



## **INTERIM REPORT ON THE ACTIVITIES OF BILLBOARD AD, Sofia DURING THE FOURTH QUARTER OF 2016 ON A CONSOLIDATED BASIS PURSUANT TO Article 100o, Paragraph 4, Item 2 of LPOS**

### **1. IMPORTANT DEVELOPMENTS FOR BILLBOARD AD AND THE SUBSIDIARIES IN THE ECONOMIC GROUP THAT OCCURRED DURING THE PERIOD 01.01.2016 - 31.12.2016**

**On 01.02.2016** BILLBOARD AD filed with FSC and BSE-Sofia AD and presented to the public interim individual financial report for the fourth quarter of 2015.

**On 26.02.2016** BILLBOARD AD filed with FSC and BSE-Sofia AD and presented to the public interim consolidated financial report for the fourth quarter of 2015.

**On 29.03.2016** BILLBOARD AD filed with FSC and BSE-Sofia AD and presented to the public Annual audited separate financial statements as of 31.12.2015.

**On 19.04.2016** BILLBOARD AD filed with FSC and BSE-Sofia AD and presented to the public Annual audited consolidated financial statements as of 31.12.2015.

**On 20.04.2016** BILLBOARD AD filed with FSC and BSE-Sofia AD and presented to the public interim separate financial report for the first quarter of 2016.

**On 10.05.2016** BILLBOARD AD filed with FSC and BSE-Sofia AD and presented to the public invitation for calling a regular general assembly of the shareholders and written materials for the general assembly to be held on 16.06.2016 at 10.30 a.m. at No1 Bulgaria sq., National Palace of Culture, „low-rise building”, floor 2, 1463 Sofia.

**On 16.05.2016** BILLBOARD AD filed with FSC and BSE-Sofia AD and presented to the public publication of the invitation for calling a general assembly of the shareholders, filed with the Commercial Register to the Registry Agency.

**On 30.05.2016** BILLBOARD AD filed with FSC and BSE-Sofia AD and presented to the public interim consolidated financial report for the first quarter of 2016.

**On 16.06.2016** BILLBOARD AD filed with FSC and BSE-Sofia AD and presented to the public minutes from the general assembly of the shareholders, held on 16.06.2016 at 10.30 a.m. together with an announcement on the important resolutions approved by the shareholders, as follows: **1.** The General Assembly of Shareholders approved the Annual Reports (individual and consolidated) of the Board of Directors on the company's activities for the year 2015, the Audited Annual Financial Statements of the company for the year 2015 (individual and consolidated) and the respective reports of the certified auditor, the Report on the implementation of the remuneration Policy for the members of the Board of Directors of BILLBOARD AD for 2015 and heard and adopted for information the Report on the activities of the company's audit committee for 2015 as well as the annual Report on the activities of the

Investor Relations Director of BILLBOARD AD for the year 2015. **2.** The General Assembly of Shareholders adopted a resolution for the company's loss, generated in 2015 in the amount of BGN 1 564 852,06 to be covered by a part of the company's undistributed profit from previous years in the same amount. **3.** The General Assembly of Shareholders released from responsibility the member of the Board of Directors for their activities during 2015. **4.** The General Assembly of Shareholders adopted a resolution for election of a certified auditor to perform verification and certification of the annual financial statements of the company for the year 2016 according to the recommendation of the audit committee namely: Magdalena Tsvetkova - registered auditor with Dipl. № 659. **5.** The General Assembly of Shareholders re-elected all members of the company's Board of Directors, namely: Kalin Vassilev Gentchev, Stefan Vassilev Gentchev, Desislav Grozev Tomov and Borislav Hristov Borisov as members of the Board of Directors of BILLBOARD AD for new 5-years terms of office as from the date of entering the resolution with the Commercial Register.

**On 27.06.2016** BILLBOARD AD filed with FSC and BSE-Sofia AD and presented to the public the following announcement: With reference to the resolution for re-election of all members of the Board of Directors of BILLBOARD AD, adopted at the regular session of the General Assembly of the company's Shareholders, held on June 16th, 2016 we would like to announce that the resolution was filed with the Commercial Register to the Registry Agency under the company's batch under No 20160623155948.

**On 28.07.2016** BILLBOARD AD filed with FSC and BSE-Sofia AD and presented to the public interim individual financial report as of 30.06.2016.

**On 29.08.2016** BILLBOARD AD filed with FSC and BSE-Sofia AD and presented to the public interim consolidated financial report as of 30.06.2016.

**On 29.08.2016** BILLBOARD AD filed with FSC and BSE-Sofia AD and presented to the public the following announcement: With regard to the requirements of Ordinance № 2 of FSC as of 17.09.2003 of FSC ON THE PROSPECTUSES TO BE PUBLISHED WHEN SECURITIES ARE OFFERED TO THE PUBLIC OR ADMITTED TO TRADING ON A REGULATED MARKET AND ON DISCLOSURE OF INFORMATION BY THE PUBLIC COMPANIES AND THE OTHER ISSUERS OF SECURITIES we would like hereby to inform that BILLBOARD AD has signed contracts and discloses regulated information regarding the company to the public through:

1. the electronic platform EXTRI NEWS – <http://www.x3news.com>, owned by Financial Markets Service Ltd. with PIC: 131455253, having its registered seat and business address at 10 Tri ushi St., 1303 Sofia represented by Rumen Sokolov - General Manager;
2. the electronic media INVESTOR BG - [www.investor.bg](http://www.investor.bg), owned by INVESTOR.BG AD with PIC: 130277328, having its registered seat and business address at 31 Vazkresenie Blvd. 1330 Sofia and
3. the electronic media INFOSTOCK BG – [www.infostock.bg](http://www.infostock.bg), owned by INFOSTOCK AD with PIC: 203104650, having its registered seat and business address at No1 Alexander Batenberg Str., 1000 Sofia, represented by Atanas Todorov Angelov – Executive Director.

