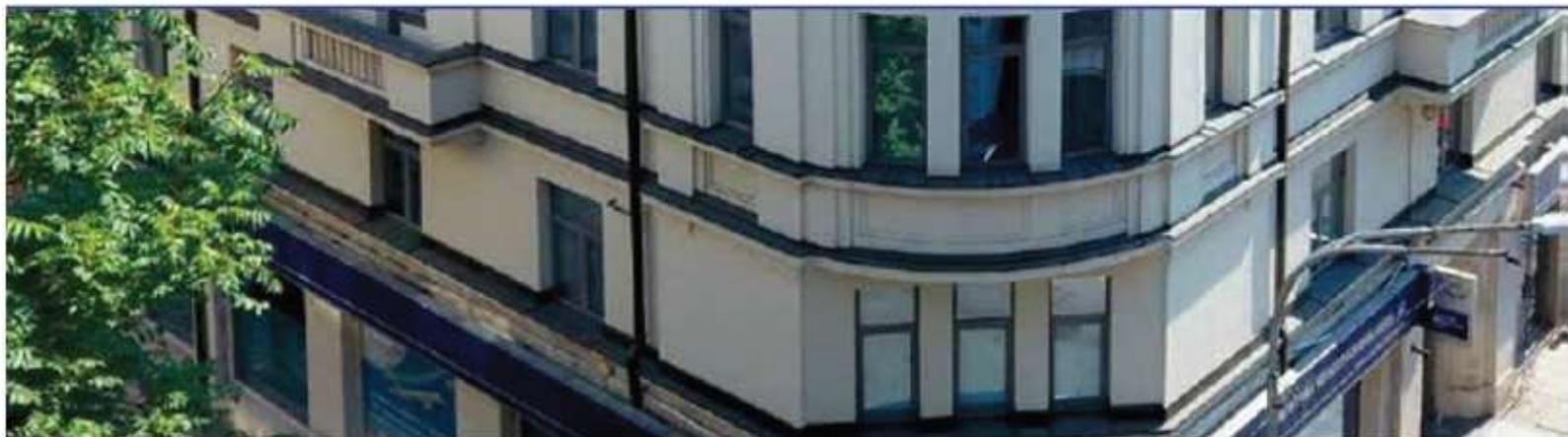


THIRD QUARTER OF

2019



# INTERIM ACTIVITY REPORT



# INTRODUCTION

The current interim report on the activities of Chimimport AD is a commentary and analysis of the financial statements and other material information about the financial position and results of the Company for the third quarter of 2019.

The report is prepared in accordance with the requirements of the Accountancy Act, with Art. 100o of the Law on the Public Offering of Securities Act and the provisions of Art. 33 of ORDINANCE № 2 of 17 September 2003.

Chimimport AD is one of the most successful Bulgarian enterprises. It started as a foreign trade company specializing in the marketing of chemical products, today “Chimimport” AD is an established holding company, uniting successful businesses. The main area of activity of “Chimimport” AD is the acquisition, sale of shares in Bulgarian and foreign companies, restructuring and management of subsidiaries of the portfolio. Subsidiaries occupy leading positions in various economic sectors, which operate:

- banking and finance
- non-life insurance
- life insurance
- pensions
- air transport and ground activities on servicing and repair of aircraft
- manufacture, production and marketing of petroleum and chemical products and natural gas
- production, processing and trade with cereals and vegetable oils.

Each of nearly 6 000 employees in the structure of “Chimimport” AD contributes to the successful integration of Bulgarian business to European standards. Recent years have strengthened the company as a leader of the “Bulgarian Stock Exchange - Sofia” AD, included in “Premium” segment share, in the indices SOFIX, BGBX40 and BGTR30, which is the result of proper planning of investments and professional actions and efforts of management. The company’s activities as a public company is the creation and establishment of effectively functioning corporate governance models to ensure equal treatment and protection of the rights of all shareholders. The common practice is the transparent and fair disclosure of information needed by current shareholders, stakeholders and potential investors.

At this stage the main advantages of "Chimimport" AD are:

- Knowledge of economic and political conditions and resources in Bulgaria, needs and specificities of clients conquered good positions in strategic sectors of the economy;
- Approved management team - the group has a highly motivated team of managers with a vision for the growth of the holding company, with proven skills and experience in management, acquisition and restructuring of companies in both favorable and unfavorable market environment.

A handwritten signature in blue ink, appearing to read 'Ivo Kamenov', written over a light blue circular watermark.

