>20</i>
<i>5. Revenues and expenses</i>	<i>21</i>
<i>6. Property, plant and equipment</i>	<i>23</i>
<i>7. Intangible assets</i>	<i>24</i>
<i>8. Investment property</i>	<i>25</i>
<i>9. Goodwill</i>	<i>25</i>
<i>10. Trade and other receivables</i>	<i>25</i>
<i>11. Inventory</i>	<i>26</i>
<i>12. Cash and short-term deposits</i>	<i>26</i>
<i>13. Share capital and reserves</i>	<i>26</i>
<i>4. Interest-bearing loans and borrowings</i>	<i>27</i>
<i>5. Bond loan</i>	<i>27</i>
<i>6. Financial lease liabilities</i>	<i>27</i>
<i>7. Trade and other payables</i>	<i>28</i>
<i>8. Related parties disclosure</i>	<i>28</i>
<i>9. Financial risk management objectives and policies</i>	<i>32</i>
<i>1. Financial instruments</i>	<i>33</i>
<i>1. Events after the reporting period</i>	<i>33</i>



Avto Union AD
CONSOLIDATED MANAGEMENT REPORT
For the year ending on 31 December 2013

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BDO Bulgaria OOD

Auditor



Avto Union AD
CONSOLIDATED MANAGEMENT REPORT
For the year ending on 31 December 2013

CONSOLIDATED ANNUAL MANAGEMENT REPORT
OF AVTO UNION AD
FOR THE FINANCIAL YEAR 2013



Avto Union AD
CONSOLIDATED MANAGEMENT REPORT
 For the year ending on 31 December 2013

CONSOLIDATED ANNUAL MANAGEMENT REPORT

containing information regarding important events which have occurred during the financial 2013 in accordance with Art. 100o, paragraph 4, item 2 of the Public Offering of Securities Act (POSA)

AVTO UNION AD

(Financial indicators on a consolidated basis)

The consolidated financial result of the company for the period from 01.01.2013 to 31.12.2013 is a loss of 290 thousand BGN and the result for the same period of the previous year is a loss of 1,584 thousand BGN.

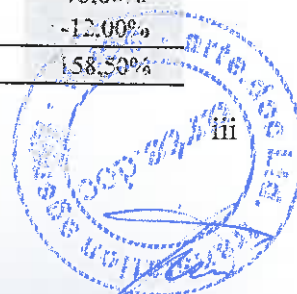
The sales of cars, spare parts and lubricants for 2013 have increased by 37% compared to 2012 and the increase in the services provided is 3%. There is an increase of 33% in the total revenue.

Gross profit for 2013 has increased by 11% or 2.5 mln. BGN, compared to the previous year.

The operating expenses for 2013 have increased by 7% compared to the previous year, which is due mainly to the increase in the material expenses and the increase in the service expenses. The material expenses have increased in regard to the consumables – by 45% and about 200 thousand BGN. Advertising materials have decreases by 22% or by over 30 thousand BGN. The expenses for external services have increased by 18% due to the opening of new locations for Star Motors and Auto Italia, official importers of the brands Alfa Romeo, Fiat and Maserati and Mazda, respectively. The new locations are the following: for Star Motors in Stara Zagora from September 2012, where there is a showroom and after-sales servicing, and in Plovdiv, where there is a showroom since January 2013; for Auto Italia – in Varna, where there is a sale of automobiles, as well as after-sales servicing – operating during the whole nine months, unlike in 2012, when it was started in February, as well as a new location which was opened in June in Veliko Tarnovo, where there is a showroom. There is also an increase in the advertising expenses in Auto Italia EAD and Star Motors EOOD, as well as in the increased lease expenses for new locations. The increase in the advertising expenses is due to the introduction of new models from the respective brands on the Bulgarian market, as well as to the opening of a new company, importer of Mazda in Macedonia – Star Motors DOOEL, Skopje.

For 2013 the sales of new cars and light-commercial vehicles, realized by Avto Union – the automotive holding in the group of Eurohold Bulgaria, amount to 2,562 vehicles in comparison to 2,216 items, sold during the same period of 2012, which represents an increase of 15.6% for the period. According to data from the Association of car manufacturers and their authorized representatives for Bulgaria, the market for new cars and light-commercial vehicles retains its levels from the previous year with an increase of less than 1%. Avto Union has a market share of 11.2% at the end of 2013 and at the end of 2012 this indicator was 9%. For 2013, in comparison to 2012, the sales of Nissan mark an increase of 59%, of Dacia – 67%, and of Renault – 42%. Mazda also shows an increase for 2013 of more than 16%. Maserati reports a considerable increase of 4.5 times in comparison to the previous year. Opel and Chevrolet report a decrease in sales of 14%, in comparison to the previous year. FIAT and Alfa Romeo also report a decrease in sales.

Avto Union	Sales		%
	2013	2012	Change
January – December, 2013 (with accumulation)	2 562	2 216	15.60%
incl. Sales during the second half of the year			
Month JULY	269	163	65%
Month AUGUST	169	135	25.20%
Month SEPTEMBER	244	150	62.70%
Month OCTOBER	303	184	64.70%
Month NOVEMBER	299	172	73.80%
Month DECEMBER	198	225	-12.00%
Month JANUARY, 2014	335	130	158.50%



Avto Union AD
CONSOLIDATED MANAGEMENT REPORT
For the year ending on 31 December 2013

In the second half of 2013, Avto Union AD reports considerable increases in comparison with the same period in 2012, whereas this tendency is also maintained in the beginning of 2014 – in January the number of automobiles sold by Avto Union AD is 336, whereas in January 2013 they were 130; the increase achieved is 158.5%.

During the reporting period the companies from the automotive holding have made fleet deals amounting to 34 million BGN, whereas the amount for the same period in the previous year was 23 million BGN.

Reported important events in 2013:

On 23.01.2013 in the Commercial Register was entered a restructuring of three of the subsidiaries of Avto Union, and namely Gransport Auto EOOD as an importer for Maserati, Milano Motors EOOD – importer of Alfa Romeo, Vespa, Gillera and Piaggio merge with Auto Italia EAD, which is the importer of Fiat and Fiat Professional. The main goal of this restructuring is the more effective customer service for all Italian brands and increasing the effectiveness of the structure through optimization of expenses and cash flows. By the merger, all assets and liabilities of Gransport Auto EOOD and Milano Motors EOOD are transferred to Auto Italia EAD. In order to optimize operating expenses and improve the structure, in the beginning of the year Avto Union AD sold its subsidiary Autoplaza EAD to the leasing sub-holding, owned by Eurohold Bulgaria AD.

In the beginning of January, Nissan Sofia EAD, a subsidiary of Avto Union AD deposited additionally 262 thousand BGN in the capital of Espas Auto OOD, by which the capital of the company, amounting to 1.735 million BGN, is fully deposited. Nissan Sofia EAD owns 51% of the capital of Espas Auto OOD.

In February 2013, Star Motors EOOD registered a company in Macedonia – Star Motors DOOEL, Skopje, with share capital of 50 thousand Euro. Star Motors EOOD, an exclusive representative of Mazda for Bulgaria, is among the first five companies with regard to the sales of the brand in Europe in 2012 and 2013. After a few subsequent successful years of Mazda in Bulgaria, Star Motors EOOD has received the rights to present the Japanese brand on the Macedonian market. A sales-servicing center was opened in Skopje. It offers all new models, as well as the full range of services. Star Motors Skopje has a 500 sq.m. showroom, as well as a 500 sq.m. repair shop on the most popular location for automotive business in Skopje – Scupi street. The goal of Star Motors Skopje is to achieve more than 3% of market share on the Macedonian market for new automobiles, which reports approximately 5000 sales per year.

In July, 667,500 BGN from the capital of Nissan Sofia EAD announced on 03.09.2012 were additionally deposited.

At the end of the first quarter, Avto Union AD decreased its credit exposition (limit for issuance of bank guarantees) to First Investment Bank from 6 million Euro to 4 million Euro.

In the beginning of June, Motobul EOOD repaid a credit of 200 thousand Euro to Raiffeisenbank (Bulgaria) EAD and renewed a credit to the same bank with the limit of 400 thousand Euro to 30.06.2014.

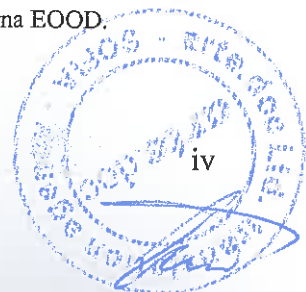
Nissan Sofia AD renewed its credit exposition from Raiffeisenbank (Bulgaria) EAD with a limit of 2.5 million Euro for one more year, until 30.06.2014, when the amount on the credit should be decreased to 908 thousand Euro.

On 09.09.2013 the partners Avto Union AD and RM Trade OOD decided to decrease the capital of Auto 1 OOD, amounting to the unpaid capital by Auto Union AD of 382,500 BGN. On 07.02.2014 the decrease in capital from 1,000,000 BGN to 617,500 BGN was entered into the Commercial Register. In this way, Auto 1 OOD becomes an associated company of Avto Union AD.

In August 2013 the capital of Star Motors DOOEL was increased by one hundred thousand Euro.

On 17.09.2013 Star Motors EOOD signed a contract for a conditional bank loan in the form of a letter of credit, amounting to 1.5 million Euro.

On 25.11.2013 Cargoexpress Imoti EAD was merged with the Parent Company Bulvaria Varna EOOD.



Avto Union AD
CONSOLIDATED MANAGEMENT REPORT
For the year ending on 31 December 2013

On 07.09.2013 Avto Union AD registered for trade on the Bulgarian Stock Exchange (BSE) –Sofia an issue of corporate bonds (ISIN: BG2100025126) amounting to 6 800 000 BGN, distributed in 6 800 items, with nominal and issue amount of 1 000 BGN.

On 21.12.2013 the capital of Bulvaria Varna was increased by 373,700 BGN to a total of 1,257,700 BGN, through the issuance of new 37,370 shares with a nominal of 10 BGN each.

During the reporting period the automotive group has realized a sale of property amounting to almost 13 million BGN, from which it obtained a profit of 1.8 million BGN.

I. COMPANY INFORMATION

HISTORY

Avto Union AD is a holding company registered in the Republic of Bulgaria and operating under the Bulgarian laws.

The company was registered on 25 January 2005 with its main activity – strategic management of the businesses within the structure of the holding, provision of financial, marketing and business specific resources.

SEAT AND REGISTERED ADDRESS

The seat and registered address of the Parent Company is in the Republic of Bulgaria, Sofia city, 43 Hristofor Kolumb blvd. The administrative management is based at the same address and it is also the main site where it performs its operations. This is also the official address for business correspondence.

Business Address	Sofia city, 43 Hristofor Kolumb Blvd.
Telephone	02/ 9651 653; 02/ 9651 651
Fax	02/ 9651 652
E-mail	investors@avtounion.bg
Website	www.avto-union.bg

No changes in the company's scope of business activity were made.



Avto Union AD
CONSOLIDATED MANAGEMENT REPORT
For the year ending on 31 December 2013

MANAGEMENT

The management of Avto Union AD is under the form of Board of Directors.

Board of Directors

The Board of Directors includes 3 natural persons.

Assen Milkov Hristov	Chairman of the Board of Directors
Kiril Ivanov Boshov	Vice-chairman of the Board of Directors
Assen Emanuilov Assenov	Member of the Board of Directors and Executive Director

The company is represented by Assen Emanuilov Assenov.

SHARE CAPITAL

At the present time the share capital of the Auto Union amounts to 40,004,000 BGN, consisting of 80,008 shares with a nominal value of 500 BGN each.

SHAREHOLDER STRUCTURE

As of the end of the financial year there is one legal person that owns 99.99% of the voting shares. There are no natural persons – shareholders, which own directly more than 5 per cent of the voting shares.

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

Shareholders	Share	Number of shares	Nominal value (thousand BGN)
Eurohold Bulgaria AD	99.99%	80,001	40,000
Kiril Boshov	0.01%	7	4
Total:	100%	80,008	40,004

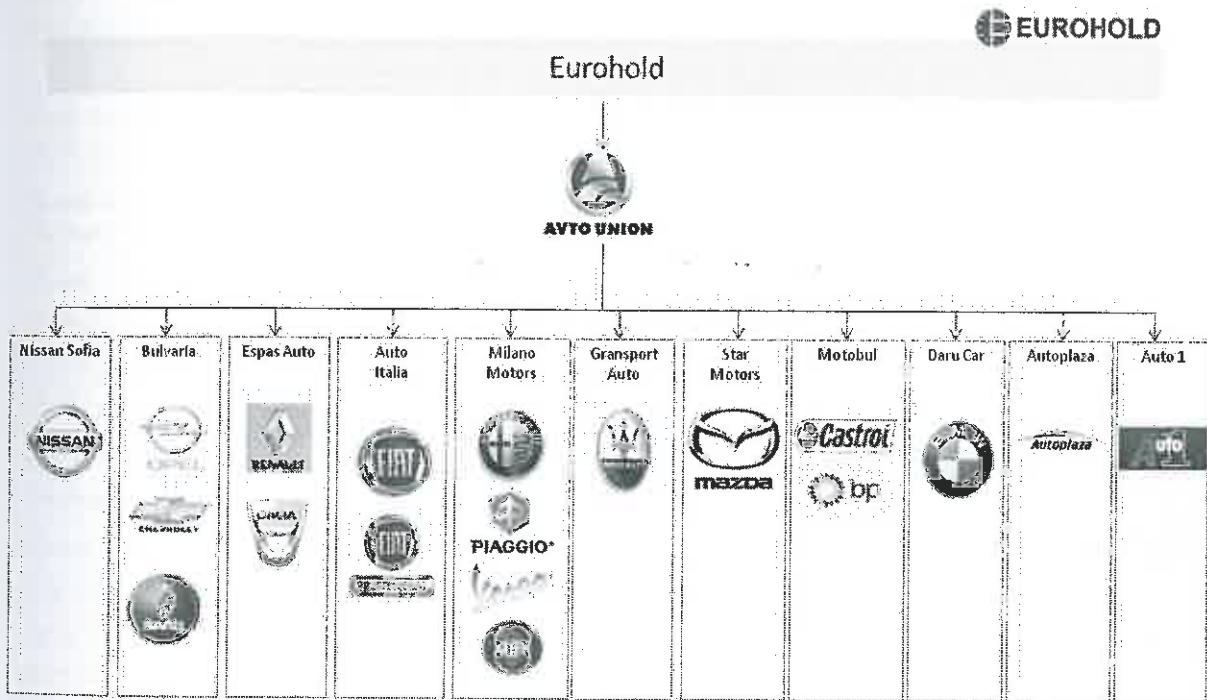
The company has not issued shares that are not capital. All shares issued by Avto Union AD give to their owners the right to a vote in the General Meeting of the company.



