

MONBAT AD

**INTERIM REPORT ON THE ACTIVITIES
OF MONBAT AD
DURING THE FIRST HALF OF 2016
ON A CONSOLIDATED BASIS
PURSUANT TO ARTICLE 1000, PARAGRAPH 4, ITEM 2 OF LPOS**

1. IMPORTANT DEVELOPMENTS FOR MONBAT AD AND THE SUBSIDIARIES FROM THE GROUP THAT OCCURRED DURING THE FIRST HALF OF 2016 (01.01.2016 - 30.06.2016)

Date	Developments
27.06.2016	<p>MONBAT AD announced the following announcement</p> <p>The General Assembly of Shareholders approved a decision the company's profit after taxes, generated during the year 2015 in the amount of BGN 18 454 354.87 to be distributed as follows: the amount of BGN 7 534 354,87 to be taken as non-distributed profit and the amount of BGN 10 920 000 to be distributed to the shareholders as dividend. Entitled to receive dividend shall be persons who were entered as shareholders of the company in the Central Depository's registers on the 14th day following the date of the General Assembly. The General Assembly of Shareholders authorized the Board of Directors of the company to undertake all necessary legal and factual activities related to the dividend payment to the shareholders, including selection of a commercial bank, initial and final term for payment of the dividend.</p>
27.06.2016	<p>MONBAT AD published the Minutes of the regular session of the general assembly of shareholders held on 27.06.2016</p>
27.06.2016	<p>With regard to the regular session of the General Assembly of the Shareholders of MONBAT AD, held on 27.06.2016 MONBAT AD announced the following important resolutions approved by the shareholders, namely:</p> <ol style="list-style-type: none">1. The General Assembly of Shareholders approved the individual and consolidated Annual Reports of the Board of Directors on the company's activities for the year 2015, the audited individual and consolidated annual Financial Statements of the company for the year 2014 and the Reports of the certified auditor, the Annual Report on the activities of the Investor Relations Director of MONBAT AD for the year 2015 and the Report on the activities of the audit committee for the year 2015.2. The General Assembly of Shareholders approved a decision the company's profit after taxes, generated during the year 2015 in the amount of BGN 18 454 354.87 to be distributed as follows: the amount of BGN 7 534 354,87 to be taken as non-distributed profit and the amount of BGN 10 920 000 to be distributed to the shareholders as dividend. Entitled to receive dividend shall be persons who were entered as shareholders of the company in the Central Depository's registers on the 14th day following the date of the General Assembly. The General Assembly of Shareholders authorized the Board of Directors of the company to undertake all necessary legal and factual activities related to the dividend payment to the shareholders, including selection of a commercial bank, initial and final term for payment of the dividend.3. The General Assembly of Shareholders released from responsibility the members of the Board of Directors for their activities during 2015.

4. The General Assembly of Shareholders elected an audit committee with the following members: Irena Vakova, Elena Dimanina and Svitlana Samko.
5. The General Assembly of Shareholders set up one-year mandate of the audit committee and the amount of the remuneration of its members, as follows: for a participation in each session of the audit committee its members shall receive a remuneration in the amount of BGN 300.
6. The General Assembly of Shareholders approved a decision for election of a certified auditor for the year 2016 in accordance with the proposal of the audit committee, namely specialized audit company Deloitte Audit OOD with Desislava Dinkova as a leading auditor.
7. The General Assembly of Shareholders adopted a Remuneration Policy Report for the members of the board of Directors of Monbat AD for 2015.
8. The General Assembly of Shareholders authorized the Board of Directors of the Company to set additional remuneration for 2015 to the members of the Board of Directors of MONBAT AD in the total amount of up to BGN 1 000 000, as well as to distribute the additional remunerations among the members of the Board within the range of the voted amount.
9. The General Assembly of Shareholders approved a resolution for a in the permanent monthly remuneration of the members of the Board of Directors namely: from net monthly remuneration in the amount of BGN 2000 to net monthly remuneration in the amount of BGN 3 000.
10. The General Assembly of Shareholders approved a resolution for amendment to the Remuneration Policy for the members of the Board of Directors of Monbat AD
11. The General Assembly of Shareholders approved a resolution for amendment to the Company's Articles of association.

24.06.2016

MONBAT AD announced the following announcement:

In May, 2016 the companies in the economic group of Monbat AD have generated consolidated net sales revenues in the amount of BGN 15 919 000 which represents a decrease by 3.4 % compared to the consolidated net sales revenues generated in May, 2015.

