STARA PLANINA HOLD PLC

CONSOLIDATED NON-FINANCIAL DECLARATION

Year 2019

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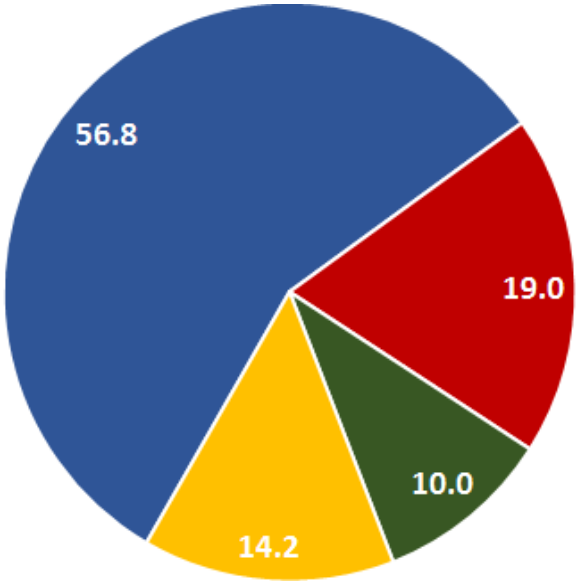
The consolidated non-financial declaration contains description of the policies with respect to the activities conducted in the areas of ecology, social issues and those related to employees, human rights, fight against corruption, diversity and gender equality in companies' management bodies.

I. Business model

Our mission. Stara Planina Hold unites industrial enterprises dedicated to the manufacturing of products intended to meet various consumer and business needs. Our investment portfolio includes enterprises operating in the machine building, electrochemical, perfumery and cosmetics and textile industry.



Structure of Investment Portfolio

Hydraulic Systems	56.8%
Accumulators	19.0%
Light Industry	10.0%
Financial	14.2%

We want to participate in the development of the Bulgarian industry by achieving European and world-class quality and profitability, productivity and cost-effectiveness of our operations. Our success will be shared by all parties involved in its achievement.

Our values. We believe that the world will always need a modern and productive industry and that material products remain at the core of the wealth around the world.

We believe that the Bulgarian industry can rise to the challenge of accelerated development imposed by the global economy by focusing on human knowledge, the resultant innovations and investments that make them happen.

We believe that attaining high goals is a prize for the work and collaboration of all involved in our development and that it is possible to share our success on a large scale.

Our future. Stara Planina Hold will continue to manage its subsidiary companies in a way which aims to achieve high goals in terms quality, output and cost-effectiveness.

Our top priority is to increase productivity. We will continue to make investments even in the time of crisis. We count on a faster recovery of the economies of the developed countries, in particular, the recovery of our main distributors and clients. Our primary task will be to retain the major markets and to widen our pool of clients. This will require us to offer good prices, high quality and short delivery times.