II. OVERVIEW OF THE BUSINESS ACTIVITY
INVESTMENT PORTFOLIO

As of 31 December 2013 Avto Union AD holds a direct controlling interest in 11 subsidiaries:

- Auto Italia EAD - 100%
- Star Motors EOOD – 100%
- Bulvaria Holding EAD – 100%
- Avto Union Properties EOOD – 100%
- Avto Union Service EOOD – 100%
- Nissan Sofia EAD – 100%
- Bulvaria Varna EOOD – 100%
- Motobul EOOD– 100%
- Daru Car AD – 98.84%
- Eurotruck EOOD – 100%
- Auto 1 OOD – 51%



The competitiveness of the group is determined by the high service level and the strong synergy between the different business activities in Eurohold Bulgaria (insurance, leasing and sale of cars) the aim of which is to achieve bigger efficiency and cost-effectiveness of the subsidiaries. All companies within Avto Union Group work in close cooperation with the other business segments of Eurohold Bulgaria – insurance and leasing, and in this way they can offer complex services to their customers and to realize a lasting increase in their sales and a considerable 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;
- Exclusive dealer of scooters Vespa, Piaggio and Gilera;
- Authorized dealer for Bulgaria of Reno, Nissan, Opel, Dacia and Chevrolet. Avto Union holding is the biggest national distributor of Nissan automobiles.



Avto Union AD
CONSOLIDATED MANAGEMENT REPORT
 For the year ending on 31 December 2013
CAPITAL INVESTMENTS

Description of the investment	Share	Number of shares	Capital expenses (BGN)	Financing method	Investor
<i>Capital investments of Avto Union AD and its subsidiaries in 2009</i>					
Star Motors Increase in capital	EODD 100%	20 000	1 000 000	Own funds	Avto Union AD
<i>Capital investments of Avto Union AD and its subsidiaries in 2010</i>					
Milano Motors Increase in capital	EODD	190	760 000	Own funds	Avto Union AD
Gransport Auto Increase in capital	EODD	9 500	950 000	Own funds	Avto Union AD
Auto Italia Increase in capital	EAD	415 000	4 150 000	Own funds	Avto Union AD
<i>Capital investments of Avto Union AD and its subsidiaries in 2011</i>					
Scandinavia Motors Increase in capital	AD 99,62%	871	871 000	Own funds	Avto Union AD
Scandinavia Motors Increase in capital	AD 99,62%	240	240 000	Own funds	Avto Union AD
Nissan Sofia Increase in capital	EAD 100%	150 000	750 000	Own funds	Avto Union AD
Eurotruck Establishing the company	EODD 100%	1 000	10 000	Own funds	Avto Union AD
Auto 1 Purchase of share	OOD 51%	5 100	510 000	Own funds	Avto Union AD
Nissan Sofia Acquiring share	EAD 100 %	43 584	136 908	Own funds	Avto Union AD
Daru Car Acquiring share	AD 99,84%	12 686	9 779 150	Own funds	Avto Union AD
Motobul Acquiring share	EODD 100%	51%	10 439 575	Own funds	Avto Union AD
<i>Capital investments of Avto Union AD and its subsidiaries in 2012</i>					
Nissan Sofia Increase in capital	EAD 100%	890 000	890 000	Own funds	Avto Union AD
Bulvaria Holding Increase in capital	EAD 100%	730 000	730 000	Own funds	Avto Union AD
Autoplaza Increase in capital	EAD 100%	200 000	200 000	Own funds	Avto Union AD
Espas Auto Acquiring share	OOD 51%	88 500	885 000	Own funds	Nissan Sofia EAD



Avto Union AD
CONSOLIDATED MANAGEMENT REPORT
 For the year ending on 31 December 2013

Capital investments of Avto Union AD and its subsidiaries in 2013

Nissan Sofia EAD Increase in capital	100%	667 500	667 500	Own funds	Avto Union AD
Bulvaria Varna EOOD Increase in capital	100%	37 370	373 700	Own funds	Avto Union AD
Star Motors DOOEL Acquiring share	100%		195 583	Own funds	Star Motors EOOD
Espas Auto OOD Paying in capital	51%	26 200	262 000	Own funds	Nissan Sofia EAD

III. RESULTS FROM OPERATIONS

REVENUES

In 2013 the revenues of Avto Union AD are formed from the main business activities of the subsidiaries, which are related to import of cars and scooters, import and sale of lubricants, servicing activities and sale of used cars. During the reporting period the automotive group has realized a sale of property amounting to almost 13 million BGN, from which it obtained a profit of 1.8 million BGN.

For the period from 01.01.2013 to 31.12.2013 the net revenues from sales of the holding amount to 25,117 thousand BGN, and for the same period last year they were 22,685 thousand BGN.

The amount of the interest revenue from granted loans is 403 thousand BGN, for 2012 it was 205 thousand BGN. The expenses for the overall business activity of the group amount to 26,072 thousand BGN (for 2012 - 24,381 thousand BGN), of which interest expenses for loans granted amount to 1,523 thousand BGN (for 2012: 1,103 thousand BGN).

The holding has a negative financial result for 2013 amounting to 290 thousand BGN, and for 2012 it was a loss of 1,584 thousand BGN.

Revenues and expenses structure on a consolidated basis:

Revenues	2013		2012	
	000'BGN	share	000'BGN	share
Revenues from operations	128 326	95%	95 536	95%
Other profits and losses	5 262	4%	5 187	5%
Financial revenues	1 319	1%	261	0%
Total revenues	134 907	100%	100 984	100%
Expenses				
Operating expenses	132 358	98%	100 266	98%
Financial expenses	2 185	2%	2 152	2%
Total expenses	134 543	100%	102 418	100%

NET PROFIT

The result of the company on a consolidated basis in 2013 is a loss amounting to 0.47 BGN per share.



Avto Union AD
CONSOLIDATED MANAGEMENT REPORT
 For the year ending on 31 December 2013

	2013	2012
	000'BGN	000'BGN
Net operating result	19 855	17 499
Result from financing activity	(866)	(1 891)
Financial result before taxation	364	(1 434)
Tax expenses/savings	(402)	(144)
Net financial result	(38)	(1 578)
Number of shares (pcs.)	80 008	80 008
Average number of shares (thousand)	80 008	76 065
Net result per 1 share in BGN	(0,47)	(20,75)

FINANCIAL POSITION ON A CONSOLIDATED BASIS

In 2013 the total assets have increased in comparison to 2012 by 7%. Non-current assets decreased by 6%. This is due mainly to the decrease in property, plant and equipment of 51% as a result of a sale of properties amounting to almost 13 million BGN, from which it obtained a profit of 1.8 million BGN. The trade and other receivables have increased considerably, which is mainly a result of the increase in receivables from related parties.

Current assets increased by 32% and the inventory increased by 21%. This is due to an increase in sales and the need for a bigger warehouse. There is also an increase in the trade and other receivables, which comes both from receivables from related parties and trade receivables, which is a result of the increase in sales.

Assets dynamics:

ASSETS	2013		2012
	000'BGN	change	000'BGN
Non-current assets			
Property, plant and equipment	9 809	(51%)	19 953
Intangible assets	1 156	(19%)	1 435
Investment property	13 188	(0%)	13 206
Goodwill	22 466	0%	22 466
Deferred tax assets	632	(19%)	784
Trade and other receivables	10 430	199%	3 483
Total non-current assets	57 681	(6%)	61 327
Current assets			
Inventory	25 026	21%	20 608
Trade and other receivables	14 540	58%	9 175
Cash and short-term deposits	2 772	17%	2 361
Total current assets	42 338	32%	32 144
Total assets	100 019	7%	93 471



Avto Union AD
CONSOLIDATED MANAGEMENT REPORT
 For the year ending on 31 December 2013

Liabilities dynamics:

LIABILITIES	2013		2012
	000'BGN	change	000'BGN
Non-current liabilities			
Interest bearing loans	3 229	(44%)	5 772
Bond issued	6 748	(1%)	6 800
Employment benefit liability	43	(12%)	49
Finance lease liabilities	2 884	40%	2 067
Deferred tax liabilities	417	(3%)	430
Trade and other payables	13 451	(7%)	14 512
	26 772	(10%)	29 630
Current liabilities			
Trade and other payables	37 671	38%	27 251
Interest bearing loans	10 437	(12%)	11 848
Finance lease liabilities	1 567	38%	1 139
	49 675	23%	40 238
Capital			
Share capital	40 004	0%	40 004
Reserves	(6 232)	0%	(6 232)
Retained earnings	(11 504)	3%	(11 214)
Equity	22 268	(1%)	22 558
Non-controlling interest	1 304	25%	1 045
Total equity and liabilities	100 019	7%	93 471

In 2013 the Group's equity remains unchanged.

Non-current liabilities decreased by 10%. Long-term loans decreased by 44%, which is a basic reduction in bank loans. There is an increase in the finance lease liabilities, both long and short-term, as a result of an increase of 45% in the transport vehicles which are used mainly as demo automobiles.

Current liabilities increase by 23%. This is due to an increase in the trade and other payables, where the main increase is in the payables to the main commercial suppliers, as a result from the increase in sales and respectively – the increase in the number of automobiles for sale, kept in the warehouse.

The increase in the non-controlling interest is due to the profit of the company Espas Auto OOD, of which Avto Union AD has 51%.



IV. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICY

1. Systematic risks

Influence of the world economic crisis

The world economic crisis, which began in 2007, has led a lot of countries throughout the world (incl. USA, the EU countries, Russia and Japan) to a serious decline in economic development and increased unemployment, limited access to financial resources and a serious dropdown in the cost of the financial assets on an international level. The financial crisis has also had a very negative influence on the global financial market as a whole, which leads to mistrust on the part of the investors on the financial markets and a decrease in the investments in financial instruments. As a result, the companies from the financial sector have found themselves in a state where it is difficult to maintain liquidity and raise capital.

It cannot be said with certainty that a future aggravation of the business climate won't lead to another increase of unemployment and decrease in the income of the people on the Balkans and the countries from Southeastern Europe, which in turn will result in decreased consumption. The low levels of consumption would impact the sales of the companies within the group of the Issuer.

The future aggravation of the business climate and the lack of security with regard to the tendencies on the global financial market and in particular on the Balkan financial markets might also have a negative influence on the perspectives for development of the Issuer, its results and financial position.

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 Southeastern Europe are of main importance for the development of the Group, and this includes also the governmental policies of the respective countries, and in particular the regulations and decisions made by the respective Central Banks, which influence the monetary and interest rate policy, exchange rates, taxes, GDP, inflation, budget deficit and foreign debt, the unemployment rate and the income structure.

The changes in the demographic structure, mortality or morbidity are also important elements that influence the development of the Issuer. 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.

Each deterioration in the macroeconomic parameters in the region might have a negative impact on the sales of the companies within the group of the Issuer. Therefore, in case the business environment as a whole worsens, there is a risk that the sales of the Issuer and its subsidiaries might be lower than originally planned. Moreover, the general changes in the governmental policy and the regulatory systems might lead to an increase in the operating expenses of the Issuer 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 Issuer, 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 Southeastern Europe is stable and does not suggest any big risks for the future economic policy of the countries. The EU integration of the countries from the region and their consistency in their internal and external affairs guarantee the lack of disturbances and considerable political changes in the future.



Risks related to changes in legislation

The results of the Issuer might be influenced by the changes in legislation. The possibility for more radical changes in the regulatory framework of any country where the company has active operations might have an unfavorable 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 is the possibility for deterioration of the international credit ratings. The low credit ratings of the country might lead to higher interest rates, tougher financing conditions for the economic subjects, including the Issuer.

In comparison to similar countries, during the present crisis, the main credit agencies give positive scores to the countries from the region thanks to the stable fiscal policy and structural reforms. The best example for orderly fiscal policy is the increased credit rating of Bulgaria in the end of July 2011 by Moody's to Baa – the highest credit rating on the Balkans. The policies which are going to maintain these fiscal parameters stable in the long-term are:

- ◆ Exercising control over the amount, dynamics and service of all financial liabilities assumed on behalf and at the expense of the state, which represent a liability of the state and cover the domestic and the external government debt;
- ◆ Development and implementation of the government debt management policy whose fundamental essence is targeted at ensuring unobstructed financing of the budget and refinancing of the debt at minimum possible cost in the medium and long term and optimum levels of risk;
- ◆ Development and implementation of the issue policy, exercising control over transactions in GS, issuing permits for investment intermediation in GS transactions, and carrying out activities aimed at developing an effective, transparent and liquid domestic market of government debt;
- ◆ Monitoring the service of all financial liabilities for which guarantee has been issued on behalf and at the expense of the state, as well as ensuring the official information about the consolidated government debt which includes government debt, municipal debt and social security funds' debt;
- ◆ Identifying and monitoring the possible risks that may arise during the implementation of the strategic goals set;
- ◆ Undertaking adequate and timely actions to minimize or avoid the impact of the risks identified, as well as their potential negative effects.

Inflation risk

The inflation risk is related to the possibility of inflation influencing the real return of investments. The relatively low level of inflation after 1998 enabled the economic subjects to generate non-inflation incomes from their activities and significantly facilitated the prognosis of the short-term and middle-term future results. Despite the positive trends concerning the index of inflation, the sociability of the Bulgarian economic, the dependence of the economic on energy sources and the fixed exchange rate BGN/EUR generate risk from import of inflation.

Inflation might influence the expenses of the Issuer. Their servicing is related to the current interest rates which reflect the inflation level in the country. This is why maintaining low inflation levels in the country is considered an important factor for the activity of the Issuer.

Therefore, each investor should understand and consider well both the current levels of inflation risk and the future possibilities for its manifestation.



Avto Union AD
CONSOLIDATED MANAGEMENT REPORT

For the year ending on 31 December 2013

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.

Where the currency exchange rates are determined by the market conditions and the central banks of the countries only intervene and balance short-term fluctuation of exchange rates, the occurrence of stress situations caused by single external factors might result in considerable fluctuation if the value of the local currency.

Each considerable depreciation of the currencies in the region and the main markets of the Issuer might have a considerable unfavorable 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 risk

The interest risk is related to the possibility for change in the market 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 Issuer 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 from this crisis is obvious in Eastern Europe and on the Balkans, where it is manifested through limitation of the free access to borrowings.

All other conditions equal, the increase in interests would reflect on the cost of the financial resource used by the Issuer for the realization of different business projects. Moreover, it can influence the amount of expenses of the company, since quite a big portion of the company's liabilities are interest-related and their servicing is related to the current interest rates.

Emerging markets

The investors in emerging markets like the Balkans should be aware that these markets suggest higher risk than the more developed markets. Also, the unfavorable political or economic development in other countries might have a considerable negative influence on the GDP of the countries in the region and on their economy as a whole. The investors should exercise extreme caution when appraising existing risks and should decide whether investing in the Company's shares is suitable for them in the presence of these risks.

Investment in emerging markets is suitable only for experienced investors who understand perfectly the importance of these risks. The investors should also take into account that the conditions on the emerging markets change rapidly and as a consequence the information contained in this document might become irrelevant relatively fast.