The company discloses regulated information to The Financial Supervision Commission (FSC) through the integrated system for disclosure of information in an electronic way E-Register as the information is available on the website of FSC - [www.fsc.bg](http://www.fsc.bg).

**On 28.10.2016** BILLBOARD AD filed with FSC and BSE-Sofia AD and presented to the public interim individual financial report as of 30.09.2016.

**On 25.11.2016** BILLBOARD AD filed with FSC and BSE-Sofia AD and presented to the public interim consolidated financial report as of 30.09.2016.

**On 21.12.2016** BILLBOARD AD filed with FSC and BSE-Sofia AD and presented to the public the following announcement: Based on a resolution of the Board of Directors of BILLBOARD AD, dated 19.12.2016, on 20.12.2016 was accomplished a sale of the stakes, hold by BILLBOARD AD and DIGITAL PRINT Ltd. (100 % subsidiary of BILLBOARD AD) from the capital of TIPO PRINT Ltd. – an associated company of BILLBOARD AD.

Based on a resolution of the Board of Directors of BILLBOARD AD, dated 05.12.2016 was

assigned the execution of an independent market assessment of the value of equity stakes of a company TIPO PRINT Ltd. - an associate company of BILLBOARD AD by an independent evaluator under art. 5 of the Independent Evaluators Act. The evaluation was made by YAVLENA IMPACT Ltd., UIC: 130983568, expressing the valuation opinion of Radost Rageva and Georgi Kolev - licensed by the Privatization Agency and certified by the Chamber of Independent Evaluators, indicating that the equity value of the company TIPO PRINT Ltd. is negative, but for the purpose of sale of stakes, it could be considered a market value of BGN 2 for the entire capital of the company.

The sale of the stakes from the capital of TIPO PRINT Ltd. was completed under the following parameters:

Buyer under the transaction: Kameliya Krumova Videnova with an address in Sofia. The buyer is neither an interested, nor a related party to BILLBOARD AD and DIGITAL PRINT Ltd. within the meaning of the Law on Public Offering of Securities.

Price under which the sale was accomplished: BGN 0.50 per stake from the capital of TIPO PRINT Ltd. or a total sale price for BILLBOARD AD – BGN 215 and total sale price for DIGITAL PRINT Ltd. – BGN 375.

The value of the transaction does not exceed the thresholds under art. 114, para. 1 of the Law on Public Offering of Securities and art. 114, para. 3 of the Law on Public Offering of Securities – for DIGITAL PRINT Ltd. and respectively an explicit authorization by the General Assembly of the Shareholders of BILLBOARD AD and by the Board of Directors of BILLBOARD AD – in terms of the sale of stakes from the capital of TIPO PRINT Ltd. on the part of DIGITAL PRINT Ltd.

The sale of equity stakes of TIPO PRINT Ltd. on the part of BILLBOARD AD and DIGITAL PRINT Ltd. is concluded due to the fact that the company is fully decapitalized and does not operate.

## **2. IMPACT OF THE IMPORTANT DEVELOPMENTS FOR BILLBOARD AD AND THE SUBSIDIARIES IN THE ECONOMIC GROUP THAT OCCURRED DURING THE FOURTH QUARTER OF 2016 ON THE RESULTS IN THE FINANCIAL STATEMENTS**

BILLBOARD AD is a company with the following scope of activity: foreign and domestic trade; specific trade operations; barter and cross transactions; sales under the conditions of letters of credit; export of Bulgarian products to the international market; distribution of great volumes of imported goods; commercial representation; intermediation between local and foreign parties; printing and wide format printing activities; advertising activity; acquisition and incorporation of new companies with a scope of activity – printing, wide format printing activities, advertising activity as well as sale of such companies; acquisition, management, evaluation and sale of share participations in Bulgarian and foreign companies; acquisition, evaluation and sale of patents; transfer of licenses for use of patents to companies where the company participates; financing of companies where the company participates.

BILLBOARD AD and the companies included in the economic group perform activities in the following major spheres:

- Digital wide format printing;
- Offset printing;
- Construction and maintenance of advertising equipment;
- Information technologies and professional solutions for digital printing;
- Design and construction of integrated management information systems in the field of printing and advertising business;
- Complex solutions in the field of outdoor and interior advertising.

In the field of **outdoor advertising** BILLBOARD AD develops and offers various types of billboards, mega boards, City Lights, advertising shop windows, awnings, facade advertising with integrated lighting and unlighted facade advertisement banners and packing of buildings.

In the field of **indoor advertising** BILLBOARD AD develops and offers printing of posters and banners with photo quality, including 3D posters, illuminated advertisements, banners, floor graphics, design and implementation of various backdrops, branding, development of boards and panels, models of objects and people in natural size, advertising on custom interior spaces, expo systems.

In the field of **transport advertising** BILLBOARD Plc develops and offers a variety of services in the field of branding for different types of vehicles - cars and trucks, airplanes, ships and boats, means of public transportation.

