**QUARTERLY MANAGEMENT REPORT**

**AS OF 31 JUNE 2015**

**in compliance with the art. 100o, par. 4 of POSA and art. 33, par. 1 of Ordinance 2 on the prospectuses for public offering of securities and admission for trading on regulated securities market and for disclosure of information by the public companies and other issuers of securities**

**I. IMPORTANT DEVELOPMENTS DURING THE FIRST HALF OF 2015 AND THEIR EFFECT ON THE FINANCIAL RESULTS**

**1. Core Activity**

*1.1 Revenue*

“Speedy” AD remains entirely focused on the development of its principal activity – the providing courier services. The company is still concentrated on the development of the international and the pallet services and endeavours are at expanding the network and the range of services. Beside acquisition in Romania, the company has established partnerships with companies in other neighbouring countries. Thus, it allowed offering to its client deliveries in Romania and Greece at the same tariff as for local market. The planned development of the office network largely is completed and in future the efforts are to be on its optimization.

On consolidated basis, the company emphasize on quick expansion in Romania by offering wider range of services as well as increasing the capacity of the logistic network.

*Revenue structure, non-consolidated*

|  |  |  |  |
| --- | --- | --- | --- |
| **In BGN ‘000** | **Н1 14** | **Н1 15** | **Change** |
| **Domestic market** | 30 486 | 35 061 | 15,0% |
| ***% of the total revenues*** | 86,3% | 86,1% |  |
| **International market** | 3 043 | 3 129 | 2,8% |
| ***% of the total revenues*** | 8,6% | 7,7% |  |
| **Others** | 1 802 | 2 533 | 40,6% |
| ***% of the total revenues*** | 5,1% | 6,2% |  |
| **Number of parcels delivered** | 5 592 | 6 384 | 14,2% |
| **Total revenues** | **35 331** | **40 723** | **15,3%** |

On the local market, the trend for high sales growth is continuing and during the 2nd quarter, it even accelerates. On non-consolidated basis the growth reached 15,3%. The main contributor are pallet services, where the company foresee considerable potential, and parcels up to 31 kg, where stable growth comes from both corporate and individual clients. International parcels also increased, though with a slower pace.

Other revenue jumped by 40,6%. The latter are related with the company core activity and are recurring.

Since 2013, Speedy, Jsc has been relying increasingly on subcontractors in various stages of logistic process in order to optimize its expenses. The excess vehicles are rented out to the subcontractors.

Because of higher revenue base and maturing courier services market, the pace of growth is lower than previous years but still we see a potential for growth above 10% in mid term.

*Revenue Structure, consolidated*

|  |  |  |  |
| --- | --- | --- | --- |
| **In BGN ‘000** | **Н1 14** | **Н1 15** | **Change** |
| **Domestic market** | 30 486 | 35 061 | 15,0% |
| ***% of the total revenues*** | 86,23% | 60,96% |  |
| **Foreign market** | 3 043 | 19 349 | 535,9% |
| ***% of the total revenues*** | 8,61% | 33,64% |  |
| **Others** | 1 825 | 3 108 | 70,3% |
| ***% of the total revenues*** | 5,16% | 5,40% |  |
| **Number of parcels carried** | 5 592 | 9 347 | 67,1% |
| **Total revenues** | **35 354** | **57 518** | **62,7%** |

On consolidated basis especially strong is the growth in international market where the revenue increased by 536% compared to half-year in 2014, following the consolidation of DPD Romania. The subsidiary in Romania has a different profile. The focus is on B2C services and international deliveries. After acquisition, Speedy, Jsc actively developed its presence on Romanian market by widening the range of services offered and expanding its logistic network. Due to planned investments and much higher dynamic of Romanian market, we expect the realized growth to outpace the one in Bulgarian market.

Besides development of its network and services, the company constantly work on improving its competitiveness, which allow us to defend and expand out leading position on courier market. It allowed in H1 2015 Speedy, Jsc to grow above market as a whole, adding 15,3% to its sales on non-consolidated basis and 62,7% on consolidated basis. Successful introduction of new products in the last years – international deliveries, pallets services and network for servicing online trade – are important contributor to the overall growth and currently comprise significant part of total revenue.

