

Annual Consolidated Management Report
Independent Auditor's Report
Consolidated Financial Statements

Web Finance Holding AD

31 December 2017



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Annual Consolidated Management Report

1. General information

1.1. General information for the Parent company

“Web Finance Holding” AD is a joint-stock company registered in the Bulgarian Trade Register under company code number 103765841. The Group’s registered office, which is also its principal place of business, is Sofia, Vuzrajane Municipality, 141, Todor Alexandrov Blvd, fl. 9.

The Group has one-tier management system - Board of Directors:

Boyan Trifonov Minkov – Chairman of the Board of Directors
Dimitar Iliev Zhilev – Vice chairman of the Board of Directors
Kalin Mitkov Mitev – CEO

The Group is represented by Kalin Mitkov Mitev and Dimitar Iliev Zhilev.

The principal activities of “Web Finance Holding” AD and its subsidiaries include management of companies in a group – a holding, consisting of companies operating in the financial sector and the field of acquisition, management and sale of real estate.

The Group’s principal activities also include:

- Consultation and management of debt portfolios, collection of receivables;
- Management of investments in subsidiaries and associates;
- Operation as a private equity firm;
- Management of financial assets and trade with financial instruments on the Bulgarian stock exchange (BSE) and over-the-counter market in Bulgaria;
- Acquisition, management and sale of real estate.

The principal activities of the subsidiaries of “Web Finance Holding” AD include:

- Life insurance;
- General insurance;
- Insurance and pension intermediation;
- Management of contractual funds;
- Sale and purchase of real estate;
- Rental of real estate;
- Hotel services;
- Construction;
- Operation of on-line financial media;
- Finance lease.
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As of 31.12.2016 the Group consists of the following companies:

Name of subsidiary	Main activity	31 December 2017
„Concord Asset Management” AD	Management company	99,99%
„Saglasie Ins Broker” EOOD	Insurance and reinsurance intermediation	100%
„Efco Group” AD	Insurance and reinsurance intermediation	67%
„Efco Ins” EOOD	Insurance and reinsurance intermediation	100% through „Efco Group” AD
„Efco Pension” EOOD	Financial services, brokerage and consultancy in the insurance process	100% through „Efco Group” AD
„Control and Engineering” AD	Construction	100% /Direct participation of 95% and 5% through SBI EAD .
„Infostock” AD	Specialized financial-information media	66,67%
„Hotel Cosmos” EOOD	Hotels and restaurants	100% through Control and engineering AD
„Tao Building” EOOD	Construction and rental of office and administrative buildings	100%
„Simeonovo Project Estate” EOOD	Sale and disposal of real estate	100%
„Bansko Investments” EOOD	Sale and disposal of real estate	100%
„BM Leasing” EAD	Finance lease	100%

“Concord Asset Management” AD is a management company and has been authorized by the Financial Supervision Commission to operate as a Management Company № 389-UD as of 15 June 2005 for the following activities: management of collective investment schemes and investment companies of closed type; management of an individual portfolio in accordance with a contract concluded with a client, including portfolios of institutional investors, consisting of financial instruments, at its own discretion, without specific client orders; providing investment advice on financial instruments. As of 31 December 2017, the Company manages the following collective investment schemes – the contractual funds Concorde Fund-1 Shares and Bonds

(former BenchMark Fund-1 Shares and Bonds), Concorde Fund-3 Real Estate Sector (former BenchMark Fund-3 Real estate sector (formerly BenchMark Fund-4), Concorde Fund-5 Central and Eastern Europe (former BenchMark Fund-5 Central and Eastern Europe), Concord Fund-6 Monetary Fund (former BenchMark Fund-6 Monetary Fund, Standard Investment High Yield Fund, Standard Investment Balancing Fund, Standard Investment International Fund and Standard Investment Conservative Fund (in liquidation), open-ended investment company Concorde Fund-2 Shares AD (former BenchMark Fund-2 Shares), as well as providing services for the management of individual investment portfolios, including institutional investors.

“Saglasie Ins Broker” EOOD’s principal activities include insurance intermediation on assignment by a consumer of insurance services and insurance intermediation on assignment by an insurer, insurance company or reinsurer, as well as other non-forbidden commercial activities. The company “Saglasie Ins Broker” EOOD holds a certificate № 306-3B / 29.07.2011 for registration pursuant to Article 160, paragraph 1 of the Insurance Code and is entered in the public register under Article 30, paragraph 1, item 9 of the Law of the Financial Supervision Commission.

“Efco Group” AD is a company registered in 2008 with principal activity insurance intermediation.

“Efco Pension” EOOD is a company registered in 2006 with principal activity financial services, brokerage and consulting services in the insurance process.

“Efco Ins” EOOD is a company registered in 2006 with principal activity insurance and reinsurance intermediation, consulting in the insurance process.

“Control and Engineering” EAD’s principal activities include hotel, tourist, advertising, information, programming and impresario services; design, purchase, construction, furnishing and management of real estate for sale; as well as any other activity within the meaning of Art. 1 of the Commercial Act, which is not prohibited by law.

“Infostok” AD is a specialized information media, which maintains the specialized financial and information internet site infostock.bg. Being a BSE-Sofia vendor for market information, the site offers comprehensive real-time trading sessions for all traded issues such as quotations, deals, volume, price history, and so on. Infostock.bg is the only site offering detailed financial reports and financial ratios for all issuers. The site offers up-to-date economic and financial information about Bulgaria, as well as the most important day-to-day accents from world financial markets, exchange rates, interest rates, and other.

“Hotel Cosmos” EOOD’s principal activity include hotel and restaurant services. The main asset that the company manages and exploits is Cosmos Hotel, located in the city

of Burgas. At present, 100% of the company's shares are owned by Control and Engineering EAD.

“Tao Building” EOOD is a company registered in 2001, with principal activity construction and rental of office and administrative buildings. The main asset the company manages and exploits is the Tao building, located in Sofia, Todor Alexandrov Blvd.

“Simeonovo Project Estate” EOOD is a company registered in 2006, with principal activity trading with and management of real estate.

“Bansko Investments” EOOD is a company registered on 22 June 2016 through contribution of property owned by “Web Finance Holding” AD, located in Bansko. The principal activities of the company include trading with and management of real estate.

“BM Leasing” EAD is a company registered in 2003 with principal activity financial leasing of transport equipment, specialized equipment, production equipment and properties.

The subsidiaries listed in the table below are those that the Group intends to sell in the short term:

Name of subsidiary / associate	Country of incorporation	Participation in %
“Strategia Asset Management” AD	Bulgaria	91%
“BTM Consult” EAD	Bulgaria	100%
LIC “Saglasie” EAD	Bulgaria	90%

LIC “Saglasie” EAD’s principal activity is life insurance. By decision №1211-ZZH from 20 December 2006 of the Financial Supervision Commission, the Company is licensed to perform insurance activities on the territory of the Republic of Bulgaria for the following types of insurance: life insurance and rent; life insurance linked to an investment fund; and “Additional Insurance”.