**IVO KAMENOV**  
**CEO /Chief Executive Officer/**

## INFORMATION ACCORDING TO REGULATIONS

- **Information on important events that occurred in the third quarter of 2019**

- On 29<sup>th</sup> August 2019 Chimimport AD issued Interim Condensed Consolidated Financial Statement for the second quarter of 2019
- On 26<sup>th</sup> August 2019. Chimimport AD issues a Cash Dividend Notification.
- On 26<sup>th</sup> August .2019 Chimimport AD issued inside information considered art. 17 §1, /art.7 from Reglament №596/2014
- On 30<sup>th</sup> July 2019 Chimimport AD issued Interim Condensed Financial Statement for the second quarter of 2019
- On 19<sup>th</sup> July 2019 Chimimport AD issued an invitation for General Meeting of Shareholders
- On 11<sup>th</sup> July 2019 Chimimport AD issued Interim Condensed Consolidated Financial Statement for the first quarter of 2019
- On 2<sup>nd</sup> July 2019 Chimimport AD issued Annual Consolidated Financial Statement for 2018.
- On 30<sup>th</sup> April 2019 Chimimport AD issued Interim Condensed Financial Statement for the first quarter of 2019
- On 1<sup>st</sup> April 2019 Chimimport AD issued Annual Financial Statement for 2018
- On 5<sup>th</sup> March 2019 Chimimport AD issued Interim Condensed Consolidated Financial Statement for the fourth quarter of 2018
- On 30<sup>th</sup> January 2019 issued Interim Condensed Financial Statements for the fourth quarter of 2018

- **Financial indicators**

- Due to the specific character of the activity of the issuer - holding activity, the main revenues of the company are both income from operating activities and financial, formed by positive differences from operations with financial instruments, interest income and dividends. Operating revenues are mainly related to investment property, services and others.

**BGN 50 941**  
thousand

• **REVENUES**  
30.09.2019

**BGN 37 548**  
thousand

• **PROFIT BEFORE THE TAX**  
30.09.2019

**BGN 35 005**  
thousand

• **NET PROFIT OF SHAREHOLDERS**  
30.09.2019

*\*Detailed information on financial performance is described in the Interim Condensed Financial Statement.*

## INFORMATION ACCORDING TO REGULATIONS

- **Influence of significant events on the financial results for the current period**
  - No unusual events for the issuer that might have a significant impact on its activities occurred in the third quarter of 2019.
- **Information regarding the transactions between the company and its related parties**
  - ***Related party transactions entered into during the reporting period of the current financial year that materially affected the financial position or results of the company's operations in that period***
    - The related parties of the Company include: the parent company, its subsidiaries, the key management personnel and other parties. The key management personnel of the Company include the members of the Management Board and the Supervisory Board. During the reporting period there were no transactions that materially affected the financial position or the results of the company's activity during this period
  - ***Changes in related party transactions disclosed in the annual report that have a material impact on the financial position or results of the company during the respective accounting period of the current financial year.***
    - During the reporting period there was no impact on the financial position or the results of the company's operations as a result of the changes in the related transactions with related parties, disclosed in the annual report.

## GENERAL RISKS AND UNCERTAINTIES



**Chimimport AD is a holding company and any decline in the operating results, financial position and prospects for the operations of its subsidiaries may have a significant adverse effect on the results of the operations and the financial position of the Issuer, including its capability to pay dividends**

Since Chimimport conducts business through its subsidiary companies exclusively, its financial position, operating results and prospects are in a direct relation to the position, results and prospects for its subsidiary companies, especially the Principal Subsidiaries. The stock exchange price of the Issuer's Shares reflects the business potential and assets of the Group as a whole. The ability of Chimimport to continue investing its own funds in the growth of the Group and to pay dividends to the holders of ordinary shares, should a decision to this effect be made by the Issuer's general meeting of shareholders, will depend on a number of factors related to its subsidiary companies, including the amount of profit and cash flows from the subsidiary companies and the growth in the stock exchange price of the shares in its subsidiary companies which are public companies and traded on the Bulgarian Stock Exchange Sofia (BSE), as for 2018 was paid dividends. (in 2019 it was also voted by the General Assembly

**If the Group fails to carry out or integrate successfully future acquisitions, and to implement reorganizations, the results of the Group's operations and its financial position may be damaged**

Until now, the Group has developed its operations in Bulgaria primarily through acquisitions of companies and assets and Chimimport expects that these acquisitions will continue in the future as well. The Group intends to pursue a strategy of identifying

and acquiring businesses, companies and assets with a view to expanding its activities. There is no certainty, however, whether the Group will succeed in the future to identify appropriate objects for acquisition and investment opportunities or whether the companies and assets acquired in the future will be as profitable as the operations so far. In addition, the acquisitions and investments are subject to a number of risks, including possible adverse effects on the results of the operations of the Group, unexpected events as well as obligations and problems related to the integration of the operations.

