

**Interim Activity Report  
of Chimimport AD, Sofia**

for the period of fourth quarter of 2015,  
in accordance Article 100o, Paragraph 4 from the Public Offering of Securities Act

**1) Significant events for the Company for the period of the fourth quarter of 2015 (01.10.2015– 31.12.2015)**

On 30. November 2015 Chimimport AD issued Interim Condensed Consolidated Financial Statements for the third quarter of 2015 in Bulgarian and English

On 30 October 2015 Chimimport AD issued Interim Condensed Financial Statement for the third quarter of 2015 in Bulgarian and English

**2) Significant events for the Company for the period of fourth quarter of 2015 with accumulation (01.10.2015 – 31.12.2015)**

On 30. November 2015 Chimimport AD issued Interim Condensed Consolidated Financial Statements for the third quarter of 2015 in Bulgarian and English

On 30 October 2015 Chimimport AD issued Interim Condensed Financial Statement for the third quarter of 2015 in Bulgarian and English

On 31 August 2015 Chimimport AD issued Interim Condensed Consolidated Financial Statements for the second quarter of 2015 in Bulgarian and English

On 30 July 2015 Chimimport AD issued Interim Condensed Financial Statement for the second quarter of 2015 in Bulgarian and English

On 29 May 2015 Chimimport AD issued Interim Condensed Consolidated Financial Statements for the first quarter of 2015 in Bulgarian and English

On 27 May 2015 Chimimport AD summoned a general meeting of shareholders and materials for the General Meeting of Shareholders

On 30 April 2015 Chimimport AD issued Independent Auditor's Report Consolidated Financial Statements in Bulgarian and English

On 28 April 2015 Chimimport AD issued Interim Condensed Financial Statement for the first quarter of 2015 in Bulgarian and English

On 31 March 2015 Chimimport AD issued Annual Activity Report Independent Auditor's Report Separate Financial Statements as at 31.12.2014 in Bulgarian and English

On 04 March 2015 Chimimport AD issued Interim Condensed Consolidated Financial Statement for the fourth quarter of 2014 in Bulgarian and English.

On 30 January 2015 Chimimport AD issued Interim Condensed Financial Statement for the fourth quarter of 2014 in Bulgarian and English.

**3) 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 fourth quarter of 2015

**4) Risk to which Company is exposed in the next financial year**

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 preferred shareholders and 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).

**The global economic crisis increases the risk for the investors when investing in shares of Chimimport AD**

Such an event is the "mortgage crisis", which started in the USA during the second half of 2007 and affected the real estate markets and the financial markets. Due to the high extent of globalization, the crisis had a negative impact both in the United States and all other financial markets. This resulted in a serious decrease in the prices of traded shares on the Bulgarian Stock Exchange. The difficulty to foresee those events and the inability for a full insurance requires the use of a precise method for analysis of the available information, insurance of owned property and definition of a strategic plan, to be used in case of a crisis. According to data from the economic review of Bulgarian National Bank for the first quarter of 2009, the effects of the global financial crisis on the Bulgarian economy, for the period from the end of 2007 to the middle of September 2008, were limited.

- The first manifestation of the crisis was on the Bulgarian Stock Exchange, where as a result of the global uncertainty and declining liquidity that started in October 2007, a decline of indexes and daily turnovers has begun. The SOFIX index has lost nearly 70% of its value for the period from the middle of October 2007 to the middle of October 2008.
- Increased risk perceptions and lower liquidity in the international context affected the interbank money market, where spreads to euro zone interest rates began to rise from the last quarter of 2007. As at October 2008 the spread between LEONIA and EONIA indexes was approximately 250 b. p. The same spread was below 20 b. p. in the middle of the previous year. A similar dynamics was observed in interest rates on loans and deposits.