“Strategia Asset Management” AD is a management company and has been authorized to operate as a management company N2 518-UD from 26.07.2006 under license No 20 - UD / 26.07.2006 issued by the Financial Supervision Commission, for the following activities: management of the activity of collective investment schemes and of closed-end investment companies; management, in accordance with a contract concluded with the client, of an individual portfolio, including one of an institutional investor, including financial instruments, at his own discretion, without specific client orders; providing investment advice on financial instruments. As of 31 December 2015,

the Company organizes and manages the following open-end collective investment schemes: "Saglasie Profit" contractual fund - Decision N2 1144-DF dated 29.11.2006 of the FSC; contractual fund "Saglasie prestige" - Resolution 1145-DF from 29.11.2006. of the FSC.

"BTM Consult" EOOD is a company registered in Bulgarian Trade register on 26.03.2010. As of 15.04.2014 it was acquired by "WebFinance Holding" AD. The registered office is in Bansko. The principal activity of the company includes commercial representation and brokerage.

2. Overview of the Group's development and results

As at 31 December 2017 the consolidated result of the Group's operations is a profit at the amount of BGN 5 170 thousand. The assets of the Group amount to BGN 213 781 thousand.

3. Analysis of financial and non-financial key performance indicators

Indicators based on the information presented in the consolidated statement of financial position and the consolidated statement of profit or loss:

- Return on equity ratio – 0.089
- Return on liabilities ratio – 0.03
- Capitalization ratio - 0.024
- Liquidity ratio – 1.83
- Quick ratio - 0.032

The indicators presented above are based on the following data:

Consolidated statement of financial position

	Note	31 December 2017 BGN '000	31 December 2016 BGN '000	1 January 2016 BGN '000
Assets				
Non-current assets				
Goodwill		659	659	659
Intangible assets		825	880	1 230
Property, plant and equipment		22 733	22 645	22 658
Investment property		26 904	23 958	16 533
Long-term financial assets		40 674	36 240	38 398
Other long-term receivables		1 469	1 469	1 469
Deferred tax assets		83	131	16
		93 347	85 982	80 963

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Current assets

Short-term financial assets	45 839	69 423	66 998
Short-term related party receivables	4 069	11 562	7 559
Inventories	5 926	8 037	4 306
Trade and other receivables	5 615	3 510	7 725
Income tax receivables	-	3	9
Cash and cash equivalents	2 114	5 686	4 641
Non-current assets classified as held for sale	56 871	31 320	546
	120 434	129 541	91 784
Total assets	213 781	215 523	172 747

	Note	31 December 2017 BGN '000	31 December 2016 BGN '000	1 January 2016 BGN '000
Equity and liabilities				
Equity				
Share capital		7 633	7 633	7 633
Reserves		361	361	361
Revaluation reserves		6 526	5 208	1 925
Retained earnings		36 558	22 536	9 184
Current financial result		5 170	13 429	20 112
Equity attributable to the owners of the parent		56 248	49 167	39 215
Non-controlling interest		1 578	1 346	313
Total equity		57 826	50 513	39 528
Specialized reserves				4 294
Liabilities				
Non-current liabilities				
Long-term financial obligations		79 759	81 524	73 088
Trade and other payables		7 874	9 762	15 907
Pension and other employee obligations		25	28	19
Other long-term liabilities		-	96	-
Deferred tax liabilities		2 373	2 147	473
		90 031	93 557	89 487
Current liabilities				
Short-term financial obligations		17 524	14 558	28 070
Trade and other payables		16 307	37 732	264
Pension and other employee obligations		347	363	10 917
Income tax liabilities		264	61	151
Liabilities included in disposal group held for sale		31 482	18 739	36
		65 924	71 453	39 438
Total liabilities		155 955	165 010	128 925
Total equity and liabilities		213 781	215 523	172 747

Consolidated statement of profit or loss for the year ended 31 December

	Note	2017 BGN '000	2016 BGN '000
Gain on sale of financial assets		1 845	10 122
Loss on sale of financial instruments		(326)	(1 510)
		1 519	8 612
Gain from business combinations		238	2 758
Loss on sale of non-current assets		-	(91)
		238	2 667
Interest income		3 297	2 014
Interest expenses		(6 253)	(6 032)
		(2 956)	(4 018)
Other financial income		700	817
(Loss)/Profit from financial activities		(499)	8 078
Revenues from non-financial activity		8 526	4 660
Change in fair value of investment property		3 007	7 663
Depreciation, amortization and impairment of non-financial assets		(261)	(1 064)
Non-financial expenses		(5 680)	(4 886)
Profit before tax		5 093	14 451
Income tax expense		(549)	(1 309)
Profit for the year from continuing operations		4 544	13 142
Profit for the year from discontinued operations		619	334
Profit for the year		5 163	13 476
Profit for the year attributable to:			
Non-controlling interest		(7)	47
Owners of the parent		5 170	13 429
Earnings per share		лв.	лв.
Earnings from continuing operations		59.53	172.17
Earnings from discontinued operations		8.11	4.38
Total		67.64	176.54

Consolidated statement of comprehensive income for the year ended 31 December

	Note	2017 BGN '000	2016 BGN '000
Profit for the year		5 163	13 476
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of assets available for sale		1 346	4 084
Income tax relating to items that will be reclassified	Error! Reference source not found.	(134)	(408)
Other comprehensive income for the year, net of tax		1 212	3 676
Total comprehensive income for the year		6 375	17 152
Total comprehensive income for the year attributable to:			
Non-controlling interest		(7)	47
Owners of the parent		6 382	17 105
		6 375	17 152

4. Major risks faced by the Group

Risk management objectives and policies

The Group is exposed to various types of risks in relation to financial instruments. The most significant financial risks to which the Group is exposed are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated at its head-quarters, in close co-operation with the Board of Directors and focuses on actively securing the Groups short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

As a result of the use of financial instruments, the Group is exposed to market risk and in particular to the risk of exchange rate changes, interest rate risk as well as the risk of changes in specific prices due to the Group's operating and investing activities.

4.1. Market risk analysis

The Group is exposed to market risk through its use of financial instruments and specifically to the risk of exchange rate changes, interest rate risk and certain other price risks due to the Group's operating and investing activities.

4.1.1. Foreign currency risk

Most of the Group's transactions are carried out in Bulgarian leva (BGN). Exposures to currency exchange rates arise from the Group's overseas sales and purchases, which are primarily denominated in US-Dollars and Euro.

To mitigate the Group's exposure to foreign currency risk, non-BGN cash flows are monitored. Generally, Group's risk management procedures distinguish short-term foreign currency cash flows (due within 6 months) from longer-term cash flows. Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no further hedging activity is undertaken.

4.1.2. Interest rate risk

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. Longer-term borrowings are therefore usually at fixed rates. As at 31 December 2017, the Group is exposed to changes in market interest rates. The Group's investments in bonds all pay fixed interest rates.

4.2. Credit risk analysis

Credit risk is the risk that a counterparty fails to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments, for example by granting loans and receivables to customers, placing deposits, investment in bonds etc. The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized at the reporting date.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. The Group's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good credit quality.

The management of the Group considers that all of the financial assets mentioned above, which have not been impaired or matured during the reporting periods presented, are financial assets with a good credit quality.

None of the Group's financial assets are secured by collateral or other credit enhancements in regard to other transactions.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to a single counterparty or any group of counterparties having

similar characteristics. Trade receivables consist of a large number of customers in various industries and geographic areas. Based on historical information about customer default rates management consider the credit quality of trade receivables that are not past due or impaired to be good.