Chimimport Group is in the process of introducing a number of reorganizations. The Group expects that these reorganizations will result in economies of funds and a more effective management of the businesses. There is no certainty, however, that Chimimport Group will manage to implement the planned reorganizations timely and completely, no that they will generate the expected benefits, including economies of expenses.

Rapid growth of Chimimport Group and the restructuring in the Group can be a challenge for its systems of operational, administrative and financial control

It is expected that the rate of growth and expansion of the activities of Chimimport Group and the restructuring in the Group will continue and there will be a respective increase in the need to ensure greater management and operational resources. Chimimport is trying to optimize its operational structure, its control and financial systems and to recruit and train qualified staff. The management of Chimimport Group believes that it has the necessary resources for the continuing expansion of its operations. There is no certainty, however, that the systems of operational and financial control of Chimimport are appropriate to support and manage its future growth effectively.

### **The Group “Chimimport” may choose inappropriate market strategy**

The future profits and economic value of Chimimport Group depend on the strategy chosen by the management team of the Issuer and its subsidiary companies. Opting for an inappropriate market strategy may lead to losses or earnings foregone. Chimimport Group strives to manage the strategic risk by constantly monitoring the implementation of its strategy and results in order to be able to react as quickly as possible if changes in the strategy are needed. Any inappropriate or delayed changes in the strategy of the Group might have a material adverse effect on its activities, operating results and financial position.

### **Most of the activities of the Group are carried out in a highly competitive environment**

With its accession to the EU on 1 January 2007, Bulgaria has become significantly more attractive to foreign investment and the operation of foreign and mostly European companies has been greatly facilitated. This holds true especially for the sector of financial services which is strategic for the Group due to the possibility for loan,

## INFORMATION ACCORDING TO REGULATIONS

insurance and other financial institutions licensed in other EU Member States to transact business directly in Bulgaria in the conditions of free offering of services.

Fierce competition is especially typical of the financial services market where some of the Principal Subsidiaries operate. There have been significant restructurings in these sectors after the privatization of the state shares in the Bulgarian banks and insurance companies. Foreign strategic investors have acquired shares in most large Bulgarian banks and insurance companies pursuing aggressive growth strategies and introducing modern systems, technologies and practices. Some Bulgarian banks have found themselves in wider international processes of consolidation and this has greatly strengthened their position on the internal market. Certain banks owned by foreign financial conglomerates may continue to have priority access to fresh financial resources at a competitive cost, even during the ongoing financial crisis. The intense competition in the financial sector may lead to an outflow of clients of CCB and Armeec and a decrease in their market share. These and other factors may affect unfavorably the financial position and the results of the financial institutions in the Group.

The mass entry of the so called low-cost air carriers in the Bulgarian aviation market may lead to a decrease in the revenue of the air company of the Group - Bulgaria Air. The entry into force of the open skies agreement pursuant to which all air companies complying with the European flight security norms have an equal access to the Bulgarian aviation market may lead to a decrease in the revenue of the aviation carriers in the Group.

The growing competition may have an adverse effect on other businesses of the Group, too: production of and trading in fertilizers and chemicals.

In brief, the overall business of the Group faces a strong competition from both large multinational companies and larger and smaller local companies. Many of the international competitors of the Group are larger and have financial, technical and marketing resources that are significantly greater than those of the Group. The factors which determine whether consumers choose the products and services of the Group include price, quality of products and service, reputation and customer relations. Chimimport expects a growth in competition in the sectors and markets where its subsidiary companies operate and there is no guarantee that the Group will maintain its strong competitive position in the future.

Force majeure events such as climatic changes, accidents and terrorist attacks may have a significant impact on the business of the Group.

Abrupt climate changes and natural disasters may have a negative impact on the yield of grains which will have an adverse effect on the grain business of the Group, including cargo turnover of Parahodstvo BRP and make it difficult to obtain payments on the loans to agricultural producers given by CCB. A decline in the yield of agricultural activities related to unfavorable climate conditions, pests or other reasons may lead to overdue receivables related to the sale of fertilizers with deferred payments and, as a result, to a decrease in the revenue of the Group from the production of and trading in chemical

products. The coming into being of large-scale insurance events may lead to difficulties for ZAD Armeec with the compensation payments, irrespective of the reinsurance strategy of the company. Terrorist attacks on sites of the air, river and maritime transport in the region may bring about a reduction in the flow of travelers and traffic and to losses for the companies of the transport branch of the Group: Air Company Bulgaria Air, and Parahodstvo BRP. The activities of the latter may suffer the negative impact of changes in the navigability of the Danube. Both extremes – a critically low and a critically high BGNel of the river - are exceedingly problematic for shipping, because the impeded or completely interrupted navigation results in an increase in expenses and a drop in income for the company.