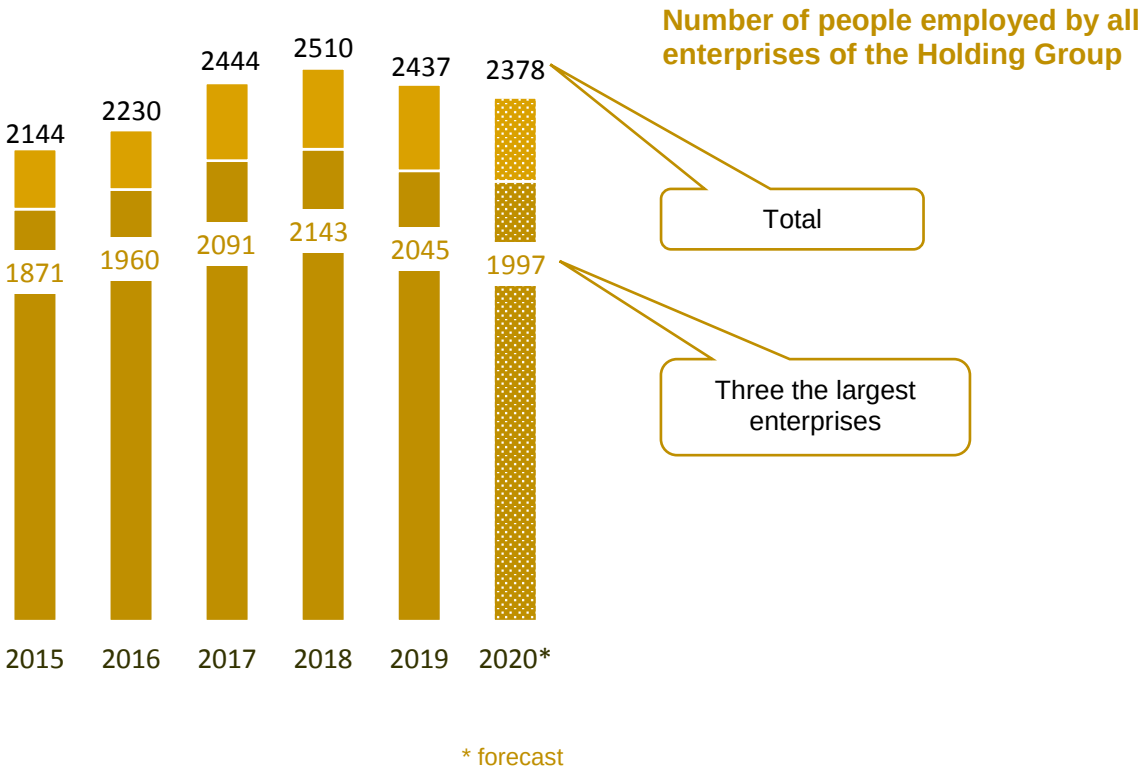
In the given conditions, the achievement of a good financial result with the expected production volume is a main task in order to wade through the crisis period and for the purpose of avoiding a decrease in the market capitalization of the group companies, thus guaranteeing shareholders' investments and their profitability.

1. Organizational structure

The Board of Directors is elected by the General Meeting of Shareholders. Two of the board members are independent directors.

Employees. The average number Stara Planina Hold Plc's staff is 6 and these are hired under employment contract. The company uses external services of a law firm. All company employees have higher education and qualification adequate to their job requirements.

The total number of staff at the group companies is 2437. 2045 of them, or 84%, are employed at the largest companies.



2. Infrastructure

Production and administrative facilities of the enterprises are located at their own properties.

Priority-wise, the infrastructure of the enterprises is comprised of:

1. Technical infrastructure – includes plant and machinery, storage facilities and transport network within the enterprises' territory.

2. Social infrastructure – includes activities on the physical work conditions, social interaction, breaks and health care.

3. Information structure – includes reliably built information bases.

4. Sales infrastructure. Group companies operate in the domestic market, the European Union and third countries. The products of our companies are sold in more than 50 countries and are valued by customers such as Palfinger, Pinguely, Terex handlers, Rostselmash.

3. Production

- Low-speed, high-torque orbital hydraulic motors
- Hydrostatic power steering systems
- Hydraulic valves, breaks and accessories for them
- Hydraulic piston cylinders
- Hydraulic telescopic cylinders
- Hydraulic plunger cylinders
- Hydraulic rack cylinders
- Starter batteries
- Traction batteries
- Stationary batteries
- Production and repair of parts for grain combines
- Production and repair of parts for grain cleaning machines
- Perforated metal sheets
- Spare parts and custom equipment
- Metal items for furniture industry
- Essential oils - rose oil; lavender oil
- Natural flower waters
- Concretes
- Absolutes
- Sauces and compositions
- Perfumery cosmetics
- Perfume compositions
- Fruit essences and fragrances
- Vinegars – 6 types
- Liqueurs – 15 types
- Syrups
- Men's, women's and kid's socks
- Sport socks
- Children's tights
- Women's top knitwear
- Men's top knitwear

4. Raw materials used

Machine building. Ferrous metals (steel and cast iron), sintered items, gaskets, springs, sealing items and other items made primarily of polyurethane, fitting kits, packaging and auxiliary materials. In very limited cases, non-ferrous metals are used. Sheet metal, brackets, pipes, powder coating, fixing elements and plastic elements.

Batteries. Lead and lead alloys. Raw material is supplied in the form of blocks and is stored at a designated site. The production process of batteries utilizes polypropylene and polyethylene for which there are no special transport and storage requirements, nor any special requirements towards their suppliers.