The credit risk for cash and cash equivalents, money market funds, debentures and derivate financial instruments is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

4.3. Liquidity risk analysis

Liquidity risk is the risk arising from the Group not being able to meet its obligations. The Group manages its liquidity needs by monitoring scheduled debt servicing payments for long-term financial liabilities as well as forecast cash inflows and outflows due in day-to-day business. Liquidity needs are monitored in various time bands – quarterly. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly. Net cash requirements are compared to available borrowing facilities in order to determine headroom or any shortfalls. This analysis shows that available borrowing facilities are expected to be sufficient over the lookout period.

The Group maintains cash and marketable securities to meet its liquidity requirements for 30-day periods at a minimum. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As at 31 December 2017 maturities of the Group's obligations, including interest payments, can be summarized as follows:

	Current	Non-current
	6 to 12 months	1 to 5 years
31 December 2017	BGN '000	BGN '000
Borrowings	17 524	79 759
Trade and other payables	11 880	7 874
Total	29 404	87 633

	Current	Non-current
	6 to 12 months	1 to 5 years
31 December 2016	BGN '000	BGN '000
Borrowings	14 558	81 524
Trade and other payables	33 288	9 762
Total	47 846	91 286

The above amounts reflect the contractual undiscounted cash flows, which may differ from the carrying values of the liabilities at the reporting date.

5. Capital management policies and procedures

	2017 BGN '000	2016 BGN '000
Equity	57 826	50 513
Debt	155 955	165 010
- Cash and cash equivalents	(2 114)	(5 686)
Net debt	153 841	159 324
Equity to net debt ratio	1:2.66	1:3.15

6. Events after the reporting period

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization.

7. Current trends and probable future development of the Group

The core objective of Group management is achieving economic results at levels that protect shareholders' interests by ensuring maximum return at acceptable levels of risk.

Recognizing the essential importance and role of employees and senior management in the Group's activities, particular attention is paid to the implementation of systems and programs that aim to upgrade the qualification and professional skills of the employees of the Group. Establishment of a system for internal communication and motivation of the Group's personnel corresponds to the strategic goals of the Group.

Active participation in the management of subsidiaries to achieve higher economic efficiency through the introduction of new technologies, improvement of the organizational structure of the companies, better work organization and improvement of the qualification and professional skills of the human factor is a priority for the Management

Given the financial-economic situation in the country and the foreign markets and economies, particular attention is paid to the development and implementation of programs for the financing of investment projects and for the repayment of the obligations under the existing bond issue and the trade obligations.

The Group owns significant real estate, acquired as a result of collecting receivables or through investment purchase, as well as through acquired companies operating in the sector. As part of the future measures to increase the value of the companies in the Group and the profitability for the shareholders are the more efficient exploitation of the real estate, including disposal of some real estate not generating enough cash flows and looking for more attractive properties with better rental conditions.

8. Research and development

Currently, the Group does not carry out its own research activities, nor performs transfer of innovation.

9. Information required by Art. 187e and Art.247 of the Commerce Act

9.1. Share capital

The registered capital of "Web Finance Holding" AD consists of 76 332 ordinary shares with a nominal value of BGN 100 per share. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of the "Web Finance Holding" AD.

9.2. Repurchase

As of 31 December 2017, the Group has not repurchased own shares.

9.3. Possession of own shares

The companies in the Group do not own shares of the parent company.

9.4. Management remuneration

Remuneration and additional bonuses of Management are disclosed in Note 33.1 of the Consolidated financial statements.

The remuneration paid to Management is as follows:

From Web Finance Holding AD

Name	Remuneration, BGN
Dimitar Iliev Zhilev	60 000
Kalin Mitkov Mitev	60 000
Boyan Trifonov Mitkov	60 000

From subsidiaries

Name	Remuneration, BGN
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Dimitar Iliev Zhilev	12 000
Kalin Mitkov Mitev	12 000
Boyan Trifonov Mitkov	12 000

9.5. Shares of the Group owned by members of the Board of Directors

As at 31 December 2017, the members of the Board of Directors do not own shares of the Group's share capital.

10. Participation in commercial companies of the members of the Board of Directors

Name	Participation in the management and supervisory bodies of other companies	Participation with more than 25% of the capital of another company	Companies in which the person exercises control
Boyan Trifonov Minkov	BM Leasing EAD	-	-
Kalin Mitkov Mitev	BTM Consult EOOD Prima Him EOOD Simeonovo Project Estate EOOD Tao Building EOOD Central Vacuum Systems OOD BM Leasing EAD Bansko Investments EOOD	Central Vacuum systems OOD	-
Dimitar Iliev Zhilev	Concord Asset Management AD Texim Bank AD Infostock AD Simeonovo Project Estate EOOD Tao Building EOOD BM Leasing EAD Bansko Investments EOOD	-	-

11. Financial instruments used by the Group

11.1. Accounting policy

The Consolidated financial statements are prepared under the principles for valuation of assets, liabilities, income and expenses, in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted by the EU. The basis for valuation are disclosed in detail in the accounting policy of the Consolidated financial statements.

It should be noted that accounting estimates and assumptions have been used in the preparation of the Consolidated financial statements. Although they are based on information provided to Management at the date of preparation of the Consolidated financial statements, the actual results may differ from the estimates and assumptions made.

11.2. Financial instruments

The main financial instruments owned by the Group are shares, bonds, government securities and ceded claims. Detailed information on the size and specificity of the Group's financial assets is presented in the Consolidated financial statements.

12. Additional information under Section VI A of Annex 10 of Ordinance No.2 of FSC

12.1. Services provided

Consultancy and management of debt portfolios, factoring, futures; Management of enterprises in liquidation as well as enterprises in liquidity crises; Consultancy and information services; Marketing and engineering; Acquisition, management, evaluation and sale of investments in bulgarian and foreign companies; Financing of companies; Acquisition, management and sale of bonds; Acquisition, evaluation and sale of patents, surrender of licenses for the use of patents to companies in which a company participates.

By 2010, a major part of the activity is concentrated in the acquisition or management of receivables and companies in bankruptcy and their subsequent collection or management. As part of this activity, various legal services are offered on representation in court and out-of-court disputes and legal and financial consultations. The established name and achievements in this field testify to the well-established team and the know-how in this specific field of law and economics. In 2010, the Group reoriented its core business of collecting receivables to structuring a financial group holding. For the period 2010 - 2017, the Group holds a number of acquisitions of shareholdings in companies operating in the financial sector.