The summarized data for the first five months of 2016 show that the companies in the economic group of Monbat AD have generated consolidated net sales revenues in the amount of BGN 95 409 000 which represents a decrease by 2.4 % compared to the consolidated net sales revenues for the same period of 2015.

The generated net sales revenues for the first five months of 2016 in the amount of BGN 95 409 000 are allocated as follows:

Production	BGN 91 637 000
Products	BGN 52 000
Services	BGN 815 000
Others	BGN 2 902 000

The generated consolidated profit before taxes of the companies in the economic

group of Monbat AD for May, 2016 is BGN 2 692 000 which represents a profit increase by 49.8 % compared to the generated consolidated profit before taxes for May, 2015.

The summarized data for the first five months of 2016 show that the companies in the economic group of Monbat AD have generated profit before taxes in the amount of BGN 12 459 000, which represents a profit decrease by 3.6 % compared to the generated consolidated profit before taxes for the same period of 2015.

In May, 2016 the companies in the economic group of Monbat AD have reached EBITDA in the amount of BGN 4 110 000 which represents an increase by 48 % compared to the achieved in May, 2015.

The summarized data for the first five months of 2016 show that the companies in the economic group of Monbat AD have reached EBITDA in the amount of BGN 18 791 000 which represents an increase by 4.2 % compared to the same period of 2015

30.05.2016 **MONBAT AD announced the 2016 Q1 consolidated financial report**

26.05.2016 **MONBAT AD presented the publication of the invitation for a General shareholders meeting in the Commercial Register**

26.05.2016 **MONBAT AD announced the following announcement:**

In April, 2016 the companies in the economic group of Monbat AD have generated consolidated net sales revenues in the amount of BGN 15 594 000 which represents a decrease by 13.2 % compared to the consolidated net sales revenues generated in April, 2015.

The summarized data for the first four months of 2016 show that the companies in the economic group of Monbat AD have generated consolidated net sales revenues in the amount of BGN 79 487 000 which represents a decrease by 2.2 % compared to the consolidated net sales revenues for the same period of 2015.

The generated net sales revenues for the first four months of 2016 in the amount of BGN 79 487 000 are allocated as follows:

Production	BGN 76 231 000
Products	BGN 18 000
Services	BGN 699 000
Others	BGN 2 539 000

The generated consolidated profit before taxes of the companies in the economic group of Monbat AD for April, 2016 is BGN 1 047 000 which represents a profit decrease by 42 % compared to the generated consolidated profit before taxes for April, 2015.

The summarized data for the first four months of 2016 show that the companies in the

economic group of Monbat AD have generated profit before taxes in the amount of BGN 9 767 000, which represents a profit decrease by 12.3 % compared to the generated consolidated profit before taxes for the same period of 2015.

In April, 2016 the companies in the economic group of Monbat AD have reached EBITDA in the amount of BGN 2 313 000 which represents a decrease by 14 % compared to the achieved in April, 2015.

The summarized data for the first four months of 2016 show that the companies in the economic group of Monbat AD have reached EBITDA in the amount of BGN 14 681 000 which represents a decrease by 3.8 % compared to the same period of 2015.

14.05.2016 **MONBAT AD announced the of the invitation and the written materials for a General shareholders meeting**

14.05.2016 **MONBAT AD announced the following resolutions were approved by the Board of Directors of MONBAT AD:**

1. The Board of Directors of Monbat AD adopted a resolution for convocation of a regular attendance session of the Annual General Assembly of the shareholders of Monbat AD on 27.06.2016 at 10.30 in the city of Sofia, Grand Hotel Sofia. Among the resolutions to be proposed for voting to the shareholders are: distribution of the company's profit generated in 2015, namely: distribution of dividend in the amount of BGN 10 920 000; amendments to the Remuneration policy of the members of the Board of Directors; change in the permanent and additional monthly remuneration of the corporate board members and amendments to the company's Articles of association. More information on the convening of the General Assembly of Shareholders and the particular draft resolutions proposed to shareholders can be found in the invitation and the written materials announced by Monbat AD.

2. The Board of Directors of Monbat AD adopted a resolution for a new buy back procedure of company's own shares to be performed, namely up to 3 % of the share registered capital or up to 1 170 000 shares. Minimum price for the buy back shall be BGN 6.00 and the maximum price for the buy back shall be BGN 8.00. The Board of Directors set the initial terms for the by back procedure to be 01.06.2016. More information on the new buy back procedure can be found in its particular public announcement under the procedure of the Law on Public Offering of Securities and the Commercial Act.