Risks related to the Bulgarian securities market

It is possible for the investors to have less information about the Bulgarian securities market than they have about other securities markets. There is a certain difference in the regulation and supervision of the Bulgarian securities market, in comparison to the markets in Western Europe and USA. The Financial Supervision Commission (FSC) supervises the disclosure of information and compliance with the other regulatory standards of the Bulgarian securities market; it monitors compliance with the laws and issues regulations and guidelines regarding the obligations related to disclosure of information, trade of securities in the presence of inside information and other issues. However, it is possible that there is less publicly available information about the Bulgarian companies than the information which is usually provided to investors from public companies on the other securities markets, which might influence the price of the securities offered.



2. Unsystematic risks

Risks related to the activity and structure of the Issuer

Avto Union AD is a holding company and an eventual worsening of operating results, financial position and perspectives for development of its subsidiaries might have a negative effect on the operating results and the financial position of the company.

As far as the activity of the Issuer is related to the management of the assets of other companies, it cannot be related to a specific sector from the domestic economy and it is exposed to the sectoral risks of the subsidiaries. Avto Union AD operates only in Bulgaria and its activities are mainly related to the sales of new cars, warranty service and after-sales service for automobiles.

Its activity is directly related to the availability of permits and authorizations, granted by the respective automotive manufacturers to the companies within the Avto Union Group. Termination or suspension of such rights might reduce 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 sector is also influenced by purely internal factors related to the purchasing power of the population, the access to funding, the business atmosphere, stocks, etc.

The main risk related to the activity of the Issuer is the possibility for decrease in the sales revenues of the companies in which it has participation. This influences the dividends received. In this regard, this might influence the growth of company revenue, as well as the change in profitability.

Risks related to the strategy for development of the Issuer

The future profits and economic value of the Issuer depend on the strategy selected by the senior management of the company and its subsidiaries. Selecting an inappropriate strategy might lead to considerable losses.

The Issuer 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 extremely important, so that they can react in a timely manner, in case a change in the strategic development plan is needed at a certain stage. 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 Issuer

The risks related to 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;
- ◆ 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 company.

Avto Union AD
CONSOLIDATED MANAGEMENT REPORT

For the year ending on 31 December 2013

Risks related to the attraction and retention of qualified employees

The introduction of entirely new business models in the last years requires specific qualifications in the team of employees, since the competition among the employers limits additionally the already quite closed circle of well educated and qualified employees. There is also the influence of the demographic crisis in the country – ageing population and low birth rate. As a result of these and other factors, the competition between employers is quite serious.

Avto Union AD's business is dependent on the contribution of a certain number of persons, members of the management and control bodies, senior and middle managers of the Parent Company and the subsidiaries from the main business sectors. There is no guarantee that these key employees will continue to work for the Issuer in the future. The success of the company will also be related to its ability to retain and motivate these people. The inability of the company to maintain sufficiently loyal, experienced and qualified personnel on managerial, operating and technical positions might have an unfavorable effect on the activity of the economic group as a whole, its operating results, as well as its financial position.

Risks related to future acquisitions and their integration in the structure

At the present time the economic group of Avto Union AD operates in Bulgaria and Macedonia through acquisitions of companies and assets. The Issuer expects that these acquisitions also continue in the future. The risk for the Issuer consists in the insecurity whether it will continue identifying appropriate acquisition objects and investment possibilities in the future. On the other hand, there is insecurity with regard to the evaluation of the profitability of future asset acquisitions and whether they will lead to comparable results with the investments realized up to now. Also, the acquisitions and investments are subject to numerous risks, including possible unfavorable effects on the operating results of the business group as a whole, unforeseen events, as well as obligations and difficulties upon integration of the activities.

Financial risk

The financial risk represents additional insecurity for the investor with regard to the receipt of revenue in the cases when the company uses borrowings or loans. 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 in the value of this indicator shows an increase in the financial risk. 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.



Avto Union AD
CONSOLIDATED MANAGEMENT REPORT

For the year ending on 31 December 2013

Currency risk

The group operates in Bulgaria and Macedonia. In Bulgaria, since 1996 the local currency has been fixed to the Euro and this is why the currency risk has been minimized. In Macedonia, the currency exchange rate is determined by the market conditions and only the Central Bank intervenes and balances short-term fluctuations in the exchange rates, in case of stress situations caused by single external factors.

Each considerable depreciation of the currencies in the region (Bulgaria, Romania, Serbia and Macedonia) might have a considerable unfavorable 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.

The present issue of corporate bonds is denominated in BGN. The presence and maintenance of the effective system of a fixed exchange rate between BGN and Euro, as well as keeping the regime of a currency board until the country enters in the Eurozone determine the lack of a considerable currency risk for investors whose initial funds are in Euro. There is a currency risk from an investment for investors whose initial funds are denominated in USD or other currency, different from BGN or Euro, due to the constant fluctuations of the currency exchange rates. Investors who assume currency risk upon purchasing this bond issue might increase or decrease the profitability of their investment as a result of strengthening or weakening of the exchange rate BGN to the currency of denomination of the personal funds of the investor. The currency risk of the investment might decrease by using a number of currency instruments for its minimization (hedging).

Liquidity risk

The liquidity risk is related to the possibility that Avto Union AD is not able to repay its liabilities in the amount agreed and/or within the stipulated deadline. 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 tries to minimize this risk through optimal management of cash flows in the group. The Issuer applies an approach which should provide the liquid resource needed to cover the liabilities which have occurred from normal or exceptional conditions, without realizing unacceptable losses or damaging the reputation of the separate companies and the business 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 Issuer 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.



Avto Union AD

CONSOLIDATED MANAGEMENT REPORT

For the year ending on 31 December 2013

Risk of possible realization of transactions between the companies in the group, whose conditions differ than the market conditions, as well as risk of co-dependency from 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 assumed is not obtaining enough revenue from the inter-group commercial transactions, and subsequently not making good 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 are performed transactions between the Parent Company and the subsidiaries, as well as 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 operates through its subsidiaries, which means that its financial results are directly dependant on the financial results, development and perspectives of the subsidiaries. Bad results of one or several subsidiaries may lead to aggravation of the financial results on a consolidated basis. This is, in effect, related to cost of financing of the Issuer, which might change as a result from the expectations of the investors with regard to the perspectives of the company.

3. Mechanisms for risk management and minimization

The elements which define the framework for management of the different risks are directly related to specific procedures for timely prevention and settlement of possible difficulties in the operations 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.



Avto Union AD
CONSOLIDATED MANAGEMENT REPORT

For the year ending on 31 December 2013

Risk management

The Issuer has implemented a complete corporate integrated risk management system. The system covers all business segments of the Issuer and its subsidiaries and its aim is to identify, analyze and organize the risks in all sectors. The effective risk management system guarantees the Issuer financial stability, despite the ongoing global financial and economic problems.

A big portion of the risks for the Issuer is described in detail under Section RISK FACTORS above, whereas the aim of this section is to describe the steps and procedures undertaken by the Management in order to ensure the normal business operations, where the risks are duly identified and their influence is managed in a way which minimizes their negative impact on the profit margins and guarantees business continuity.

Risk management aims to:

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

V. CURRENT TRENDS AND POSSIBLE FUTURE DEVELOPMENT OF THE GROUP

At the end of 2013 the market of new automobiles reports considerable delay in the recovery of sales, which we have also witnessed in 2012, in comparison to 2011. According to data from the Association of car manufacturers and their authorized representatives for Bulgaria, the market for new cars and light-commercial vehicles reported an increase in sales for 2011, in comparison to the previous year, amounting to 14.1%. In 2012 this increase drops down to 6%, whereas in 2013 the increase on an annual basis is just 1%.

Avto Union expects to keep its market share, as a result of:

- The excellent possibilities for development of the existing customer base consisting of natural and legal persons;
- Increase in corporate customers.

The expectations for the future development of the automotive market in Bulgaria are based on expectations for slow recovery of the local economy. This would delay the decision for purchase of new cars by the population in the next year. On the other hand, the obsolete fleet is a prerequisite for increase in the sales to corporate customers, for which it is no profitable to maintain an outdated fleet.

VI. RESEARCH AND DEVELOPMENT

Avto Union AD, as well as its subsidiaries does not carry out any research and development.

VII. ENVIRONMENTAL PROTECTION

The efforts of the group are driven by the effect that the subsidiaries have on the environment when performing their day to day business.



Avto Union AD
CONSOLIDATED MANAGEMENT REPORT

For the year ending on 31 December 2013

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

On 07.02.2014 a decrease in the capital of Auto 1 OOD amounting to 383 thousand BGN was entered into the Commercial Register. This represented the unpaid share of Avto Union AD.

The Board of Directors of Avto Union AD is not aware of any other important and substantial events that have taken place after the date of the annual accounting balance.

IX. INFORMATION REQUIRED UNDER THE COMMERCE LAW

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

In 2013 the group did not redeem nor has transferred any own shares, respectively it does not own any own shares.

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

The group does not own any own shares.

3. Information regarding the amount for remunerations of each of the members of the management and controlling bodies for the reporting financial year, paid by the issuer and their subsidiaries.

The members of the Board of Directors have not been paid remunerations and/or compensations in kind during this period.

Avto Union AD and its subsidiaries do not allocate amounts for pensions, retirement compensations or other similar compensations for the members of the Board of Directors.

4. Company shares owned by the members of the management and supervisory board

Kiril Boshov, member of the Board of Directors, owns 7 shares of Avto Union AD.

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

No options of acquiring company shares have been issued in favor of the Board of Directors, the employees or third persons.



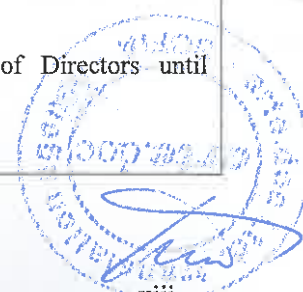
Avto Union AD
CONSOLIDATED MANAGEMENT REPORT
For the year ending on 31 December 2013

6. Participation of the members of the boards in commercial companies as unlimited liability partners, owning more than 25 per cent of the capital of another company, as well as their participation in the management of other companies or partnerships as procurators, managers or board members

Board of Directors

Name	Asnen Milkov Hristov
Title	Chairman of the Board of Directors
Office address	Sofia city, 43 Hristofor Kolumb blvd.
Information about activities performed outside of the company, which are of importance to the company	<ul style="list-style-type: none"> ◆ Euroins Osiguruvanje A.D., Macedonia – Chairman of the Board of Directors; ◆ Euroins Romania. Asigurare – Reasigurare S.A. – Member of the Board of Directors; ◆ Euro-Finance AD – Chairman of the Board of Directors; ◆ Smartnet EAD – Chairman of the Board of Directors; ◆ Starcom Holding AD – Executive member of the Board of Directors; ◆ Eurohold Bulgaria AD - Chairman of the Supervisory Board.

Information about all other participations as a member of a management/controlling body and/or associate during the last 5 years	<p><u>Current:</u></p> <ul style="list-style-type: none"> ◆ Avto Union AD – Chairman of the Board of Directors; ◆ Alpha Euroactive EOOD – Sole owner of the capital and Manager; ◆ Balkan International Basketball League OOD – Manager; ◆ Basketball club Chernomorec EAD – Chairman of the Board of Directors; ◆ Bulstar Investment AD – Chairman of the Board of Directors; ◆ Corporate Advisors EOOD – Sole owner of the capital and Manager; ◆ Starcom Hold AD – Executive member of the Board of Directors; ◆ Formoplast 98 AD – Chairman of the Board of Directors. <p><u>Terminated:</u></p> <ul style="list-style-type: none"> ◆ Avto Union Group AD (currently ASTERION BULGARIA AD) – Chairman of the Board of Directors – 12. 10. 2011; ◆ Geoenergoproekt AD – Chairman of the Board of Directors – until 30.09.2010; ◆ Euro Power AD (currently Power Logistics EAD) – Chairman of the Board of Directors – until 16.02.2011; ◆ Eurotest-Control EAD – Chairman of the Board of Directors – until 21.12.2010; ◆ Etropal AD – Chairman of the Board of Directors – until 14.09.2010; ◆ Plastchim T AD – Member of the Board of Directors – until 23.07.2010; ◆ Profonika EOOD – Sole owner of the capital and Manager – until 17.05.2010; ◆ Formoplast AD – Executive member of the Board of Directors – until 12.02.2011; ◆ Scandinavia Motors EAD – Member of the Board of Directors until 11.12.2010; ◆ Autoplaza EAD – Chairman of the Board of Directors
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Avto Union AD

CONSOLIDATED MANAGEMENT REPORT

For the year ending on 31 December 2013

	<ul style="list-style-type: none"> ◆ ACM Consult EOOD – Manager until 08.10.1998 ◆ Zebra AD – Member of the Board of Directors until 15.10.2010
<p>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</p>	<ul style="list-style-type: none"> ◆ Vitosha Investment Company EOOD (in liquidation on the basis of a decision of Sofia City Court, TC, CD, 5 panel, civil case 52/ 2009 in accordance with claim under Art. 29 of the Commercial Register Act) – entered as a Sole owner of the capital. <p>As of 31. 12. 2013 there is no other information about insolvency, receivership or liquidation, with which the person in his capacity of a member of a management or supervisory body was connected in the last 5 years.</p>
<p>Relative professional experience</p>	<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 has served as a Chairman of the Board of Directors of Eurobank AD from 1997 to 2000 and has performed representative functions; he has served as 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 – authorized dealer of SAAB for Bulgaria since 2005 until restructuring of the company, as well as of the investment intermediary Euro-finance AD.</p>
<p>Administrative correction measures and penalties</p>	<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>



Avto Union AD
CONSOLIDATED MANAGEMENT REPORT
For the year ending on 31 December 2013

Name	Kiril Ivanov Boshov
Title	Vice-chairman of the Board of Directors
Office address	Sofia city, 43 Hristofor Kolumb blvd.
Information about activities performed outside of the company, which are of importance to the company	<ul style="list-style-type: none"> ◆ Eurohold Bulgaria AD - Chairman of the Board of Directors; ◆ Euroins Osiguruvanje A.D., Macedonia – Chairman of the Board of Directors; ◆ Euroins Romania. Asigurare – Reasigurare S.A. – Member of the Board of Directors; ◆ Euroins Insurance Group AD – Chairman of the Board of Directors.
Information about all other participations as a member of a management/controlling body and/or associate during the last 5 years	<p><u>Current:</u></p> <ul style="list-style-type: none"> ◆ Avto Union AD – Vice-chairman of the Board of Directors; ◆ Alkomers EOOD – Sole owner of the capital and Manager; ◆ Euroauto OOD – Manager; ◆ Euroins Health Assurance EAD – Chairman of the Board of Directors; ◆ Euroins Insurance Group AD – Chairman of the Board of Directors; ◆ Euroins Osiguruvanje AD – Member of the Board of Directors; ◆ Euroins Romania. Asigurare – Reasigurare S.A., Romania – Chairman of the Board of Directors; ◆ Euro-finance AD – Member of the Board of Directors; ◆ Eurolease auto IFN AD, Romania – Member of the Board of Directors; ◆ Euromobil Leasing AD – Member of the Board of Directors; ◆ Eurohold Bulgaria AD - Chairman of the Board of Directors; ◆ Capital 3000 AD – Chairman of the Board of Directors; ◆ Starcom Hold AD – Chairman of the Board of Directors; ◆ Starcom Holding AD – Chairman of the Board of Directors. ◆ Nissan Sofia EAD – Member of the Board of Directors <p><u>Terminated:</u></p> <ul style="list-style-type: none"> ◆ Scandinavia Motors AD – Member of the Board of Directors ◆ Autoplaza EAD – Member of the Board of Directors; ◆ Geoenergoproekt AD – Chairman of the Board of Directors; ◆ Eurolease Asset EAD – Vice-chairman of the Board of Directors; ◆ Eurolease Auto AD – Vice-Chairman of the Board of Directors; ◆ Eurolease Auto AD, Macedonia – Chairman of the Board of Directors; ◆ Evroforum OOD – Manager; ◆ Eurohotels AD – Member of the Board of Directors; ◆ Insurance company Euroins AD – Executive member of the Board of Directors; ◆ Iztok Plaza EAD – Chairman of the Board of Directors; ◆ Coral Consult EOOD – Manager;