Rights of the Group on certain sites of national importance may be terminated in the event of non-fulfillment of the obligations under the respective concession agreements

The Bulgarian state has granted the company Oil and Gas Exploration and Production AD, a subsidiary company of Chimimport, concessions to extract crude oil from over 10 fields. The Group is also a party to a concession agreement concerning Lesport Port Terminal which is part of Varna Port, a public transport port of national importance. As well the Group owns a share of 40% in the concessioner of the airports Varna and Bourgas: Fraport Twin Star Airport Management consortium. The concessions held by the Group have different periods (between 7 and 35 years) but, in the event of failure of the Group to fulfill its obligations under the respective agreements (for example, if the use of the objects is suspended for a period, or if there is a significant failure to realize the investment program of the concession-holder, failure to reach certain agreed parameters, on the basis of a judicial decision, etc.), the Bulgarian state may terminate the concessions in advance. There could also be further challenging of the concession agreements in the court by third parties on the grounds of their being unlawful. The loss of concession rights of the Group may have a significant negative impact on its activities.

**Compliance with the legislation concerning the protection of the environment requires constant expenses and commitments by the Group and any noncompliance with the regulatory obligations may lead to significant sanctions and termination of activities.**

The ecological legislation in the Republic of Bulgaria requires of the companies to take a number of measures concerning the prevention, control and reduction of the various types of environmental pollution. The policy of the Group is to comply strictly with all regulatory obligations and restrictions related to the protection of the environment which is related to constant expenses, including expenses for planning, monitoring and reporting, ensuring and maintaining compliance of the equipment with the required standards and norms, re-cultivation of locations, etc. Regardless of the action taken, if Chimimport Group is found guilty of causing ecological damages, it will have to pay compensations and fines in a significant amount, some of its activities may be terminated which could affect greatly its financial position and operating results.

### **The Group may fail to fund the planned capital expenses and investments.**

The businesses of the Group require significant capital expenses, including such for production, exploitation, marketing, environment protection, etc. Chimimport Group expects a great part of these expenses to be funded from the Group's own funds. In case of unfavorable economic situation or the coming into being of other unfavorable events, it may be necessary to fund these expenses primarily from external sources. There is no certainty whether external funding will be found under acceptable conditions. It may be necessary for Chimimport Group to reduce its planned capital expenses and investment which would have an adverse effect on the operating results and the financial position of the Group.

Group's financial results depend on the prices of several raw materials (such as crude oil, petroleum products, grain, oil seeds, vegetable oils and other) and exchange rates.

The financial position and operating results of the Group are under the influence of the market prices of crude oil, process mixtures and petroleum products which are subject to international demand and supply and various other factors outside the control of Chimimport Group. In the past years, especially in the present year, these prices have varied widely. A prolonged decline in prices of petroleum products may lead to a reduction in the revenue of Oil and Gas Exploration and Production, a subsidiary company of the Issuer. In addition, a move in consumer demand for other energy sources as a result of a global crisis on the market of petroleum products could have a material adverse effect on the income of Oil and Gas Exploration and Production and, respectively, of the Group. At the same time the fuel expenses are a significant expenditure for the Group's transport companies.

The volatility of international prices of grain, oil seeds, vegetable oils and other have an impact on the revenue and profit of Zarneni Hrani Bulgaria, as it can result in decrease in the turnover and margins, as well as in increasing the risk of operations (in particular, taking into account the influence of the changes in the exchange rates, specifically USD/EUR).

### **The Group's operations are subject to risks, related to the conditions in Bulgaria and the region**

The Group operates mainly in Bulgaria, which is already a EU member, but so far it has been classified as an emerging market. Emerging markets are associated with higher risks than more developed markets, including, in some cases significant legal, economic and political risks (see below the section Risks related to Bulgaria).

A slowdown in the economy of Bulgaria, as a result from political or economic factors (internal or external to the country) will lead to a decline in the demand for the products and services of the Group. In particular, the development of a negative macroeconomic processes (decrease of income, increased unemployment, a significant decline in the prices of assets, incl. Real estate, deteriorating business climate and expectations,

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general macroeconomic instability, etc.) in the country could lead to direct or indirect effects on the Group companies, such as:

Deterioration in the creditworthiness of some of Central Cooperative Bank's clients and an increase of the share of problematic loans in its portfolio. Also, a significant decline in real estate prices may be a cause for impairment of collateral accepted by CCB. A number of factors, including regulatory changes may force the Bank to allocate more funds for provisions that would lead to a decline in its net profit.