3. The Board of Directors of MONBAT AD adopted a resolution to establish a Corporate Governance and Internal Control Committee to the Board of Directors with the following members: Atanas Bobokov, Kamen Zahariev, Yordan Karabinov and Peter Bozadzhiev. The purpose of the committee's establishment is to raise the corporate governance standards in the company and the effective functioning of the internal control system. The Committee will report quarterly to the Board of Directors and may

put forward proposals on the implementation of corporate governance and internal control best practices.

03.05.2016 **Monbat AD announced the 2016 Q1 individual financial report and the 2015 Annual consolidated report**

30.03.2016 MONBAT AD announced the Audited Annual financial report for 2015.

25.03.2016 MONBAT AD announced the following announcement:
In February, 2016 the companies in the economic group of Monbat AD have generated consolidated net sales revenues in the amount of BGN 20 660 000 which represents an increase by 12.20 % compared to the consolidated net sales revenues generated in February, 2015.

The summarized data for the first two months of 2016 show that the companies in the economic group of Monbat AD have generated consolidated net sales revenues in the amount of BGN 41 803 000 which represents a decrease by 0.7 % compared to the consolidated net sales revenues for the same period of 2015.

The generated net sales revenues for the first two months of 2016 in the amount of BGN 41 803 000 are allocated as follows:

Production	BGN 40 600 000
Products	BGN 1 000
Services	BGN 337 000
Others	BGN 865 000

The generated consolidated profit before taxes of the companies in the economic group of Monbat AD for February, 2016 is BGN 2 690 000 which represents a profit decrease by 0.4 % compared to the generated consolidated profit before taxes for February, 2015 .

The summarized data for the first two months of 2016 show that the companies in the economic group of Monbat AD have generated profit before taxes in the amount of BGN 5 314 000, which represents a profit decrease by 23.60 % compared to the generated consolidated profit before taxes for the same period of 2015.

In February, 2016 the companies in the economic group of Monbat AD have reached EBITDA in the amount of BGN 3 819 000 which represents an increase by 8.70 % compared to the achieved in February, 2015.

The summarized data for the first two months of 2016 show that the companies in the economic group of Monbat AD have reached EBITDA in the amount of BGN 7 617 000 which represents a decrease by 12.5 % compared to the same period of 2015.

29.02.2016 MONBAT AD announced a consolidated quarterly financial report for the fourth quarter of 2015

25.02.2016 **MONBAT AD announced the following announcement:**
In January, 2016 the companies in the economic group of Monbat Plc have generated consolidated net sales revenues in the amount of BGN 21 143 000 which represents a decrease by 10.70 % compared to the consolidated net sales revenues generated in January, 2015.

The generated net sales revenues for January, 2016 in the amount of BGN 21 143 000 are allocated as follows:

Production	BGN 20 481 000
Products	BGN 1 000
Services	BGN 123 000
Others	BGN 538 000

The generated consolidated profit before taxes of the companies in the economic group of Monbat Plc for January, 2016 is BGN 2 624 000 which represents a profit decrease by 38.30 % compared to the generated consolidated profit before taxes for January, 2015.

In January, 2016 the companies in the economic group of Monbat Plc have reached EBITDA in the amount of BGN 3 798 000 which represents a decrease by 26.80 % compared to the achieved in January, 2015.

30.01.2016 **MONBAT AD announced** an individual quarterly financial report for the fourth quarter of 2015.

25.01.2016 **MONBAT AD announced the following announcement:**
In December, 2015 the companies in the economic group of Monbat Plc have generated consolidated net sales revenues in the amount of BGN 21 400 000 which represents an increase by 4.70 % compared to the consolidated net sales revenues generated in December, 2014.

The summarized data for 2015 show that the companies in the economic group of Monbat Plc have generated consolidated net sales revenues in the amount of BGN 245 932 000 which represents an increase by 7.70 % compared to the consolidated net sales revenues for 2014.

The generated net sales revenues for 2015 in the amount of BGN 245 932 000 are allocated as follows:

Production	BGN 227 393 000
Products	BGN 9 339 000

Services	BGN 2 067 000
Others	BGN 7 133 000

The generated consolidated profit before taxes of the companies in the economic group of Monbat Plc for December, 2015 is BGN 852 000 which represents a profit decrease by 12.10 % compared to the generated consolidated profit before taxes for December 2014. .