12.2. Non-financial income

Sales revenue of the Group can be analyzed as follows:

2017	2016
BGN'000	BGN'000

Revenue from rendering of services	4 947	4 467
Revenue from sale of goods	3 487	61
Other	92	132
	8 526	4 660

12.3. Finance income

The Group's financial income can be analyzed as follows:

	2017 BGN'000	2 016 BGN'000
Gain on sale of financial assets (net)	1 845	10 122
Gain from business combinations	238	2 758
Interest income on financial assets carried at amortized cost and available-for-sale financial assets	3 297	2 014
Other	700	817
Finance income	6 080	15 711

12.4. Finance costs

The Group's financial expenses can be analyzed as follows:

	2017 BGN'000	2016 BGN'000
Loan interest	(6 253)	(6 032)
Insurance costs		-
Loss on sale of financial instruments	(326)	(1 510)
Financial costs	6 579	(7 542)

12.5. Significant transactions in 2017

Pursuant to its plan for the sale of assets classified as held for sale on May 22, 2017, "Web Finance Holding" AD entered into a preliminary agreement for the sale of the shares held by the company from the capital of "Strategia Asset Management" AD. In the fourth quarter of 2017, "Web Finance Holding" AD entered into a contract with "Super Borovets Property Fund" ADSIC for the sale of 100% of the capital of "Super Borovets Property Investment" EAD, a "servicing company" within the meaning of the Companies Act with a special investment purpose for the amount of BGN 2 394 thousand.

12.6. Events and indicators with an unusual nature for the issuer

There were no unusual transactions during the reporting period.

12.7. Off-balance sheet transactions

Part of the activities of "Web Finance Holding" AD include acquisition and collection in court and out of court of receivables. In most cases, receivables are acquired at their nominal value which is reported off-balance, and the price at which they are purchased is recorded in the balance sheet of the Company.

12.8. Use of Initial Public offering

The Group's shares are not traded on a regulated securities market and there is no initial public offering.

12.9. Ratio of the financial results achieved and the previously published financial forecasts

"Web Holding Holding" AD does not publish estimated results in its financial statements for 2017.

12.13. Analysis and evaluation of the management policy regarding financial resources

As at the date of preparation of the financial statements, management has made an assessment of the Group's ability to continue as a going concern based on available information for the foreseeable future. Following the review of the Group's operations, the Board of Directors expects that the Group has sufficient financial resources to continue its operations in the near future and continues to apply the going concern principle to the preparation of the financial statements.

12.14. Assessment of the possibilities for realization of the investment intentions

In recent years, "Web Finance Holding" AD has expanded its principal activities. Besides collecting receivables, the Group is also focusing on the structuring of a financial group - a holding, and since 2017 has increased its holdings and assets in the real estate sector as a matter of priority. For the period 2010 – 2017 "Web Finance Holding" AD has realized a number of acquisitions of shareholdings in companies operating in the financial and real estate sectors.

During the same period the Group took action to sell its investments in other companies classified as held for sale. The decisions taken to exempt certain investments and acquire new ones are part of the Group's future development perspectives and management believes that it will use the maximum experience and potential of synergies between the Group's companies to increase revenue and mitigate risk factors for the Group. To achieve these goals, Management believes that it can provide sufficient resources and achieve the goals.

12.15. Changes in the basic management principles

There are no changes in the Group's management principles.

12.16. The main features of the internal control system and risk management system used by the issuer in the process of preparing the financial statements

In order to ensure an independent and objective assessment of the financial statements, the annual audit of "Web Finance Holding" AD is carried out by an independent audit firm. All financial statements are prepared under IFRS. The current financial-accounting activities of the companies are subject to periodic control and analysis by management bodies. The Group has an established practice of periodically discussing the current financial results of the Group's operations included in its strategic investment portfolio in order to ensure the implementation of its business programs and a precise analysis of the possibilities for implementing future investment projects.

12.17. Changes in the management and supervisory bodies during the accounting year

During the reporting period there were no changes in the management and control bodies.

12.18. Remuneration of the members of the Board of Directors

The amount of the remuneration and additional bonuses are disclosed in Note 35.4 of the Group's annual financial statements.

12.19. Arrangements for changes in the relative share held by the current shareholders

During the reporting period there are no arrangements for changes in the relative share of shares of current shareholders.

12.20. Information on pending court, administrative or arbitration proceedings concerning liabilities or receivables of the issuer amounting to at least 10 per cent of its own capital

At the end of the reporting period there were no cases brought against the Group.

Due to the specific scope of activity of "Web Finance Holding" AD, which includes in court and out of court debt collection, the number of enforcement cases on which the Group is an author changes every month as a result of repayment by the debtors of cash liabilities and termination the respective enforcement case as well as the purchase of new receivables and the opening of new enforcement cases. As at 31 December 2017, the Group is a party /an author/ to enforcement of 628 enforcement cases distributed in the respective judicial areas in the country, both to state bailiffs and private bailiffs.

11. Corporate Governance declaration under Article 100n, paragraph 8 in conjunction with paragraph 7 (1) of POSA.

This Corporate Governance Statement is based on the principles and norms of good corporate governance set by the Bulgarian legislation through the provisions of the National Code of Corporate Governance, the Commercial law, the Public Offering of Securities Act (POSA), Accountancy act, Independent Financial Audit Act and other legal and regulatory acts and internationally recognized standards. The corporate governance statement is prepared in accordance with the requirements of Art. 39 of the Act of Accession and of Art. 100n of POSA.

„Web Finance Holding“ AD is a joint-stock company registered in the Bulgarian Trade Register under company code number 103765841. The Group's registered office, which is also its principal place of business, is Sofia, Vuzrajdane Municipality, 141, Todor Alexandrov Blvd, fl. 9.

The Group is a bond issuer and meets the criteria set out in paragraph 22 (a) of the Additional Provisions of the Accountancy Act as a "Public Interest Entity".

The Group has adopted a Corporate Governance Code approved by the FSC Deputy Chair, available on the Commission's website.

The management of the Group is carried out on the basis of approved Rules of Procedure of the Board of Directors, which are in compliance with the requirements of the National Corporate Governance Code and regulate the functions and duties of the Board of Directors, the procedure for election and dismissal of members of the Board of Directors, its structure and competence, the requirements to be met with the size and structure of the remuneration of the members of the Board of Directors; the procedures for avoiding and revealing conflicts of interest, the need to set up an audit committee according to the specificity of the Group.

The management of the Group applies the generally accepted principles of integrity, managerial and professional competence, in compliance with the National Corporate Governance Code and the adopted Code of Ethics, which establishes the ethical and professional conduct of corporate management, managers and employees in all aspects of their activities, as well as in their relations with shareholders of the Group and potential investors in order to prevent acts of unprofessional, bureaucratic, corruption and other illegal activities which may have a negative impact on the confidence of shareholders and all stakeholders, as well as to undermine the Group's credibility as a whole.

All employees of "Web Finance Holding" AD are aware of the norms of ethical and

professional conduct and there are no cases of non-compliance with them.

The management of the Group has a long-term strategy to increase the transparency of the work. In this connection, additional actions will be taken to increase the information on the website of Web Finance Holding AD – www.webfinanceholding.com

I. Information under Art. 100n, paragraph 8, item 1 of the Public Offering of Securities Act

The Group shall comply, as appropriate, with the National Corporate Governance Code, adopted by the National Corporate Governance Commission and approved as a Code of Corporate Governance under Art. 100n, para. 7, item 1 in relation to para. 8, item 1 of the Law on the Public Offering of Securities (POSA) by Resolution No. 461-CCC dated 30.06.2016 of the Deputy Chairperson of the Financial Supervision Commission in charge of the Investment Activity Supervision Division.