The expansion of office network has added a new segment – the individual clients and e-commerce. The smaller size of the parcels, common for the individual customers, results in lower average revenue per parcel, which explains the outpacing growth of number of parcel compared to sales growth. Larger office network has a positive effect on cost of delivery and is more convenient for individual clients. Along with that, SPS program is an additional marketing channel in the regions where the offices operate as long as local partners are motivated to promote company services.

The proceeds from rents and sale of amortized vehicles are the main contributor for increase in “Other revenue” as well as the better collection of receivables that had been provisioned. On consolidated basis the increase is 67% because of additional revenue from DPD Romania.

Besides the new services, Speedy Jsc realize healthy growth in its core segment due to its strong competitive position in large parcels and corporate clients.

*1.2 Expenses*

In 2014 significant restructuring were made in the company operations that changed significantly the cost structure. On one side, the Speedy’s Ltd employees were appointed directly in Speedy Jsc. As a result, on non-consolidated basis the cost of hired services from Speedy Ltd shrunk from BGN 5,6m to BGN 50k, Respectively, total cost of hired services decreased by 13% at the expense of higher remuneration payments, following the higher payroll and 5% average increase of wages and salaries as of 01.07.2014.

On the other side, the programs “Loyalty” and “Couriers - subcontractors” advanced. These programs allow couriers to purchase the vehicles that they work with or to rent one from Speedy Jsc and to continue its operation as a separate business unit. Currently, 80% of couriers operate as subcontractors. Thus, on non-consolidated basis all other this equal (eliminating the effect of re-appointment of personnel from Speedy Ltd to Speedy Jsc), results in 20,8% higher cost of hired services but cut of other expenses, mainly remuneration, fuel, material and vehicle maintenance. On consolidated basis, the migration to subcontractors also explains almost double increase of cost of higher services, together with consolidation of DPD Romania. The latter also implemented the common practice in the business to outsource the large portion of logistic activities.

*Cost Structure, non-consolidated*

|  |  |  |  |
| --- | --- | --- | --- |
| **In BGN ‘000** | **Н1 14** | **Н1 15** | **Change** |
| **Costs of materials** | 3 315 | 2 865 | -13,6% |
| **Compensation costs** | 2 909 | 8 409 | 189,1% |
| **Costs of external services** | 21 412 | 18 616 | -13,1% |
| **Book value of assets sold** | 611 | 801 | 31,1% |
| **Other operating costs** | 436 | 450 | 3,2% |
| **Depreciation** | 2 259 | 3 354 | 48,5% |
| **EBITDA** | **6 648** | **9 582** | **44,1%** |
| **Net profit for the period** | **5 201** | **7 980** | **53,4%** |

The actions undertaken last year for optimization of operations had highly positive effect on profitability. On annual basis, EBITDA jumped 44% and EBITDA Margin peaked to 23,5% from 18,8% last year. Considerable investments in 2014 in vehicles and equipment resulted in 48,5% higher depreciation costs and increase in financial expenses from BGN 162k to BGN 411k (including revaluation of exposures to RON). Those expenses are largely offset by higher dividends distributed by daughter companies – BGN 2 745k, compared to BGN 1 397k in 2014. On the bottom line it lead to 53,4% increase in non-consolidated net profit.

*Cost Structure, consolidated*

|  |  |  |  |
| --- | --- | --- | --- |
| **In BGN ‘000** | **Н1 14** | **Н1 15** | **Change** |
| **Costs of materials** | 3 315 | 3 413 | 3,0% |
| **Compensation costs** | 8 248 | 10 757 | 30,4% |
| **Costs of external services** | 15 858 | 31 693 | 99,9% |
| **Book value of assets sold** | 611 | 801 | 31,1% |
| **Other operating costs** | 436 | 588 | 34,9% |
| **Depreciation** | 2 272 | 4 229 | 86,1% |
| **EBITDA** | **6 886** | **10 266** | **49,1%** |
| **Net profit for the period** | **4 003** | **4 861** | **21,4%** |

The restructuring of operations and the consolidation of acquired companies in the end of 2014 lead to considerable change in the expenses. Along with increase of hired services, using subcontractors resulted in lower expenses for fuel and car maintenance even after adding DPD Romania costs. Other things equal, savings are achieved in compensation costs as well but because of consolidation, there is an increase in absolute terms.