Avto Union AD
CONSOLIDATED MANAGEMENT REPORT

For the year ending on 31 December 2013

	<ul style="list-style-type: none"> ◆ Nissan Sofia AD – Chairman of the Board of Directors; ◆ Smartnet EAD – Vice-chairman of the Board of Directors; ◆ Corporate Solicitors EOOD - Manager ◆ Sportproekt EAD – Member of the Board of Directors ◆ Euromobil Leasing EAD
<p>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</p>	<p>N/A</p>
<p>Relative professional experience</p>	<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 Vice-chairman of the Board of Directors and a procurator he has participated actively in the restructuring of the assets of Eurobank AD, a representation of the bank before third parties, together with the executive director and the direct management of the active bank operations – credit 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, until 2008 he has managed the activity regarding the provisioning of funding for the Company. He was in charge of the whole process for signing an International Funding Agreement between Eurolease Auto AD and Deutsche Bank AG – branch London for the amount of 200,000,000 EUR.</p>
<p>Administrative correction measures and penalties</p>	<p>During the last 5 years no administrative correction measures or administrative penalties were imposed on the person in relation with 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>



Avto Union AD
CONSOLIDATED MANAGEMENT REPORT
For the year ending on 31 December 2013

Name	Asen Emanuilov Asenov
Title	Executive Member of the Board of Directors
Office address	Sofia city, 43 Hristofor Kolumb blvd.
Information about activities performed outside of the company, which are of importance to the company	<ul style="list-style-type: none"> ◆ BG Autolease Group B.V. – Manager; ◆ BG Autolease Holding B.V. – Manager; ◆ Eurolease Auto EAD – Chairman of the Board of Directors; ◆ Eurolease Auto IFN AD, Bucharest – Member of the Board of Directors; ◆ Eurohold Bulgaria AD – Member of the Management Board.
Information about all other participations as a member of a management/controlling body and/or associate during the last 5 years	<p>Current:</p> <ul style="list-style-type: none"> ◆ Avto Union AD – Executive Member of BD; ◆ Avto Union Properties EOOD – Manager; ◆ Auto 1 OOD – Manager; ◆ Auto Italia EAD – Chairman of BD; ◆ Izgrev 5 EOOD – Sole-owner of capital and Manager; ◆ BG Autolease Group B.V. – Manager; ◆ BG Autolease Holding B.V. – Manager; ◆ Bulvaria Varna EOOD – Manager; ◆ Bulvaria Motobul - Company under the Obligations and Contracts Act – Manager; ◆ Bulvaria Holding EAD – Executive Member of BD; ◆ Eurolease Asset EAD – Member of BD; ◆ Eurolease Auto EAD – Chairman of BD; ◆ Eurolease Auto IFN AD, Bucharest – Member of BD; ◆ Eurotruck EOOD – Manager; ◆ Eurohold Bulgaria AD – Member of MB; ◆ Ita Leasing EOOD – Manager; ◆ Motobul EOOD – Manager; ◆ Motobul Express EOOD – Manager; ◆ Nissan Sofia EAD – Chairman of BD; ◆ Sofia Motors EOOD – Manager; ◆ Star Motors EOOD – Manager. ◆ Eurolease Group EAD – Executive member of BD



Avto Union AD
CONSOLIDATED MANAGEMENT REPORT
 For the year ending on 31 December 2013

	<p>Terminated:</p> <ul style="list-style-type: none"> ◆ Avto Union Group AD – Executive Member of the Board of Directors; ◆ Bulvaria Rent-a-Car EOOD – Manager; ◆ Eurolease Rent-a-Car EOOD – Manager; ◆ Gransport Auto EOOD – Manager; ◆ Milano Motors EOOD - Manager; ◆ Euromobil Leasing AD - Executive Member of the Board of Directors; ◆ Avto Union Center EOOD – Manager ◆ Autoplaza EADO – Member of the BD;
<p>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</p>	<p>N/A</p>
<p>Relative professional experience</p>	<p>Assen Assenov holds a master's degree in Accounting and a bachelor's degree in International Economics Relations from the University of National and World Economy - Sofia. Mr. Assenov also has an MBA in International Accounting Standards and International Business from the Vienna University of Economics and Business.</p> <p>Assen Assenov has started his professional career in Eurohold Bulgaria AD 11 years ago as an accountant. In the period between 2002 and 2004 he was Chief Accountant of Eurohold AD. Since the end of 2004, Mr. Assenov has been selected as an Executive Director of Eurolease Auto EAD – a leasing company within the structure of Eurohold Bulgaria.</p> <p>Currently Mr. Assenov is responsible for the leasing and automotive business of the business group Eurohold Bulgaria. Mr. Assenov is Executive Director of Avto Union AD and is in charge of the leasing companies of the group in Romania and Macedonia. He also manages the official importers and dealers for the territory of the country of the car brands Nissan, Renault, Dacia, Opel, Chevrolet, Fiat, Alfa Romeo, Mazda, Maserati and the oil products Castrol and BP (Motobul) – all of them also being part of the structure of the holding.</p>
<p>Administrative correction measures and penalties</p>	<p>During the last 5 years no administrative correction measures or administrative penalties were imposed on the person in relation with 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>



Avto Union AD
CONSOLIDATED MANAGEMENT REPORT

For the year ending on 31 December 2013

7. Agreements signed in 2013 with the members of the MB and the SB or related to them parties that fall outside of the usual scope of the business activity of the company or deviate significantly from the market conditions

No agreements that fall outside of the usual scope of the business activity of the company or deviate significantly from the market conditions have been signed with the company by the members of the BD or related to them parties.

8. Number of employees

As of 31.12.2013 the group has 434 employees. The holding does not hire temporary employees.

9. Company branches

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

10. Planned economic policy for the next year, incl. expected investments and personnel development, expected investment revenue and company development, as well as upcoming transactions of substantial importance for the activity of the company

The development policy of Avto Union AD for 2014 is directed towards increasing the revenues from servicing activities in the first place, as well as the selling of cars, which have low sales margins under the conditions of a crisis, the establishment of the commercial brands in the portfolio and the increase of customer satisfaction.

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



Avto Union AD
CONSOLIDATED MANAGEMENT REPORT

For the year ending on 31 December 2013

X. ADDITIONAL INFORMATION IN ACCORDANCE WITH APPENDIX № 10 OF DECREE № 2 OF FSC

1. Information regarding the sales revenue in the accounting year

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

The company does not perform independent commercial and manufacturing activity. The revenues of Avto Union AD are 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.

Avto Union AD has not published forecasts for the accounting 2014 year.

2. Transactions with related parties

As of the date of preparation of the Activity Report there are no transactions or proposals for transactions with related parties which are of considerable importance for the Issuer or any of its subsidiaries, which are uncommon or have unusual conditions.

In 2013, all transactions were made under the "at arm's length" rule. Transactions between the holding and the subsidiaries are typical. They are used to manage the liquidity of the different companies by means of inter-group loans and to conduct investment policy.

Working capital loans granted to Avto Union AD by the companies in the group

Subsidiary	Interest rate	Amount in 000'BGN as at 31.12.2013
Nissan Sofia EAD	5.50%	379
Eurotruck EOOD	5.50%	11
Daru Car AD	5.50%	8,651
Eurolease Auto EAD	7.00%	17
Motobul EOOD	5.50%	3,067
Star Motors EOOD	5.50%	1,185

Working capital loans granted by Avto Union AD to the companies in the group

Subsidiary	Interest rate	Amount in 000'BGN as at 31.12.2013
Eurohold Bulgaria AD	6.00%	5,772
Bulvaria Holding AD	6.50%	305
Bulvaria Varna EOOD	6.00%	18
Star Motors EOOD	6.00%	2
Avto Union Properties AD	5.50%	1,825
Auto Italia EAD	6.50%	171
Motobul Express EOOD	6.50%	38
Eurolease Group EAD	6.00%	1,495
Autoplaza EAD	6.50%	43
Eurolease Auto AD	7.00%	2
Avto Union Service EOOD	5.50%	1,627

Credit agreements

Bond issue liabilities

Maturity	Interest rate	Amount in 000'BGN as at 31.12.2013
10/12/17	6.75%	6,800



Avto Union AD
CONSOLIDATED MANAGEMENT REPORT

For the year ending on 31 December 2013

Information regarding events and indicators which are unusual for the Issuer and which have a considerable impact on its activity

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.

3. Information about off-balance sheet transactions during the reporting period

The company has no off-balance sheet transactions.

4. Information about the use of funds from the new issue of securities during the reporting period.

During the reporting period until 31.12.2013 the company has not issued new securities.

5. Analysis and evaluation of the policy with regard to the management of financial resources, indicating the possibilities for payment of liabilities, eventual threats and measures which the Issuer has taken or is to take in order to eliminate them

The main activity of each holding is to manage effectively the cash resources accumulated in the whole structure and to distribute them in accordance with the needs of the separate subsidiaries. The policy of the holding in this area is to realize both financing of the type "subsidiaries – parent company" and "subsidiary – subsidiary". The management of the available financial resources of the subsidiaries is realized in accordance with the regulatory requirements and in order to achieve good profitability with reasonable risk-taking.

5. Information about changes in the main management principles of the issuer and its economic group during the reporting period

There were no changes in the economic group of Avto Union AD during the reporting period.

6. Information about the main characteristics of the internal control system and risk management system used by the issuer for the preparation of the financial statements.

Avto Union AD has an internal control system which guarantees the effective functioning of the systems for disclosure of information and accountability.

7. Information about the changes in the management and supervisory bodies during the accounting year

In 2013 there were no changes in the management bodies of the company. Avto Union AD does not have a supervisory board.

8. Information about agreements known to the company (including after the end of the accounting year), which might result in future changes in the relative number of shares or bonds owned by the current shareholders or bondholders

The company has no information about agreements which might influence the relative number of bonds owned by the current bondholders.

9. Information about pending judicial, administrative or arbitration proceedings, concerning claims or liabilities of at least 10 percent of the equity of the issuer

The company has no information about such proceedings.



Avto Union AD
CONSOLIDATED MANAGEMENT REPORT

For the year ending on 31 December 2013

10. Director information for contact with the investor

Business address	Sofia city, 43 Hristofor Kolumb Blvd.
Telephone	02/ 9651 653; 02/ 4621 188
Fax	02/ 9651 652
E-mail	office@avtounion.bg
Website	www.avto-union.bg

Management responsibilities

According the Bulgarian laws, the management has to prepare consolidated financial statements for each financial year, which should give correct and honest presentation of the financial position of the group at the end of the year, its financial performance and its cash flows.

The management confirms that they have consistently applied adequate accounting policies for the preparation of the consolidated annual financial statement as of 31 December 2013 and that they have made reasonable and cautious estimates, assumptions and approximations.

The management also confirms that they have followed the effective accounting standards and the financial statement has been prepared in accordance with the going concern principle.

The management is responsible for the correct bookkeeping, for the sustainable asset management and for the taking of necessary measures for avoidance and disclosure of possible abuse and other irregularities.

Assen Assenov
Executive Director
Avto Union AD
Sofia
15.04.2014



INDEPENDENT AUDITOR'S REPORT



Avto Union AD
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ending on 31 December 2013

	Notes	<u>2013</u> BGN '000	<u>2012</u> BGN '000
Sale of goods	5.1	120,600	88,051
Rendering of services		7,726	7,485
Other income	5.2	5,262	5,187
Revenue		133,588	100,723
Cost of sales		(108,471)	(78,037)
Gross profit		25,117	22,686
Expenses on materials	5.3	(2,016)	(1,777)
Expenses on services	5.4	(8,411)	(7,120)
Personnel expenses	5.5	(9,775)	(9,447)
Depreciation and amortization	6,7,8	(2,042)	(2,034)
Other expenses	5.6	(1,643)	(1,851)
Operating profit / (loss)		1,230	457
EBITDA		3,272	2,491
Finance costs	5.70	(2,185)	(2,152)
Finance income	5.80	1,319	261
Profit / (Loss) before tax		364	(1,434)
Tax expenses / Tax savings		(402)	(144)
Profit / (loss) for the year		(38)	(1,578)
Net profit / (loss) attributable to:			
Owners of the parent		(290)	(1,584)
Non-controlling interest		252	6
Net profit / (loss) for the year:		(38)	(1,578)

The financial statement is approved by the Board of Directors on 15.04.2014 and was signed as follows:

Assen Assenov
Executive Director

Katrin Kutsarova
Chief Financial Officer

Certified in accordance with an auditor's report:

BDO Bulgaria OOD
Stoyanka Apostolova, Manager
Certified Accountant, Registered Auditor
29.04.2014

Nadyalko Apostolov
Manager

The explanatory notes from page 7 to page 33 are an integral part of the financial statement.



Avto Union AD
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ending on 31 December 2013

	Notes	<u>2013</u>	<u>2012</u>
		<i>BGN '000</i>	<i>BGN '000</i>
ASSETS			
Long-term assets			
Property, plant and equipment	6	9,809	19,953
Intangible assets	7	1,156	1,435
Investment properties	8	13,188	13,206
Goodwill	9	22,466	22,466
Deferred tax assets		632	784
Trade and other receivables	10.1	10,430	3,483
		<u>57,681</u>	<u>61,327</u>
Short-term assets			
Inventories	11	25,026	20,608
Trade and other receivables	10.2	14,540	9,175
Cash and cash equivalents	12	2,772	2,361
		<u>42,338</u>	<u>32,144</u>
TOTAL ASSETS		<u>100,019</u>	<u>93,471</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	13	40,004	40,004
Reserves		(6,232)	(6,232)
Retained earnings		(11,504)	(11,214)
Total equity		<u>22,268</u>	<u>22,558</u>
Non-controlling interests		1,304	1,045
Long-term liabilities			
Interest-bearing loans and borrowings	14.1	3,229	5,772
Bond issued	15	6,748	6,800
Pension provision		43	49
Financial leasing payables	16.1	2,884	2,067
Deferred tax liabilities		417	430
Trade and other payables	17.1	13,451	14,512
		<u>26,772</u>	<u>29,630</u>
Short-term liabilities			
Trade and other payables	17.2	37,671	27,251
Interest-bearing loans and borrowings	14.2	10,437	11,848
Financial leasing payables	16.2	1,567	1,139
		<u>49,675</u>	<u>40,238</u>
Total liabilities		<u>76,447</u>	<u>69,868</u>
TOTAL EQUITY AND LIABILITIES		<u>100,019</u>	<u>93,471</u>

The financial statement is approved by the Board of Directors on 15.04.2014 and was signed as follows:

Assen Assenov
Executive Director

Katrin Kutsarova
Chief Financial Officer

Certified in accordance with an auditor's report:
BDO Bulgaria OOD
Stoyanka Apostolova, Manager
Certified Accountant, Registered Auditor
29.04.2014

Nedyalko Apostolov
Manager



The explanatory notes from page 7 to page 33 are an integral part of the financial statement.