A reduction in the growth rate of contributions to pension funds (mostly voluntary, but also the obligatory),

Decrease in the willingness and opportunity for private and business travels and cargo limiting purchases (including imported goods) and others. have a negative effect on the business of the transport companies in the Group.

The unfavorable political or economic events in other Central and Eastern European countries can have a significant negative impact on, among other things, the gross domestic product of Bulgaria, foreign trade and economy in general. Investors should also be aware that emerging markets are changing rapidly and the information contained in this document may be outdated soon.

**The success of the Group depends on key personnel. If the Group fails to attract and keep experienced and qualified personnel, its business may suffer.**

The business of the Group depends a lot on the contribution of a number of people taking part in the management and supervisory bodies and the top management of Chimimport Group and the Principal Subsidiaries and, to the greatest extent, on the Executive Directors of Chimimport Group. There is no certainty that the services of these "key" staff will also be available to the Group in the future. The competition for qualified staff among the employers in the financial and other sectors in Bulgaria is very strong. The success of the Group will depend partly on its ability to retain and motivate these people. The inability of the Group to maintain sufficiently experienced and qualified staff in managerial, operational and technical positions could have a significant adverse effect on the activities of Chimimport, its operating results and financial position. At present, the Group does not have "key staff" insurance.

**Insurance coverage of the activities and assets of the Group may prove to be insufficient**

Chimimport strives to maintain an adequate and economically effective protection of the assets and activities of the Group. There is no certainty, however, that the insurance coverage will be enough to cover any possible losses to a satisfactory degree if insurance events come into being, for example production accidents, suspension of activities, natural disasters and ecological damages.

**Chimimport Group operates in a highly regulated environment and changes in the applicable legislation, the interpretation or practice of the application of the**

**legislation, or the Group`s failure to comply with this legislation may have a significant adverse effect on it**

The introduction of any regulatory restrictions by the Bulgarian National Bank may limit the growth possibilities of Central Cooperative Bank. The unfavorable changes in the legislation (for example, reduction or elimination of tax reliefs for people paying insurance and social insurance) could lead to an outflow of funds from the pension and social insurance system which will have a negative impact on the pension companies in the Group.

A change in government policy concerning the awarded concessions on oil and gas extraction could have a negative impact on the activities of the company Oil and Gas Exploration and Production.

Changes in the State policy regarding the mixing of biofuels with petroleum-based fuels, and associated time limits endorsed in the normative acts, would have a negative impact on the income of Zarneni Hrani Bulgaria” in the future.

The legislation application system of Chimimport Group could prove not sufficiently effective

The ability of Chimimport Group to comply with the requirements of all applicable laws and rules depends, to a large extent, on the creation and maintenance of systems and procedures for compliance with the laws, such as accounting, control, audit and reporting systems (provision of information), as well as of the Issuer`s ability to retain qualified staff with respect to the application of the regulatory requirements and risk management. The management of Chimimport Group cannot guarantee to the potential investors that these systems and procedures are completely effective. Chimimport is subject to intense supervision on the part of the regulatory bodies, including regular inspections. In the event of a real or suspected incompliance with the rules, Chimimport Group may be subject to investigation under administrative and judicial proceedings which may result in the imposition of significant sanctions or the filing of judicial cases with a significant interest, including by clients of Chimimport, for compensation. Any of these circumstances could have a significant adverse impact on the activities of Chimimport, the company image, its operating results and financial position.

## **General risks**

### **Emerging markets**

Investors in emerging markets such as Bulgaria should be aware that these markets are subject to greater risks than those inherent to more developed markets, including in some cases significant legal, economic and political risks. In addition, adverse political or economic developments in other countries could have a significant negative impact on, among other things, Bulgaria's GDP, foreign trade and economy in general. Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, an investment in the Shares is appropriate. Generally, investment in emerging markets is only suitable for sophisticated

investors who fully appreciate the significance of the risks involved. Investors should also note that a feature of emerging markets is that they are subject to rapid change and the information contained in this document may become outdated relatively quickly.