Operating profit edged up by 49,1% or EBITDA Margin of 17,85%. On the bottom line the improvement is thinner due to 86% higher depreciation, following intensive investments in Speedy Jsc as well as in DPD Romania during 2014 and beginning of 2015. DPD Romania’s profitability were considerably lower at the tima of acquisition and active expansion and investments additionally suppress the financial results. Expectations are the targeted growth of business and improvement of efficiency to foster the profitability in future.

During the reportin period, the acquired fixed assets total BGN 5,6. The largest investment in amount of BGN 2,66m for development of new management software and related consultancy services. The investment is partially funded under OP “Competitiveness” and is to replace the existing software for operating management. Beside considerable improvement of existing capabilities, the new system is also a flexible platform which allows addition and expansion of new modules and functions. By developing the software, Speedy Jsc completed the whole project under OP “Competitiveness” in amount of BGN 4m, 50% of which are grant from the EU program. Beside the software, the financing were used for acquiring hardware and technical equipment. The rest of the investment for the period are for vehicles (BGN 1,34m), repair of rented premises, technical and other equipment.

*1.3 Important events after the reporting date..*

No such events.

*1.4 Future developments.*

The SPS office network is largely completed and future efforts are to aim its optimization.

Focus continue to be the development of the „PalletOne“ and investments in building and expansion of the infrastructure that service it.

The size of the investments in current operations are to reduce since the auto fleet is largely modernized.

In Romania the plans are to widen the office network and the services offered. The planned investments are between BGN 3m and 5m, mainly for increasing the capacity of logistic centres and transportation vehicles.

**2. Corporate events**

**On 10th February 2015**, were held a General Meeting of the Shareholders of “Speedy“ AD, where were adopted changes in the article of association, changes in the number and the members of the Board of Directors and election of new auditor of the company — BDO Buldaria. The new member of the Board of Directors is Cedric Favre-Lerraine (Financial Director of Geopost France) as the representative of the French investor.

On 2nd June 2015 were held a regular General Meeting of the Shareholders of “Speedy“ AD, where were taken a decision for distribution of dividend in amount of BGN 1,05 per share or BGN 5 602 715 in total and were voted changes in the Board of Directors.

**II. RISK FACTORS IN COMPANY OPERATIONS.**

“Speedy“ AD aims at keeping a low-risk profile through maintaining A low levels of financial and operating leverage, high level of efficiency, implementation of strict rules and procedures in operations and strict compliance, diversification of customer base and suppliers.

*Macroeconomic risk*

Speedy“ AD covers the whole country and provides services to companies of different sectors of the economy. Hence, the activity of the company depends heavily on economy conditions and overall business environment. Potential shrinking of the economy and the consumption would affect the profit margins, while a considerable and prolonged slow-down in the business activity might lead to a negative trend in the revenues. The company mitigates the risk by maintaining high level of financial independence and constantly invests in efficiency improvement, which allows to achieve profitability well above its competitors.

*Regulatory risk*

The regulatory risk is associated with adoption of regulations, which might result in additional costs or restrictions on the activity of the company. Currently, are not expected implementation of changes, which might encumber the activity or may involve additional costs.

*Interest rate risk*

All interests-bearing liabilities of “Speedy“ AD are with floating interest rate, EURIBOR and SOFIBOR. Respectively, the increase in the overall interest levels would have a negative effect on the company. The expansionary monetary policy of the leading central banks dampen the main interest rates and most likely these levels will be sustained in the medium term, and considerable negative change is unlikely.

*Credit risk*

Almost 80 % of the revenues are generated from customers under contracts and therefore the service is not paid, when rendered, but on a monthly basis. In case of deterioration of economic situation, the amount of the past-due receivables may increase considerably. The company has implemented a detailed and strict system to monitor the account payables and their maturity, as well as a procedure for action in case of overdue payment. Following the improvement in economic situation, the provisions for past-due payments considerably decreased during the recent years and the company were able to collect a substantial part of its receivables, which had already been provisioned. As a result, the total amount of the accumulated provisions is decreasing during the recent years.