In carrying out its activities in the different fields BILLBOARD AD uses various technologies, such as:

- **solvent printing** - characterized by high resistance to external conditions and suitable for the production of outdoor advertising with high resistance. BILLBOARD AD has the most modern equipment for digital wide format solvent printing with almost all models of the brand Vutek - a world leader in the field as all of them are the latest generation of 8-color models. Also, the printing base is equipped with a HP Turbojet 8530 machine, which is unique for its kind.
- **ink-jet printing** – the technologies for digital wide format printing on a water base are of high quality and are used for printing on paper. BILLBOARD AD has the latest models of the brand HP Designjet which manifest extremely high quality, reliability and fast performance. The company participated as a co-organizer in many exhibitions.
- **UV printing** - the most advanced technology in printing with liquid polymer inks, cured by irradiation with UV light. Instant drying of the inks enables this technology to be used for direct printing on all materials. The printing quality is very high in color mode, which enables displacing the screen printing technologies.
- **textile printing** – the Dye Sublimation technology is the basis for dyeing in textile industry. With the development of digital technologies, the classic method of printing is being displaced by direct printing with sublimation inks and non-standard sizes and formats.
- **3D printing** - the development of digital printing opens up new possibilities for production of 3D models applicable both in the art field and in the field of industrial design, architecture, etc. New technologies facilitate and expedite the process in modeling, which is already been implemented entirely by using computer systems, 3D modeling softwares and make it much more accessible for implementation.
- **multimedia screens** - development of digital technologies increasingly leads to imposition of multimedia screens as a means of visual communication with consumers in interior environments. Through them, static images are being developed in an interactive multimedia environment which creates a dynamic atmosphere and enhances the effect of advertising.
- In addition to the aforementioned technologies BILLBOARD AD has all the necessary equipment needed for cutting the printed output or finished color and for performing all finishing works such as sewing and gluing, laminating and laminating, routing and milling.

Pursuant to the unaudited consolidated financial statements of BILLBOARD AD, drawn up according to the IAS/IFRS forms as of 31.12.2016 the company reported total net sales revenues in the amount of BGN 34 000 000 compared to BGN 32 692 000 for 2015 which represents an increase of the net sales revenues by 4 %. As of 31.12.2016 the consolidated production net sales revenues of BILLBOARD AD were in the amount of BGN 28 761 000 compared to the consolidated production net sales revenues registered by 31.12.2015 in the amount of BGN 27 505 000 which represents a growth of the consolidated production net sales revenues of the company by 4.57 %.

As of 31.12.2016 BILLBOARD AD reported consolidated profit before taxes in the amount of BGN 582 000 compared to the loss before taxes in the amount of BGN 308 000 for 2015.

The consolidated net profit as of 31.12.2016 is in the amount of BGN 591 000 compared to the consolidated net loss as of 31.12.2015 in the amount of 575 000. The net profit as of 31.12.2016 attributed to the owners of the parent company is in the amount of BGN 333 000 compared to the net loss attributed to the owners of the parent company as of 31.12.2015 in the amount of BGN 707 000.

As of 31.12.2016 the earnings before taxes and depreciation and amortization, increased with the financial expenses and decreased with the financial incomes (EBITDA) of BILLBOARD AD on a consolidated basis were in the amount of BGN 4134 000 compared to the EBITDA on a consolidated basis reported by 31.12.2015 in the amount of BGN 3586 000 which is a 15.28 % growth.

As of 31.12.2016 the earnings before taxes and depreciation and amortization, increased by the financial expenses and decreased by the financial incomes (EBIT) of BILLBOARD AD on a consolidated basis were in the amount of BGN 1834 000 compared to the EBIT on a consolidated basis reported by 31.12.2015 in the amount of BGN 1407 000.

DEDRAX AD is one of the major producers of printed advertising material and has the most modern technical equipment of the world leaders in the field such as: Man Roland Muller Martini, Renz and others. The Company operates in the following basic areas:

- sheetfed offset printing
- digital printing
- personalized secret printing
- ful bookbinding
- film exposure

The printing house implements the full closed cycle of services necessary for the production of magazines and corporate periodicals, flyers and leaflets, brochures and catalogs, printed stationery, posters, calendars, labels and packaging, promotional materials and shelves.

DEDRAX AD offers sheetfed offset printing on two-sided chrome papers (80-300 gr./ sq. m. meters), offset (70-200 gr. / sq. m.), LWC (60-90 gr. / sq. m.) packaging cardboard (210-800 gr. / sq. m.), polypropylene adhesive paper, PVC foil, label papers and luxury cardboards as all formats and weights are available in the warehouse of the Company. Depending on the paper using standard inks, pantone colors and inks foil. The printing machines of DEDRAX AD cover all possible formats to 70/100 cm.

DEDRAX AD has been developing several innovative products and services. Since the beginning of 2007 the Company has been developing a new segment in offset printing aimed at personalized and confidential information. Known as "security printing", this segment allows production in large series of cards or other materials with variable data, where, through specialized equipment, secret information is both printed and closed.

As of 31.12.2016 DEDRAX AD reported net sales revenues in the amount of BGN 21 311 000 compared to the net sales revenues registered by 31.12.2015 in the amount of BGN 20 041 000 which is a 6,33 % growth of the net sales revenues.

As of 31.12.2016 the company reported net profit in the amount of BGN 520 000 compared to the net profit in the amount of BGN 284 000 reported for 2015 which is a 83 % increase of the net profit.

MOTION ARTS Ltd. is a company for outdoor advertisement, offering a big variety of advertising channels with coverage throughout the country and a wide choice of communication means.

