



## **INTERIM REPORT ON THE ACTIVITIES OF BILLBOARD AD, Sofia AS OF 31.03.2021**

### **1. IMPORTANT DEVELOPMENTS FOR BILLBOARD AD THAT OCCURRED DURING THE PERIOD 01.01.2021 – 31.03.2021**

**On 29.01.2021** BILLBOARD AD filed with FSC and BSE-Sofia AD and presented to the public interim individual financial report for the fourth quarter of 2020.

**On 01.03.2021** BILLBOARD AD filed with FSC and BSE-Sofia AD and presented to the public interim consolidated financial report for the fourth quarter of 2020.

**On 31.03.2021** BILLBOARD AD filed with FSC and BSE-Sofia AD and presented to the public annual audited separate financial statements as of 31.12.2020.

In the beginning of March 2020, a pandemic of an infectious disease caused by the virus /SARS-CoV-2/ appeared in the country. On March 13, 2020, a state of emergency was declared by a decision of the National Assembly and on March 24, 2020 the Law on Measures and Actions during the State of Emergency came into force, introducing a number of extraordinary measures concerning the business: extending and/or interrupting administrative terms, suspension of procedural terms and statutes of limitations, changes in the labor legislation introducing new working hours, suspension of work and use of leave.

The pandemic has caused a significant reduction in economic activity and has created significant uncertainty about macroeconomic processes in 2020 and up to the present moment.

The risks and uncertainties for the company as a result of the declared state of emergency and the created difficulties and uncertainties in the economic activity not only in the country, but also in Europe and the whole world can be summarized in the following directions:

- reducing the volume of the activity as a result of the significant reduction of the economic activity and consumption in the country;
- difficulties in the operational activity due to cancellation of deliveries, difficult logistics of materials and finished products.

At this stage, the measures taken by the company's management to deal with the emergency situation include strict application of anti-epidemic and other restrictive measures declared by orders of the Minister of Health, including increasing sanitary and hygienic requirements for work in the company's premises (disinfection, ventilation, provision of protective equipment) and providing the opportunity for remote work (from home) of the administrative staff, as well as taking actions to renegotiate the relations with creditors (banks and leasing companies) and contractors of the company.

The management of BILLBOARD AD believes that the effect of the pandemic and the imposed restrictive measures at European and national level will continue having a negative impact on the company's activities in the current year.

## **2. IMPACT OF THE IMPORTANT DEVELOPMENTS FOR BILLBOARD AD THAT OCCURRED DURING THE PERIOD OF 2021 UNDER REVIEW ON THE RESULTS IN THE FINANCIAL REPORT**

BILLBOARD AD is a company with the following scope of activity: foreign and domestic trade; specific trade operations; barter and cross transactions; sales under the conditions of letters of credit; export of Bulgarian products to the international market; distribution of great volumes of imported goods; commercial representation; intermediation between local and foreign parties; printing and wide format printing activities; advertising activity; acquisition and incorporation of new companies with a scope of activity – printing, wide format printing activities, advertising activity as well as sale of such companies; acquisition, management, evaluation and sale of share participations in Bulgarian and foreign companies; acquisition, evaluation and sale of patents; transfer of licenses for use of patents to companies where the company participates; financing of companies where the company participates.

BILLBOARD AD and the companies included in the economic group perform activities in the following major spheres:

- Digital wide format printing;
- Offset printing;
- Construction and maintenance of advertising equipment;
- Information technologies and professional solutions for digital printing;
- Design and construction of integrated management information systems in the field of printing and advertising business;
- Complex solutions in the field of outdoor and interior advertising.

In the field of **outdoor advertising** BILLBOARD AD develops and offers various types of billboards, mega boards, City Lights, advertising shop windows, awnings, facade advertising with integrated lighting and unlighted facade advertisement banners and packing of buildings.

In the field of **indoor advertising** BILLBOARD AD develops and offers printing of posters and banners with photo quality, including 3D posters, illuminated advertisements, banners, floor graphics, design and implementation of various backdrops, branding, development of boards and panels, models of objects and people in natural size, advertising on custom interior spaces, expo systems.

In the field of **transport advertising** BILLBOARD Plc develops and offers a variety of services in the field of branding for different types of vehicles - cars and trucks, airplanes, ships and boats, means of public transportation.

