

Independence Criteria for Board Members and the Registered Auditor of Svilosa AD

1. General Provisions

The independence of part of the members of the managing body and the registered auditor of a public company is a prerequisite for its efficient and transparent governance and for increasing the trust of investors.

These independence criteria are adopted by the Board of Directors of Svilosa AD on the basis of the applicable legal requirements and the acknowledged international standards of good corporate governance and constitute an integral part of the Good Corporate Governance Program of Svilosa AD (hereafter referred to, as well, as the Company).

2. Independence criteria for Svilosa Board members

The legal requirements for independence of the members of the Board of Directors are stipulated in art. 116a of the updated Public Offering of Stocks Act.

„Art.116a(1) Any person, who at the time of election is under an effective sentence for offences against property, economic offences or offences against the financial system, the tax system or the social insurance system, committed in the Republic of Bulgaria or abroad, shall be ineligible to the management bodies and supervisory bodies of any public company unless rehabilitated.

(2) At least one third of the members of the Board of Directors or the Supervisory Board must be independent persons. To qualify as independent, a Board member may not be:

- 1. an employee of the public company;*
- 2. a shareholder holding, directly or through related parties, at least 25 per cent of the votes in the General Assembly, or a person related to the company;*
- 3. a person who is in a long-term business relationship with the public company;*
- 4. a member of a management or supervisory body, a procurator or an employee of a commercial company or any other legal person referred to in Items 2 and 3 above;*
- 5. a party related to another member of a management or supervisory body of the public company.*

(3) Any persons, who have been elected as members of management and supervisory bodies, shall be obligated to notify immediately the management body of the public company in the event of occurrence of any circumstances covered under Paragraph (1) or (2) after the date of election thereof. In such a case, the said persons shall cease to perform their functions and shall not receive any compensation.

(4) The candidates for elective office shall prove the non-existence of the circumstances covered under Paragraph (1) by means of a conviction status certificate, and the non-existence of the circumstances covered under Paragraph (2) - by a declaration.”

3. Independence criteria for the registered auditor

The legal requirements for independence of the registered auditor are set in art.28 of the effective Law on the Independent Financial Audit:

„Art.28(1) The registered certified public accountants may not perform an independent financial audit of the company, when they:

- 1. work under an employment contract or as a functionary, but for the Institute of Certified Public Accountants, in a specialized auditors' enterprise or do a scientific or lecturing work;;*
- 2. are persons related to the company whose financial report is undergoing an independent financial audit;*
- 3. are directly or indirectly involved in or participate in deals effected by the company whose financial report is undergoing an independent financial audit, other than the deal of the independent financial audit, which infringe his or her independence as an auditor or lead to conflict of interests;*
- 4. render accounting services in regard of the ongoing accounting of the company's activity and of the preparation of the financial reports of the audited company, when they participate in the taking of managerial decisions thereon, as well as services related to assets valuation for the purposes of the financial reporting of the company whose financial report is being audited.*

(2) The restrictions under art. 1, p.p. 2, 3 u 4 apply for all shareholders and employees of the specialized audit enterprise.”

4. Precondition for independence in cases of election of an auditor by the General Assembly of Shareholders

The auditors act independently from the shareholders who have elected them, giving an objective professional opinion.

According to the Good Corporate Governance Program of Svilosa AD, every year Svilosa's Board of Directors shall submit a reasoned written proposal for election of auditor to the regular annual General Assembly of Shareholders. The proposal shall be made on the basis of the received offers from the invited candidates, their professional qualification and background and the fulfillment of the independence criteria.

In order to be able to form an opinion regarding the fulfillment of the independence criteria, Svilosa's Board of Directors shall demand a written statement from the auditors who have submitted offers (where applicable) regarding the presence of any business, personal or other ties and relations between the respective auditor and/or the management of the audit enterprise and the members of Svilosa's Board of Directors, which could affect their independence when conducting the audit of the Company's financial reports. The statement should also include statistical information for past relations between the Company and the respective registered auditor/audit enterprise, including consulting services rendered to Svilosa AD. The materials regarding the auditors who have submitted applications shall be disclosed under the legally stipulated procedure to the shareholders of the Company as part of the whole set of materials in connection with the respective pending General Assembly of Shareholders which will elect an auditor. The same information shall also be published on Svilosa's web site.

5. Checks on the fulfillment of the independence criteria

The Internal Audit Committee of Svilosa AD shall make periodical checks as to the fulfillment of the independence criteria for the Board members and the registered auditor. In case circumstances are detected that infringe the independence criteria of a Board member, the Internal Audit Committee shall immediately submit a proposal to the Board of Directors to take the due legal measures according to art. 116a(3) of the Public Offering of Stocks Act and to refer the issue for discussion to the General Assembly of Shareholders. In case circumstances are detected that infringe the independence criteria of the registered auditor, the Internal Audit Committee shall immediately submit a proposal to the Board of Directors to convene the General Assembly of Shareholders to elect another auditor.

6. Final provision

These rules were adopted by the Board of Directors of Svilosa AD on a proposal from the Internal Audit Committee, on 29.01.2008.