Avto Union AD
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ending on 31 December 2013

	Share capital (Note 13) BGN '000	Reserves BGN '000	Retained earnings BGN '000	Total capital owned by the Parent BGN '000	Non-controlling interest BGN '000	Total BGN '000
At 1 January 2012	33,972	(6,232)	(8,856)	18,884	317	19,201
Loss for the year	-	-	(1,584)	(1,584)	728	(856)
Capital increase	5,032	-	-	5,032	-	5,032
Unpaid capital	1,000	-	-	1,000	-	1,000
Others	-	-	(774)	(774)	-	(774)
At 31 December 2012	<u>40,004</u>	<u>(6,232)</u>	<u>(11,214)</u>	<u>22,558</u>	<u>1,045</u>	<u>23,603</u>
At 1 January 2013	40,004	(6,232)	(11,214)	22,558	1,045	23,603
Loss for the year	-	-	(290)	(290)	259	(31)
At 31 December 2013	<u>40,004</u>	<u>(6,232)</u>	<u>(11,504)</u>	<u>22,268</u>	<u>1,304</u>	<u>23,572</u>

The financial statement is approved by the Board of Directors on 15.04.2014 and was signed as follows:

Assen Assenov
Executive Director

Katrin Kutsarova
Chief Financial Officer

Certified in accordance with an auditor's report:
BDO Bulgaria OOD
Stoyanka Apostolova, Manager
Certified Accountant, Registered Auditor
29.04.2014

Nedyalko Apostolov
Manager

The explanatory notes from page 7 to page 33 are an integral part of the financial statement.



Avto Union AD
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ending on 31 December 2013

	<u>2013</u>	<u>2012</u>
	<i>BGN '000</i>	<i>BGN '000</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	158,560	119,696
Payments to suppliers	(135,841)	(97,368)
Tax paid	(7,918)	(8,682)
Payments to employees	(9,320)	(9,860)
Bank charges and interest paid	(615)	(565)
Net result from change in exchange rates	(17)	(9)
Other inflows / outflows from operating activities	(4,043)	(50)
Net cash flows generated by / used in operating activities	<u>806</u>	<u>3,162</u>
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Purchase of fixed assets	(2,287)	(1,255)
Proceeds from sale of fixed assets	16,034	1,608
Receipt of borrowings	(3,608)	2,333
(Paid) / Refunded loans	3,870	(2,360)
Interests received from borrowings given	50	39
Proceeds from sale of investments	4,256	-
Purchase of investments	(5,010)	(1,476)
Other inflows / outflows from investing activities	(779)	(941)
Net cash flows generated by / used in investment activities	<u>12,526</u>	<u>(2,052)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(24)	(5)
Proceeds from increase of share capital	(6,410)	1,000
Proceeds from issuance of bonds	6,800	6,800
Proceeds from bank and commercial borrowings	17,988	9,828
Repayment of bank and commercial borrowings	(28,700)	(14,989)
Interests and commissions paid, net	(1,207)	(1,642)
Payments under lease contracts	(1,286)	(1,764)
Other inflows / outflows from financial activities	(82)	311
Net cash flows generated by / used in financing activities	<u>(12,921)</u>	<u>(461)</u>
Net (decrease) / increase of cash and cash equivalents	411	649
Cash and cash equivalents at 1 January	<u>2,361</u>	<u>1,712</u>
Cash and cash equivalents at 30 September	<u><u>2,772</u></u>	<u><u>2,361</u></u>

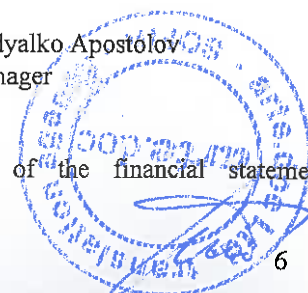
The financial statement is approved by the Board of Directors on 15.04.2014 and was signed as follows:

Assen Assenov
Executive Director

Katrin Kutsarova
Chief Financial Officer

Certified in accordance with an auditor's report:
BDO Bulgaria OOD
BDO Bulgaria OOD
Stoyanka Apostolova, Manager
Certified Accountant, Registered Auditor
29.04.2014

Nedyalko Apostolov
Manager



The explanatory notes from page 7 to page 33 are an integral part of the financial statement.

1. Corporate information

The consolidated financial statement of Avto Union AD (the "Group") for the year ending on 31 December 2013 is approved for issue with resolution of the Board of Directors dated 15.04.2014.

Avto Union AD is a joint stock company incorporated with decision № 660/2005 of Sofia District Court, having its seat in the city of Sofia, region Sofia, Bulgaria. The financial year of the Group ends at the 31st of December.

The basic objective of the group is to acquire, manage, evaluate and sell interests in business companies, to sell cars, spare parts and car repair services.

As of 31 December 2013, the shareholders of the Parent company Avto Union AD are:

- | | |
|------------------------|--------|
| - Eurohold Bulgaria AD | 99.99% |
| - Kiril Boshov | 0.01% |

The end Parent company is Eurohold Bulgaria AD.

2.1 Basis for preparation

The consolidated financial statement is prepared in conformity with the International Financial Reporting Standards, adopted by the European Union ("IFRS adopted by EU").

The financial statement is prepared on the basis of historic price, it is presented in Bulgarian leva (BGN) and all indicators are rounded to the closest thousand Bulgarian leva (BGN '000), unless provided otherwise.

2.2 Summary of Significant Accounting Policies

a) Recalculation in Foreign Currency

The financial statement is presented in Bulgarian leva, which is the functional currency and reporting currency of the group. The foreign currency transactions are initially stated in the functional currency at the exchange rate on the date of transaction. The monetary assets and liabilities denominated in foreign currencies are recalculated in the functional currency at the end of each month at the final exchange rate of the Bulgarian National Bank for the last working day of the respective month. All foreign exchange differences are recognized in the statement of comprehensive income. The non-monetary assets and liabilities that are measured at historical cost in foreign currency are recalculated in the functional currency at the exchange rate at the date of initial transaction (acquisition).

b) Revenue Recognition

Revenues are recognized to the extent it is probable for the group to obtain economic benefits, and the amount of revenue may be reliably assessed regardless of the time of payment receipt. Revenues are recognized at fair value of consideration received or due on the basis of agreed payment conditions less the discounts, rebates and other tax on sales or duties. The group analyses its agreements for sale according to specific criteria in order to determine whether to act as a principal or an agent. It has reached the conclusion that it acts as a principal under all such agreements. Before recognizing revenue, the following recognition specific criteria should also be met:

Sales of production and goods

The revenues from sales of production and goods are recognized when the substantial risks and benefits associated with the ownership of the production or goods are transferred to the buyer, which usually occurs at the time of shipment thereof.



2.2 Summary of Significant Accounting Policies (continued)

b) Revenue Recognition (continued)

Provision of services

Revenues from provision of services are recognized on the basis of the stage of completion of the transaction as at the reporting date. The stage of completion of transaction is determined on the basis of man-hours worked as a percent of the total man-hours to be worked out under each contract. Where the result of the transaction (contract) may not be reliably assessed, the revenue is recognized to the extent the expenses incurred are subject to refund.

Interest income

Interest income is stated by using the effective interest method being the rate that exactly discounts the expected future cash outflows for the expected term of the financial instrument or for a shorter period, whenever appropriate, up to the net book value of the financial asset. The interest income is included in the financial revenue in the statement of comprehensive income.

Dividend income

Dividend income is recognized when the right to receive dividends is established.

c) Taxes

Current income tax

The current tax assets and liabilities for the current and past reporting years are recognized at the amount that is expected to be refunded by or paid to tax authorities. In calculating the current tax, the tax rates and tax legislation that have been enacted or substantively enacted as at the reporting date are applied. The management analyses the different items in the tax return for which applicable tax provisions are subject to interpretation, and recognizes provisions whenever appropriate.

Current tax is recognized directly in equity (and not in the statement of comprehensive income), where such tax is relevant to items which have been recognized directly in equity.

Deferred income tax

Deferred tax is recognized, using the balance sheet method, in respect of all temporary differences as at the reporting date, which occur between the tax base of the assets and liabilities and their net book values.

Deferred tax liabilities are recognized in respect of all taxable temporary differences:

- Except to the extent to which the deferred tax liability occurs due to initial recognition of asset or liability in a transaction that is not a business combination and that affects neither the book profit nor the tax profit or loss at the time of performance of the transaction; and
- For taxable temporary differences in respect of investments in subsidiaries, associate entities and interests in joint ventures, except to the extent to which the group is able to control the time of reversal of the temporary difference and it is possible that the temporary difference will not reverse in the near future.

Deferred tax assets are recognized for all decreasing temporary differences, transferred unused tax credits and unused tax losses to the extent to which possible future taxable profit is available, against which decreasing temporary differences, transferred unused tax credits and unused tax losses can be used:

- unless the deferred tax asset occurs due to initial recognition of asset or liability in a transaction that is not a business combination and that affects neither the book profit nor the tax profit or loss at the time of performance of the transaction; and
- For decreasing temporary differences in respect of investments in subsidiaries, associate entities and interests in joint ventures, deferred tax asset is recognized only to the extent to which it is possible that the temporary difference reverses in the near future and taxable profit is realized against which the temporary difference can be used.



2.2 Summary of Significant Accounting Policies (continued)

c) Taxes (continued)

Deferred income tax (continued)

The group reviews the net book value of deferred tax assets at each reporting date and reduces it to the extent to which it is not possible to realize sufficient taxable profit allowing to recover the whole or part of the deferred tax asset. Unrecognized deferred tax assets are reviewed at each reporting date and are recognized to the extent to which it is possible to realize future taxable profit allowing to recover the deferred tax asset.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply for the period in which the asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted as at the reporting date.

Deferred taxes for items recognized out of profit or loss, are recognized out of profit or loss. Deferred taxes are recognized depending on the transaction related thereto either in other comprehensive income or directly in equity. The group offsets deferred tax assets and liabilities if and only if it has the legal enforceable rights to set off current tax assets against current tax liabilities and deferred tax assets and liabilities relate to income taxes levied by the same tax authority or for one and the same taxable entity.

Value Added Tax (VAT)

Revenue, expense and assets are recognized net of VAT, except in cases in which:

- VAT upon purchase of assets or services is not refunded by the tax authorities, and in such case VAT is recognized as part of the asset cost or as part of the respective expense item, if appropriate; and
- Of receivables and payables that are stated VAT inclusive.

The net amount of VAT that is refundable by or due to tax authorities is included in the amount of receivables or payables in the statement of financial position.

d) Employment benefits

Pursuant to the Bulgarian labor legislation, the Group Companies, as employers, are obliged to pay two or six gross monthly salaries to their employees upon retirement depending on the length of service. Provided the employee has worked at the same employer during the last 10 years of his service, he is entitled to six gross monthly salaries upon retirement, and if he has worked less than 10 years at the same employer – two gross monthly salaries. The employment benefit plan upon retirement is not financed. The group defines its obligations for payment of employee's benefits upon retirement by using the actuarial evaluation method. Actuarial gains and losses are recognized as revenue or expense when the net cumulative unrecognized actuarial gains or losses at the end of the past reporting year have exceeded 10% of the current amount of liability for payment of employment benefits upon retirement. Actuarial gains or losses are recognized for the expected average number of remaining years of employees' length of service.

The expenses for past length of service are recognized as an expense on linear base for the average term until the income becomes unconditionally acquired. To the extent incomes are already unconditionally acquired, immediately after the introduction or changing the employment benefits plan upon retirement, the Group Companies recognize the expense for past length of service immediately.

The liability for employment benefits upon retirement comprise of the current value of liability to pay such incomes, less unrecognized expenses for past length of 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 measured at fair value in the profit or loss, or as loans and receivables, or as investments held to maturity, or as financial assets available for sale, or as derivatives designated as hedging instrument at effective hedging, when appropriate. The group defines the classification of its financial assets upon initial recognition.

Financial assets are initially recognized at fair value plus, in the case of investments that are not stated at fair value in the profit or loss, the transaction expenses, which are directly related to the acquisition of the financial asset.

Any purchase or sale of financial assets whose conditions require to transfer the asset through a period of time, usually stipulated by a legal regulation or applicable practice at the respective market (regular purchase), are recognized at the date of trading (transaction), i.e. the date on which the Group Companies have committed themselves to buy or sell the asset.

The Company's financial assets include cash and cash equivalents, trade and other receivables, granted loans and other financial assets.

Subsequent measurement

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, which are not quoted on active markets. They occur when the group grants cash, goods or services directly to the debtor having no intention to trade with them. They are included in short-term assets, except those that have maturity of more than 12 months after the balance sheet date, which are thus classified as long-term assets. Loans and receivables are included in trade and other receivables in the balance sheet.

Derecognition

A financial asset (or part of financial asset or part of group of similar financial assets, whenever applicable) is derecognized when:

- Contractual rights related to the cash flows generated from the financial asset expire;
- Contractual rights to receive cash flows generated from the financial asset are transferred or the Group has accepted the obligation to fully pay the received cash flows without delay to a third party through a transfer agreement, whereby (a) the group has transferred substantially all risks and benefits associated with the ownership of the financial asset; or (b) the group has neither transferred not retained substantially all risks and benefits associated with the ownership of the financial asset but has lost control over it.

When the group has transferred its contractual rights to receive cash flows generated from the financial asset or has entered into agreement for transfer, and has neither transferred not retained substantially all risks and benefits associated with the ownership of the financial asset, but has kept its control over it, the group continues to recognize the transferred financial asset to the extent of its continuing interest therein. In this case the group also recognizes the associated obligation. The transferred asset and the associated obligation are measured on a base that reflects the rights and obligations retained by the group.

The extent of continuing interest in the form of guarantee for the transferred asset is measured at the lower of the initial net book value of the asset and the maximum value of compensation that might have to be refunded by the group.