In carrying out its activities in the different fields BILLBOARD AD uses various technologies, such as:

- **solvent printing** - characterized by high resistance to external conditions and suitable for the production of outdoor advertising with high resistance. BILLBOARD AD has the most modern equipment for digital wide format solvent printing with almost all models of the brand Vutek - a world leader in the field as all of them are the latest generation of 8-color models. Also, the printing base is equipped with a HP Turbojet 8530 machine, which is unique for its kind.

- **ink-jet printing** – the technologies for digital wide format printing on a water base are of high quality and are used for printing on paper. BILLBOARD AD has the latest models of the brand HP Designjet which manifest extremely high quality, reliability and fast performance. The company participated as a co-organizer in many exhibitions.

- **UV printing** - the most advanced technology in printing with liquid polymer inks, cured by irradiation with UV light. Instant drying of the inks enables this technology to be used for direct printing on all materials. The printing quality is very high in color mode, which enables displacing the screen printing technologies.

- **textile printing** – the Dye Sublimation technology is the basis for dyeing in textile industry. With the development of digital technologies, the classic method of printing is being displaced by direct printing with sublimation inks and non-standard sizes and formats.

- **3D printing** - the development of digital printing opens up new possibilities for production of 3D models applicable both in the art field and in the field of industrial design, architecture, etc. New technologies facilitate and expedite the process in modeling, which is already been implemented entirely by using computer systems, 3D modeling software and make it much more accessible for implementation.

- **multimedia screens** - development of digital technologies increasingly leads to imposition of multimedia screens as a means of visual communication with consumers in interior environments. Through them, static images are being developed in an interactive multimedia environment which creates a dynamic atmosphere and enhances the effect of advertising.

- In addition to the aforementioned technologies BILLBOARD AD has all the necessary equipment needed for cutting the printed output or finished color and for performing all finishing works such as sewing and gluing, laminating and laminating, routing and milling.

Pursuant to the unaudited individual financial statements of BILLBOARD AD, drawn up according to the IAS/IFRS, as of 31.03.2021 the company reported total individual net sales revenues in the amount of BGN 1 731 000 compared to BGN 1 729 000 for the same period of 2020 which represents an increase of the net sales revenues by 0.12 %. As of 31.03.2021 the individual production net sales revenues of BILLBOARD AD were in the amount of BGN 1 707 000 compared to the individual production net sales revenues reported by 31.03.2020 in the amount of 1 709 000 which represents a decrease of the company's individual production net sales revenues by 0.12 %.

As of 31.03.2021 BILLBOARD AD reported individual profit before taxes in the amount of BGN 58 000 compared to the individual profit before taxes for the same period of 2020 in the amount of BGN 46 000 which is an increase by 26.09 %.

As of 31.03.2021 the earnings before taxes and depreciation and amortization, increased by the financial expenses and decreased by the financial incomes of the BILBOARD AD on an individual basis were to the amount of BGN 335 000 compared to EBITDA as of 31.03.2020 in the amount of BGN 246 000.

As of 31.03.2021 the earnings before taxes, increased by the financial expenses and decreased by the financial incomes (EBIT) of BILBOARD AD on an individual basis were in the amount of BGN 112 000 compared to EBIT in the amount of BGN 25 000 as of 31.03.2020.

### Financial indicators of the company as of 31.03.2021

Table № 1

LIQUIDITY INDICATORS	31.03.2021	31.03.2020
Total liquidity ratio	1.18	1.32
Quick liquidity ratio	0.92	1.16
Absolute liquidity ratio	0.03	0.18
Immediate ratio	0.12	0.33

Table № 2

PROFITABILITY INDICATORS	31.03.2021	31.03.2020
Profitability of capital	0.004	0.003
Return on equity (ROE)	0.006	0.003
Return assets (ROA)	0.003	0.002

Table № 3

LEVERAGE INDICATORS	31.03.2021	31.03.2020
Financial leverage indicator	1.09	0.68
Debt/Assets	0.38	0.41
Financial autonomy indicator	1.77	1.46

### **3. DESCRIPTION OF THE PRINCIPAL RISKS AND UNCERTAINTIES WHICH BILLBOARD AD WILL FACE DURING THE REST OF THE FINANCIAL YEAR**

#### **SYSTEMATIC RISKS**

Systematic risks are related to the market and the macro environment where the company operates and therefore they cannot be managed and controlled by the company's management.