The management of the Group is carried out on the basis of approved Rules of Procedure of the Board of Directors, which are in compliance with the requirements of the National Corporate Governance Code and regulate the functions and duties of the Board of Directors, the procedure for election and dismissal of members of the Board of Directors, its structure and competence, the requirements to be met with the size and structure of the remuneration of the members of the Board of Directors; the procedures for avoiding and revealing conflicts of interest, the need to set up an audit committee in accordance with the specifics of the Group.

II. Information under Art.100n, paragraph 8, item 2 of POSA

Two of the members of the Board of Directors are not independent members, as they are also members of the management bodies of other commercial companies. Nevertheless, the structure of the Board of Directors is in line with the requirements of Art. 116a, para. 2 of the Public Offering of Securities Act.

The company strictly adheres to best practices in disclosing information, without being formulated in the form of written policies. Any change in the disclosure process is authorized by the management.

In 2017, no ethical issues arose between the members of the management, including requiring compliance with certain written procedures.

The Board of Directors currently acts as an Audit Committee. With the adoption of the new IFA, in force from 02.12.2016, the Group should elect members of the Audit Committee according to the requirements of Art. 107 of the IFA within 6 months of the

entry into force of this Act. Within the statutory timeframe, the status of the Audit Committee will be approved and its composition selected in accordance with the revised requirements.

Corporate Governance follows rules for the organization and holding of each general meeting. The GMS Invitation is prepared according to the regulatory requirements. Explicit written procedures for conducting the GMS have not been prepared, observing the order for convening and conducting the GMS regulated by the Commercial Law and the Articles of Association of the Group.

Any significant periodic and incidental information is immediately disclosed in the activity reports accompanying each interim and final individual and consolidated report of the Group as well as through the web site of "Web Finance Holding" AD. The Group has complied with the current legislation and the European regulation with direct application in the local legislation.

The annual and interim reports are prepared with the involvement and under the strict control of the management, but this is not formalized in the form of internal rules.

III. Information under Art.100n, paragraph 8, item 3 of the Public Offering of Securities Act:

The Board of Directors is responsible for the Group's internal control and risk management systems and monitors their effective functioning. These systems are designed to manage the risk of not achieving the business objectives but can not completely eliminate it. They can only provide reasonable but not complete certainty about the absence of material misstatements or errors. The Board of Directors has established a continuous process for identifying, assessing and managing the significant risks to the Group.

An internal control system is in place in the Group. It ensures the effective functioning of reporting and disclosure systems. The internal control system is also being developed and functioning in order to identify the risks accompanying the Group's activities and to support their effective management.

The Group has adopted and applies rules and procedures regulating the effective operation of reporting and disclosure systems. The rules describe in detail the different types of information created and disclosed by the Group, the processes of the internal business document flow, the responsible persons for their execution and the terms for handling and managing the information flows. The established risk management system ensures the effective implementation of internal control in the creation and management of all company documents, incl. financial statements and other regulated information that the Group is required to disclose in accordance with legal regulations.

Management is responsible for ensuring appropriate maintenance of accounting data and processes that ensure that financial information is relevant, reliable, in accordance with applicable law, and is prepared and published by the Group in a timely manner. The management of the Group reviews and approves the financial statements to ensure that the financial position and results of the Group are properly reflected. The financial information published by the Group is subject to approval by the Board of Directors.

The Group prepares and presents regular reports to:

- the Financial Supervision Commission, the Bulgarian Stock Exchange and the public in accordance with the requirements of the Public Offering of Securities Act and Ordinance No 2 of the Financial Supervision Commission on Prospectuses for Public Offering and Admission to Trading on a Regulated Market of Securities and for the Disclosure of Information of public companies and other issuers of securities;
- other bodies, institutions and individuals, in compliance with applicable regulations.

In the Group, reports and information on a monthly basis are regularly prepared and presented to the Managing Authorities for: sales volumes by products, financial turnover and others.

The financial statements of the Group are prepared in compliance with the requirements of the IFRS adopted by the EU and the provisions of the Accountancy Act.

- comprehensibility - with regard to the relevance of information in making economic decisions;
- relevance - The data provide an opportunity to evaluate past, current or future events;
- reliability - the information and data does not contain material mistakes or incompleteness
- comparability - provides comparability of information from different periods as well as information from other financial institutions in order to assess the effectiveness and financial position of the Group;
- independence - information for individual reporting periods provides a valuable link between the opening and closing balance sheets of the report.

The Annual Financial Statements as well as the Group's Annual Consolidated Financial Statements are subject to an independent financial audit and, in order to ensure transparency and opportunity to familiarize all stakeholders with the Group's results and in accordance with regulatory requirements, the audited financial statements are published in the Trade Register.

The Group prepares an annual activity report and an Annual Consolidated Activity Report that includes a management report, the Group's development and financial results, a report on the implementation of corporate development programs and the strategy. Annual activity reports are published in the Trade Register.

The Group, as an issuer of financial instruments:

- within 90 days from the end of the financial year, prepare and submit to the Financial Supervision Commission and the Bulgarian Stock Exchange an annual report;
- within 120 days from the end of the financial year, prepare and submit to the Financial Supervision Commission and the Bulgarian Stock Exchange an annual consolidated report;
- prepare and provide data on the Group's financial position and development trends, the members of the management bodies and the management structure.

The Group shall disclose information by informing on a regular basis and providing data to the Financial Supervision Commission and the Bulgarian Stock Exchange on all material circumstances and changes that may affect its activities.

The Group has also adopted a Good Corporate Governance Program and applies the rules and procedures described therein.

IV. Information under Art. Article 10 (1) (d), (e), (h) and (i) of Directive 2004/25 / EC of the European Parliament and of the Council of 21 April 2004 on takeover bids

Article 10 (1) (c)

Significant direct or indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings) within the meaning of Article 85 of Directive 2001/34 / EC;

Changes in the acquisition or sale of the Group's shares that reach, exceed or fall below one of the following 10%, 20%, 1/3, 50%, and 2/3 of the voting rights are not made in 2017 of the Group within the meaning of Article 85 of Directive 2001/34 / EC.

Article 10 (1) (d)

Holders of all securities with special rights of control and description of these rights;

The Group does not have shareholders with special control rights.

Article 10 (1) (f)

Any restrictions on voting rights such as restrictions on the voting rights of holders of a certain percentage or number of votes, voting rights or systems by which, through cooperation with the Group, the financial rights granted to the securities are segregated from the possession of the securities;

There are no restrictions on voting rights, such as restrictions on the voting rights of the holders of a certain percentage or number of votes, time limits for the exercise of voting rights.

Article 10 (1) (h)

Rules governing the appointment or replacement of members of the board and amendments to the instrument of constitution

The rules governing the appointment or change of members of the Board of Directors and amendments to the Articles of Association of the Group are set out in the Articles of Association of "Web Finance Holding" AD.

The powers of the members of the Board of Directors are governed by the Articles of Association of the Group and the rules of procedure adopted by the Board of Directors. The Board of Directors is elected by the General Meeting of Shareholders for a term of 5 years. After the expiry of their term of office, the members of the Board of Directors continue to perform their functions until the General Meeting of Shareholders elects a new Board of Directors.