The summarized data for 2015 show that the companies in the economic group of Monbat Plc have generated profit before taxes in the amount of BGN 25 163 000, which represents a profit decrease by 7.80 % compared to the generated consolidated profit before taxes for 2014.

In December, 2015 the companies in the economic group of Monbat Plc have reached EBITDA in the amount of BGN 2 068 000 which represents a decrease by 14.20 % compared to the achieved in December 2014.

The summarized data for 2015 show that the companies in the economic group of Monbat Plc have reached EBITDA in the amount of BGN 38 905 000 which represents a decrease by 5.10 % compared to 2014.

2. IMPACT OF THE IMPORTANT DEVELOPMENTS FOR MONBAT AD AND THE SUBSIDIARIES FROM THE GROUP THAT OCCURRED DURING THE FIRST HALF OF 2016 ON THE RESULTS IN THE FINANCIAL STATEMENT

As of 30.06.2016 MONBAT AD reports consolidated net sales revenues in the amount of BGN 112 456 000 which represents a decrease by 1.77 % compared to the net sales revenues generated as of 30.06.2015 in the amount of BGN 114 478 000.

The profit before taxes generated by MONBAT AD on a consolidated basis as of 30.06.2016 is in the amount of BGN 13 568 000 compared to the consolidated profit before taxes as of 30.06.2015 in the amount of BGN 14 951 000. This represents a profit decrease by 9.25 %.

The consolidated net profit of MONBAT AD as of 30.06.2016 is in the amount of BGN 12 545 000 and reports a decrease by 5.46 % compared to the consolidated net profit of the company as of 30.06.2015 in the amount of BGN 13 269 000.

As of 30.06.2016 EBITDA (profit before interest +amortization, decreased with financial incomes and increased with financial expenses) of MONBAT AD on a consolidated basis is in the amount of BGN 20 965 000 compared to EBITDA reported as of 30.06.2015 in the amount of BGN 21 499 000. This represents an EBITDA decrease by 2.48 %.

As of 30.06.2016 EBIT (profit before interest, decreased with financial incomes and increased with financial expenses) of MONBAT AD on a consolidated basis is in the amount of BGN 14 795 000 compared to EBIT in the amount of BGN 15 779 000 as of 30.06.2015. This represents an EBIT decrease by 6.23 %.

4. DESCRIPTION OF THE PRINCIPAL RISKS AND UNCERTAINTIES WHICH THE COMPANIES INCLUDED IN THE ECONOMIC GROUP OF MONBAT AD WILL FACE DURING THE FOLLOWING FINANCIAL PERIOD

SYSTEMATIC RISKS

OVERALL MACROECONOMIC RISK

The British vote of 23.6.2016 on leaving the European Union (EU) determines to a large extent the current and future common European economic, financial and political situation.

The decision of the United Kingdom to leave the EU prompted the International Monetary Fund (IMF) to reduce its annual growth forecast for this year and the next one. In its report on the global economic prospects (World Economic Outlook), published at the end of June 2016, the IMF predicted a global growth of 3.1 % in 2016, which is lower by 0.1 percentage points than the forecast as of April and 0.3 percentage points under the evaluation as of January. The IMF cut its forecast for the global growth in 2017 to 3.4 % after the announced expectations in April for 3.5 % growth, and those in January - for 3.6 % growth.

The IMF reduced its forecast for growth in the UK this year to 1.7 % versus the expected 1.9 % in the report from April. The 2017 growth decrease is even stronger - the economy will expand by only 1.3 % instead of 2.2 %. These forecasts are based on an agreement of the UK with the EU which avoids a serious strengthening of the economic barriers and a lack of further market disruption and limited political upheavals. In case of a more negative scenario, however, the services sector can be moved from the UK to the Eurozone, hitting consumption and investments and leading to recession in the country, the IMF warned. This repeats the allegations of Goldman Sachs, whose economists see "weak" recession until early 2017.

The IMF also reduced its 2017 forecast for the Eurozone due to the Brexit. The 19-member monetary union is now expected to grow by an average of 1.4 % next year instead of 1.6 % as previously forecasted. Germany, France, Italy and Spain are among the countries with lower expectations for the next year. The USA will grow by 2.2 % this year instead of 2.4 % as it was forecasted in April. This is due to the disappointing growth during the first quarter but not to the Brexit vote, say from the IMF.