#### **OVERALL MACROECONOMIC RISK**

Pursuant to data of the National Statistical Institute in March 2021, the total business climate indicator increases by 2.1 percentage points compared to February as a result of the increased indicator in all observed sectors - industry, construction, retail trade and services.

Pursuant to data of the National Statistical Institute the composite indicator 'business climate in industry' increases by 1.2 percentage points which is due to the more favorable industrial entrepreneurs' assessments and expectations about the business situation of the enterprises. According to them, at the last month there is certain increase of the production assurance with orders, which is not accompanied by increased expectations about the production activity over the next 3 months.

The main difficulties for the activity remain connected with the uncertain economic environment, insufficient domestic demand, insufficient foreign demand and the factor 'others'<sup>5</sup>, as the inquiry registers a reduction of their negative impact. Concerning the selling prices in industry, the managers do not expect an increase over the next 3 months.

Pursuant to data of the National Statistical Institute in March 2021, the composite indicator 'business climate in construction' increases by 3.8 percentage points as a result of the more optimistic construction entrepreneurs' assessments and expectations about the business situation of the enterprises. The inquiry registers an increase of the new orders inflow over the last month, as the forecasts about the activity over the next 3 months are also favorable.

The uncertain economic environment, shortage of labor, competition in the branch and the factor 'others' continues being the main problems for the business development, as in the last month a decrease of their negative influence is reported. As regards the selling prices in construction, the managers' forecasts are for preservation of their level over the next 3 months.

Pursuant to data of the National Statistical Institute the composite indicator 'business climate in retail trade' increases by 1.7 percentage points which is due to the favorable retailers' assessments about the present business situation of the enterprises. Their opinions about the volume of sales over the last 3 months, as well their expectations over the next 3 months are positive.

The main obstacle for the activity remains the uncertain economic environment, pointed out by 64.3% of the retailers. An increase of the unfavorable impact of the factor 'competition in the branch' is registered which shifts to the third place the difficulties, connected with insufficient demand. Concerning the selling prices, certain expectations for an increase are registered, although the majority of the managers foresee them to remain unchanged over the next 3 months.

Pursuant to data of the National Statistical Institute in March 2021, the composite indicator 'business climate in service sector' increases by 2.7 percentage points as a result of the more favorable managers' assessments and expectations about the business situation of the enterprises. Their opinions about the demand for services over the next 3 months are also improved.

The uncertain economic environment, the factor 'others'<sup>2</sup>, insufficient demand and competition in the branch continue to be the main problems limiting the business, as the inquiry reported an increase of the negative influence of the last two factors. The managers in the service sector expect the selling prices to preserve their level over the next 3 months.

The assessment of the state of the economy and finances as of the date of the meeting of the ECB's Governing Council on 11 March 2021 shows that the global economy is recovering from the recession caused by the coronavirus pandemic, faster than expected in the macroeconomic forecasts of the Eurosystem's experts as of December 2020. Meanwhile, after the aggravation of the pandemic at the end of the year, the factors hindering growth intensified. The next wave of newly infected forced governments to tighten restrictive measures again, especially in developed economies. The incoming data already shows the adverse impact of these measures over the global growth. The pandemic remains the key factor shaping future economic trends. Vaccination efforts have gradually gained

momentum although at different speeds from country to country. However, the level of immunization is still too low to allow cancelling of the restrictive measures. The US fiscal stimulus package approved in December and the trade agreement between the European Union and the United Kingdom confirm the forecast for the state of the eurozone's external environment during the year. World GDP growth (excluding the euro area) is expected to be 6.5 % in 2021, then to slow to 3.9 % in 2022 and to 3.7 % in 2023. This trend is in line with the estimate of a 2.4 % contraction in the world GDP for 2020. The trade agreement between the European Union and the United Kingdom and the stronger-than-expected recovery in developed economies explain the upward revision of external demand in the euro area. It is expected to increase by 8.3 % this year and by 4.4 % and 3.2 % respectively in 2022 and 2023, which means its revision upwards by 1.7 percentage points for 2021 and by 0.3 percentage points for 2022. The risk in terms of baseline forecasts for global growth is to underestimate them. The macroeconomic forecasts baseline scenario of the ECB's experts for the euro area from March 2021 envisages annual real GDP growth of 4.0% in 2021, 4.1% in 2022 and 2.1% in 2023. Compared to the December 2020 macroeconomic forecasts of the Eurosystem's experts, the outlook for the economic activity remains broadly unchanged. The baseline scenario envisages annual inflation of 1.5% in 2021, 1.2% in 2022 and 1.4% in 2023. Compared to the macroeconomic forecasts of the Eurosystem's experts as of December 2020, the inflation forecast was revised upwards for 2021 and 2022 mainly due to temporary factors and higher inflation in energy prices but remains unchanged for 2023. HICP inflation, excluding energy and food, is expected to be 1.0% in 2021 and 1.1% in 2022, before rising to 1.3% in 2023.