The General Meeting of Shareholders takes decisions on changes in the Articles of Association, transformation and termination of the Group, increase and decrease of share capital, election and dismissal of the members of the Board of Directors, appointment and dismissal of the registered auditors of the Group, approval of the annual financial statements after issue of an audit report by the appointed registered auditors, decisions on the distribution of the profits, the filling of the Reserve Fund and the payment of dividends, the discharge of the members of the Board of Directors and the directors, the issue and redemption of shares of the Group and others.

Article 10 (1) (a) the letter "i"

The powers of the members of the board, and in particular the right to issue or buy back shares.

The Board of Directors of the parent Company:

- organizes and ensures the implementation of the decisions of the General Assembly;
- controls bookkeeping by the service provider, compiles and submits the annual financial report to the General Meeting;
- determines and ensures the implementation of the Group's overall economic policy;
- decides on formation and closure, and determines the types and amounts of the Group's cash funds and the order for their collection and the way they are spent, in accordance with the requirements and restrictions of the current legislation;
- takes decisions on the purchase and sale of real estate and real rights over them;
- and others.

The decisions for issue and repurchase of shares fall within the competence of the General Meeting of Shareholders.

The Group's holdings in the capital of other companies are described in detail in the Group's Activity Report and the Notes to the AFR for 2017, part of which is the present

statement.

V. Information under Art.100n, paragraph 8, item 5 of POSA

The parent company has a one-tier management system.

BOARD OF DIRECTORS

The Board of Directors consists of 3 members in accordance with the Articles of Association of the parent company, which are elected by the General Meeting of Shareholders. In their activities, the members of the Board of Directors are guided by the generally accepted principles of integrity and managerial and professional competence and strictly abide by the rules of the Code of Ethics they have adopted.

The Board of Directors has the following functions and duties:

- manages the Group independently and responsibly in accordance with established visions, goals, strategies of the company and the interests of the shareholders. The Board of Directors establishes and controls the strategic development guidelines of the Group.
- observes the legal, normative and contractual obligations, in accordance with the adopted Articles of Association of the Company and the adopted Corporate Governance Program.
- define and monitor compliance with the Group's disclosure and investor relations policy.
- during their term of office, the members of the Board of Directors are guided by their generally accepted principles of integrity and managerial and professional competence.
- prepares an interim and annual report on its activities and reports to the General Meeting of Shareholders.

The General Meeting of Shareholders elects and dismisses the members of the Board of Directors in accordance with the law. The duties and tasks, the amount of their remuneration, their loyalty obligations to the Company and the Group and the grounds for the waiver of the members of the Board of Directors are determined in management contracts.

The number of members and the structure of the Board of Directors are defined in the Statute of the parent company. The composition of the Board of Directors elected by the General Meeting of Shareholders ensures the independence and impartiality of the assessments and actions of its members regarding the Group's operations. The Board of Directors shall ensure a proper distribution of tasks and duties among its members. The competencies, rights and obligations of the members of the Board of Directors

follow the requirements of the law. The members of the Board of Directors have the appropriate knowledge and experience that requires their position. After their election, the new members of the Board of Directors are acquainted with the main legal and financial issues related to the Group's activities.

The size and structure of the remuneration of the members of the Board of Directors are regulated in the Management Contracts of the members of the Board of Directors.

In accordance with legal requirements and good corporate governance practice, the size and structure of the remuneration of the members of the Board of Directors shall include:

- the duties and contributions of each member of the board of directors in the activities and results of the Group;
- the ability to select and retain qualified and loyal managers;
- the need to reconcile the interests of the members of the Management Board and the long-term interests of the Group.

The principles for the formation of the amount and structure of remuneration, additional incentives and tantiems are defined in the adopted remuneration policy of the members of the Management Board.

The remuneration of the members of the Management Board consists of two parts: basic remuneration and additional incentives. Additional incentives are specifically defined or determinable and are tied to clear and specific criteria and indicators with respect to the Group's performance and / or the achievement of the objectives previously set by the Supervisory Board. The Group may provide additional incentives to members of the Board of Directors to share, share options and other appropriate financial instruments.

The disclosure of information about the remuneration of the members of the Board of Directors is presented in the annual report of the Group.

The members of the Board of Directors avoid and prevent a real or potential conflict of interest. Members of the Board of Directors shall immediately disclose conflicts of interest and provide shareholders with access to information on transactions between the Group and members of the Board of Directors or affiliated persons.

GENERAL MEETING OF THE SHAREHOLDERS

All shareholders of the Group are entitled to participate in the General Meeting of Shareholders and to express their opinion. Shareholders entitled to vote also have the opportunity to exercise their voting rights at the General Meeting of the Group through representatives. The corporate management of the Group exercises effective control by creating the necessary organization for the voting of the authorized persons in accordance with the instructions of the shareholders or in the ways authorized by the

law. The management of the Group encourages the participation of shareholders in the General Meeting of Shareholders.

VI. Information under Art.100n, paragraph 8, item 6 of POSA

The group falls under the hypotheses of Art. 100n, para. 12, and has therefore not developed or applied a diversity policy with respect to the Group's administrative, management and supervisory bodies in relation to aspects such as age, gender or education and professional experience.

12. Other information at the discretion of the Group

The Group estimates that there is no other information that is not disclosed by the Group and which would be important to shareholders and investors.

BOARD OF DIRECTORS OF „WEB FINANCE HOLDING” AD

Boyan Trifonov Minkov

Dimitar Iliev Zhilev

Kalin Mitkov Mitev

Sofia, 23 April 2018

The image shows three handwritten signatures in blue ink over the names of the board members. To the right of the signatures is a blue circular official stamp. The stamp contains the text "УЕБ ФИНАНС ХОЛДИНГ АД" (WEB FINANCE HOLDING AD) around the top inner edge, "СОФИЯ" (SOFIA) in the center, and "WEB FINANCE HOLDING JSC" around the bottom inner edge.

INDEPENDENT AUDITOR'S REPORT

**To the shareholders of
Web Finance Holding AD
Sofia, 141 Todor Alexandrov Blvd.**

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Web Finance Holding AD and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU and Bulgarian legislation.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements of Bulgarian Independent Financial Audit Act, and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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INDEPENDENT AUDITOR'S REPORT (continued)

1

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Evaluating the fair value of financial assets	
Notes 12 Long-term financial assets and 16 Short-term financial assets of the Consolidated financial statements	
Key audit matter	How this matter was addressed during the audit
We focused on this area due to the substantial value of financial assets at the amount of BGN 86 513 thousand, including long-term financial assets at the amount of BGN 40 674 thousand and short-term financial assets at the amount of BGN 45 839 thousand, representing 40% of the Group's total assets as at 31 December 2017 and the use of assumptions about: <ul style="list-style-type: none">– the appropriate classification of financial instruments;– the valuation methods used;– assumptions and uncertainties in determining the fair value.	During our audit, our audit procedures included, but were not limited to: <ul style="list-style-type: none">– checking and analyzing the classification of financial assets;– assessment and analysis of the methods for estimating the fair values and assumptions used regarding the realizability of the assets; and– evaluation and comparison procedures with market data and external sources.