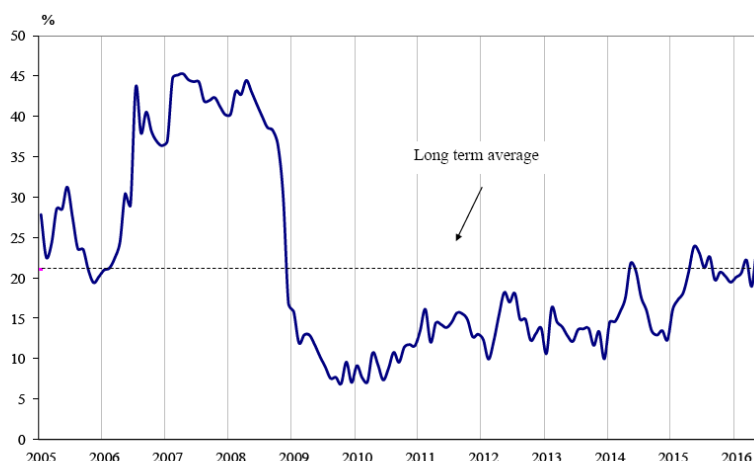
On 29.06.2016, during the annual Conference of ECB, the Vice-President of the European Central Bank, Vitor Constancio said that the British decision to leave the EU will probably lead to a slower growth in the eurozone because Britain will import less goods from companies in the single currency area. Vice-Governor added, however, that Britain is not "a major economic area" and that the pound is no longer a major international currency.

The current position of the ECB on how the Brexit decision will affect the eurozone is largely in line with the forecasts of the private sector which suggest that the vote of Britain to leave the EU will cost the block 0.5 percentage points from the gross domestic product (GDP) over the next three years.

The Vice President of the ECB emphasized that immediately after the results from the British referendum on the membership in the EU markets among the 19 eurozone members have continued working. He added that the euro has fallen by 2 % against the US dollar and no signs of pressure on the spreads between the safer German debt and the riskier Italian and Spanish government bonds. He acknowledged, however, that the collapse of the banks' shares in the region shows that apparently there is a "serious lack of confidence in the banks in Europe as a whole."

In Bulgaria, pursuant to data of the National Statistical Institute in June 2016 the total business climate indicator increased by 0.9 points compared to May 2016 which is due to the improved business climate in industry, retail trade and the service sector.

Business climate - in total



The composite "business climate in industry" indicator increased by 0.8 points compared to the previous month which is due to the more optimistic assessments of industrial entrepreneurs about the current business situation of enterprises. The uncertain economic environment remains the major problem for the business development, indicated by 49.7 % of the enterprises.

In June the composite "business climate in construction" indicator decreased by 1.8 points as a result of the more reserved expectations of the construction entrepreneurs about the business situation of enterprises during the following six months. On their opinion the current construction activity is slightly reduced in comparison with the previous month and their forecasts on the activities during the following three months are more unfavorable.

The composite "business climate in retail trade" indicator increased by 0.9 points compared to may 2016 which is due to the improved assessments of retailers on the current business situation of enterprises.

In June the composite "business climate in the service sector" indicator increased by 3.9 points mainly due to the more optimistic expectations of managers about the business situation of enterprises during the following six months.

According to the assessment of the Fiscal Council, presented on 19.07.2016, the economic growth in Bulgaria this year will vary in the range between 1.8- 2.5 % depending on the different scenarios for development. Assessments and analyses of the Fiscal Council for the economy are based on an analysis of the medium-term budget forecast, the Convergence Program and the expectations of the different international financial institutions on the global economy and Bulgaria.

Slowing the economies of developing countries of Asia and South America and especially China, with which the economy of the European Union (EU) - our major trading partner, is highly integrated are shown up as major external risks in the analysis of the Fiscal Council. Imbalances in global economy are also caused by lower prices of fuel and resources.

Another subordinate external risk represents the political and war conflicts.

According to the Fiscal Council the major internal risk is related to the low investment level, the preliminary data of the National Statistical Institute about which show that a continuous decline is still being reported. Tax structure is favorable but the burden on the small and medium business remains, i.e. there is a potential for the business environment to be improved through reforms. The Fiscal Council indicates that slowing up the structural reforms also impedes growth.