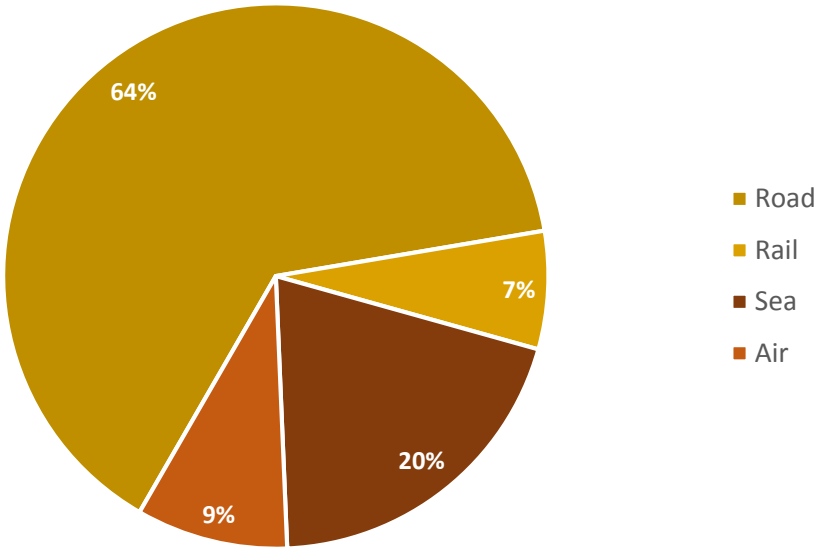
Light industry. The main raw materials used in the production of rose oil and perfumery are plants and herbs. The production of vinegar uses quality wine material, apples supplied from farmers, sugar, alcohol and yeast. Packaging is made of PET.

Textile. Cotton and bamboo yarn, small percentages of lycra, polyamide and elastomer. Wool and combined wool-acryl, wool-polyamide, cotton-acryl, cotton-viscose yarns.

Production inputs are accompanied by the necessary quality certificates.

The companies do selectively business with suppliers and contractors that adhere to high environmental standards and apply the best environmental management practices, including energy efficiency and effective resource utilization, waste reduction and management.

5. Transport used for the delivery of raw materials and chemicals and for the sale of production



The delivery of raw materials and chemicals and the shipping of finished goods are carried out by road and railroad, sea and air transport. Major criterion when selecting the forwarding agents is the transit and delivery time. The policy of the companies is to partner with businesses licensed to carry out international and domestic transport; have the necessary equipment and reliable certificates to transport dangerous and specialized consignments.

6. Waste fuel and chemicals

Natural gas. Mainly used for heating. Supplied to the production facilities over gas pipes that are subjected to checks by the State Technical Inspection Office.

Fuels (benzine, diesel, propane-butane) fuels and lubricants. Used mainly for intra-facility transport.

Hydraulic oils. Used as a production input for read-to-use hydraulic items.

Concentrated sulphuric acid. Used in battery production. Delivered by a specialized transport and stored in specially constructed tanks.

Paints and coatings. Used in painting and galvanization processes. This includes polyurethane varnishes, solvents, hardeners, epoxy primer, specific salts, sodium compounds, acids, etc.

Liquefied oxygen and carbon dioxide. Delivered by a specialized transport – tank trucks operated by licensed companies holding special permits (ADR). Stored in specialized vessels which are subjected to checks by the State Technical Inspection Office.

The STIO checks conducted throughout the year did not find any deviations.

Cleaning chemicals and detergents for textile items – perchlorethylene and silicone softener.

II. Environmental protection

1. Description of policies and their goals

Being a holding type company not conducting any independent commercial operations, Stara Planina Hold Plc has focused its operations mainly on the management of the subsidiaries and associates. The holding places a particular importance on the environmental impact of the production processes in our companies. They report annually on the environmental impact assessment and the measures undertaken in that regard.