Other matters

The Consolidated financial statements of Web Finance Holding AD and its subsidiaries (the "Group") for the year ended 31 December 2016, has been audited by another independent auditor who had expressed an unmodified opinion on this financial statements on April 30, 2017.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the annual consolidated management report, including the consolidated corporate governance statement, prepared in accordance with Bulgarian Accountancy Act, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or whether our knowledge obtained in the audit may indicate that there is a material misstatement or otherwise the other information appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT (continued)

2

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the and Bulgarian legislation, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and Bulgarian Independent Financial Audit Act will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In addition to our responsibilities for reporting under ISAs, described above in section "Information Other than the Consolidated Financial Statements and Auditor's Report Thereon", regarding annual consolidated management report, including the consolidated corporate governance statement, we have performed the additional procedures contained in the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). The procedures on the existence, form and contents of the other information have been carried out in order to state whether the other information includes the elements and disclosures in accordance with Chapter Seven of Bulgarian Accountancy Act and Bulgarian Public Offering of Securities Act, applicable in Bulgaria.

Statement Pursuant to Article 37, Paragraph (6) of Bulgarian Accountancy Act

Based on the procedures performed, we describe the outcome of our work:

- (a) the information in the consolidated management report is consistent with the consolidated financial statements for the same reporting period;
- (b) the consolidated management report is prepared in accordance with the applicable legal requirements;
- (c) as a result of the acquired knowledge and understanding of the activities of the Group and the environment in which it operates, we have found no cases of material misrepresentation in the consolidated management report;
- (d) the consolidated corporate governance statement for the financial year contains the required information in accordance with the applicable legal requirements, including Article 100m, paragraph (8) of Bulgarian Public Offering of Securities Act;

INDEPENDENT AUDITOR'S REPORT (continued)

4

Statement Pursuant to Article 100m, Paragraph (10) of Bulgarian Public Offering of Securities Act

Based on the procedures performed and our knowledge of the Group and the environment in which it operates, in our opinion, there is no material misstatement in the description of the main characteristics of the internal control system and of the risk management system of the Group in connection with the financial reporting process and also in the information pursuant to Article 10, paragraph 1, items "c", "d", "f", "h" and "i" of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids, which are included in the consolidated corporate governance statement, being a component of the annual consolidated management report.

Reporting Pursuant to Article 59 of Bulgarian Independent Financial Audit Act in relation to Article 10 of Regulation (EC) № 537/2014

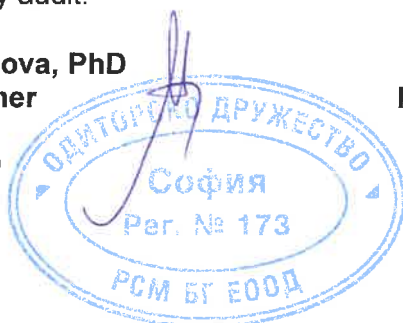
In accordance with the requirements of Bulgarian Independent Financial Audit Act and in relation with Article 10 of Regulation (EC) № 537/2014, we report additionally the information as follows:

- RSM BG EOOD was appointed as statutory auditor of the consolidated financial statements of Web Finance Holding AD for the year ended on 31 December 2017 by the General meeting of shareholders, held on 01.12.2017 r., for a period of one year.
- The audit of the consolidated financial statements of the Company for the year ended on 31 December 2017 has been made for first consecutive year.
- In support of our audit opinion, we have provided a description of the most significant assessed risks of material misstatement, a summary of the auditor's response and where relevant, key observations arising with respect to those risks in the section „Key audit matters“ of this report.
- We confirm that our audit opinion is consistent with the additional report to the audit committee, which was provided in accordance with Article 60 of Bulgarian Independent Financial Audit Act.
- We declare that prohibited non-audit services referred to in Article 64 of Bulgarian Independent Financial Audit Act were not provided.
- We confirm that we remained independent of the Group in conducting the audit.
- For the period for which we were engaged as statutory auditors, we have not provided any other services to the Web Finance Holding AD and its controlled undertakings in addition to the statutory audit.

Mariana Mihaylova, PhD
Managing partner

RSM BG EOOD
Audit firm

30 April 2018
Bulgaria, Sofia



Mariana Mihaylova, PhD
Registered auditor responsible for the audit

Consolidated statement of financial position

	Note	31 December 2017 BGN '000	31 December 2016 BGN '000	1 January 2016 BGN '000
Assets				
Non-current assets				
Goodwill	8	659	659	659
Intangible assets	9	825	880	1 230
Property, plant and equipment	10	22 733	22 645	22 658
Investment property	11	26 904	23 958	16 533
Long-term financial assets	12	40 674	36 240	38 398
Other long-term receivables	13	1 469	1 469	1 469
Deferred tax assets	14	83	131	16
		93 347	85 982	80 963
Current assets				
Short-term financial assets	16	45 839	69 423	66 998
Short-term related party receivables	33	4 069	11 562	7 559
Inventories	15	5 926	8 037	4 306
Trade and other receivables	17	5 615	3 510	7 725
Income tax receivables		-	3	9
Cash and cash equivalents	18	2 114	5 686	4 641
Non-current assets classified as held for sale	19	56 871	31 320	546
		120 434	129 541	91 784
Total assets		213 781	215 523	172 747

Prepared by:

Spas Peshterski

Executive Directors:

Kalin Mitev

Dimitar Zhilev

Date: 23.04.2018

Audited according to the auditor's report dated 30.04.2018

Dr. Mariana Mihaylova
Managing partner

RSM BG EOOD
Audit firm



Dr. Mariana Mihaylova
Registered auditor responsible for the audit



Consolidated statement of financial position (continued)

	Note	31 December 2017 BGN '000	31 December 2016 BGN '000	1 January 2016 BGN '000
Equity and liabilities				
Equity				
Share capital	20.1	7 633	7 633	7 633
Reserves	20.2	361	361	361
Revaluation reserves	20.2	6 526	5 208	1 925
Retained earnings		36 558	22 536	9 184
Current financial result		5 170	13 429	20 112
Equity attributable to the owners of the parent		56 248	49 167	39 215
Non-controlling interest		1 578	1 346	313
Total equity		57 826	50 513	39 528
Specialized reserves				4 294
Liabilities				
Non-current liabilities				
Long-term financial obligations	22	79 759	81 524	73 088
Trade and other payables	23	7 874	9 762	15 907
Pension and other employee obligations	21.2	25	28	19
Other long-term liabilities		-	96	-
Deferred tax liabilities	14	2 373	2 147	473
		90 031	93 557	89 487
Current liabilities				
Short-term financial obligations	22	17 524	14 558	28 070
Trade and other payables	23	16 307	37 732	264
Pension and other employee obligations	21.2	347	363	10 917
Income tax liabilities		264	61	151
Liabilities included in disposal group held for sale	19	31 482	18 739	36
		65 924	71 453	39 438
Total liabilities		155 955	165 010	128 925
Total equity and liabilities		213 781	215 523	172 747

Prepared by:

Spas Peshterski

Executive Directors:

Kalin Mitev

Dimitar Zhilev

Date: 23.04.2018

Audited according to the auditor's report dated 30.04.2018

Dr. Mariana Mihaylova

Managing partner

RSM BG EOOD

Audit firm



Dr. Mariana Mihaylova
Registered auditor responsible for the audit



The accompanying notes on pages from 9 to 79 form an integral part of the consolidated financial statements.