According to the 2015 annual survey on bankruptcy in Central and Eastern Europe, drawn up by Coface, for a second year in a row, Bulgaria continues to show a decline of companies

declared insolvent as the decrease for 2015 was by 8.1 % compared to a decrease by 23 % during the previous year. Data from the report show that there are less than 2 bankruptcy procedures of 1000 active companies in Bulgaria. The country's share of bankruptcy procedures is 0.15 % of the total number of companies, as this is one of the lowest indicators in Central and Eastern Europe.

For the period 1 January - 30 June 2016 the number of companies declared bankrupt is 245 as for the same period of the previous year they were 346, which means a decrease of 29 %.

According to Coface the main reasons for the financial difficulties of companies in Bulgaria are the high debt levels, sectoral cyclic recurrence, poor liquidity management and less funding opportunities.

The 2016 forecasts of the company show a continuing decrease in bankruptcies, this time with a much smaller growth - 2.3 %.

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.

In February 2016 the ECB decided to give new incentives for the financial sector. On 10.03.2016 the Governing Council of the ECB passed the following resolutions:

- The base interest rate for refinancing of commercial banks was changed to 0 %. The effect of this decision is rather symbolic since so far the interest rate was 0.05 %.
- The deposit interest rate was changed to -0.4 % which means that in order to deposit their excess funds at the moment with the ECB commercial banks will have to pay more. The purpose is for banks to increase lending thereby supporting economic growth.
- Incentives for lending - the ECB will offer banks loans at 0 % interest rate over the next four years. Moreover, the interest rate can become negative reaching -0.4 % if banks offer lending to the business. This means that the ECB will actually pay commercial banks to receive lending from ECB.
- The program for the purchase of corporate debt increased from EUR 60 to 80 billion per month. The purpose is fresh cash to start flowing in economy thus allowing the targets for inflation in the Eurozone to be pursued.

Despite all these attempts to stimulate inflation, the forecast of the ECB is that at least until 2018 the target inflation of 2 percent will not be achieved. For the next year the bank's economists expect inflation of 1.3 percent and 1.6 percent. In the forecasts for economic growth numbers are also quite low - 1.7 and 1.8 percent for 2017 and 2018.

On 2 June 2016 the Governing Council of the ECB decided that the purchase program from the corporate sector will begin on 8 June 2016 and approved the other technical specifications of the program.

On 22 June 2016 the Governing Council of the ECB decided to restore the exception relating to the marketable debt instruments, issued or fully guaranteed by the Hellenic Republic, which shall temporarily suspend the application of the threshold for minimum credit rating on the eligibility of collaterals for these instruments as the discounts specified in the legal instrument for the implementation shall apply.

On 9 June 2016 the Governing Council of the ECB approved the harmonization of interest accrual applicable to guarantee funds of the systemically important payment systems held with the Eurosystem against the interest rate on the deposit facility. The harmonized remuneration will be reflected in the bilateral agreements between the operators of the systemically important payment systems and the relevant central banks of the Eurosystem latest until 24 September 2016. The Governing Council also approved the application of the interest rate on the deposit facility which is in force for all guarantee funds of financial market infrastructures, held with the Eurosystem.

**Base interest rates set by the Bulgarian National Bank for the period
01.01.2016 – 30.06.2016**

Table № 2

Month	Base Interest Rate
January 2016	0.01 %
February 2016	0.00 %
March 2016	0.00 %
April 2016	0.00 %
May 2016	0.00 %
June 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 April 2016 compared to May 2016 was 100.0 %, i.e. monthly inflation is 0.0 %. Inflation as from the beginning of the year (April 2016 compared to December 2015) is minus 1.0 % and the annual inflation for April 2016 compared to April 2015 is minus 2.2 %. The average annual inflation for the period May 2015 – April 2016 compared to the period May 2014 – April 2015 is minus 0.4 %.

Pursuant to data of the National Statistical Institute the harmonized consumer price index for April 2016 compared to March 2015 was 99.8 %, i.e. monthly inflation is minus 0.2 %. Inflation as from the beginning of the year (April 2016 compared to December 2015) is minus 1.5 % and the annual inflation for April 2016 compared to April 2015 is minus 2.5 %. The average annual inflation for the period May 2015 – April 2016 compared to the period May 2014 – April 2015 is minus 1.0 %.

The consumer price index for May 2016 compared to April 2016 was 100.0 %, i.e. monthly inflation is 0.0 %. Inflation as from the beginning of the year (May 2016 compared to December 2015) is minus 1.0 % and the annual inflation for May 2016 compared to May 2015 is minus 2.0 %. The average annual inflation for the period June 2015 – May 2016 compared to the period June 2014 – May 2015 is minus 0.6 %.