- Banks, operating domestically, as well as those operating worldwide, began to tighten terms and conditions for lending and to raise interest rates. In the end of the second quarter of 2008 in Bulgaria, the receivables of banks from non-governmental sector increased by 12.4% compared to the first three months and in the end of the third quarter - by 7.1% compared to the end of June.
- The decrease of international prices of major raw materials and fuel from the second half of 2008 has contributed for rapid slowdown of inflation in the country.
- After September 2008 (after the bankruptcy of Lehman Brothers ) the global financial crisis has become a global economic crisis and the decline in economic activity in the developed countries in its scope and scale is defined as the most serious since the Great Depression in the 30 years of XX century. The contraction of world trade and production worldwide affected markedly the Bulgarian economy:
- Industrial export sales have fallen significantly. The availability of export orders in industry is deteriorated. Capacity utilization in industry fell from nearly 75% in 2008 to below 70% in the first months of 2009.
- Increasing uncertainty in the economic environment appears to be the most serious constraint for business development in all economic sectors and forces some companies to postpone their investment projects and plans for hiring of more employees.
- Consumers react to uncertainty about future income by postponing purchases of durables and repairs of houses and in this way increase the savings rates.
- As a result of weaker domestic consumer and investment demand, the import started to decline.

**The impact of the global economic crisis on the Bulgarian economy can be conditionally divided mainly into two periods, according to the speed of recovery of business processes in the country:**

1. The first period of the crisis is in the first quarter of 2010. This period was characterized by deterioration in key macroeconomic indicators in the country. Negative GDP growth of -3.5% in the first quarter of 2009, -4.9% in the second quarter and -5.4% for the third quarter led to a recession in 2009. The Bulgarian economy was 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 and led to a negative -5.8% GDP growth in the fourth quarter of 2009. The resulting negative trend in 2009 continued in the first quarter of 2010.
2. The second period covers the second quarter of 2010 and is considered with different intensity which still continued. This period was characterized by improvement of basic macroeconomic indicators in the country, albeit tentatively. Refunds of exported to EU countries is one of the main reasons for this. From the second quarter of 2010 when GDP growth was positive by 0.5% to the third quarter of 2011 (2.3% positive real growth rate) data from the Bulgarian National Bank registered an uptrend, the main macroeconomic indicators (GDP). In the third and fourth quarters of 2011 and the first quarter of 2012 this trend was interrupted, but GDP still grew. Given the difficult economic situation and the ongoing debt crisis in the EU, the growth rate of GDP has decreased in general for 2012, but it is still with positive rate measured of 0.8%. During this second period, governments maintain relative macroeconomic stability, as a number of economic indicators (such as the budget

deficit and the level of public debt) of Bulgaria that are fairly good against the economies of the European Union. Other macroeconomic indicators for example the level of employment and income one deteriorated or remained without a real positive change. Only by the end of 2014 most macro indicators noted a noticeable improvement, which continued in 2015

### **The impact of the global financial crisis on world economy and the euro zone**

The economic crisis hit the world hard in 2008 and especially 2009. Certain countries (China, Russia, India, Brazil and others.), however, felt it poorly or were not at all affected. Within the EU, only Poland maintains economic growth throughout the period. The recovery of the world economy has become more stable since the end of 2010 despite prevailing differences in patterns of growth in countries and regions. In late 2011 and early 2012 a new critical phenomenon began to show signs, both within the euro area and the world as a whole.

Countries like China and India, which were identified as engines of the world economy, reduced rates of economic growth, in particular for China it becomes more obvious (especially in the second half of 2015). USA, helped by cheaper energy sources, largely overcome the consequences of the crisis, but still can't revert to the same driving force of the world economy.

Year after the debt crisis in Greece, which subsequently spread to many other countries, the state of public finances in the euro area as a whole has begun to stabilize. Greece, Ireland and Portugal, and subsequently in other countries, have received substantial financial assistance, accompanied with actions for cutting budget expenditures. And in 2014, however, fears about public finances in the EUROZONE continue, even though in the last year, they significantly weaken

Despite the overall improvement, the situation in Greece, Spain, Cyprus, Portugal, Italy, Belgium, Slovenia, and perhaps in other countries also raises some concerns.