Consolidated statement of profit or loss for the year ended 31 December

	Note	2017 BGN '000	2016 BGN '000
Gain on sale of financial assets	28	1 845	10 122
Loss on sale of financial instruments	28	(326)	(1 510)
		1 519	8 612
Gain from business combinations	6.2, 6.5	238	2 758
Loss on sale of non-current assets	27	-	(91)
		238	2 667
Interest income	28	3 297	2 014
Interest expenses	28	(6 253)	(6 032)
		(2 956)	(4 018)
Other financial income	29	700	817
(Loss)/Profit from financial activities		(499)	8 078
Revenues from non-financial activity	25	8 526	4 660
Change in fair value of investment property	11	3 007	7 663
Depreciation, amortization and impairment of non-financial assets	9,10,11	(261)	(1 064)
Non-financial expenses		(5 680)	(4 886)
Profit before tax		5 093	14 451
Income tax expense	30	(549)	(1 309)
Profit for the year from continuing operations		4 544	13 142
Profit for the year from discontinued operations	19	619	334
Profit for the year		5 163	13 476
Profit for the year attributable to:			
Non-controlling interest		(7)	47
Owners of the parent		5 170	13 429
Earnings per share		лв.	лв.
Earnings from continuing operations		59.53	172.17
Earnings from discontinued operations		8.11	4.38
Total	31	67.64	176.54

Prepared by:

Spas Peshterski

Executive Directors:

Kalin Mitev

Dimitar Zhilev

Date: 23.04.2018

Audited according to the auditor's report dated 30.04.2018

Dr. Mariana Mihaylova

Managing partner

RSM BG EOOD

Audit firm



Dr. Mariana Mihaylova
Registered auditor responsible for the audit



The accompanying notes on pages from 9 to 79 form an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income for the year ended 31 December

	Note	2017 BGN '000	2016 BGN '000
Profit for the year		5 163	13 476
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of assets available for sale		1 346	4 084
Income tax relating to items that will be reclassified	14	(134)	(408)
Other comprehensive income for the year, net of tax		1 212	3 676
Total comprehensive income for the year		6 375	17 152
 Total comprehensive income for the year attributable to:			
Non-controlling interest		(7)	47
Owners of the parent		6 382	17 105
		6 375	17 152

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Consolidated statement of changes in equity for the year ended 31 December

All amounts are presented in BGN '000

	Share capital	Reserves	Revaluation reserves	Retained earnings	Total attributable to owners of parent	Non-controlling interest	Total equity
Balance at 1 January 2017	7 633	361	5 208	35 965	49 167	1 346	50 513
Business combinations	-	-	-	480	480	1 205	1 685
Transactions with owners	-	-	-	480	480	1 205	1 685
Profit for the year	-	-	-	5 170	5 170	(7)	5 163
Other comprehensive income	-	-	1 212	-	1 212	-	1 212
Total comprehensive income for the year	-	-	1 212	5 170	6 382	(7)	6 375
Other	-	-	106	113	219	(966)	(747)
Balance at 31 December 2017	7 633	361	6 526	41 728	56 248	1 578	57 826

Prepared by:

Spas Peshterski

Executive Directors:

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Consolidated statement of changes in equity for the year ended 31 December (continued)

All amounts are presented in BGN '000

	Share capital	Reserves	Revaluation reserves	Retained earnings	Total attributable to owners of parent	Non-controlling interest	Total equity
Balance at 1 January 2016	7 633	361	1 925	29 296	39 215	313	39 528
Business combinations	-	-	-	(971)	(971)	986	15
Transactions with owners	-	-	-	(971)	(971)	986	15
Profit for the year	-	-	-	13 429	13 429	47	13 476
Other comprehensive income	-	-	3 676	-	3 676	-	3 676
Total comprehensive income for the year	-	-	3 676	13 429	17 105	47	17 152
Other	-	-	(393)	(5 789)	(6 182)	-	(6 182)
Balance at 31 December 2016 (restated)	7 633	361	5 208	35 965	49 167	1 346	50 513

Prepared by:  **Spas Peshterski**

Executive Directors:  **Kalin Mitev**
 **Dimitar Zhilev**

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The accompanying notes on pages from 9 to 79 form an integral part of the consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 December

	Note	2017 BGN '000	2016 BGN '000
Operating activities			
Cash receipts from customers		40 311	50 559
Cash paid to suppliers		(39 401)	(33 138)
Cash receipts from short-term loans		2	5 872
Short-term loans granted		(3 720)	(106)
Cash paid to employees and social security institutions		(2 534)	(2 430)
Cash receipts from insurance activity		-	-
Cash paid for insurance activity		-	-
Income taxes paid		(329)	(312)
Other taxes paid		(627)	(8)
Interest received		26	21
Other cash paid for operating activity		8 141	(1 186)
Net cash flow from operating activities		1 869	19 272
Investing activities			
Acquisition of subsidiaries, net of cash		-	583
Purchase of property, plant and equipment		(251)	(266)
Proceeds from sale of long-term financial instruments		37 119	30 455
Purchase of long-term financial instruments		(32 939)	(37 284)
Dividends received		233	-
Net cash flow from investing activities		4 162	(6 512)

Prepared by:

Spas Peshterski

Executive Directors:

Kalin Mitev

Dimitar Zhiliev

Date: 23.04.2018

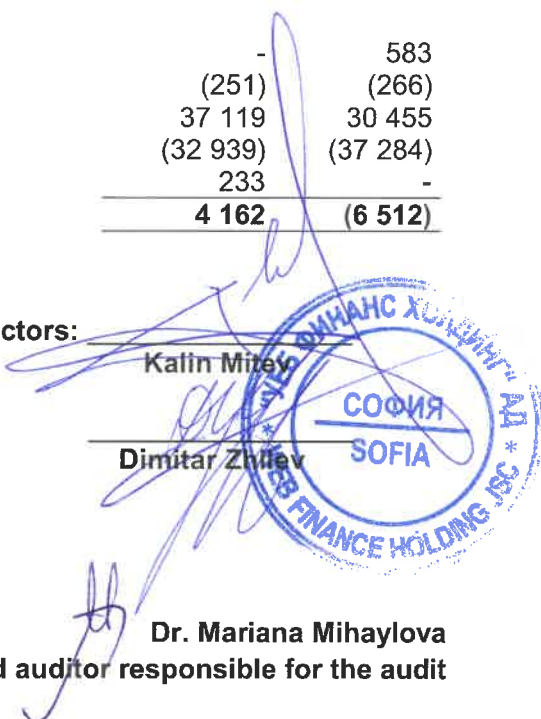
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Consolidated statement of cash flows for the year ended 31 December (continued)

	Note	2017 BGN '000	2016 BGN '000
Financing activities			
Proceeds from borrowings		25 656	37 836
Repayments of borrowings		(27 255)	(42 207)
Interest paid		(6 099)	(6 401)
Other paid for financing activities		(559)	(131)
Net cash flow from financing activities		(8 257)	(10 903)
Net change in cash and cash equivalents		(2 226)	1 857
Cash and cash equivalents, beginning of year		5 686	4 641
- included in disposal group	19	(1 346)	(812)
Cash and cash equivalents, end of year	18	2 114	5 686

Prepared by: 
Spas Peshterski

Executive Directors:


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