

# **BULGARIAN ROSE PLC - KARLOVO**

## **ACTIVITY REPORT** **towards 31.03.2016**

**I. Information for important events that occurred during the quarter and with accumulation from the beginning of the financial year to the end of the 1<sup>st</sup> quarter and their impact on the results in the financial statements.**

On 09.02.2016, a contract was signed for grants under the procedure BG16RFOP002 - 2.001 "Improving production capacity in SMEs" of OPIC. The grant is in the amount of 724 644 BGN or 60% of the total project budget, which is 1212740 BGN.

On 1st and 2nd March, 2016 was held a control audit of the company by SGS Bulgaria Ltd., in accordance with the requirements of ISO 9001: 2008 and the first control audit in accordance with the requirements of ISO 22716: 2007 (GMP).

**II. Description of the main risks and uncertainties facing the issuer during the rest part of the financial year.**

Risk expresses uncertainty/insecurity/ of an event. "Risk" is associated with the return of capital. The deviations of actual results compared to planned baseline score can be calculated and by them to measure the risk. Risk related with the activity of a particular economic entity is a result of superposition of two separate types of risks: systematic and unsystematic.

### Systematic risk

This type of risk includes: political risk, risk of exchange rate change, risk of changes in interest rates, risk of inflation, tax risk, risk of changing the economic environment.

### *Political risk*

This risk is related to the possibility of domestic political turmoil and adverse changes in the economic environment in which business operates. Guarantee for political and economic stability is the introduction of the currency board in Bulgaria.

### *Foreign exchange risk*

This risk is determined by the possibility of early failure of the currency board, which would follow any devaluation of BGN against foreign currencies. According to the current legislation in the country with effect from 01.01.1999 BGN is fixed to the common European currency – Euro at 1.95583 BGN per euro. It follows that the risk of devaluation of BGN against European currency is minimal, but there is a risk of adverse changes in the exchange rate of Euro against other major currencies like U.S. dollar. The activity of Bulgarian Rose Plc is exposed to this type of risk as much of the company's production is exported abroad. The fluctuations in exchange rates are reflected, albeit slightly, as the company carries out the large part of its payments (purchases and sales) BGN or euro.

### *Interest rate risk*

Interest rate risk relates to the possibility that adverse changes in interest rates set by financial institutions in Bulgaria. This risk has little impact on the activities of Bulgarian Rose Plc, as the company has no long-term financial liabilities to financial institutions.

#### *Inflation risk*

Inflation may directly affect the real return on a given investment because in high inflation even higher nominal incomes might be with negative returns. The currency board minimizes the risk of higher inflation, which in turn minimizes the impact of this risk to the company activity.

#### *Tax risk*

Changes in fiscal policy have impact on the value of assets of the issuer, the amount of financial results and the choice of strategy for development of the company.

#### Unsystematic risk

Unsystematic risk represents the part of the overall investment risk and can be divided into two groups: industry risk, concerning the uncertainty in development of the industry in general, and the overall business risk arising from the specifics of the particular company.

#### *Industry (sector) risk*

Taking into account the scope of activity of Bulgarian Rose Plc, the industry risk on one hand is connected with the development of the cosmetic industry and on the other hand with the presence of raw materials for the production of natural aromatic products. The industry-specific risk for the cosmetic industry arises from the impact of scientific developments in terms of active ingredients that meet the ever increasing demands of consumers; new technologies; management skills; strong competition in domestic and foreign markets.

#### *Business risk*

This type of risk is associated with changes in market conditions. It includes: risk of obtaining of revenues; risk of obtaining profit; credit risk; liquidity risk and capital risk.

#### *Risk of obtaining revenues*

Given that the major revenue source for Bulgarian Rose Plc Karlovo is production and sale of essential oils and concretes, the main risks factors for the company could be world market prices, internal competition, availability of raw materials and modification of their prices. Availability of raw materials and their prices are directly related to the specific climatic conditions during the campaign.

#### *Risk of obtaining profit*

Market risk is manifested in the rapid decline of the sales revenues, compared with the rate of the cost reduction.

#### *Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other, if they do not comply with its contractual obligation.

The main financial assets of the Company are commercial and credit receivables.

The Company has no significant concentration of credit risk. Its policy is that the deferred payments are only available to customers who have a long history of business relations with the company, and violations of the credit conditions. For the rest of customers sales are made on an advance payment (100% or 50% at placing an order and 50% before shipment).

The risk from not fulfillment of contractual relationships with contractors of the company is monitored, measured and effectively controlled in order to minimize that risk the Company requires collaterals.

#### *Liquidity risk*

The cautious management of liquidity risk means keeping up sufficient cash as well as opportunities for flexibility in funding because it has a good credit reputation.