Most economists warn, however, that the measures to reduce budget deficits and reducing public debt may be charged to the potential of the euro area to generate economic growth for the short term period. There is a risk, that this will affect the Bulgarian economy mainly through the reduction of exports (these countries are major trading partners) and a decline in inflows of foreign capital, which reflects the investment activity, unemployment, domestic consumption. Also there is a risk throughout the EU - for wide discontent among the population, of both the indebted countries and among those that provide net finance bailouts. In conclusion for similar concerns, the new chairman of EU Jean – Claude Juncker suggest a major investment plan

**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, recently completed restructuring of the part of its manufacturing and trade companies, through the merger of Chimimport Group EAD in Zyrneni Hrani Bulgaria AD. 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 level 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.

**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, 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 level 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, 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 it's 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 affect 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 fourth quarter of 2015, issues of securities listed on the central market of the BSE are as follows: 109 issues of shares (excluding REITs) of companies, of which 5 are segment shares Premium, a 90 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 215, separately traded and 47 shares of companies with special investment purpose.

At the end of fourth quarter of 2015 market capitalization of companies traded on the Central Market of the Stock Exchange amounted to 1,240 billion lev (segment shares Premium), 5 544 billion lev (segment shares Standard) and 0,538 billion lev (segment for companies with special investment purpose).

Separately, the companies traded on Segment shares for trading on the Alternative Market have capitalization of 0,929 billion lev, and those traded on Segment special-purpose investment aim in the same market - 0,3374 billion lev

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 the beginning of 2015, noted some easing of the overall political situation in the country, following the early parliamentary elections. As a result of the elections a new pro-European coalition government was formed. With regard to the situation, it relies on a major support by the government and a respectful attitude by European partners. During the last few months the center of political risks is changed to foreign concerns, which are reflected in different ways on internal political life. As a conclusion the political risk remains still high.

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 5.5 percent real growth rate of GDP in 2009. In 2010 and 2011 positive real annual growth rate of GDP of 0.1% and 1.6% respectively was made. In next few years, the growth rate of GDP remained positive with some fluctuations. In the end of 2014 the growth rate of GDP is 1.6%. GDP growth in the last years, does not lead to a reduction in unemployment. So for 2011, the unemployment rate rose to 11.34% (via NSI). Until the end of 2012 the unemployment rate rose to 12.34%. During 2013 it is notices that there is an increase in unemployment rate s to 11.34 %. This trend starts to change rapidly and in 2014 data based on the Employment Agency unemployment rate is 10.7%. According to the estimations of the NSI, in the third quarter of 2015 GDP amounted to 23 490 million BGN and grew by 2.9% compared to the

same quarter of the previous year and by 0.7% compared to the previous quarter (seasonally adjusted data). In the middle of 2015 the unemployment rate dropped to 8.3 percent.

Meanwhile there is a permanent growth in the average salary up to 648 BGN, in 2012 – 731 BGN, and 2013 -775 BGN, during 2014 there is boosting up to 828 BGN. The average annual inflation (average annual change in the CPI) for 2012 and 2013 is 3% and 0.9% respectively. In 2014, the country recorded deflation of 1.4%. During the third quarter of 2015 in the country is recorded inflation of 0%.

In 2014 The National Bank of Bulgaria has a current account deficit of EUR 495.2 million (1.2% of GDP), compared with a surplus of 765.2 million EUR in 2013 (1.8% of GDP). The decline in the surplus due to growth of the surplus in services. For January-December 2013 the trade balance was negative EUR 2 890.7 million (6.9% of GDP), while in 2014 the negative balance increases to EUR 2 734 million (6.4% of GDP). The most complex influence on worsening groups have food and livestock (simultaneous decline in exports and increase in imports), and items classified by type of material (solid line of increased imports). The balance on the financial account into a surplus of 889.8 million euro in 2013 (2.1% of GDP) remain positive in 2014 (183 million euro or 0.4% of GDP). In the third quarter of 2015 the current account balance was positive at the amount of 1 132.3 million euro, as well as in the financial account amounting to 2 703.3 million euro.