M+S Hydraulic Plc. Company's policy on environmental protection and on the reduction of harmful environmental effects is an integral part of its Development Program. The company has developed and implements Environmental Management Program and has allocated funds and defined terms for activities aimed to reduce or remove adverse effects. A separate Waste Management Program has also been developed. As a result, the management of hazardous waste: oils, lubricants and coolants, filtering elements, batteries, residues from lapping and grinding, and others, is at the necessary level: the sites for temporary storage of hazardous waste are maintained in good condition, contracts are in place with companies certified by the respective Regional Environmental and Water Inspectorates for the handling of such waste. The

company has its own wastewater treatment plant. All activities regarding the environment are defined and conducted in accordance with the publicly disclosed Environmental Policy and the procedures provided for in the Environment Protection Management System (EPMS) currently implemented in the company which has been in place and has been instrumental in systematizing and improving the environment-related activities. Last year, EMPS was successfully certified for compliance with the new ISO 14001:2015 standard. The Environment Protection Management System which has been developed and implemented in accordance with the requirements of both ISO 14001:2004 and OHSAS 18001:2007 (Occupational Health and Safety Management System) are part of the Integrated Management System which also includes the existing Quality Management System under ISO 9001:2015.

Hydraulic Elements and Systems AD. The company has implemented a management system in each of its operations and units which is maintained and developed in accordance with the international standard ISO 9001-2008 by TÜV Rheinland. The aim of the system is to increase the efficiency and quality of work in conditions of health and safety at work and environmental protection. Ustrem OOD company is also certified in accordance with the ISO 9001-2008 standard.

Elhim - Iskra AD. The company has a long-term policy with respect to human health and environmental protection. Activities on preventing air, water and soil pollution are one of the major priorities of the company. The company has implemented Environmental Management System. The system covers execution of the activities in a way which guarantees protection of the environment; permanent monitoring, verification and management of processes and activities affecting the environment; analysis and assessment of the environmental impact of the used raw materials and inputs; preventive action so as to avoid environmental pollution. The company holds an Integrated Permit governing the emission norms and REWI approved company Waste Management Activity Program.

Bulgarian Rose PLC. The company has adopted a Policy on the reduction of natural resources costs which costs are related both to the environmental pollution reduction as well as to reduction in the financial costs of energy consumption. The company has an approved Waste Management Program. Special sites have been set up for storing household, industrial and hazardous waste which are collected separately and recorded in the respective logbooks certified by the Regional Environmental and Water Inspectorate. For the recycling of packaging waste, the company has a contract with ECOBULPACK - a national-level organization for recycling packaging waste. There is also a permanently operational Industrial and Household Waste Water Treatment Plant. Waste water is regularly subjected to monitoring of physical and chemical indicators by submitting samples for analyses at a licensed laboratory. In order to preserve the air clean, the company conducts regular preventive maintenance and technical activities on its steam plants. Gas emissions released during boiler operation are subjected to technical inspections and monitoring.

Vinprom AD. The company has adopted Policy regarding environmental issues which includes implementation of the activities in a way which will ensure protection of the environment; conduct of preventive measures against potential environmental pollution; compliance with regulatory requirements and internal company regulations; update of the processes with environmentally friendly technologies.

Textile industry. With respect to environmental issues, the companies follow a policy which is part of the Program for the management of the processes and organization of company operations aimed to ensure protection of the environment. Compliance is established with the requirements of the existing legislation governing the acceptable norms and emissions of substances in accordance with the regulation on industrial waste water discharge. They have their own treatment plants whose use is mandatory in coloring operations. All sensitive processes are subject to continuous assessment: materials, inputs, energy, water, emissions, waste and their alternatives which allows for the discovery of new ways to mitigate the environmental effects of these processes and bring them within the necessary and requisite limits.

In 2019 no environmental pollution fines were imposed on any of the group companies. All industrial enterprises from the group have waste management programs approved by the RIEW and fulfill the requirements provided in the regulations. The companies have their own policies on the reduction of natural resources costs which costs are related both to the environmental pollution reduction as well as to reduction in the financial costs of energy consumption.

The companies within Stara Planina Hold Plc group conduct responsible policy on environmental protection and reduction of adverse environmental impact of their operations as part of the development strategy.

2. Major activities completed in 2019

The companies report on and update their environmental protection programs on an annual basis. The conducted monitoring covers structural units and processes. Staff training programs include as a must various levels of environmental training – supervisors and experts. Practical training is also carried out simulating environmental accident situations, such as pollution prevention in case of large-scale spillages, etc.