The activities of the company are directed into four main areas:

- transport advertising (subway, electrical and motor transport in Sofia)
- advertising at point of sale (Billa, Mall of Sofia, Retail Park Plovdiv, Mall Varna)
- advertising on the road network (urban and national roads)
- advertising in urban areas (National Palace of Culture and facade meshes in Sofia)

MOTION ARTS Ltd. manages a major part of the advertising facilities in the Sofia subway and continues to serve multiple communication channels on the territory of Metropolitan EAD, Sofia.

The Company holds a significant number of billboards and mega boards, located in key places throughout the national road network.

In the field of transport advertising the company offers different types of branding consistent with both the client's desires and designs and the models of the vehicles.

In 2015 MOTION ARTS Ltd. has signed an exclusive agreement with SINE GRAND for managing all promotional activities within the two cinemas in the city of Sofia - Sine Grand Sofia City Center and Sine Grand Sofia Ring Mall.

As of 31.12.2016 MOTION ARTS Ltd. reported net sales revenues in the amount of BGN 5 242 000 compared to the net sales revenues registered by 31.12.2015 in the amount of BGN 5 162 000 which is a 1.55 % increase of the net sales revenues. As of 31.12.2016 the company reported net profit in the amount of BGN 103 000 compared to the net profit in the amount of BGN 33 000 reported for 2015 which is represents a more than twice profit growth.

INSTOR MEDIA EOOD has the following scope of activity: domestic and foreign trade, manufacturing and marketing of promotional materials and equipment, advertising, design, and other activities and services that are not prohibited by law.

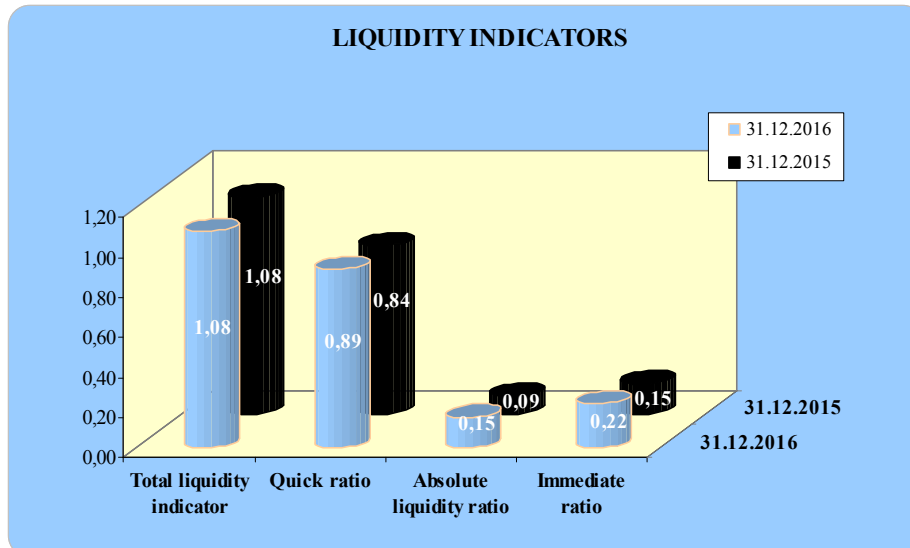
As of 31.12.2016 INSTOR MEDIA EOOD reported net sales revenues in the amount of BGN 795 000 compared to the net sales revenues registered by 31.12.2015 in the amount of BGN 793 000. As of 31.12.2016 the company reported net profit in the amount of BGN 6 000 which is in the same amount as the net profit reported for 2015.

DIGITAL PRINT EOOD has the following scope of activity: digital printing, advertising, intellectual property transactions, leasing, and any other transactions which are not prohibited by law.

As of 31.12.2016 DIGITAL PRINT EOOD reported net sales revenues in the amount of BGN 1920 000 compared to the net sales revenues registered by 31.12.2015 in the amount of BGN 1915 000 which is a 0.26 % growth of the net sales revenues. As of 31.12.2016 the company reported net loss in the amount of BGN 281 000 compared to the net loss reported for 2015 in the amount of BGN 1897 000.

### Consolidated liquidity indicators as of 31.12.2016

LIQUIDITY INDICATORS	31.12.2016	31.12.2015
Total liquidity indicator	1,08	1,08
Quick ratio	0,89	0,84
Absolute liquidity ratio	0,15	0,09
Immediate ratio	0,22	0,15



## 4. DESCRIPTION OF THE PRINCIPAL RISKS AND UNCERTAINTIES WHICH BILLBOARD AD WILL FACE DURING THE END OF THE FINANCIAL YEAR

### SYSTEMATIC RISKS

#### OVERALL MACROECONOMIC RISK

At its monetary policy meeting, held on December 8, 2016 and based on the regular economic and monetary analysis the Governing Council of the European Central Bank made a profound assessment of the economy and inflation perspectives as well as on those of the monetary policy

position. The assessment confirmed the need to prolong the time frame of the asset purchases program after March, 2017 in order to maintain the high level of monetary support needed to ensure sustainable convergence of inflation rates at levels below, but close to 2 % in medium term.

Assessment of the economy and finance state as of the date of the meeting of the Governing Council of the ECB of December 8, 2016 .:

During the second half of the year, economic activity worldwide marked improvement and is expected to continue increasing, although it is expected to remain below its pre-crisis levels. The conducted not restrictive policy and the improvement in the labor market helped the activity in the USA but the uncertainty regarding the prospects for the country and the world as a whole strengthened after the elections in the USA. In Japan, growth rates are expected to remain moderate, while the medium-term outlook for the UK growth is likely to be restricted due to the increased uncertainty related to the future relations of the country with the EU. Furthermore, although the currently observed gradual slowdown in China might affect other emerging economies, the gradual weakening of the deep recession in some large countries - exporters of major commodities, increasingly supports global growth. Oil prices increased as a result of the agreement of OPEC as of 30 November and the effects from its previous declines on the overall inflation in the world slowly decline. Yet, the large volume spare production capacity in the world, however, restrains core inflation.