### **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.

At its meeting held on 11 March 2021, the Governing Council of the ECB took the following decisions in order to maintain favorable financing conditions during the pandemic period for all sectors of the economy in order to support economic activity and maintain medium-term price stability.

The Governing Council has decided to continue making net asset purchases under the asset purchase program in the event of an emergency caused by a pandemic (PERP) totaling EUR 1850 billion at least until the end of March 2022 and in any case until the Governing Council considers that the coronavirus crisis is over.

The Governing Council decided to keep the key ECB interest rates unchanged. They are expected to remain at their current or lower level until it is found that the inflation forecast is very close to a level that is close enough, but below 2%, within the forecast horizon, and this approximation is found a corresponding reflection in the dynamics of core inflation.

The Governing Council will continue providing sufficient liquidity through its refinancing operations.

#### **Base interest rates set by the Bulgarian National Bank for the period 01.01.2021 – 31.03.2021**

<b>Month</b>	<b>Base Interest Rate</b>
January, 2021	0.00 %
February, 2021	0.00 %
March, 2021	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.

According to the preliminary data of the NSI, the consumer price index in January 2021 compared to December 2020 was 100.2%, i.e. the monthly inflation was 0.2%. The annual inflation in January 2021 compared to January 2020 was -0.6 %. The annual average inflation, measured by CPI,

in the last 12 months (February 2020 - January 2021) compared to the previous 12 months (February 2019 - January 2020) was 1.3 %.

According to the preliminary data of the NSI, the harmonized index of consumer prices in January 2021 compared to December 2020 was 100.1 %, i.e. the monthly inflation was 0.1 %. The annual inflation in January 2021 compared to January 2020 was -0.4 %. The annual average inflation, measured by HICP, in the last 12 months (February 2020 - January 2021) compared to the previous 12 months (February 2019 - January 2020) was 0.9 %.

According to data of the National Statistical Institute, the consumer price index in February 2021 compared to January 2021 was 100.6%, i.e. the monthly inflation was 0.6%. The inflation rate since the beginning of the year (February 2021 compared to December 2020) has been 0.8% and the annual inflation in February 2021 compared to February 2020 was -0.1%. The annual average inflation, measured by CPI, in the last 12 months (March 2020 - February 2021) compared to the previous 12 months (March 2019 - February 2020) was 1.0 %.

According to data of the National Statistical Institute, the harmonized index of consumer prices in February 2021 compared to January 2021 was 100.5 %, i.e. the monthly inflation was 0.5%. The inflation rate since the beginning of the year (February 2021 compared to December 2020) has been 0.7 % and the annual inflation in February 2021 compared to February 2020 was 0.2 %. The annual average inflation, measured by HICP, in the last 12 months (March 2020 - February 2021) compared to the previous 12 months (March 2019 - February 2020) was 0.7 %.

According to data of the National Statistical Institute, the consumer price index in March 2021 compared to February 2021 was 100.1%, i.e. the monthly inflation was 0.1%. The inflation rate since the beginning of the year (March 2021 compared to December 2020) has been 0.9% and the annual inflation in March 2021 compared to March 2020 was 0.6%. The annual average inflation, measured by CPI, in the last 12 months (April 2020 - March 2021) compared to the previous 12 months (April 2019 - March 2020) was 0.8%.