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

There may be less information available in the Bulgarian securities market than is available on companies in other securities markets. There is a difference in the regulation and monitoring of the Bulgarian securities markets, and the activities of investors, brokers and other participants, compared with markets in Western Europe and the United States. The Financial Supervision Commission monitors for the disclosure and the compliance with the other regulatory standards for the Bulgarian securities markets, for the compliance with laws, and issues regulations and guidelines on disclosure requirements, insider trading and other matters. There may, however, be less publicly available information about Bulgarian companies than is regularly made available to the investors by public companies in other securities markets, which could affect the price of the Shares.

### **The Bulgarian Stock Exchange is substantially smaller and less liquid than securities markets in certain other countries**

The Bulgarian Stock Exchange is substantially smaller and less liquid than securities markets in certain other countries, such as those in the United States and Western Europe.

At the end of the third quarter of 2019, issues of securities listed on the central market of the BSE are as follows: 82 issues of shares (excluding REITs) of companies, of which 7 are segment shares Premium, a 61 segment shares Standard and 14 issues of shares (listed on the segment of companies with special investment purpose). Registered shares for trading on the Alternative Market are 191, separately traded, of which 147 per share segment and 44 shares of companies with special investment purpose.

At the end of third quarter of 2019 market capitalization of companies traded on the Central Market of the Stock Exchange amounted to BGN 1.805 billion (segment shares Premium), BGN 6.328 billion (segment shares Standard) and BGN 0.664 billion (segment for companies with special investment purpose). Separately, the companies traded on Segment shares for trading on the Alternative Market have capitalization of BGN 18,684 billion, and those traded on Segment special-purpose investment aim in the same market BGN -0,500 billion.

At the same time, a very small number of companies represent a large portion of the market capitalization and a significant part of the trading volumes of the Bulgarian Stock Exchange. This low liquidity also leads to other complications, such as excessive volatility, with the market arguably also vulnerable to speculative activity because liquidity is occasionally so low that prices can be manipulated by relatively small trades. Consequently, there is no guarantee that the Shares will be actively traded, and if they are not, this is likely to increase price volatility.

## Risks associated with Bulgaria

### Political risks

Under continued international financial and economic crisis conditions, the usual political risks have an additional burden, related to timely and adequate response of political structures, legislative and executive authorities to the economic situation.

A political risk is also the successful carry on of Bulgaria's integration to the EU. Bulgaria's accession to the EU legitimates the economic reforms have been undertaken in the name of the country's integration to the Union. In the future the economic growth will depend on the political will to carry on with the economic reforms and to apply the best market practices of the EU, as well as on the impact on the Bulgarian economy of the financial crisis. The Government's ability to implement reforms, in turn, depends on the extent to which the members of the government can continue its efforts in the promotion of this reform, especially in times of economic crisis. At this moment, Bulgaria is in a situation of pre-term parliamentary elections, held more than a two years ago and a government formed with a pro-European profile known by GERB and United Patriots. So far, the government has relied on strong parliamentary support, but internal problems in the smaller partner and a number of other issues makes this support more insecure. The relatively unstable political situation in the short run hides risks that still do not show up. Despite the lack of expectations of major shocks and significant policy changes, uncertainty about the country's future governance is a significant risk that may affect the economic development of the country. Nevertheless, the political risk in the country remains elevated.

The current Bulgarian political system is vulnerable to fragmentation of political forces (often caused by the pursuit of personal interests or external), economic hardship, widespread dissatisfaction with reform and EU membership due to unrealistic expectations and social instability and changes in government policies, organized crime and corruption, all of which could have a material adverse effect on the Group of Chimimport, its operating results and financial condition.

### Economic risks

This is the risk of macro economical concussion, which could be reflected on economic growth, incomes, demand and supply, profits and etc. Bulgaria has an open-ended economy and its development depends directly on the international market conditions. Thus raging since mid-2008 global economic crisis is negatively affecting the economic situation in the country, mainly through the reduction in exports and a decline in inflows of foreign capital, which reflects the investment activity, unemployment, income and domestic consumption. This led to a negative real economic growth. Negative GDP growth of -3.5% in the first quarter of 2009, -4.9 percent in the second quarter and -5.4% for the third quarter led to a recession in 2009, the Bulgarian economy has been hit by the global financial crisis with some delay, mainly through the shrinking external demand and sharply diminished financial inflows, including FDI. These factors, together with the contraction of domestic demand led to a negative 3.6 percent real growth rate of GDP in

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2009. In 2010 and 2011 positive real annual growth rate of GDP of 0.6% and 2.4% respectively was made.