#### *Capital risk*

Actions in the management of capital risk are directed towards ensuring sustainable development and stability in operations and sales of the company, to ensure return on equity for shareholders and maintain an optimal capital structure.

The management and control of the risk for the company is carried out periodically by the Board of Directors, through an internal control, analysis and preventive actions.

### **III. Information for any significant deals between related parties**

1. There are no transactions between related parties concluded during the reporting period of the current financial year which significantly affect the financial position or results of operations of the company during this period.

2. There are no transactions with related parties disclosed in the annual report for 2014 that have a significant impact on the financial condition or results of operations of the company during the reporting period of the current financial year.

### **IV. Additional information**

#### **a) Information regarding changes in accounting policy during the reporting period, the reasons for them and how they affect the financial results and equity of the issuer**

Bulgarian Rose Plc applies International Financial Reporting Standards. Quarterly financial statements are prepared in accordance with International Financial Reporting Standards issued or revised by the International Accounting Standards Committee (IASC), and by the International Accounting Standards Board (IASB).

The company has not changed the accounting policy during the reporting period.

The interim financial report has not been certified by a registered auditor. More information about the entity's accounting policy is contained in the Explanatory Notes on the quarterly financial statement.

#### **b) Information about changes in the economic group of issuer**

The company is not a part of an economic group.

#### **c) Information on results of organizational changes within the issuer, such as conversion, sale of companies from the group, in-kind contributions from companies, rental property, long-term investments, withdrawal of business**

During the reporting quarter any organizational changes have not been performed within the issuer.

#### **d) An opinion of the Board of Directors regarding possibilities for realization of published forecasts for the results of the current financial year, taking into account the results of the current quarter as well as information on the factors and circumstances which will affect the achievement of the forecast result at least for the next quarter**

In its activities for the first quarter of 2016 Bulgarian Rose Plc reports the following results comparable to the same period in 2015:

	<b>1<sup>st</sup> quarter 2016</b>	<b>1<sup>st</sup> quarter 2015</b>
	thousand BGN	thousand BGN
Revenues	926	1027
- Including from sales	906	1003
Expenditures	994	977
Accounting profit/loss	-68	50
<b>Net profit/loss</b>	<b>-68</b>	<b>50</b>

Revenues from sales during the first quarter of 2016 were 906 thousand BGN, including 258 thousand BGN from export of products - 28,48% of the total revenues. For the same period of 2015 the share of exports had been 31,11% or 312 thousand BGN revenues from sales of products. As of 31.03.2016 the Company realized loss in the amount of 68 thousand BGN. The planned net profit since early year to 31.03.2016 was 14 thousand BGN. Failure to comply is due to the reduced sales volumes.

**e) Data of persons who own directly or indirectly at least 5% of the votes in the general meeting of shareholders at the end of the reporting quarter, and changes to votes held by persons between the end of the previous three months**

Data of shareholders legal entities owning more than 5% of equity

SHAREHOLDER	Number of shares		% of votes
	31.12.2015	31.03.2016	
STARA PLANINA HOLD PLC	2 675 460	2 675 460	49,99%
GARANT – 5 Ltd.	1 762 625	1 762 625	32,94%

There are no physical persons possessing more than 5% of equity.

**f) Data of shares owned by members of the Board of Directors at the end of the reporting quarter, and changes since the end of the preceding quarter**

SHAREHOLDER	Number of shares		% of votes
	31.12.2015	31.03.2016	
STARA PLANINA HOLD PLC	2 675 460	2 675 460	49,99%
LEASING COMPANY AD	40 000	40 000	0,75%

The rest members of the Board of Directors do not possess shares.

**g) Information about pending legal, administrative or arbitration proceedings relating to liabilities or receivables amounting to at least 10% of the equity of the issuer; if the total amount of liabilities or receivables amounting to at least 10% of the equity of the issuer in all proceedings exceed 10% by its equity, information shall be provided for each procedure separately**

Bulgarian Rose Plc has no pending legal, administrative or arbitration proceedings as well as decisions or claims for suspension or declaring liquidation.

**h) Information for granted by the issuer or its subsidiary loans, providing of guarantees or commitments to a single person or its subsidiary, including related parties specifying the character of the relationship between the issuer and the person, the amount of unpaid principal, interest rate, final payment period, size of commitment, time and conditions.**

Bulgarian Rose Plc has no loans granted, providing of guarantees or commitments.

The interim financial statement of Bulgarian Rose Plc for the 1st quarter of 2016 has not been certified by an auditor.

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This report has been prepared in accordance with Art. 100n, para. 4, item 2 by the POSA.

Executive Director: Spas Videv