Economic recovery in the euro area continues. During the third quarter of 2016 real GDP of the euro area grew by 0.3 % on a quarterly basis like its growth during the second quarter. Incoming data, especially the results of the surveys, indicate that growth will continue also during the fourth quarter of 2016.

In the future, the ECB Governing Council expects that the economic recovery will continue with a moderate but more stable rate. Transfer of the ECB's monetary policy measures in real economy, stimulates domestic demand and helps reducing indebtedness. Better profitability of enterprises and very favorable financing conditions continue promoting investments recovery. Furthermore, sustainable employment growth, which was stimulated by earlier structural reforms, supports real disposable income of households and private consumption.

According to the December, 2016 ECB staff macroeconomic projections for the euro area real GDP is expected to grow by 1.7 % in 2016 and 2017 and by 1.6 % in 2018 and 2019. Compared to the September, 2016 ECB staff macroeconomic projections the forecast for real GDP growth remains broadly unchanged. Risks for the growth prospects in the euro area are mostly associated with overestimation of the projections.

According to the six-month report of the World Economic Outlook Fund, published on 04.10.2016, the gross domestic product (GDP) of the country will grow by up to 3.0 % in 2016 and 2.8 % in 2017. The previous, April 2016 forecasts of the IMF were for growth of 2.3 % in 2016 and 2017. Major risks for the development of the Bulgarian economy according to the IMF experts are worsening demographics as well as major economic and social imbalances among the regions in the country.

On 06.12.2016 the Ministry of Finance publishes an updated Autumn macroeconomic forecast\*. (*\*In the forecast were used statistics published until October 28, 2016, except for those specifically mentioned.*).

Update of the autumn forecast of the Ministry of Finance was imposed by publication of revised series of data on Payment Balance and National Accounts, respectively on September 17 and October 11, 2016.

According to the updated autumn forecast of the Ministry of Finance it is expected that both the European and the US economy to slow their growth rates during the current year.

The favorable development in emerging markets as well as the acceleration of the US GDP growth will play a leading role in the dynamics of the world economy in 2017.

At the same time, development of the European economy is expected to remain depressed as a result of increased insecurity in the region associated with geopolitical tensions, migration flows to the EU countries, the effect of the upcoming release of the UK from the Union and the worsened economic and political environment in Turkey.

The revised data on investments showed a larger increase in inventories, while investments in fixed capital are almost at the same the level as value and real growth. For the first half of the year total investment grew by 7.7 %, but for the whole year growth is expected to slowdown to 4.1 %.

This will be related to the expected lower growth in inventories and private investments in the second half of the year and the decline in capital expenditure of the government, which is due to the

transition to the new financial framework 2014 - 2020 on programs financing by the EU funds. Fixed capital investments are expected to grow by 0.1%, which will be due to the private sector.

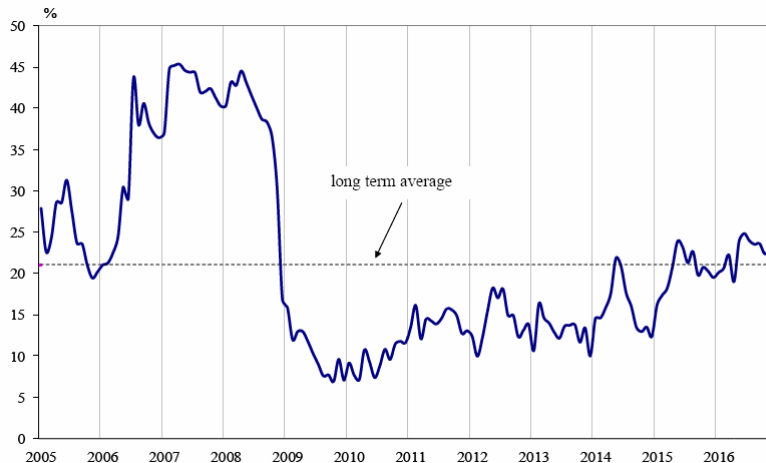
2016 real growth of the Bulgarian economy is expected to reach 3.2 % while the autumn forecast showed 2.6 %. Domestic demand (consumption and investments) again is expected to have major contribution to the growth but net export contribution is increased from 0.6 to 1 percentage point due to the revised data.

In 2017 GDP growth is expected to slow down slightly to 2.9 % while the autumn forecast expected 2.5 %. Contributing to the lower growth will have the weaker external demand from the European economy which will result in a slowdown in export growth to 3.2 %. In case of strengthening the demand and investments in fixed capital, growth in imports of goods and services is expected to be a bit higher than 2016 and reach 2.7 %. As a result, the contribution of net exports to GDP growth will be 0.4 percentage points which will be lower by 0.6 percentage points compared to 2016.

For the period 2018 – 2019 is expected a slight acceleration of GDP growth to 3 %. Domestic demand will be leading for the growth both in terms of consumption and investments. Higher growth of domestic demand will result in accelerated growth of imports as a result of which the net export contribution will continuously decrease and at the end of the forecast period is expected 0 contribution to GDP.

