

REPORT
ON THE ACTIVITIES OF THE AUDIT COMMITTEE
of BILLBOARD AD
during 2014

Dear shareholders,

This Report of the audit committee of BILLBOARD AD was prepared on the grounds of the provision of art. 40l of the Law on the Independent Financial Audit. The activities of the audit committee in 2014 was directed towards increasing the effectiveness of the financial reporting processes, the internal control and risk management systems in the company on an individual and consolidated basis.

The audit committee of the company including Valeri Tanov – Chairperson, Daniela Peeva and Stanimir Genchev – members was elected at the regular annual session of the general assembly of the shareholders of BILLBOARD AD, held on 24.06.2013 with 2 years terms of office.

2014 activities of the audit committee:

The major activities of the audit committee of BILLBOARD AD in compliance with the provisions of art. 40 h of the Law on the Independent Financial Audit include:

- Observing the financial reporting processes in the company;
- Observing the effectiveness of the internal control systems;
- Observing the effectiveness of the risk management systems;
- Observing the independent financial audit in the company;
- Reviewing the independence of the certified auditor of the Company in accordance with the law and the Professional Accountants Code of Ethics.

On the basis of the primary information received, the professional analyzes and expert discussions held and in strict accordance with the requirements of the Law on the Independent Financial Audit and the Law on the Public Offering of Securities, the Audit Committee of Billboard AD formulated the following findings, conclusions and recommendations for activities the company in 2014:

Observing the financial reporting processes in the company

In 2014 the company complied with adequate financial reporting in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and adopted by the Commission of the European Union.

The following new standards, amendments to standards and interpretations are mandatory in preparation of the financial statements for accounting periods beginning on or after January 1, 2014, and are applicable to the Company:

IFRS 10 "Consolidated Financial Statements" and subsequent amendments to IAS 27 "Separate Financial Statements" (published by the IASB in May 2011, adopted by the European Commission in December 2012, effective for accounting periods beginning on or after January 1, 2014). The new standard develops the existing principles by identifying the concept of control as a determinant factor in deciding whether a company should be included in the consolidated financial statements of the parent company. The standard provides additional guidance to assist in determining whether there is control when such an assessment is difficult. The standard replaces SIC 12 and parts of IAS 27. The standard and its subsequent amendments were applied in preparing the consolidated financial statements of the Group, where the Company is a parent company.

IFRS 12 "Disclosure of Interests in Other Entities" (published by the IASB in May 2011,

adopted by the European Commission in December 2012, effective for accounting periods beginning on or after January 1, 2014). The new standard includes comprehensive disclosure requirements on all forms of interest in other entities, including joint activities, associates, special purpose entities and other off-balance sheet commitments. The standard was applied in preparing the consolidated financial statements of the Group, where the Company is a parent company.

IAS 36 (Amendment), "Disclosure of the recoverable value of financial assets" (published by the IASB in May 2013, adopted by the European Commission in December 2013, effective for accounting periods beginning on or after January 1, 2014). The amendment clarifies that the scope of information disclosures about the recoverable amount of assets where this amount is determined on the basis of fair value less costs of disposal shall be limited to the impaired assets. The Company applies the amendments to the Standard but it had no significant effect on the financial statements.

The following new standards, amendments to standards and interpretations are mandatory in the preparation of financial statements for accounting periods beginning on or after January 1, 2014, but are not applicable to the Company:

IFRS 11 "Joint Actions" and subsequent amendments to IAS 28 "Investments in Associates and Joint Ventures".

IFRS 10, IFRS 11 and IFRS 12 (Amendments) "Transitional provisions".

IFRS 10, IFRS 11 & IAS 27 (Amendment) "Investment enterprises".

IAS 32 (Amendment) "Offsetting Financial Assets and Financial Liabilities".

IAS 39 (Amendment) "Novation of derivatives and continued hedge accounting".

NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS THAT WILL BE IN FORCE FOR THE FIRST TIME IN 2015 OR THEREAFTER, APPLICABLE TO THE COMPANY BUT NOT ADOPTED EARLIER

The following new standards, amendments to standards and interpretations to existing standards have been published and are mandatory for accounting periods beginning on or after various dates, the earliest of which is June 17, 2014 and are applicable to the Company:

IFRS 9 "Financial Instruments" (published by the IASB in July 2014, expected adoption by the European Commission, effective for accounting periods beginning on or after January 1, 2018). The package of improvements presented in IFRS 9 includes a logical model for classification and evaluation, a single, forward-looking model of impairment "expected losses" and substantially revised approach to hedge accounting as follows:

Classification and assessment: IFRS 9 introduces a logical approach to the classification of financial assets, which is led by the characteristics of the cash flow and the business model under which the asset is held. This single, principle-based approach replaces the existing requirements which are based on rules, which are widely accepted as too complex and difficult to implement. The new model has also as a result application of a single model of impairment, which is applicable to all financial instruments, thus removing one source of complexity that was generally associated with the previous requirements for accounting reporting.

Impairment: IFRS 9 introduces a new model of a reassessment of expected losses that will require more timely recognition of expected credit losses. In particular, the new standard requires companies to account for expected credit losses as from the moment the financial instruments are initially recognized and to recognize the full expected losses throughout the period covered by the financial instruments on a more timely basis.

Hedge accounting: IFRS 9 introduces a substantially reformed model of hedge accounting together with improved disclosures on activities related to risk management.

Private credit: IFRS 9 also eliminates variability in profit or loss which was caused by changes in the credit risk of liabilities, which are set to be reported at fair value. This change in reporting means that profits, which are caused by deterioration in own credit risk of the company in respect of such obligations, will no longer be recognized in profit or loss.

The Company will apply the new standard following its adoption by the European Commission.

At present, the potential impact of the standard on the financial statements can not be assessed.

IFRS 15 "Revenues from contracts with customers" (published by the IASB in May 2014, expected adoption by the European Commission, effective for accounting periods beginning on or after January 1, 2017). The basic principle of the new standard is companies to recognize revenues in a way that reflects the transfer of goods or services to customers and values that reflect the consideration (i.e. payment) that the company expects to receive in exchange for those goods or services. The new standard also has the effect of introduction of enhanced disclosures about revenues providing guidance for transactions that have not previously been addressed in fullness (e.g. revenues from sales of services and modifications in contracts) and the improvement of guidelines on arrangements involving multiple elements. The Company will apply the new standard following its adoption by the European Commission. At present it is not expected that standard will lead to a significant change in the financial statements of the company.

IAS 1 (Amendments) "Initiative for disclosures" (published by the IASB in December 2014, expected adoption by the European Commission, effective for accounting periods beginning on or after January 1, 2016). Amendments to the standard are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. For example, the amendments clarify that materiality applies to the financial statements in their entirety and the inclusion of insignificant information can negatively affect the usefulness of financial disclosures. In addition, the amendments clarify that companies should use professional judgment in determining where and in what sequence information is provided in financial disclosures. The Company will apply the amendments to the standard following their adoption by the European Commission. At present it is not expected that this will significantly impact the Company's financial statements.

IFRIC 21 "Levies" (published by the IASB in May 2013, adopted by the European Commission in June 2014, effective for accounting periods beginning on or after June 17, 2014). IFRIC 21 is an interpretation of IAS 37. IAS 37 specifies criteria for the recognition of obligations, one of which is the requirement for the company to have a present obligation as a result of a past event (known as obligating event). The clarification specifies that the obligating event that creates the obligation to pay tax liabilities, other than those related to income taxes, is the action described in the relevant regulatory provisions, which makes payment of such obligations mandatory. The Company will apply the clarification following its entry into force. At present it is not expected that the clarification will have a material effect on the financial information of the Company.

Annual amendments to IAS / IFRS Cycle 2010 - 2012 and Series 2011 - 2013 (published by the IASB in December 2013, adopted by the European Commission in December 2014, effective for accounting periods beginning on or after 1 January of 1 February, 2015). The amendments concern the following standards and respective fields:

IFRS 1 – meaning of "effective IFRS";

IFRS 2 - definition of condition for (unconditional) acquisition of right/entitlement;

IFRS 3 - accounting for contingent consideration in a business combination and limitation of the scope for joint ventures;

IFRS 8 - aggregation of operating segments and equation between total assets of the segments subject to reporting and company's assets;

IFRS 13 - current receivables and liabilities and scope of paragraph 52 (portfolio exception);

IAS 16 - Revaluation model - proportional calculation of accumulated amortization;

IAS 24 - key management personnel;

IAS 38 - Revaluation model - proportional calculation of accumulated amortization;

IAS 40 – clarification on the relations between IFRS 3 and IAS 40 when classifying the property as an investment property or property used by the owner.