2.2 Summary of Significant Accounting Policies (continued)

e) Financial Instruments – initial recognition and subsequent measurement (continued)

Impairment of financial assets

As at each reporting date, the group assesses whether there is objective evidence that a financial asset or a group of financial assets may be impaired. A financial asset or a group of financial assets are considered impaired if and only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("a loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The evidence for impairment may include indications that debtors or group of debtors suffer serious financial difficulties or are in breach or delay to repay interests or principals, or possibility to declare insolvency / over-indebtedness, or to undertake financial restructuring, or when monitored data indicate measurable decrease of estimated cash flows, for example changes in delays or economic conditions relevant to the breach on behalf of debtors.

- **Financial liabilities**

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities measured at fair value in the profit or loss, or as loans and deposits received in financial institutions, or as derivatives designated as effective hedging instrument, whichever is more appropriate. The group defines the classification of its financial liabilities upon initial recognition.

Financial liabilities are initially recognized at fair value plus, in the case of loans and deposits received in financial institutions, the transaction expenses, which are directly related to the acquisition of the financial liability.

The group's financial liabilities comprise trade and other payables and interest bearing loans.

Derecognition

A financial liability is derecognized when repaid, i.e. when the contractual obligation has been discharged or cancelled or expires.

Where an existing financial liability is changed with another financial liability from the same creditor under significantly different conditions or where the conditions of the existing liability are substantially modified, this change or modification is treated as derecognition of the initial liability and recognition of a new liability, and the difference in the respective net book values is recognized in the statement of comprehensive income.

f) Offsetting of financial instruments

Financial assets and financial liabilities are set off and the net amount is presented in the statement of financial position, when, and only when, the Company has a legal right to set off the recognized amounts and intends either to settle on net basis or to realize the asset and settle the liability simultaneously.

g) Fair Value of Financial Instruments

As at each reporting date, the group assesses the fair value of financial instruments that are actively traded on the markets, on the basis of quoted market prices or dealer's quotes ("bid" prices for long positions and "offer" prices for short positions) without deducting the transaction expenses.

The fair value of financial instruments for which active market does not exist, is determined with valuation techniques. Such techniques comprise the use of recent market direct transactions; references to the current fair value of another instrument, which is substantially the same; analysis of discounted cash flows and other valuation models.

h) Share capital

The share capital is presented at nominal value of issued and paid shares. The proceeds from issued shares exceeding their nominal value are stated as premium reserves.



2.2 Summary of Significant Accounting Policies (continued)

i) Property, plant and equipment

Items of property, machinery and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost also comprises the expenses for replacement of components of item of machinery and equipment and the loan expense under long-term construction contracts, provided they meet the criteria for recognition of an asset. Expenditures incurred for major inspection of an item of machinery and/or equipment, are included in the net book value of the respective asset as expenditure for replacement, provided they meet the criteria for recognition of an asset. All other expenditures for overhaul and maintenance are recognized in the statement of comprehensive income during the period they are incurred.

An item of property, machinery and equipment is written off upon sale or when no future economic benefits embodied within the asset are expected, or upon discharge thereof. The profits and losses occurring at derecognition of the asset (being the difference between the net proceeds from the sale, if any, and the net book value of the asset) are included in the statement of comprehensive income, upon derecognition of the asset.

At the end of each financial year, the group reviews the remaining values, useful life and applied asset depreciation methods, and if expectations differ from previous estimates, they are adjusted prospectively.

j) Lease

Determining whether a contract is or contains a lease is based on the nature of the contract at its beginning and requires making an evaluation regarding whether the implementation of the contract depends on the use of specific asset or assets and whether the contract transfers the right to use the asset.

The group as a lessee

The group classifies a lease contract as finance when the contract transfers all substantial risks and benefits associated with the ownership of the asset. At the beginning of the lease term, the finance lease is recognized as an asset and liability in the statement of financial position with an amount which is equal to the fair value of the leased asset at the beginning of the lease contract, and if less, at the present value of the minimum lease payments. Lease payments are distributed among financial expenses and the decrease of lease payable in order to obtain permanent interest rate over the remaining balance of the payable. Financial expenses are recognized directly in the statement of comprehensive income.

Any assets acquired under finance lease are depreciated during the term of the asset's useful life. Provided, however, it is not sure to a reasonable extent that the Group will acquire their ownership until the end of the lease contract term, assets are depreciated during the shorter of the two terms – the term of useful life of the asset or the term of the lease contract.

Lease payments under operating lease are recognized as an expense in the profit or loss on the basis of the linear method for the term of the lease contract.

The group as a lessor

A lease contract under which the group keeps all substantial risks and benefits associated with the ownership of the leased asset is classified as an operating lease. The initial direct expenses incurred by the group in relation to the agreement and settlement of operating lease are added to the net book value of the leased asset and are recognized as an expense during the entire term of the lease contract on the same basis as for the lease revenue. The contingent leases are recognized as revenue in the period they have been worked out.



2.2 Summary of Significant Accounting Policies (continued)

k) Borrowing expenses

The borrowing expenses directly related to the acquisition, construction or manufacture of an asset, which needs to take a significant period of time to be prepared for its purpose or for sale, are capitalized as part of its acquisition cost. All other borrowing expenses are stated as an expense during the period they have been incurred. The borrowing expenses include interests and other expenses incurred by the group in relation to deposits received in financial institutions.

The Companies of the group capitalize the borrowing expenses for eligible assets.

l) Intangible assets

Intangible assets that are acquired separately are initially measured at acquisition cost. After initial recognition, intangible assets are stated at acquisition cost less accrued depreciations and impairment losses.

Any intangible assets with limited useful life are depreciated for the term of their useful life and are tested for impairment whenever indications exist that their value is impaired. The depreciation period and the depreciation method for intangible assets with limited useful life are reviewed at least at the end of each financial year. The changes in expected useful life or consumption method of future benefits of the intangible asset are stated by means of change of the depreciation term or method and are treated as a change of approximate accounting estimates. The depreciation expenses of intangible assets with limited useful life are classified by their function in the statement of comprehensive income depending on the use (purpose) of the intangible asset.

Any gain or loss occurring upon derecognition of intangible asset, being the difference between net sales proceeds and the net book value of the asset, are stated in the statement of comprehensive income upon derecognition of the asset.

m) Inventory

Inventory is measured at the lower value of cost and net realizable value.

The net realizable value is the estimate sales price during the usual course of business less the estimate expenses for completion of the production cycle and those required for the completion of the sale.

n) Impairment of non-financial assets

As at each reporting date, the Group Companies assess whether there are indications that an asset is impaired. In case of such indications or whenever an annual test for impairment of an asset is required, the Companies of the group determine the recoverable amount of this asset. The recoverable amount of the asset is the higher of the fair value, less the sale expenses of the asset or the cash flow generating site (CFGS) and its value in use. The recoverable amount is determined for an individual asset, unless during the use of the asset cash flows are generated that are substantially independent from the cash flows generated by other assets or groups of assets. When the net book value of an asset or CFGS is higher than its recoverable amount, it is considered impaired and its net book value is decreased up to its recoverable amount.

2.2 Summary of Significant Accounting Policies (continued)

n) Impairment of non-financial assets (continued)

When determining the value of an asset in use, the estimated cash flows are discounted to their current value by using pre-tax discount rate, which reflects the current market assessments of the time value of money and the asset specific risks. The fair value, less the sale expenses, is determined on the basis of recent market transactions, if any. If such transactions cannot be identified, an appropriate valuation model is applied. The calculations made are confirmed by using other valuation models or other available sources of information about the fair value of an asset or cash flow generating site.

The impairment calculations are based on detailed budgets and estimated calculations made separately for each CFGS to which individual assets are allocated. Such budgets and estimated calculations usually cover a period of five years. In case of longer periods, a long-term growth index is calculated and it is applied to the future cash flows after the fifth year.

The impairment losses are recognized as an expense in the statement of comprehensive income.

As at each reporting date, the group assesses whether indications exist that the impairment loss of an asset which is recognized in previous periods may not already exist or have become less. If such indications exist, the group assesses the recoverable amount of the asset or the cash flow generating site. The impairment loss is restored only if change in the approximate estimates used for defining the recoverable amount of the asset after the recognition of the last impairment loss has occurred. The recovery of impairment loss is limited so that the net book value should exceed neither its recoverable amount nor the net book value (after deducting depreciation) which would be defined if the impairment loss of the asset has not been recognized in the previous years. The recovery of an impairment loss is recognized in the statement of comprehensive income.

o) Cash and cash equivalents

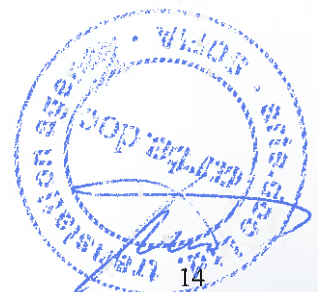
Cash and short term deposits in the statement of financial position comprise cash in bank accounts, cash on hand and short term deposits with initial maturity of three or less months.

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and cash equivalents as defined above.

p) Provisions

General

Provisions are recognized when the Group Companies have a present obligation (legal or constructive) as a result of past events and it is probable that an outflow of resources containing economic benefits will be required to settle the obligation, and the amount of such obligation can be reliably assessed. When the Group Companies expect that any or all expenses required for provision settlement will be refunded, for example under insurance contract, such refund is recognized as a separate asset, but only if it is practically certain that such expenses will be refunded. The provision expenses are stated in the statement of comprehensive income, net of the refunded expenses. Where the effect of the time value of money is material, the provisions are discounted using a pre-tax discount rate that reflects, whenever appropriate, the obligation specific risks. Where discounting is applied, the increase of provision due to time passed is stated as financial expense.



2.3 Changes in Accounting Policies and Disclosures

New standards, amendments and interpretations effective from 1 January 2013

The following amendments to existing standards are effective for the current reporting period and have not been applied in preparing these financial statements. They are not expected to have a material effect on the financial statements of the Group.

IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets – Effective for annual periods beginning on or after 1 July 2011, adopted by the EU on 22 November 2011, published in Official Journal (OJ) on November 23, 2011.

The amendment to IFRS 7 leads to greater transparency in the reporting of transactions with transfer of financial instruments and facilitates the understanding of users of financial statements regarding exposure to risks in the transfer of financial assets and their impact on the financial position of the group, especially in the case of securitization of financial assets.

Standards, interpretations and amendments to standards issued by the IASB and adopted by the EU, but not yet in force

Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" – amendments on hyperinflation and removal of fixed dates for first-time adopters of IRRS, effective for annual periods beginning on or after January 1, 2013, adopted by the EU on 11 December 2012, published in the OJ on 29 December 2012

The amendments include two changes in the standard. The date 1 January 2004 has been replaced with the date of transition to IFRS for transactions related to disposals of assets and liabilities and in the determination of fair value of financial assets and liabilities using valuation techniques. The second change allows companies after a period of hyperinflation to assess the financial assets and liabilities held before the normalization of the economy, at fair value and use it as a default value in the preparation of the first report under IFRS.

Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities – effective for annual periods beginning on or after 1 January 2013, adopted by the EU on 13 December 2012, published in the OJ on 29 December 2012

The new disclosures are related to quantitative information on the recognition of financial instruments, offsetted in the statement of financial position, as well as those financial instruments for which there is an offsetting agreement whether or not they are offsetted.

IFRS 10 Consolidated Financial Statements, effective for annual periods beginning on or after 1 January 2014, adopted by the EU on 11 December 2012, published in the OJ on 29 December 2012

IFRS 10 "Consolidated Financial Statements" introduces a new definition of control based on certain principles that should apply to all investments in determining the basis of consolidation.

IFRS 11 Joint Arrangements, effective for annual periods beginning on or after 1 January 2014, adopted by the EU on 11 December 2012, published in the OJ on 29 December 2012

IFRS 11 Joint Arrangements replaces IAS 31 Interests in Joint Ventures and replaces the three categories of "jointly controlled ventures", "jointly controlled operations" and "jointly controlled assets" with two categories – "joint operations" and "joint ventures". The option of using the method of proportionate consolidation in accounting for joint ventures is no longer admissible. The equity method is mandatory for application for the reporting of all joint ventures.



2.3 Changes in Accounting Policies and Disclosures (continued)

IFRS 12 Disclosure of Interests in Other Entities, effective for annual periods beginning on or after 1 January 2014, adopted by the EU on 11 December 2012, published in the OJ on 29 December 2012

IFRS 12 Disclosure of Interests in Other Entities is a new standard on disclosure requirements for all forms of interests in other entities, including joint ventures, associated ventures, special purpose companies and other unconsolidated companies.

IFRS 13 Fair Value Measurement, effective for annual periods beginning on or after 1 January 2013, adopted by the EU on 11 December 2012, published in the OJ on 29 December 2012

IFRS 13 Fair Value Measurement defines fair value as a price that would be received at the sale of an asset or paid at the transfer of a liability in an orderly transaction between market participants at the measurement date. The standard clarifies that fair value is based on a transaction in the principal market for assets or liabilities or, in the absence of such – in the market with the most favorable conditions. The principal market is the market with the greatest volume and activity for the respective asset or liability.

Amendments to IAS 1 Presentation of Financial Statements – Presentation of items in other comprehensive income – effective for annual periods beginning on or after 1 July 2012, adopted by the EU on 5 June 2012, published in the OJ on 6 June 2012

The amendments require entities to separate items presented in other comprehensive income into two groups depending on whether they will be reclassified in the profit or loss in subsequent periods. Items that are not reclassified, e.g. revaluation of property, plant and equipment, are presented separately from items that will be reclassified, e.g. deferred profits and losses from cash flow hedging. Companies which have chosen to present the items of the other comprehensive income before taxes should show the respective amount of tax for each of the groups separately. The name of the comprehensive income statement has been changed to “statement of profit or loss and other comprehensive income”, but other titles can also be used. The amendments should be applied retrospectively.

Amendments to IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets, effective for annual periods beginning on or after 1 January 2013, adopted by the EU on 11 December 2012, published in the OJ on 29 December 2012

The standard requires companies to assess the deferred tax relating to assets depending on the way it is expected for their carrying value to be recovered through use or sale. For investment property reported at fair value under IAS 40 Investment Property, is difficult and subjective to determine what part of the recovery will be done by subsequent use or sale. The amendment introduces an exception to that principle – the rebuttable presumption that the carrying value of these investment properties will be recovered only through sale. As a result of the amendments, SIC 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets is canceled.

Amendments to IAS 19 Employee Benefits, effective for annual periods beginning on or after 1 January 2013, adopted by the EU on 5 June 2012, published in the OJ on 6 June 2012

Amendments to IAS 19 eliminate the corridor method and require the presentation of the financial costs and revenues on a net basis. Actuarial profits and losses are renamed to revaluations and should be recognized immediately in the other comprehensive income. They are not reclassified to profit or loss in subsequent periods. The amendments should be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

IAS 27 Separate Financial Statements (revised 2011), effective for annual periods beginning on or after 1 January 2014, adopted by the EU on 11 December 2012, published in the OJ on 29 December 2012

IAS 27 Separate Financial Statements (revised) applies only to separate financial statements, the requirements for which are not substantially altered.