According to data of the National Statistical Institute, the harmonized index of consumer prices in March 2021 compared to February 2021 was 100.2%, i.e. the monthly inflation was 0.2%. The inflation rate since the beginning of the year (March 2021 compared to December 2020) has been 0.8% and the annual inflation in March 2021 compared to March 2020 was 0.8 %. The annual average inflation, measured by HICP, in the last 12 months (April 2020 - March 2021) compared to the previous 12 months (April 2019 - March 2020) was 0.5 %.

#### **Inflation for the period 01.01.2021 – 31.03.2021**

Month	% of inflation
January, 2020	0.2 %
February, 2020	0.6 %
March, 2020	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.

The global coronavirus pandemic (COVID-19) continues having a major impact on the economy of the country and the world. Although the recovery in economic activity in the third quarter of 2020 was stronger than expected and the prospects for the introduction of vaccines are encouraging, the pandemic continues to pose serious risks to public health and economies in the euro area and globally.

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  $\pm 15\%$  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**

### **SECTOR RISK**

BILLBOARD AD is dependent mostly on the general trends in the field of printing, marketing and advertising. Since the amount of investments in marketing depends on the amount and allocation in time of the cash flows of the client itself and the overall situation of the sector where the advertiser operates, BILLBOARD AD is directly dependent on the cyclicity of the economy. Slowdown of the Bulgarian economy growth and reducing the cost of advertising and printing, respectively, may have a major negative impact on the company's revenues and profit.

This risk is somewhat compensated by the extensive production capabilities and know-how that would allow BILLBOARD AD quickly redirect to new demand of products and services in the event of change in the demands' structure.

Advantage to the company is also the new and modern technological equipment which give BILLBOARD AD the opportunity to realize production of very high quality. In practice, in this respect, the range of competitors of BILLBOARD AD on the territory of the country that have the technical and technological capacity to produce printed products of such quality, is very limited.

## **RISK OF INTRODUCTION OF NEW TECHNOLOGIES**

BILLBOARD AD is in a permanent process of investing in new equipment, which ensures that the production is in line with the technological processes' development trends. Practice has shown that more substantial changes in the technologies used in the sector does not occur in less than 5 years as older technologies are not fully replaced by the new ones. This enables gradual integration of new technologies when such technologies appear. Regarding the risk of introduction of other, already existing, but not applied in Bulgaria, printing technologies, it should be noted that in order for such technologies to become cost-effective it is required much larger volumes of the single orders, which determines the different application field of these technologies, and the fact that they are not particularly competitive in the segments where the company operates.

## **DEPENDENCE ON KEY PERSONNEL**

The specificity of the main activity of BILLBOARD AD, as well as the use of different types of technologies such as solvent printing, Ink-jet printing, UV printing, textile printing, 3D printing require well-trained, highly qualified specialists to carry out precisely and responsibly all operations and to handle freely with the respective technologies. This makes the process of hiring such specialists difficult in view of the mass shortage of well-trained staff. At the same time, the retention of this type of personnel by the company in recent years is also dependent on the expected high levels of remunerations (the average salary in Sofia is considerably higher than in the rest of the country).

In this respect, BILLBOARD AD applies consistently a policy of additional investments in the training of its specialists as well as a regular increase in the remuneration of the employees, including by optimizing their number.

## **RISK OF INCREASE IN PRICES OF BASIC MATERIALS**

The major raw materials essential for the main activity of BILLBOARD AD - digital wide format printing are vinyl and vinyl mesh, PVC foil, paper and ink. Some of the supplies of the necessary raw materials are carried out by Bulgarian producers or by countries within the European Union, in respect of which the risk of a sudden or unjustified increase in the price of the materials is minimized.

Due to the significant influence that China's raw materials have gained over the last few years on the Bulgarian and European markets as a result of the long-term supply of good value-for-money products, the company would be negatively affected in the event of an increase the cost of these materials, which is not subject to European regulation and predictability criteria.

## **4. INFORMATION ABOUT CONCLUDED LARGE TRANSACTIONS WITH RELATED PARTIES AS OF 31.03.2021**

The concluded large transactions with related parties to BILLBOARD AD (in the Group and outside the Group) as of 31.03.2021 are shown in the individual financial statements of BILLBOARD AD, drawn up according to the IAS/IFRS as of 31.03.2021.

29.04.2021  
Sofia

For BILLBOARD AD:.....

Stefan Genchev  
/Executive Director/