The Company will apply the amendments to the standards following their entry into force as this is not expected to have a material effect on its financial statements.

Annual amendments to IAS / IFRS Cycle 2012 - 2014 (published by the IASB in September 2014, expected adoption by the European Commission, effective for accounting periods beginning on

or after January 1, 2016). The amendments concern the following standards and respective fields:

IFRS 5 - changes in the writing off method;

IFRS 7 - serving contracts and applicability of the amendments to IFRS 7 in condensed interim financial statements;

IAS 19 - discount rate: problem in regional markets; and

IAS 34 - information disclosure "elsewhere in the interim financial report".

The Company will apply the amendments to the standards following their adoption by the European Commission as this is not expected to have a material effect on its financial statements.

Observing the effectiveness of the internal control systems

The internal control system complies with the standards set by the Board of Directors of the Company. The effectiveness of the internal control system enabled the timely preparation and submission of reliable quarterly financial statements of Billboard AD to the Financial Supervision Commission, "BSE - Sofia" AD and the public. Periodical financial analysis and financial control have been conducted of the company's current accounting and the relevant reports have been brought to the attention of the Board of Directors. In addition, the Audit Committee of the Billboard AD confirms that in 2014 the financial reporting system was adequate and presented in a reliable way the financial standing of Billboard AD and that the internal control system enables efficient management of the company's financial resources.

Observing the effectiveness of the risk management systems

In 2014 Billboard AD due to the specifics of the company's operations had exposure to the following risks:

Overall macroeconomic risk

Systematic credit risk

Interest rate risk

Inflation risk

Political risk

Currency risk

Sector risk

Risk of introduction of new technologies

Detailed description of the risks to the Company's operations is presented in the 2014 Annual Report on the activities of the company.

The members of the Audit Committee held a series of consultation meetings with the Internal Control Department and the Risk Management Department of Billboard AD. The Audit Committee held sessions in connection with the preparation of the individual and consolidated quarterly and annual financial statements by performing verification on the financial reporting processes in the company, the internal control and risk management systems. Given the verifications carried out and the respective findings, it could be concluded that in the company successfully function internal control and risk management systems as they also meet the regulation requirements.

Observing the independent financial audit in the company

The Audit Committee reviewed the independence of the auditor elected by the company's general assembly of shareholders to perform independent verification and certification of the 2014 annual financial statements in accordance with the law and the Professional Accountants Code of Ethics. The contract for an independent financial audit to be conducted was concluded after the approval of the audit committee.

The audit committee found that the certified auditor - N S Consulting Ltd. with its registered

seat and business address at 73 Bulgaria Blvd., entr. A, floor 2, app. 107, 1404 Sofia, with UIC: 175282408, meets the independence criteria. It was also found that the independent auditor has created its website: <http://www.ides.bg/bg/Oditors/OditorsItem.aspx?OditorsItem=2be88011-5da7-4cad-97d8-05462440fa82&pg=3&Odit=2>.

The Audit Committee monitored the work of the elected independent auditor and confirms that the independent financial audit for 2014 was conducted lawfully, in strict compliance with the requirements for an independent financial audit of companies operating in public interest under the legislation in force.

The certified auditor reported on the main issues related to the conduct of the audit. Information was received on the other services provided by the auditor, out of the scope of the audit. The Audit Committee found that the certified auditor has not provided other services out of the scope of the audit contract.

Recommendation for election of an auditor of BILLBOARD AD for 2015: Specialized audit company N S Consulting Ltd. with its registered seat and business address at 73 Bulgaria Blvd., entr. A, floor 2, app. 107, 1404 Sofia, with UIC: 175282408, registered as a specialized audit company under (Reg. No 142) in the Register of the Institute of the Certified Public Accountants (ICPA) in September 2010.

This Report was approved at a session of the audit committee, held on 14.05.2015.

Chairperson of the Audit Committee:

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Valeri Tanov