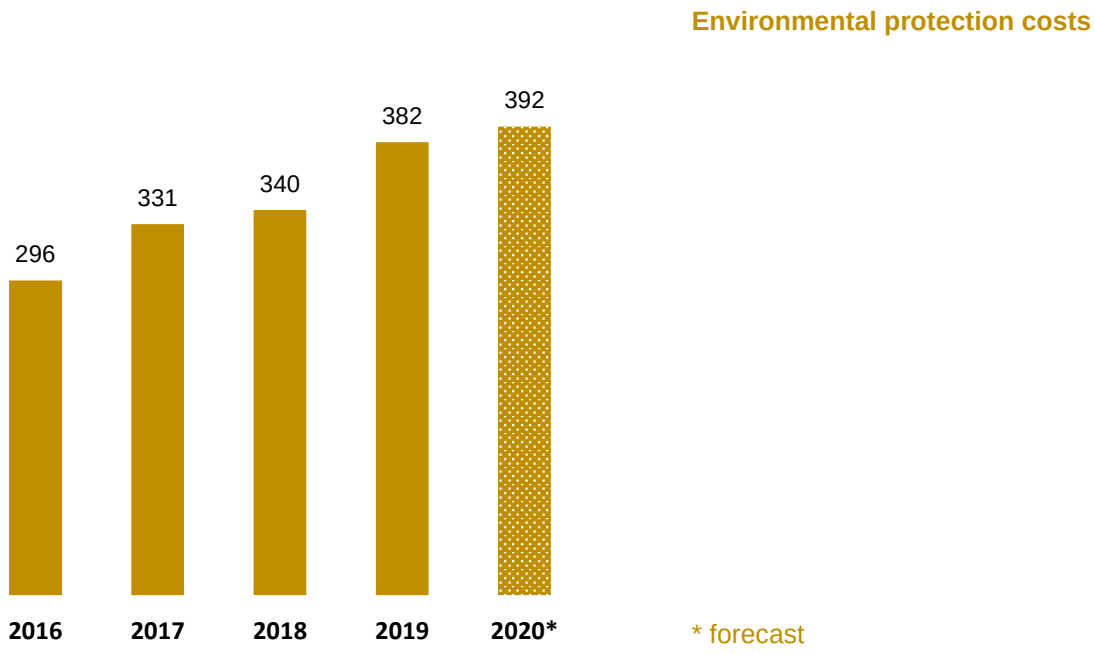
Licensed companies are contracted to measure air quality and report on the organic carbon concentration in air due to organized sources (smoke stacks). Accredited laboratories periodically monitor specific processes such as solvent management system, metal coating installations which falls in the OS consumption category with threshold values above 15 t/y.

Accredited laboratories conduct analysis of the water sources used thereby controlling the chemical parameters in order to achieve compliance with the acceptable limits.

Special waste is kept under control until handed over to licensed companies certified under Art. 35 of the Waste Management Act for further treatment. Scheduled periodical checks are carried out of installations and storage designated for hazardous chemicals.

The larger companies have employed an environmental specialist responsible for the control of the activities on the management of the waste generated by the companies, compliance with instructions and liaising with governmental and municipal bodies. The specialist is also responsible for maintaining alignment between the internal regulations and the existing environmental regulations framework.

Results from the activities completed in the area of environmental protection have been achieved by implementing various projects. Energy efficiency improvement results in reduction in the use of natural resources and the waste generated from them, smart redistribution of items, separate waste collection and disposal. A positive result from the conducted environmental policy is the simultaneous provision and achievement of efficient business, effective cost control, energy savings and reduction in harmful emissions.



In 2019, environmental protection costs grew by 12.35% compared to the previous year. For 2020, we plan to increase the expenditures in that area by 2.6% compared to 2019 and by 15.3% compared to 2018.

3. Future goals and upcoming tasks

In the area of environmental protection, Stara Planina Hold Plc group is committed to conduct a policy aimed at effective protection and pollution avoidance; effective and efficient utilization of natural resources, including energy, in order to preserve it. The companies will operate in compliance with the regulatory framework in the area of environmental protection. They will earmark funds for training, awareness and motivation of employees so they can perform their duties in a quality, safe and environmentally friendly manner and in compliance with the adopted policies.