Pursuant to data of the National Statistical Institute in December 2016 the total business climate indicator remained at its level from the previous month. Improvement of the economic situation was registered in industry and construction, while retail trade and services sector reported a decrease.

### **Business climate – in total**



The composite "business climate in industry" indicator increased by 2.3 points compared to November which is due to the improved assessments and expectations of industrial entrepreneurs about the business situation of enterprises. However, the production assurance with orders is estimated to be slightly reduced which is accompanied by reduced expectations for production activity over the next three months.

The uncertain economic environment is continuously the most serious problem impeding business activities of 46.4 % of the companies.

As regards selling prices in industry, most managers provide retaining of their level over the next three months.

In December the composite "business climate in construction" indicator increased by 1.2 points as a result of the favorable assessments and expectations of construction entrepreneurs about the business situation of enterprises. Their opinion on the current construction activity, as well as their forecasts for the following three months, is also more moderate.

The most serious problems for the business development are continuously related to the uncertain economic environment and competition in the field.

As regards selling prices in construction, managers expect that they will remain unchanged over the next three months.

The composite "business climate in retail trade" indicator decreased by 5.2 points compared to the previous month which is due to the declined assessments and expectations of retailers on the business situation of enterprises.

Their forecasts regarding the volume of sales and orders to suppliers during the following three months are also more reserved.



Competition in the field, the uncertain economic environment and insufficient demand keep on being the most serious factors retaining the business activities of companies.

As regards selling prices, prevailing number of retailers expect that they will remain unchanged over the next three months.

In December the composite "business climate in the service sector" indicator decreased by 1.3 points mainly as a result of the more unfavorable expectations of managers about the business situation of enterprises over the following six months. Their opinion in terms of current and expected service demand is also more reserved.

Major obstacles for business development remain related to the uncertain economic environment and competition in the industry, although during the last month decrease of negative impact is reported.

As regards selling prices in the service sector, most of the managers expect that they will remain unchanged over the next three months.

## **INTEREST RATE RISK**

The interest rate risk is related to possible, contingent adverse changes in the interest rates, set by the financial institutions in the Republic of Bulgaria.

On 08.10.2016 the Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00 %, 0.25 % and -0.40 % respectively and continues to expect that they will remain at present or lower levels for an extended period of time, and well past the horizon of the net asset purchases on the part of the Eurosystem. The Governing Council confirmed that the monthly asset purchases of EUR 80 billion are intended to run until the end of March 2017, or beyond, if necessary, and in any case until it sees a sustained adjustment in the path of inflation consistent with its inflation aim.

At its monetary policy meeting, held on December 8, 2016 in view of implementing its price stability objective the Governing Council of the European Central Bank adopted the following resolutions:

- As for the non-standard monetary policy measures, the Eurosystem will continue making purchases under the assets purchase program (APP) at the current rate of EUR 80 billion per month by the end of March, 2017. Starting from April, 2017 it is provided that net purchases of assets will continue to be held with a monthly volume of EUR 60 billion by the end of December, 2017, and if necessary after that, but in any case until the Governing Council finds a lasting correction in inflation trend which is consistent with its inflation target. If meanwhile the prospects become more unfavorable or financial conditions do not correspond to further progress towards a sustainable correction in inflation trend, the Governing Council intends to increase the amount and/or duration of the program.

- In order to provide ever so smooth conduct of asset purchases by the Eurosystem, the Governing Council decided to adjust the parameters of APP by January, 2017 as follows: First, maturity range of the program for purchases from the public sector will be expanded, with a minimum residual maturity of eligible securities shall be reduced from two years to one year. Second, purchases of securities under APP, the yield to maturity of which is lower than the interest rate of the ECB deposit facility will be resolved until needed.

- Governing Council decided to leave the key ECB interest rates unchanged and continues expecting that they will remain at current or lower levels for a continuous period of time and a lot after the close of net purchases of assets.

### **Base interest rates set by the Bulgarian National Bank for the period 01.01.2016 – 31.12.2016**

<b>Month</b>	<b>Base Interest Rate</b>
January 2016	0.01 %
February 2016	0.00 %
March 2016	0.00 %
April 2016	0.00 %
May 2016	0.00 %

June 2016	0.00 %
July,2016	0.00 %
August, 2016	0.00 %
September, 2016	0.00 %
October, 2016	0.00 %
November, 2016	0.00 %
December, 2016	0.00 %

\*Source:BNB

## **INFLATION RISK**

Inflation risk is the overall increase in prices, where money is devalued and there is likelihood for households and businesses to suffer losses.

Pursuant to data of the National Statistical Institute, the consumer price index for October, 2016 compared to September, 2016 was 102.0 %, i.e. monthly inflation is 0.2 %. Inflation as from the beginning of the year (October, 2016 compared to December 2015) is minus 0.4 % and annual inflation for October, 2016 compared to October, 2015 is minus 0.6 %. Average annual inflation for the period November, 2015 – October, 2016 compared to the period November, 2014 – October, 2015 is minus 0.8 %.

The harmonized consumer price index for October, 2016 compared to September, 2016 was 99.9 %, i.e. monthly inflation is minus 0.1 %. Inflation as from the beginning of the year (October, 2016 compared to December, 2015) is minus 1.1 % and annual inflation for October, 2016 compared to October, 2015 is minus 1.0 %. Average annual inflation for the period November, 2015 – October, 2016 compared to the period November, 2014 – October, 2015 is minus 1.4 %.