The harmonized consumer price index for May 2016 compared to April 2015 was 100.0 %, i.e. monthly inflation is 0.0 %. Inflation as from the beginning of the year (May 2016 compared to December 2015) is minus 1.5 % and the annual inflation for May 2016 compared to May 2015 is minus 2.5 %. The average annual inflation for the period June 2015 – May 2016 compared to the period June 2014 – May 2015 is minus 1.2 %.

The consumer price index for June 2016 compared to May 2016 was 99.9 %, i.e. monthly inflation is minus 0.1 %. Inflation as from the beginning of the year (June 2016 compared to December 2015) is minus 1.1 % and the annual inflation for June 2016 compared to June 2015 is minus 1.3 %. The average annual inflation for the period July 2015 – June 2016 compared to the period July 2014 – June 2015 is minus 0.8 %.

The harmonized consumer price index for June 2016 compared to May 2016 was 100.1 %, i.e. monthly inflation is 0.1 %. Inflation as from the beginning of the year (June 2016 compared to December 2015) is minus 1.3 % and the annual inflation for June 2016 compared to June 2015 is minus 1.9 %. The average annual inflation for the period July 2015 – June 2016 compared to the period July 2014 – June 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.

Inflation for the period 01.01.2016 – 31.03.2016 is as follows:

Table № 3

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 %

*Source: NSI

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.

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 and reducing inefficient expenses.

The Country Report Bulgaria of the European Commission, dated 26.02.2016 makes an in-depth review of all sectors and some of the main findings and forthcoming policy challenges for the country are indicated to be:

- The performance of the financial sector as a whole has stabilised, but risks remain. It is found that the banking sector liquidity and profitability has improved, but it is also indicated that a more robust assessment of the resilience of the sector can only be made based on the results of the upcoming asset quality review and stress test, which are expected towards late summer. Vulnerabilities in the non-banking sector have been identified that have yet to be addressed.
- Risks stemming from high corporate debt and barriers to deleveraging remain. The persistent negative inflation makes deleveraging more difficult and puts additional pressure on the profitability of non-financial corporations.
- The external position of the country as a whole has improved further but risks remain.
- Remaining weaknesses in the labour market continue to hinder growth and limit the adjustment capacity of the economy. It is noted that despite progress with reforms of active labour market policies, further improvement in matching people with vacancies is hindered by poor prioritisation, targeting and sustainability of measures in this area.

The result from the referendum in the UK, held on 23.06.2016, where 51.9 % of the electorate voted "for" leaving the European Union led to turmoil in the markets worldwide, larger than those at the height of the global financial crisis and raised serious concerns about the future of the European Union. For the European Union the exit of the UK threatens to lead to a disunity cycle. In international aspect, the exit of the second largest economy in the EU will cause a serious blow to the position and reputation of the EU.

The Minister of Finance of Bulgaria Vladislav Goranov does not expect serious serious direct impact on Bulgaria after the referendum in the UK. "We will be affected in so far as our economy is part of the EU economy. Our trade turnover with the UK is relatively small and direct effect in this aspect is not expected.

Brexit also provides opportunities for Bulgaria. It is expected that in response to the euroscepticism Europe will take measures towards accelerated integration. This will enable

Bulgaria to shorten time to move closer to the European family under the Schengen and the Eurozone line. "

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.

Political risk will continue growing if the government fails to take adequate measures for consistent implementation and completion of the structural reforms in all sectors and implement an integrated policy for financial, economic and social stabilization of the country.

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 + / -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.

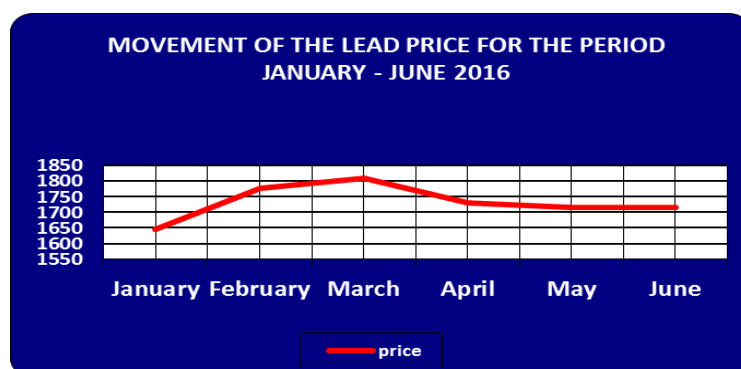
UNSYSTEMATIC RISKS

RISK OF PRICE CHANGES IN THE BASIC PRIME AND RAW MATERIALS

The principal activity of MONBAT AD is production and trading with accumulator and lead-acid batteries – starter batteries, stationary batteries for telecom application, semi-traction batteries, specialized batteries – army power range and locomotive batteries. Major prime and raw materials for the company's production process are lead and lead alloys, polypropylene, polyethylene separator and sulfuric acid.