The cash is kept with a view to the lowest risk. The banks of the company are with the highest rating in the country.

*Price risk*

The price risk is related to the average inflation level in the country and to the level of competition. After 2009, the inflation in the country is low and in 2014 it reached negative levels. That , combined with the high competition, put pressure on the prices of the services. Thanks to investments in efficiency and improvement of the processes, “Speedy“ AD manages to maintain its competitiveness and has an opportunity to achieve high profitability despite of the price pressure.

*Currency risk*

The currency exposures of the company incur due to deliveries to and from abroad, whose share in the total revenues is currently low. The bigger part of the currency operations are carried out in EUR. Therefore, the total effect of the change in the exchange rates is negligible. The increase in the international deliveries is one of the main sources of growth in the future, which is also expected to lead to an increase in the currency exposure in the long run. During this year, transactions were carries out in EUR, BGN and RON. If the fixed exchange rate BGN – EUR is maintained, in the medium term we do not envisage considerable effect on the financial result of the company caused by the changes in the exchange rates. After the acquisition of DPD Romania SA, transactions in RON increased substantially and, respectively, the currency risk exposure. The share in the total revenues of the operations in RON is small and do not have a considerable effect on the final result. The change in the BGN/RON exchange rate has a considerable effect on consolidation of DPD Romania SA, since the revenues constitute about 30 % of the consolidated revenues.

*Liquidity risk*

The liquidity risk is the risk that the company may not be able to meet its due payments. “Speedy“ AD has considerable payables related with the payment under lease agreements and to its suppliers.

When managing its liquidity, the company tune its payments in accordance with the expected future cash flows. In addition, cash reserves are maintained as a buffer in case of potential unfavorable market and economic circumstances and, respectively, temporary shrinking of the cash proceeds. Up to now, the company generates considerable positive cash flow, which allows to meet maturing payments timely and maintaining solid liquidity indicators.

## *Trends in the business areas, in which SPEEDY and its subsidiaries operate*

The total number of registered operators is relatively large but in 2013 56 companies carry out active operation. Out of them, the top 5 companies generate 67% of total proceeds. The market leader on courier segment is Speedy Jsc with 30% share in non-universal services and 24% of the total postal market. The company has the advantage to operate in the largest and the fastest growing segment of the postal market and the achieved increase in revenue outpace the market as a whole and , respectively, its market share constantly expands. The main competitor is Econt express Ltd with a market share close to Speedy’s.

Despite of registration requirement and regulatory agency, the non-universal segment is largely open with low entry barriers. The role of the regulator is limited to establishment of standards of services and guaranteeing minimum quality of the services, which actually in beneficial for the market and the companies with long term and strategic vision for the business.

According to the official annual report for 2013 of the Communications Regulation Commission, Bulgarian market of postal services amounts to BGN 258m, incl. BGN 209m from courier services. The market is gradually recovering and in 2012 its size returned to its peak in 2008. The main contributors are courier services which comprise 65% of the market and are the fastest growing segment.

In the niche where “Speedy” operates (large parcels and corporate customers), the competition is less intensive and the other companies with identical focus are considerably smaller. In the medium term, no significant changes in the area are expected as the main competitors are targeting other market niches.

There is no official statistics for the market in Romania. Based on management’s estimates, the total size of the postal services market is considerably bigger than the Bulgarian, exceeding BGN 1 bn. The biggest market player is the Romanian posts with about 37 % market share. The leader in the courier services segment is Fan courier with over 20 % market share. The international parcels constitute a considerable part of the courier services and three of the top five courier companies - DHL, TNT and UPS – operate exclusively on the international market.

During the last two years the Romanian economy is among the fastest growing in Europe and, respectively, the expectations about the development of the courier services market are to develop with rates above the EU average.

**III. Information about transactions with own shares under art. 187e of the Commercial Act**

The company has not traded in with own shares.

**IV. Participation of the board members in commercial companies as unlimited liability partners, ownership of more than 25 percent of the capital of another company, as well as their participation in the management of other companies or cooperatives as procurators, managing directors or board members**

There are no changes during the reporting period.