The consumer price index for November, 2016 compared to October, 2016 was 100.0 %, i.e. monthly inflation is 0.0 %. Inflation as from the beginning of the year (November, 2016 compared to December, 2015) is minus 0.5 % and annual inflation for November, 2016 compared to November, 2015 is minus 0.5 %. Average annual inflation for the period December, 2015 – November, 2016 compared to the period December, 2014 – November, 2015 is minus 0.8 %.

The harmonized consumer price index for November, 2016 compared to October, 2016 was 99.9 %, i.e. monthly inflation is minus 0.1 %. Inflation as from the beginning of the year (November, 2016 compared to December, 2015) is minus 1.2 % and annual inflation for November, 2016 compared to November, 2015 is minus 0.8 %. Average annual inflation for the period December, 2015 – November, 2016 compared to the period December, 2014 – November, 2015 is minus 1.4 %.

The consumer price index for December, 2016 compared to November, 2016 was 100.6 %, i.e. monthly inflation is 0.6 %. Annual inflation for December, 2016 compared to December, 2015 is 0.1 %. Average annual inflation for the period January – December, 2016 compared to the period January – December, 2015 is minus 0.8 %.

The harmonized consumer price index for December, 2016 compared to November, 2016 was 100.8 %, i.e. monthly inflation is 0.8 %. Annual inflation for December, 2016 compared to December, 2015 is minus 0.5 %. Average annual inflation for the period January – December, 2016 compared to the period January – December, 2015 is minus 1.3 %.

The different range of CPI and HCPI and therefore the different structure of consumption are responsible for the different values of the two indices.

According to the updated Autumn forecast of the Ministry of Finance, published on 06.12.2016, the 2016 annual inflation rate remained negative, taking into account some acceleration in the first half of the year mainly through the decline in prices of food and energy products and the cheaper communication services. In the summer months, however, deflation in the country declined significantly and remained at the level of 1.1 % on annual basis in the period July - September.

The current dynamics of the indicator and the expectations on the international commodity prices give grounds to the Ministry of Finance to expect that negative inflation in the country will continue slowing down, reaching -0.2 % at the end of 2016. The overall HCPI on average for the year is expected to report a decrease by 1.2 % in view of the high deflation in the period April – May, 2016.

Accumulated inflation at the end of 2017 will accelerate to 1.2 % and a negative contribution is expected only along the line of the continuing price decrease of consumer goods of lasting nature, even so at a slower rate. The other main components of the HCIP will rise in case of admitting higher

international oil and non-energy raw materials prices and increase in domestic demand. The average annual increase of HCPI in 2017 is expected to be 1.1 % and in the period 2018 – 2019 inflation will accelerate up to 1.5 – 1.7 %.

**Inflation for the period 01.01.2016 – 31.12.2016 is as follows:**

Month	% of inflation
January 2016	0.00 %
February 2016	- 0.3 %
March 2016	-0.7 %
April 2016	0.00 %
May 2016	0.00 %
June 2016	-0.1 %
July, 2016	1.00 %
August, 2016	0.00 %
September, 2016	-0.5 %
October, 2016	0.2 %
November, 2016	0.00 %
December, 2016	0.6 %

\*Source: NSI

According to the Eurostat's flash estimate, annual inflation in the euro area measured by HICP rises up to 0.6 % in November, 2016 compared to 0.5 % in October and 0.4 % in September, largely reflecting the increase in annual inflation in energy sources, though still there are no signs of pronounced upward core inflation trend.

In the future, based on current oil futures prices it is likely for the overall inflation to increase significantly in December, 2016 – January, 2017, to a level above 1 %, mainly due to the base effects in the annual change of energy sources prices.

The macroeconomic forecasts for the euro area of the ECB's experts as of December 2016 foresee annual HICP inflation of 0.2 % in 2016, 1.3 % in 2017 and 1.5 % in 2018 and 1.7 % in 2019. The HICP inflation forecast is basically unchanged compared to the macroeconomic forecasts of the ECB's experts of September, 2016.

## **POLITICAL RISK**

Political risk is the likelihood of a governmental change or a sudden shift in its policy, occurrence of external or internal political disturbances and unfavorable changes in the European and/or national legislation, as a result of which the environment where local businesses operate to change adversely and investors - to suffer losses.

At national level, on November 14, 2016 Prime Minister Boyko Borisov submitted to the National Assembly the resignation of the government. After voting the resignation at the parliament on November 16, 2016, after the three unsuccessful attempts to form a new government within the current parliament and the refusal of the President to appoint a caretaker government, political risk for Bulgaria is associated with the possibility for internal destabilization of the country within the period of organizing and holding early parliamentary elections.

Political risks for Bulgaria in the international aspect are associated with the commitments for implementation of significant structural reforms in the country in its capacity of a full-right EU member, enhancing social stability, reducing inefficient expenses, on one hand, and the strong destabilization of the Middle East countries, more frequent threats of terrorist attacks in Europe, waves of refugees and instability in key countries close to Bulgaria.

The main conclusion in the report on Bulgaria of the Economist Intelligence Unit (EIU) is that despite the fiscal improvements during the period January-August after the consolidation progress in 2015 there are some risks to the budget of Bulgaria in 2016-17, resulting from problems in the energy sector. The reason, despite the deficit reduction in the sector as a result of the 2015 reforms, is the fact that in June the international court of arbitration decided that NEC will have to pay EUR 550 mln. to the Russian "Atomstroyexport" as a result of Bulgaria's decision to abandon the project for NPP "Belene".