As of 30.06.2016 lead takes approximately 70 % of the cost structure per unit:



* Average lead price for the six months of 2016 is 1730.59 USD/MT.

The risk of price change in the basic raw material – lead is being managed through construction of company's own recycling facilities.

DEPENDENCE OF MONBAT AD ON DISTRIBUTORS, SUPPLIERS, CUSTOMERS

There is no dependence of MONBAT AD on customers due to the fact that company's sales are not being made directly with customers but through the mediation of an extensive distribution network in the country and abroad. Sales with deferred payment in the country and for export are being insured in the Bulgarian Export Insurance Agency (BAEZ) by reason of which the risk of non-payment on the part of the customers is completely eliminated.

MONBAT AD is an export-oriented company.

Breakdown of the markets of MONBAT AD on a consolidated basis for the first half of 2016 is shown in the table below.

Table № 3

Country	30.06.2016 r.		30.06.2015 r.	
	Export ('000.EUR)	%	Export ('000.EUR)	%
FRANCE	8 149.09	15.51	8881.07	17.56
OTHER	9 116.10	17.35	8812.13	17.43
SPAIN	4 643.94	8.84	4992.74	9.87
GERMANY	4 173.10	7.94	4052.02	8.01
ITALY	3 633.03	6.91	2355.62	4.66
ROMANIA	3 236.97	6.16	3205.27	6.34
NETHERLANDS	3 224.47	6.14	3057.23	6.05
GREAT BRITAIN	2 629.35	5.00	2014	3.98
UKRAINE	2 528.18	4.81	0	0.00
GREECE	1 955.21	3.72	4543.43	8.98
BELGIUM	1 294.98	2.46	1117.03	2.21
FINLAND	1 270.48	2.42	725.45	1.43
SERBIA	1 160.04	2.21	2173.62	4.30
SOUTH AFRICA	1 091.33	2.08	1465	2.90
LEBANON	1 085.97	2.07	1121.80	2.22
DENMARK	927.48	1.77	882.09	1.74
CUBA	894.53	1.70	0	0.00
CZECH	812.58	1.55	610.24	1.21
IRELAND	712.36	1.36	560.51	1.11
TOTAL	52 539.19	100	50 570.10	100

For the period 01.01.2016 – 30.06.2016 MONBAT AD has generated consolidated revenues from abroad totalling BGN 102 758 000 which represents 91.37 % of the total net sales revenues.

For the period 01.01.2016 – 30.06.2016 major market for MONBAT AD was France with EUR 8 149 000 sales revenues which represents 15.51 % of the total export of the company on a consolidated basis.

The generated sales revenues on the domestic market on a consolidated basis during the first half of 2016 were in the amount of BGN 9 698 000 and represents 8.62 % of the total net sales revenues.

5. INFORMATION ABOUT THE CONCLUDED LARGE TRANSACTIONS WITH RELATED PARTIES DURING THE FIRST HALF OF 2016

Related parties to MONBAT AD are all companies where MONBAT AD holds over 50 % of the capital and the parties related to them.

Related parties to MONBAT AD are also all companies where the main shareholder PRISTA OIL HOLDING EAD holds over 50 per cent of the capital as well as all other companies where the single owner PRISTA OIL HOLDING EAD holds over 50 per cent of the capital.

The related party transactions of MONBAT AD on a consolidated basis for the first half of 2016 are as follows:

Table № 4

Related party	Type of relation	Transactions
MONBAT TRADING OOD	Monbat Trading OOD is a related party to Prista Oil Holding EAD with which jointly exercise control over MONBAT AD	Purchase of services on the part of MONBAT AD
PRISTA OIL HOLDING EAD	Main shareholder	Sale and purchase of goods, materials, services and other on the part of MONBAT AD.

Date: 29.08.2016

For MONBAT AD:

/Atanas Bobokov – Executive member of the Board of Directors /