The companies continue the practical steps on the reduction of natural resources costs which costs are related both to the environmental pollution reduction as well as to reduction in the financial costs of energy resources. The investment programs for technological update adopted with the business plans for the companies will introduce new machinery, plant and technologies which would reduce adverse environmental impact, including activities on the streamlining of recirculated use of treated water and closed cycle for the cooling water.

4. Ecological risks

The adoption of environmental management system ensures a continuous process of minimizing the risk of pollution and other adverse environmental effects, efficient use of resources and higher efficiency of companies' operations.

Risks which may cause an adverse environmental effect as a result of companies' operations are related to water pollution from the waste water used in the production process in case of an accidental spillage of chemicals or air pollution due to the release of harmful emissions.

Such risks are minimal, but nevertheless the companies have developed mechanisms for early warning and environmental incident response plans. The readiness for an immediate response in case of events which may have a potential adverse effect on the environment is subject to an ongoing monitoring.

III. Social issues

1. Description of policies and their goals

Stara Planina Hold Plc and the group companies apply corporate strategy and policy in the social area. The companies have adopted Code of Ethics aimed to establish and strengthen the principles and rules of conduct which have to be followed by the managers and employees during or in relation to the exercise of their powers. The public companies from the group have undertaken to comply with the principles of the National Corporate Governance Code.

The successes of the companies are based on both social responsibility and commitment to compliance with moral and ethical norms and rules. This is accomplished through the effective application of good corporate governance practices which contributes towards the achievement of sustainable development and of the group's goals as well as towards the establishment of transparent and candid relationships among all stakeholders. Each company identifies the stakeholders that have bearing on its activities based on their degree and sphere of influence as well as their role in and effect on the company's sustainable development and those which in turn may have an impact on company's operations including shareholders, stakeholders, customers, suppliers, employees, creditors, public groups, and state and local government bodies, etc.

Issues related to quality, environment, health and safety are of primary importance and therefore the major companies maintain and develop integrated management systems in compliance with the requirements of leading international quality (ISO 9001:2015), environment (ISO 14001:2004), health and safety (OHSAS 18001:2007) management standards with the active participation of highly qualified experts and engineers.

Management's actions with respect to the employees are aimed to improve work conditions and increase remunerations. A wide range of incentives is being applied such as remuneration bonuses, performance based pay incentives, taking out of Life, Occupational Accident and Accident and General Illness insurances, specialized medical care, monthly provision of food vouchers, trainings to acquire or upgrade professional qualification, provision, subject to certain conditions, of free transport from home to work and back.

Every year, Stara Planina Hold Plc and the major group companies participate in charity events of public importance.

2. Major activities completed in 2019

In 2018 Stara Planina Hold Plc contributed 25% of the capital for the founding of Medical Preventive Care Center which provides early diagnosis, treatment, rehabilitation and prevention services to the staff of the group companies.

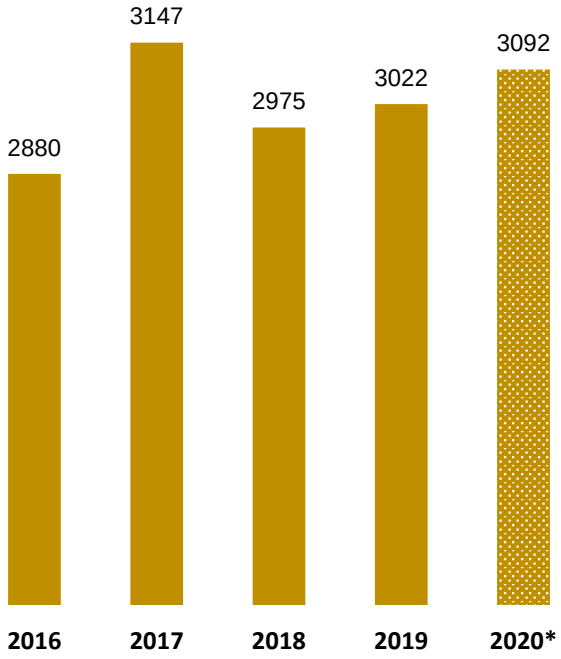
Actives carried out throughout the reporting period are annual. These include assessment and re-assessment of occupational risk, monitoring of staff health, analysis of and recommendations on action and non-risk behavior at the work place in order to prevent risk and reduce sickness rate; training and professional qualification as well as incentives and bonuses provided for in the policies.