In next few years, the growth rate of GDP remained positive with some fluctuations (for example 2012 when was 0%). In 2015 and 2016 is 4% resp. 3.8% (record result of the onset of the global crisis), and according to preliminary data, GDP growth in 2017 is again stable at 3.5% and 3.1% in 2018. In the first and second quarter of 2019, the growth rate of GDP amounted to 4.8% and resp. 3.8%

GDP growth in recent years has not immediately led to a decrease in the number of unemployed. So for 2011, the unemployment rate rose to 11.3% (via NSI). Until the end of 2012 the unemployment rate rose to 12.3%. During 2013 it is notices that there is an increase in unemployment rates to 12.9 %. This trend starts to change rapidly and in 2014 (11.4%), there is a tendency to reduce the unemployment on a monthly basis. During the 2015, 2016, 2017 and 2018 the rate continued to decrease reaching 9.1%, 7.6%, 6.2% and 5.2%. In the second quarter of 2019 the level of unemployment again decreased and reached 4.2%

Meanwhile there is a permanent growth in the average monthly salary. In 2010 the monthly salary is up to BGN 648, in 2011 – BGN 686, in 2012 – BGN 731, and 2013 - BGN 775, during 2014 - BGN 822, in 2015 - BGN 878, in 2016 – BGN 948, in 2017 – BGN 1 037 and a new increase is observed in 2018 of up to BGN 1 135.

According to the National Statistical institute the average annual inflation (average annual change in the CPI) for 2012 and 2013 is 3.4% and 0.94% respectively. In 2014, the country recorded deflation of 1.4%. During 2015 and 2016 the country recorded lower deflations, of 0.1% for 2015 and 0.8% for 2016. Outline trend of decline in inflation from 2012 onwards is partly due to the decrease in international fuel prices (particularly in 2014 and 2015). So in 2017 the country recorded for the first time in tree years inflation of 2.1% . At the end of December 2018, the average CPI for the past 12 months reported a growth to 2.8%. In the second quarters of 2019, the average annual CPI, compared to the corresponding period of the previous year, amounted to 3.1%

In 2018, according to preliminary BNB`s data, Bulgaria has a current account surplus amounting to EUR 3 002.2 million (5.4% of GDP), compared with a surplus of EUR 1 825 million in 2017 (3.5% of GDP).

The increase in surplus is mainly due to the increase in surplus in services. The capital and financial account balance of € 2 854.7 million in 2017 (5.5% of GDP) increase almost twice to a positive level of € 3 846.4 million in 2018 (4.7% of GDP). In the second quarter of the year, the country again had a surplus on the current account (EUR 2 019.7 million or 3.4% of GDP) and the capital and financial account (EUR 1 512 million or 2.6% of GDP).

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In 2011, the compliance with strict fiscal discipline, led to the reduction of the budget deficit below the projected in Maastricht threshold of 3% of GDP (2% according to Eurostat), while in the previous year a deficit of 3.1 % was recorded. For 2012, the budget deficit is still low at 0.3%, while in 2013 and 2014 deficit is higher, reaching respectively to 0.4% and 5.4% of GDP (increasing last year was mainly result of the inclusion of the deficit in the Fund for guaranteeing bank deposits). In 2018, the country reported a solid budget surplus of 1.8% of GDP. The budget balance under the consolidated fiscal program at the end of December 2018 was positive EUR BGN 0.14 billion. (BGN 0.85 billion deficit previous year). According to MF this is a surplus of 0.1 % of GDP. Revenues and benefits under the consolidated fiscal program at the end of December 2018 amounted to BGN 39 650.9.00 million (at BGN 35 316.54 million at the end of the previous year). The budget balance in the consolidated fiscal program as of August 2019 is positive at the amount of BGN 1 016.9 million (2.6 % of the projected GDP) and is formed from a surplus of the national budget of BGN 2 832.8 million and a surplus in EU funds amounting to BGN 95.6 million.

The fiscal reserve at the end of 2018 is BGN 9.4 billion against BGN 10.3 billion a year earlier. At the end of August 2019 the fiscal reserve is BGN 10.3 billion, including BGN 10 billion deposits of the fiscal reserve in BNB and banks and BGN 0.3 billion claims from European Union funds for certified expenditure and other advances.

At the end of 2018, according to Eurostat data, the level of indebtedness of the country (government and government debt) decreased to 22.3% of GDP, compared with 25.2% at the end of 2017, 29.3% in the end of 2016 and 26.2% in 2015, 27.1% in 2014, and 17.1% in 2013.

According to this indicator the country has the third lowest ratio among all EU countries (only Estonia and Luxembourg have better data). It is alarming that in 2014 public debt almost doubled, and at the end of 2018 the situation is significantly more optimistic (it should be noted, however, that our country has been a leader in fast-growing debt growth in recent years).