In 2011, the maintained strict fiscal discipline will reduce the projected budget deficit below the Maastricht threshold of 3% of GDP (2% according to Eurostat data), while in compare period it had a reported deficit of 3.2%. For the year 2012 budget deficit is even lower and amounts to 0.6%, while in 2013 and 2014 deficit is now higher and reached respectively 0.8% and 5.8% of GDP (increase over last year is mainly due to the inclusion of the deficit in the Fund for Guaranteeing Bank Deposits). The consolidated budget for the end of December 2014 has been negative amounted to 3.07 billion lev (deficit 1.44 billion. lev the previous year). The fiscal reserve as at the end of 2014 is 29 409.1 million leva (98.1%of the projected for the year), the budget balance under the consolidated fiscal program at the end of November 2015 was negative (deficiency) in the amount 406.4 million BGN (0,5% of forecast for GDP) during a negative balance of 1 600.7 million. lev year earlier.

The fiscal reserve at the end of 2014 is 9.2 billion lev against 4.7 billion lev year earlier. At the end of November 2015 the fiscal reserve is 9.9 billion. lev, including 9.5 billion. lev deposits of the fiscal reserve of the Bulgarian National Bank and other banks and 0.4 billion lev receivables from European Union funds for certified expenditure, advances and other. At the end of 2014, according to Eurostat, the level of indebtedness of the country (government and government debt) reached 27%, as reported serious increase compared to 2013 - 18% of GDP. By this indicator is the country with the third lowest ratio among all EU countries (only Estonia and Luxembourg have better data). It is disturbing that at the end of 2015 forecast again increase public debt to about 30% of GDP, the country is the leader in high-speed growth of debt in recent years. According to the Ministry of Finance at the end of 2014 the nominal amount of government debt amounted to 11 300.7 million euro (which are 4 219 million euro internal and 7 981.7 million euro - external debt) against 7 218.7 million euro in 2013. At the end of November 2015 the nominal amount of government debt amounted to 11 944.4 mln. euro, which include 4 040.7 mln. euro internal and 7 903.7 mln. euro external debt. At the end of August the ratio of "government debt / GDP" is 27.24%. The coefficients of internal and external government debts are respectively for 9.2% and 18.4%. In the structure of the debt share of the domestic government debt was 33.8% and external - 66.2%. At the end of August the share of debt denominated in Euros, reached 77.2% in BGN - 21.7%, in USD - 0.4%, and other currencies - 0.7%. In the structure of debt by creditors with the largest share Eurobonds issued in international capital markets - 46.8%,

followed by domestic debt - 33.8%, and loans from various international institutions. In the interest structure of the debt at the end of August was also experienced changes - the proportion of debt with fixed interest rates reached 93.4%, and with floating interest rates - 6.6%. In the residual maturity of outstanding debt predominant long-term debt (up to 1 year - 7.77%, from 1 to 5 years - 26.14%, from 5 to 10 years - 38.25% and over 10 years - 27.84%).

Bulgaria's credit rating was BB+ long term on the scale of Standard & Poor's and as at 12.12.2014 the prospect was from negative to stable. As at 22.07.2011 rating agency Moody's recently increased the credit rating of Bulgaria from Baa3 to Baa2 for long-term bank deposits and the outlook is stable (in 2015 was confirmed by the rating agency twice). According to Fitch, credit rating of Bulgaria is BBB- with stable perspective (last confirmed at December 2015).

Of key importance for the Bulgarian macroeconomic and financial stability is the stability and predictability of exchange rate regime and its credibility. Currently in the society as a whole, there is consensus on the need of the Currency Board and the fixed Exchange rate of EURO to BGN to remain until Bulgaria enters the Eurozone.

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 levels, 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.

29 January 2015  
Sofia

For Chimimport AD:



Ivo Kamenov  
/CEO/