The machine building companies invest additional funds to ensure they have production experts. Scholarships are awarded to students and pupils at vocational schools, 50% coverage is granted for the tuition fees of employees studying at specialized universities, internships and on-the-job trainings are set up at company sites.

The companies have a tradition of providing financial support to local structures for various social, sport and cultural events.

Every year Stara Planina Hold Plc participates in charity events of public importance. Since 2003 the holding has been regularly taking part in all editions of the charity campaign *Bulgarian Christmas* carried out under the auspices of the President of the Republic of Bulgaria. Each year Stara Planina Hold Plc makes a monetary donation for the *Support a Dream* initiative launched by the President of the Republic of Bulgaria aimed at organizing a prom night for disadvantaged young people. Each year, Stara Planina Hold Plc participates in the charity campaign *Easter for Everyone* conducted by the Bulgarian Red Cross under the auspices of the Ombudsman of the Republic of Bulgaria. Stara Planina Hold Plc is regularly involved as a major sponsor of the national exhibition *Inventions. Transfer. Innovations*.

Social activities costs



* forecast

For 2020, we plan to increase the social activities costs by 2.3% compared to 2019. 17% of the estimated social spending in 2020 is related to the Covid-19 pandemic.

The active application of policies in connection with the sustainable development of the companies leads to the creation of a more favorable social environment and an improved quality of life of employees, creation of the necessary conditions and prerequisites for performing staff's professional duties, mastering of good manufacturing practices, motivation and satisfaction with work and salary conditions.

3. Future goals and upcoming tasks

Stara Planina Hold Plc and the group companies will continue to conduct a socially responsible policy on labor and employment regulation by prioritizing its social aspects.

In pursuance of the long-term policy regarding human resources, the companies will continue to fulfill the corporate social responsibility and of their long-established traditions in the social sphere as well as the good practices in order to achieve the social goals.

Adhering to the approved policy and business programs, a large portion of the activities in the social sphere will thus be aimed to retain the highly qualified experts and qualified workers, and to generally achieve high efficiency at every workplace.

In 2020, we will continue the activities on the monitoring of employees' health, promotion of safe work behavior; training, qualification upgrade and acquisition of new skills; improvement of work conditions and continuous monitoring of work environment factors.

Development of corporate culture aims to create and maintain strong motivation, creative environment within the team, high moral and integrity, and confidence in the future.

4. Risks with a potential negative effect on employees' development

The management of the companies within Stara Planina Hold Plc group strives to achieve maximum employee satisfaction. The worsening of the current economic situation in the country and the fluctuations in the markets on which our business operates would lead to the destabilization of the companies and thus to poor efficiency of the conducted social policy. We are taking measures to ensure the health and work fitness of employees, the continuous operation of our business and the activities related to regulatory obligations. The effect of the measures introduced by governments with respect to Covid-19 is having a major negative impact on the economic sentiments and global business environment.

5. Addendum

The companies do not apply diversity policy with respect to their management bodies in relation to aspects such as age, gender or education and professional experience. Management structure is defined in the Articles of the companies. The election of members of the board of directors is a right and prerogative of shareholders.

The standards adopted in the ethical code apply in equal measure to all persons with whom the companies have or may have relationships such as shareholders, prospective investors, financial analysts and other stakeholders, irrespective of their nationality, origin, ethnicity, religion, age, gender, sexual orientation, race, education, beliefs, family, professional, social, political or material status.

Stara Planina Hold Plc has adopted Policy on Transactions with Interested and Related Parties and Procedure for Avoidance and Disclosure of Conflicts of Interests as well as Policy on the Provision and Dissemination of Information. These are applied in accordance with our business model and in the interest of the employees' rights, human rights and fight against corruption. All processes and procedures are carried out in a way which excludes any form of corruption in the group companies. In 2019, no actions were found which restrict the above rights related to decisions and actions of companies from Stara Planina Hold Plc group.

This declaration is an integral part of the Annual Consolidated Activity Report of Stara Planina Hold Plc adopted by the Board of Directors.

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Digitally signed by Vasil Georgiev Velev
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