2.3 Changes in Accounting Policies and Disclosures (continued)

IAS 28 Investments in Associates and Joint Ventures (revised 2011), effective for annual periods beginning on or after 1 January 2014, adopted by the EU on 11 December 2012, published in the OJ on 29 December 2012

IAS 28 Investments in Associates and Joint Ventures (revised) continues to prescribe the equity method. Changes in the scope of the standard were made due to the publication of IFRS 11 Joint Arrangements.

Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities, effective for annual periods beginning on or after 1 January 2014, adopted by the EU on 13 December 2012, published in the OJ on 29 December 2012

The amendment clarifies that the right to offsetting of financial assets and liabilities must be in force at the time and not to be contingent on a future event. It also must be able to be exercised by all parties in the ordinary course of business, as well as in the cases of default, insolvency or bankruptcy.

Amendments to IAS 36 Impairment of Assets – Disclosure of the recoverable amount of non-financial assets, effective for annual periods beginning on or after 1 January 2014, adopted by the EU on 19 December 2013, published in the OJ on 20 December 2013

Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Novation of derivatives and continuation of hedge accounting, effective for annual periods beginning on or after 1 January 2014, adopted by the EU on 19 December 2013, published in the OJ on December 20, 2013

Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities – Transition Guidance (issued on 28 June 2012), effective for annual periods beginning on or after 1 January 2014, adopted by the EU on 4 April 2013, published in the OJ on 5 April 2013

Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities – Transition Guidance and IAS 27 Separate Financial Statements – refer to investment enterprises (issued on 31 October 2012), effective for annual periods beginning on or after 1 January 2014, adopted by the EU on 20 November 2013, published in the OJ on 21 November 2013

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine, effective for annual periods beginning on or after 1 January 2013, adopted by the EU on 11 December 2012, published in the OJ on 29 December 2012

The explanation requires existing capitalized stripping costs for the surface layer to be reclassified as a component of the asset to which the activity of stripping the surface layer refers. If there is no identifiable part of the ore body to which this component can be referred directly, it is recognized in retained earnings.

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

The following new or revised standards, new interpretations and amendments to existing standards that, as at the reporting date, are already issued by the International Accounting Standards Board (IASB), has not yet been endorsed by the EU and therefore are not taken into account by the Group in preparing these financial statements.



2.3 Changes in Accounting Policies and Disclosures (continued)

IFRS 9 Financial Instruments (issued on 12 November 2009) and Additions to IFRS 9 and IFRS 7 (issued on 16 December 2011), effective from 1 January 2015, not yet adopted by the EU

IFRS 9 is the first part of the project of the International Accounting Standards Board (IASB) to replace IAS 39 "Financial Instruments: Recognition and Measurement" by the end of 2010. It replaced the four categories of financial assets in their evaluation in IAS 39 with a classification based on a single principle. IFRS 9 requires all financial assets to be measured at either amortized cost or fair value. Amortized cost provides information that is useful in making decisions regarding financial assets that are held primarily for the receipt of cash flows that consist of the payment of principal and interest. For all other financial assets, including those held for trading, fair value is the most relevant measurement basis. IFRS 9 eliminates the need for multiple methods for impairment by providing an impairment method only for assets carried at amortized cost. Additional sections in relation to impairment and hedging accounting are still being developed. The management of the Group should assess the effect of the amendments on its financial statements. However, it does not expect for the changes to be implemented before the publication of all sections of the standard and before it can assess their overall effect.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards (issued on 13 March 2012) – Government loans, effective from 1 January 2013, not yet adopted by the EU

The amendment provides guidance on how to account for government loan with an interest below the market levels in the preparation of the first report under IFRS. It also adds an exemption from retrospective application in accordance with the requirements of IAS 20.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statement requires the management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities as of the date of the statement of financial position, as well as the reported amounts of revenues and expenses for the period. Uncertainties associated with the assumptions and estimates made, might cause actual results requiring significant adjustments in the net book values of the respective assets or liabilities in subsequent reporting periods.

Judgements

During the application of adopted accounting policies, the managements of the Companies of the group have made the following judgements that most significantly affect the amounts recognized in the financial statement:

Commitments under operating lease – the Group as a lessee

The Companies of the group have concluded contracts for lease of cars. The management believes that since all substantial risks and benefits associated with the ownership of these assets are not assumed by the Companies of the group, the contracts are treated as operating leases.

Investment Property

Investment property is property (land or building) held rather to earn rental income or for capital appreciation or for both, than to:

- (a) be used in manufacture or supply of goods or services or for administrative purposes; or
- (b) be sold in the ordinary course of business.



3. Significant Accounting Judgments, Estimates and Assumptions (continued)

Investment property is stated at historical cost less the depreciation charged by the acquisition. On annual basis, the historical cost is compared with the fair value. The fair value is based on effective market prices adjusted, if needed, with the differences in type, location or condition of the respective asset. If no information is available, the Group uses alternative evaluation methods such as current prices on less active markets or discounted estimate cash flows.

Approximate estimates and assumptions

The basic assumptions associated with future and other main sources of uncertainties in the approximate estimates at the reporting date, and for which significant risk exists to result in material adjustments in the net book amounts of assets and liabilities during the next reporting period, are listed below:

Employment benefits upon retirement

The liability for employment benefits upon retirement is determined by actuarial assessment. Such assessment requires making assumptions for the discount rate, the future increase of salaries, the staff turnover and the death rate. Due to the long-term nature of employment benefits upon retirement, these assumptions are subject to significant uncertainty. As at 31 December 2013, the group's liability for employment benefits upon retirement is within the amount of BGN 43 thousand (2012: BGN 49 thousand).

Approximate estimates and assumptions (continued)

Useful life of property, machinery and equipment, and intangible assets

The financial reporting of property, machinery and equipment and intangible assets involves the use of approximate estimates for their expected useful life and remaining values that are based on judgments on behalf of the managements of the Companies of the group.

4. Standards Issued but not yet Effective

Standards and clarifications issued by IASB and adopted by the EU, which have not yet become effective

The following IFRS, amendments to IFRS and clarifications have been adopted by the EU as of the date of approval of this financial statement, but are still not effective:

Amendments to IFRS 1 clarify that an entity may apply IFRS 1 more than once under certain circumstances. The right of choice in applying IAS 23 from the date of passage or an earlier date is introduced.

The amendment to IAS 1 clarifies that entities that present two comparative periods in the statement of financial position according to the requirements of IAS 8 should not include information on the opening balance of the previous period in the notes. If the management presents at their own discretion additional comparative information in the statement of financial situation or the income statement, then the notes should include also additional information.

The amendment to IAS 16 clarifies that the spare parts and servicing equipment are classified as property, plant and equipment and not as inventory when the definition of property, plant and equipment is applicable and they are not used for more than one year.

The amendment to IAS 32 clarifies that the reporting of income tax in relation to the distribution of dividends and transaction costs with the owners is in accordance with IAS 12. Income tax in relation to the distribution of dividends is recognized in the profit or loss while income tax in relation to the costs of transactions with owners is recognized directly in the equity.

The amendment to IAS 34 clarifies that the total amount of the assets and liabilities by segment is presented in the interim consolidated financial statements in the event that this information is provided regularly to the persons responsible for making operating decisions and it has changed significantly compared to information disclosed in the last annual consolidated financial statements.

Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued on 28 June 2012) entered into force on 1 January 2013 and apply to the transitional guidance.

Amendments to IFRS 10, IFRS 12 and IAS 27 (issued on 31 October 2012) entered into force on 1 January 2014 and apply to investment enterprises.

The adoption of these amendments to existing standards did not result in changes in the accounting policies of the Group.

Auto Union AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ending on 31 December 2013

5. Revenues and Expenses

5.1 Revenues from sales of goods

	2013	2012
	<i>000' BGN</i>	<i>000' BGN</i>
<i>Revenues from:</i>		
Cars and scooters	91,422	65,700
Spare parts and accessories	23,167	16,381
Lubricants	5,986	5,938
Other	25	32
	120,600	88,051

5.2 Other revenue

	2013	2012
	<i>000' BGN</i>	<i>000' BGN</i>
Sale of fixed assets	13,779	1,089
Net book value of assets sold	(11,428)	(514)
Revenue from sale of shares	500	-
Revenue from investment property revaluation	-	1,399
Revenue from bonuses, penalties, compensations and others	2,411	3,213
	5,262	5,187

5.3 Expenses on materials

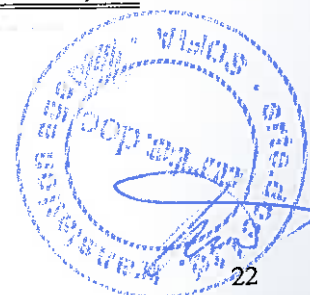
	2013	2012
	<i>000' BGN</i>	<i>000' BGN</i>
Fuels	422	391
Consumables	748	515
Spare parts and service instruments	223	226
Office consumables	84	81
Advertising materials	122	157
Other	417	407
	2,016	1,777

5.4 Expenses on hired services

	2013	2012
	<i>000' BGN</i>	<i>000' BGN</i>
Rent	2,853	3,078
Advertising	1,487	1,402
Expenses on hired services	583	541
Transport, maintenance and communications	1,121	644
Fees and insurance	475	369
Security, etc.	1,892	1,086
	8,411	7,120

5.5 Expenses on employees

	2013	2012
	<i>000' BGN</i>	<i>000' BGN</i>
Salaries	8,500	8,125
Social-security contributions	1,275	1,322
	9,775	9,447



Auto Union AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ending on 31 December 2013

5. Other revenues and expenses (continued)

5.6 Other expenses

	<u>2013</u>	<u>2012</u>
	<i>000'BGN</i>	<i>000'BGN</i>
Expenses on business trips	112	83
Trainings / Human resources	67	87
Subscriptions and membership fees	5	90
Taxes	133	123
Other expenses	<u>1,326</u>	<u>1,468</u>
	<u><u>1,643</u></u>	<u><u>1,851</u></u>

5.7 Financial expenses

	<u>2013</u>	<u>2012</u>
	<i>000'BGN</i>	<i>000'BGN</i>
Interest expenses under loans and borrowings	1,523	1,103
Interest expenses under financial lease contracts	277	690
<i>Total interest expense</i>	<u>1,800</u>	<u>1,793</u>
Other	385	359
	<u><u>2,185</u></u>	<u><u>2,152</u></u>

5.8 Financial revenue

	<u>2013</u>	<u>2012</u>
	<i>000'BGN</i>	<i>000'BGN</i>
Revenue from loans granted	403	205
Revenue from sale of financial assets	900	-
Other - operations with financial assets	16	56
	<u><u>1,319</u></u>	<u><u>261</u></u>



Auto Union AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ending on 31 December 2013

6. Property, plant and equipment

	Land, buildings and equipment <i>000'BGN</i>	Machinery, equipment and fixtures and fittings <i>000'BGN</i>	Vehicles <i>000'BGN</i>	Acquisition costs <i>000'BGN</i>	Other <i>000'BGN</i>	Total <i>000'BGN</i>
Cost:						
At 1 January 2012	15,036	7,664	4,683	2,941	1,539	31,863
From acquired companies	-	477	-	-	-	477
Additions	101	391	3,945	21	43	4,501
Disposals		(554)	(3,892)	(16)	(133)	(4,595)
At 31 December 2012	15,137	7,978	4,736	2,946	1,449	32,246
Additions	27	802	6,411	128	62	7,430
Disposals	(9,910)	(248)	(5,052)	(2,380)	(168)	(17,758)
Of sold companies	(32)	(5)	(140)	-	-	(177)
At 31 December 2013	5,222	8,527	5,955	694	1,343	21,741
Depreciation:						
At 1 January 2012	(3,264)	(5,740)	(1,875)	(10)	(1,113)	(12,002)
From acquired companies	-	(29)	-	-	-	(29)
Depreciation charge	(318)	(607)	(768)	-	(79)	(1,772)
Disposals		414	1,007	-	89	1,510
At 31 December 2012	(3,582)	(5,962)	(1,636)	(10)	(1,103)	(12,293)
Depreciation charge	(217)	(745)	(786)	-	(48)	(1,796)
Disposals	999	125	955	-	62	2,141
Of sold companies	7	3	6	-	-	16
At 31 December 2013	(2,793)	(6,579)	(1,461)	(10)	(1,089)	(11,932)
Net book value:						
At 1 January 2012	11,772	1,924	2,808	2,931	426	19,861
At 31 December 2012	11,555	2,016	3,100	2,936	346	19,953
At 31 December 2013	2,429	1,948	4,494	684	254	9,809

Impairment of property, plant and equipment

In 2013 the Group has not recognized plant, machinery and equipment impairment losses since the management of the group, on the basis of fixed tangible asset impairment review, has not found any indications that the net book value of the assets exceeds their recoverable amount.



Auto Union AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 For the year ending on 31 December 2013

7. Intangible assets

	Software	Acquisition cost	Improvements	Property rights	Know-how	Other	Total
	000'BGN	000'BGN	000'BGN	000'BGN	000'BGN	000'BGN	000'BGN
Cost:							
At 1 January 2012	310	418	79	(98)	1,121	76	1,906
Additions	2	39	-	-	-	68	109
Transfers	444	(444)	-	-	-	-	-
Disposals	(27)	-	-	-	-	(11)	(38)
At 31 December 2012	729	13	79	(98)	1,121	133	1,977
Additions	34	-	-	1	-	-	35
Transfers	132	-	-	-	-	(132)	-
Disposals	(99)	-	-	-	-	-	(99)
At 31 December 2013	796	13	79	(97)	1,121	1	1,913
Depreciation:							
At 1 January 2012	(161)	(12)	(46)	98	(227)	(16)	(364)
Depreciation charge	(136)	(1)	(8)	-	(56)	(12)	(213)
Disposals	24	-	-	-	-	11	35
At 31 December 2012	(273)	(13)	(54)	98	(283)	(17)	(542)
Depreciation charge	(162)	-	(7)	-	(56)	-	(225)
Transfers	(16)	-	-	-	-	16	-
Disposals	10	-	-	-	-	-	10
At 31 December 2013	(441)	(13)	(61)	98	(339)	(1)	(757)
Net book value:							
At 1 January 2012	149	406	33	-	894	60	1,542
At 31 December 2012	456	-	25	-	838	116	1,435
At 31 December 2013	355	-	18	1	782	-	1,156

Impairment of intangible assets

The group has reviewed the intangible assets impairment as at 31.12.2013. No indications that the net book value of the assets exceeds their recoverable amount are found and thus no impairment loss is recognized in the financial statement.