According to Eurostat, the nominal amount of government debt at the end of 2018 amounted to EUR 12 491.5 million against EUR 13 246.6 million in 2017. At the end of August 2019, according to Ministry of finance the nominal amount of government debt amounted to EUR 11 971.3 million, of which EUR 2 944.1 million internal and EUR 9 027.2 million external. At the end of August, the government debt / GDP ratio was 20.3%. The domestic and external government debt to GDP ratios are respectively 5% and 15.3%. In the structure of debt, the relative share of domestic government debt was 23.1% and the external debt – 76.9%. At the end of August, the share of debt denominated in euro reached 76.9%, in BGN – 19.9%, in US dollars - 0.1%, and in other currencies - 0.4%.

In the structure of debt by creditors, the largest share of euro-bonds issued on international capital markets was 55.4%, followed by domestic debt of 23.1% and credits from various international institutions. The interest rate structure of the debt at the end of August also experienced some minimum changes - the share of debt with fixed interest

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rates slightly increased to 96.1% and that of floating interest rates was 3.9%. The long-term debt (over 1 year – 5.45%, from 1 to 5 years – 31.11%, from 5 to 10 years – 44.71% and over 10 years – 18.73%) predominates in the residual maturity of debt in circulation.

Bulgaria's credit rating is BBB- long scale of Standard & Poor's. The last time, on 01.12.2017, it was raised rating from BB+ to BBB with a stable outlook (in 2018 the agency reaffirmed this rating by improving the prospect of a positive one, and in 2019 again re – affirmed both – the rating and the perspective). Moody's Investors Service recently raised on 22.07.2011 the credit rating of the Republic of Bulgaria from Baa3 to Baa2 long-term bank deposits and the outlook is positive (in August 2019 the rating was confirmed by agency in positive perspective). According to the scale of Fitch, the credit rating of Bulgaria for foreign currency BBB is with a positive perspective (last promoted on December 1, 2017) and in March 2019 was improved to positive.

Crucial for the Bulgarian macroeconomic and financial stability is the stability and predictability of the exchange rate regime and credibility. For now, in society, in general, there is consensus on the need Currency Board and the current fixed exchange rate of the BGN to the EUR be maintained until Bulgaria joins the euro zone (in the middle of 2018, the country apply for joining the ERM II -Single Currency Facility, along with an application for close co-operation with the ECB on banking supervision). Also conducted in 2016 a review of the assets and stress tests of banks in the country (and then the insurance and pension companies) should also have a positive effect on the stability of the financial sector.

In addition to the above-mentioned political risks with regards to the crisis it should be noted that business in Bulgaria has a relatively limited operating history in free market conditions. Compared to companies operating in countries with developed market economy, the Bulgarian companies are largely characterized by a lack of managerial experience in market conditions and have limited capital resources to develop their operations, and also have low labor efficiency.

The Results of the Group, of operations and financial condition largely depend on the Bulgarian economy, which in turn affects the growth of loans, interest costs and the ability of customers to fulfill their obligations on time. Any negative change in one or more macroeconomic factors like interest rates, which are influenced by Eurozone interest rates under the current rules in Bulgaria currency board, inflation, wage BGN, unemployment, foreign investment and international trade may have significant adverse effect on the issuer's results of operations and financial condition.

### **Taxation**

Taxes payable by Bulgarian companies include withholding taxes, local (municipal) taxes and fees, corporate tax, value-added tax, excise duties, export and import duties and property taxes. In recent years, under conditions of international and domestic

economic growth, several governments have taken measures to optimize and reduce the tax burden on businesses and on citizens. During economic crisis opportunities for further reducing the tax burden are very limited. It is possible to reverse the process (by increasing the tax burden or by reducing the amount of services, investments and etc., provided by government).

### **Bulgaria`s accession in EU led to increased competition and additional and more burdensome regulations**

Since the accession of Bulgaria on 1 January 2007 in the European Union the issuer faces a competitive pressure from companies in the same branch on the single market. Accession to the European Union led to increased competition for the issuer as the elimination and reduction of barriers led to new competitors from other Member-States entering the Bulgarian market. This leads to reduced revenues and profits of the Group. On the other hand, the harmonization of Bulgarian legislation with the legal acts of European Union on competition is essential. Each change in legislation leads to the need for the Issuer to comply with additional and more onerous rules.

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All current shareholders, interested persons/stakeholders and potential investors may receive the necessary information related to the activities of the company and its financial results at the following address:

2 "Stefan Karadja" Str., Sofia 1000, every Friday from 13.00 till 17.00.



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