**INSIDER INFORMATION regarding events, occurred during the past quarter**

**As of 30 June 2015, there is no other insider information, except the already disclosed one, necessary for the shareholders to take investment decision regarding the shares of the public company.**

**ADDITIONAL INFORMATION**

1. **Information about the changes in the accounting policy during the reporting period**

During the reporting period, there are no changes in the accounting policy of “Speedy“ AD.

**2. Information about business combinations in the group of “Speedy“ AD**

No changes in the group has occurred.

**3. Information about the results from the organizational changes in “Speedy“ AD** /*transformation, sale of companies of the economic group, in-kind contributions by the company, renting out of property, long-term investments, discontinuing of activity/*

There are no organization changes, which are not disclosed in this document.

**4. Management opinion regarding the expectation to achieve the announced financial forecasts for the current financial year**

The Board of Directors of “Speedy“ AD did not publish any forecasts for 2015 results.

**5. Information about the persons, holding directly or indirectly, at least 5 percent of the voting rights as of the end of the respective quarter, and the changes in the votes that the persons hold during the period since the end of the previous quarter**

*5.1. “Speedy Group” AD*

Number of shares with voting rights and their share in the total votes in the general meeting of the shareholders in the company:

As of 30 June 2015 – 3 544 367 shares, representing 66.42 % of the voting shares.

Valery Mektupchiyan controls “Speedy Group” AD and through the shares that he holds in “Speedy Group” AD, he also controls “Speedy“ AD.

*5.2. Geopost SA*

As of 30 June 2015, Geopost SA holds 1 333 979 shares, representing 25 % of the voting shares.

**6. Information about the shares held by the members of the Board of Directors of the company at the end of the period and about the changes during the period since the end of the previous quarter**

As of 30 June 2015:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Acquired 2nd quarter of 2015** | **Transferred 2nd quarter of 2015** | **Number of shares held directly** | **Number of shares held through related parties** | **Total directly and through related parties** | **Share in the capital held directly and through related parties** |
| Valery Mektupchiyan | 0 | 0 | 0 | 3 544 367 | 3 544 367 | 66.42% |
| Danail Danailov | 0 | 0 | 360 | 0 | 0 | 0.01% |

The members of the Board of Directors have no special rights to acquire shares in the company.

**7. Information about pending legal, administrative or arbitration proceedings, concerning obligations or receivables in amount of at least 10 percent of the equity of the issuer; if the total value of the obligations or receivables of the issuer in all instigated proceedings exceeds 10 percent of its equity, there shall be provided information separately about each of the proceedings**

There are no legal or other proceedings with considerable value.

**8. Information about the loans granted by the issuer or by any of its subsidiary, extended warranties or assuming of obligations, total to one person or any of its subsidiaries or including related parties, specifying the nature of the relationship between the issuer and the party, the amount of the outstanding principal, the interest rate, the maturity, the amount of the assumed obligation, conditions and term.**

As of 30 June 2015, loans are granted to “Bulrom Gas 2006” EOOD and DPD SA, Romania.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Name, in thousand BGN** | **Amount** | **Interest rate** | **Maturity** | **Purpose** |
| **“Bulrom Gas 2006” EOOD** | 3 199 | 6% | 31.12.2017 | Investment |
| **DPD SA, Romania** | 2 641 | 4.5% | 15.12.2020 | Investment |
| **TOTAL LOANS** | **4 132** |  |  |  |

“Bulrom Gas 2006” EOOD and “Speedy“ AD are controlled by Valery Mektupchiyan. DPD SA, Romania is a subsidiary of “Speedy“ AD

The loans have no collateral.

**9. Information about related parties transactions.**

In 2015, there are no related parties transactions with substantial amount and/or such that have substantially affected the financial standing or the results of the company during the reporting period.

There are no related parties transactions, which go beyond the regular business operations or considerably deviate from the market conditions.

All transactions between related parties are disclosed in the Appendix to the Financial Statement.

Krasimir Tahchiev Valery Mektupchiyan

Investor Relations Director Executive Director