Auto Union AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ending on 31 December 2013

8. Investment properties

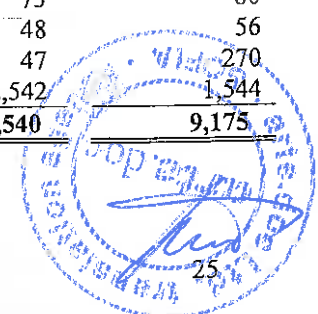
	Total <u>000' BGN</u>
Cost:	
At 1 January 2012	11,853
Additions	29
Reclassified	1,399
At 31 December 2012	<u>13,281</u>
Additions	3
At 31 December 2013	<u>13,284</u>
Depreciation:	
At 1 January 2012	(55)
Depreciation charge	(20)
At 31 December 2012	<u>(75)</u>
Depreciation charge	(21)
At 31 December 2013	<u>(96)</u>
Net book value:	
At 1 January 2012	<u>11,798</u>
At 31 December 2012	<u>13,206</u>
At 31 December 2013	<u>13,188</u>

9. Goodwill

Company	Share in capital %	2013	2012
		<u>BGN '000</u>	<u>BGN '000</u>
Auto Italia EAD	100,00	2,876	2,876
Bulvaria Varna EOOD	100,00	5,591	5,591
Daru Car AD	98,84	1,461	1,461
Motobul OOD	100,00	12,538	12,538
		<u>22,466</u>	<u>22,466</u>

10. Trade and other receivables

	2013	2012
	<u>000' BGN</u>	<u>000' BGN</u>
10.1 Long-term receivables		
Receivables from related parties	9,428	1,815
Interest bearing loans to third parties	984	1,668
Expenses for future periods	18	-
	<u>10,430</u>	<u>3,483</u>
10.2 Short-term receivables		
Trade receivables	8,107	5,592
Receivables from related parties	3,377	1,735
Less: accumulated impairment	(703)	(682)
Trade receivables, net	10,781	6,645
Refundable taxes	725	436
Prepaid expense	323	136
Receivables under loans granted	74	88
Incl. to related parties	73	80
Court and awarded receivables	48	56
Advances granted	47	270
Other	2,542	1,544
	<u>14,540</u>	<u>9,175</u>



Auto Union AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 For the year ending on 31 December 2013

11. Inventory

	<u>2013</u>	<u>2012</u>
	<i>000' BGN</i>	<i>000' BGN</i>
Cars and scooters	13,977	9,530
Spare parts	8,063	8,181
Lubricants	1,354	1,592
Goods in transit	507	124
Materials	1,125	1,181
	<u>25,026</u>	<u>20,608</u>

12. Cash and short-term deposits

	<u>2013</u>	<u>2012</u>
	<i>000' BGN</i>	<i>000' BGN</i>
Cash in bank accounts	1,944	1,487
Cash on hand	358	481
Short-term deposits	-	393
Blocked cash	470	-
	<u>2,772</u>	<u>2,361</u>

Cash in bank accounts accumulate interest with floating rates based on the daily interest rates for bank deposits. As at 31.12.2013, the fair value of cash and short-term deposits is BGN 2,772 thousand. (2012 - BGN 2,361 thousand).

13. Share capital and reserves

	<u>2013</u>	<u>2012</u>
	<i>000' BGN</i>	<i>000' BGN</i>
80,008 ordinary shares with nominal value of BGN 500 each	40,004	40,004

The change in share capital is presented below:

	<u>Number of ordinary shares (thousand pcs.)</u>	<u>Registered and issued capital (000' BGN)</u>
At 1 January 2012	69,943	33,972
At 1 January 2013	80,008	40,004
At 30 September 2013	<u>80,008</u>	<u>40,004</u>

13.2 Reserves

Statutory reserves

The statutory reserves are established by the joint stock companies as an allocation of profit under the provisions of Art. 246 of the Commerce Law. They are allocated until they reach one tenth or bigger part of the capital. The sources for establishment of statutory reserves are at least one tenth of the net profit, share premiums and funds provided for in the Statutes or by resolution of the general meeting of shareholders. Statutory reserves may be used only for covering losses from the current and past reporting periods.



Auto Union AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 For the year ending on 31 December 2013

14. Interest bearing loans and borrowings

14.1 Long-term

	2013	2012
	<i>000' BGN</i>	<i>000' BGN</i>
Bank and other loans, overdrafts	3,212	5,665
Loans from related parties	17	107
	3,229	5,772

14.2 Short-term

	2013	2012
	<i>000' BGN</i>	<i>000' BGN</i>
Bank and other loans, overdrafts	10,401	11,847
Debenture loan	26	-
Loans from related parties	10	1
	10,437	11,848

The net book value of short-term loans is close to their fair value.
 All long-term loans will mature within 1 to 5 years.

15. Debenture loan

	Effective interest rate	Maturity	2013	2012
			<i>000' BGN</i>	<i>000' BGN</i>
First issue with ISIN: BG2100025126	6,75%	10.12.2017	6,748	6,800
			6,748	6,800

At balance sheet date, the Company has its own bonds in the amount of 52 thousand BGN.
 According to IFRS 13 "Fair Value Measurement", this liability should be measured at fair value. The debenture loan is categorized as fair value hierarchy in Level 3 – Valuation techniques for which observable hypotheses of lower rank that are relevant for the assessment of the fair value are unobservable.

16. Financial lease liabilities

The net liabilities for financial lease are analyzed as follows:

Net liabilities	2013	2012
	<i>000' BGN</i>	<i>000' BGN</i>
Up to 1 year	1,567	1,139
From 1 to 5 years	2,884	2,067
	4,451	3,206

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

Net liabilities	2013	2012
	<i>000' BGN</i>	<i>000' BGN</i>
Up to 1 year	632	682
From 1 to 5 years	1,409	1,482
	2,041	2,164



Auto Union AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ending on 31 December 2013

17. Trade and other payables

17.1 Long-term

	2013	2012
	<i>000' BGN</i>	<i>000' BGN</i>
Payables for purchase of shares	12,251	13,309
Payables to related parties	1,200	1,200
Other	-	3
	<u>13 451</u>	<u>14 512</u>

17.2 Short-term

	2013	2012
	<i>000' BGN</i>	<i>000' BGN</i>
Payables to suppliers and customers	23,864	15,375
Payables to related parties	988	585
<i>Of which dividends</i>	-	24
Advances received	4,509	3,888
Payables to employees and insurance entities	1,263	922
Tax liabilities	4,189	1,296
Revenues for future periods	20	-
Other	2,838	5,185
	<u>37,671</u>	<u>27,251</u>

18. Related party disclosure

Ultimate Parent company

The Ultimate Parent company of the Group is Eurohold Bulgaria AD.

Entities with controlling interest:

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

Other related parties

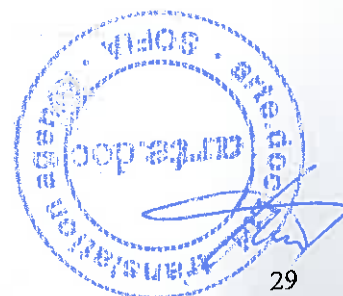
The other related parties are under the common control of Eurohold Bulgaria AD (Ultimate Parent Company).



18. Related party disclosure (continued)

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

Sales to/ purchases from related parties		Sales to related parties	Purchases from related parties	Amounts due by related parties	Amounts due to related parties
		000'BGN	000'BGN	000'BGN	000'BGN
<i>Ultimate parent company</i>					
Eurohold Bulgaria AD	2012	-	130	-	95
Eurohold Bulgaria AD	2013	-	381	-	151
<i>Other related parties (under common control)</i>					
Autoplaza EAD*	2013	61	24	102	2
Euroins – Health Insurance AD	2012	4	33	4	10
Euroins – Health Insurance AD	2013	7	28	9	28
Euroins Romania /Asitrans/	2012	621	26	3	26
Euroins Romania /Asitrans/	2013	28	-	30	105
Eurolease Auto Skopje	2012	-	-	4	-
Eurolease Auto Skopje	2013	390	361	4	5
Eurolease Auto AD	2012	367	54	566	95
Eurolease Auto AD	2013	468	1	1,783	581
Eurolease Auto Finance EOOD	2012	1	-	1	-
Eurofinance AD	2012	1	-	-	-
Eurofinance AD	2013	1	3	1	-
Eurohold Imoti EOOD	2012	-	1,620	17	37
Eurohold Imoti EOOD**	2013	7	772	-	-
Euro Ins AD Insurance Company	2012	5,715	336	768	1,465
Euro Ins AD Insurance Company	2013	5,600	192	1,177	1,315
Euroins Insurance Group AD	2012	22	-	23	-
Euroins Insurance Group AD	2013	21	-	29	-
Euroins Insurance – Skopje	2012	1	-	-	-
Euroins Insurance – Skopje	2013	1	-	-	-
Eurolease Rent-a-Car EOOD	2012	931	87	349	33
Eurolease Rent-a-Car EOOD	2013	794	70	242	1
	2012	<u>7,662</u>	<u>2,286</u>	<u>1,735</u>	<u>1,761</u>
	2013	<u>7,378</u>	<u>1,832</u>	<u>3,377</u>	<u>2,188</u>



Auto Union AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ending on 31 December 2013

18. Related party disclosure (continued)

Loans to/by related parties		Interest revenues	Interest costs	Amounts due by related parties	Amounts due to related parties
		000'BGN	000'BGN	000'BGN	000'BGN
Long-term					
<i>Ultimate parent company</i>					
Eurohold Bulgaria AD	2012	-	-	1,815	-
Eurohold Bulgaria AD	2013	-	-	7,888	-
<i>Other related parties</i>					
Autoplaza EAD*	2013	2	-	43	-
Eurolease Group EAD	2013	42	-	1,495	-
Eurolease Auto AD	2012	-	2	-	107
Eurolease Auto AD	2013	-	-	2	17
	2012	<u>-</u>	<u>2</u>	<u>1,815</u>	<u>107</u>
	2013	<u>44</u>	<u>-</u>	<u>9,428</u>	<u>17</u>
Short-term					
<i>Ultimate parent company</i>					
Eurohold Bulgaria AD	2012	13	151	80	1
Eurohold Bulgaria AD	2013	253	-	73	1
<i>Other related parties</i>					
Euroins Romania /Asitrans/	2013	-	-	-	5
Eurolease Auto AD	2013	3	2	-	4
Euroins Insurance Group AD	2012	-	200	-	-
	2012	<u>13</u>	<u>151</u>	<u>80</u>	<u>1</u>
	2013	<u>256</u>	<u>2</u>	<u>73</u>	<u>10</u>
Financial Leasing					
Long-term financial leasing					
<i>Other related parties</i>					
Eurolease Auto AD	2012	-	-	-	1,482
Eurolease Auto AD	2013	-	162	-	1,222
Eurolease Auto Skopje	2013	-	-	-	187
	2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>1 482</u>
	2013	<u>-</u>	<u>162</u>	<u>-</u>	<u>1 409</u>



18. Related party disclosure (continued)

		Interest revenues	Interest costs	Amounts due by related parties	Amounts due to related parties
		<u>000'BGN</u>	<u>000'BGN</u>	<u>000'BGN</u>	<u>000'BGN</u>
Short-term financial leasing					
<i>Other related parties</i>					
Eurolease Auto AD	2012	-	175	-	682
Eurolease Auto AD	2013	-	-	-	581
Eurolease Auto Skopje	2013	-	-	-	51
	2012	<u>-</u>	<u>175</u>	<u>-</u>	<u>682</u>
	2013	<u>-</u>	<u>-</u>	<u>-</u>	<u>632</u>
Dividends					
		Announced dividends from related parties	Announced dividends to related parties	Amounts due by related parties	Amounts due to related parties
		<u>000'BGN</u>	<u>000'BGN</u>	<u>000'BGN</u>	<u>000'BGN</u>
Eurohold Bulgaria AD	2012	-	-	-	24
Eurohold Bulgaria AD	2013	-	-	-	-
	2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>24</u>
	2013	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Provisions of related party transactions

Sales to and purchases from related parties are performed under agreed prices. Each financial year, a review of the receivables impairment on the basis of analysis of related party's financial position and of the market it operates on.



19. Financial Risk Management Objectives and Policy

The main financial liabilities of the group comprise interest bearing loans and borrowings and trade payables. The main purpose of these financial instruments is to ensure financing for the group's operations. The group holds financial assets such as trade receivables and cash and short-term deposits, which are directly generated by the operations.

In 2013, as well as in 2012, the Group does not hold and does not trade with derivative financial instruments.

The major risks pertaining to the financial instruments of the group are interest risk, liquidity risk, currency risk and credit risk. The policy implemented by the management of the group for managing such risks is summarized below.

Interest risk

The group is exposed to a risk from changes in market interest rates mainly in relation to its short- and long-term financial liabilities with variable (floating) interest rate. The group's policy is to manage the interest expense through the use of financial instrument with both fixed and floating interest rates.

Liquidity risk

The effective management of the group's liquidity suggests ensuring enough cash available, mainly through maintaining permitted credit lines and short-term financing from related parties.

Currency risk

The group buys and receives loans in foreign currencies – euro. Since the BGN/EUR exchange rate is fixed to 1.95583, the currency risk pertaining to the group's EURO expositions is minimum.

Credit risk

The group trades only with solvent counterparties. Its policy is that all counterparties who want to trade under the conditions of deferred payment are subject to procedures for checking their solvency. Furthermore, the trade receivable balances are subject to continuous review, and thus the group's exposure to hardly collectible and uncollectible receivables is not significant. There are no significant concentrations of credit risk within the group. The credit risk that occurs from other financial assets of the group such as cash and other financial assets, represents the credit exposure of the group resulting from the possibility its counterparties to fail to perform their obligations. The maximum credit exposure of the group in relation to the recognized financial assets amounts to their respective amount as per the statement of financial position as at 31 December 2013.

Capital management

The main objective of group's capital management is to ensure stable credit rating and capital indicators with view of the continuous functioning of the business and maximizing its value for the shareholders.

The group manages its capital structure and changes it, if needed, depending on the changes in the economic conditions. With view of maintaining or changing its capital structure, the group may adjust the payment of dividends to the shareholders, to redeem own shares, to decrease or increase its share capital upon resolution of the shareholders. In 2013, as well as in 2012, there are no changes in the objectives, policies or processes in relation to the group's capital management.



20. Financial Instruments

Fair values

The 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 for its market price at an active market.

The group determines the fair value of financial instruments on the basis of the market information available, or if no such information is available, through appropriate valuation models. The fair value of financial instruments that are actively traded on organized financial markets is determined on the basis of quoted "bid" prices at the end of the last working day of the reporting period. The fair value of financial instruments for which no active market exists, is determined by valuation models. These models include recent market transactions between informed, fair and willing parties; use of the current fair value of another instrument with similar characteristics; analysis of discounted cash flows or other valuation techniques.

The management of Avto Union AD believes 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 net book values, especially if they are of short-term nature or the applicable interest rates are changed according to the market conditions.

21. Events after the Balance Sheet Date

On 7 February 2014, the Commercial Register registered the reduction of capital of Auto 1 OOD by 383 thousand BGN, which represented the non-deposited portion of the interest of Avto Union AD.

The Board of Directors of Auto Union AD is not aware of other important and significant events occurring after the date of the annual closure of accounts.

I, the undersigned Liliya Petrova Babulkova, certify that this is a true and accurate translation done by me from Bulgarian into English of the attached document. The translation consists of 65 (sixty five) pages.
Translator: Liliya Petrova Babulkova