Although the compensation is only half of what Russia wants, it represents a significant amount for NEC which is in a difficult financial position and probably financing with public funds will be necessary. The main forecast of the Economist Intelligence Unit (EIU) is that fiscal consolidation will continue exceeding the government targets in the medium term.

Bulgaria together with the other countries – EU members from the region continue being seriously affected by the common European problem with the intensive refugee flow from the Middle East.

After the European Council meeting in Bratislava on 16.09.2016, the President of the European Commission Jean-Claude Juncker announced that the European Union will provide EUR 160 mln. to Bulgaria for border management and tackling the migration crisis. The financial support for the country is expected to be disbursed in two tranches. The European Council decided EUR108 mln. to be granted initially for the needs of Bulgaria, as the purpose is that amount to reach EUR160 mln. what the request of the Bulgarian Prime Minister was.

Other factors that also influence this risk are possible legislative changes and in particular those concerning the economic and investment climate in the country.

## **CURRENCY RISK**

Exposure to currency risk is the dependence on and the effects from changes in the currency exchange rates. Systematic currency risk is the likelihood of any possible change of the currency regime in the country (currency board) which would either lead to devaluation of the BGN or the appreciation of the BGN against foreign currencies.

Currency risk will have impact over companies having market shares, payments to which are made in currencies different from the Bulgarian lev and the euro. In view of the fact that according to the current legislation in the country the Bulgarian lev is pegged to the euro at the rate of EUR 1 = BGN 1.95583 and the Bulgarian National Bank is obliged to maintain a level of Bulgarian lev in circulation equivalent to the foreign exchange reserves of the Bank, the risk of devaluation of the lev against the European currency is minimal and consists in a possible elimination of the currency board in Bulgaria ahead of term. At this stage it appears to be unlikely since the Currency Board is expected to be repealed upon adoption of the euro as an official legal tender in Bulgaria.

Theoretically, currency risk could increase when Bulgaria joins the second phase of the European Exchange Rate Mechanism (ERM II). This is a regime under which the country must maintain the currency rate against the euro within a  $\pm 15\%$  from central parity. In practice, all countries which are currently in the mechanism (Denmark, Estonia, Cyprus, Lithuania, Latvia, Malta) have witnessed fluctuations that were significantly smaller than the allowed  $\pm 15\%$ .

The fixed rate of the BGN to the EUR does not eliminate the risk for the Bulgarian currency of adverse movements in the euro exchange rate against other major currencies (U.S. dollar, British pound, Swiss franc) in the international financial markets, but at present the company does not consider that this risk would be significant in terms of its activity. The company might be affected by the currency risk, depending on the type of currency of its cash and the type of currency of the company's contingent loans.

## **LIQUIDITY RISK**

The appearance of liquidity risk with regard to the company is being associated with the possible lack of timely and/or sufficient cash to meet all current liabilities. This risk may occur, either in case of significant delays in payments from debtors of the company, or in case of insufficiently effective management of the company's cash flows.

## **UNSYSTEMATIC**

### **SECTOR RISK**

As a result of the impact of the economic crisis the advertising and printing industry in Bulgaria faced serious problems - decreased demand, increased share of lower quality but, at the same time, cheaper printed materials and services, and even outflow of clients. Most sectors of the economy, that suffer the effects of the economic crisis most essentially, reduced their advertising costs, which also had

an impact on the activity of a number of graphic and advertising studios and printing houses, respectively.

BILLBOARD AD is dependent mostly on the general trends in the field of printing, marketing and advertising. Since the amount of investments in marketing depends on the amount and allocation in time of the cash flows of the client itself and the overall situation of the sector where the advertiser operates, BILLBOARD AD is directly dependent on the cyclicity of the economy. Slowdown of the Bulgarian economy growth and reducing the cost of advertising and printing, respectively, may have a major negative impact on the company's revenues and profit.

This risk is somewhat compensated by the extensive production capabilities and know-how that would allow BILLBOARD AD quickly redirect to new demand of products and services in the event of change in the demands' structure.

Advantage to the company is also the new and modern technological equipment which give BILLBOARD AD the opportunity to realize production of very high quality. In practice, in this respect, the range of competitors of BILLBOARD AD on the territory of the country that have the technical and technological capacity to produce printed products of such quality, is very limited. Further advantages are the finally entered into service high tech printing line in Varna, which is expected to expand the market presence of BILLBOARD AD and the companies in the group both outside the territory of Bulgaria and on the local market, and the serious increase of the metro advertising volume as a result of the final completion and put into operation of the first diameter of the Sofia Underground.

#### **RISK OF INTRODUCTION OF NEW TECHNOLOGIES**

BILLBOARD AD is in a permanent process of investing in new equipment, which ensures that the production is in line with the technological processes development trends. Practice has shown that more substantial changes in the technologies used in the sector does not occur in less than 5 years as older technologies are not fully replaced by the new ones. This enables gradual integration of new technologies when such technologies appear.

Regarding the risk of introduction of other, already existing, but not applied in Bulgaria, printing technologies, such as rotogravure, it should be noted that in order for such technologies to become cost-effective it is required much larger volumes of the single orders, which determines the different application field of these technologies, and the fact that they are not particularly competitive in the segments where the company operates.

#### **4. INFORMATION ABOUT THE CONCLUDED LARGE TRANSACTIONS WITH RELATED PARTIES DURING THE FOURTH QUARTER OF 2016**

During the period under review BILLBOARD AD and the companies in the Group have not concluded large transactions with related parties out of the economic group.

28.02.2017  
Sofia

For BILLBOARD AD:.....  
Stefan Genchev  
/Executive Director/