

SELLING OF TREASURY SHARES OF MONBAT PLC WITH THE PURPOSE TO EXTEND AND IMPROVE THE SHAREHOLDERS' STRUCTURE

DATA ON THE AUTHOR OF THE IR CASE:

Daniela Peeva – IR Director of Monbat Plc.

Daniela is Chairperson of the Bulgarian Investor Relation Directors Association /since 2005/, Member of the National Board of the Bulgarian Industrial Capital Association /since 2008/ and Member of the Bulgarian Corporate Governance Committee /since 2009/. She is a successful legal expert with over 15 years of experience in the Bulgarian capital market field.

Daniela has 2 years of experience in the Bulgarian State Commission of Securities /current Financial Supervision Commission/ – legal expert in the 'Issuers and public companies' department, 5 years of experience in the legal and internal control management of a Bulgarian investment intermediary and over 10 years of experience in the IR, corporate governance and prevention of market abuse field.

INFORMATION ON THE ISSUER - PRESENT STATE OF BUSINESS

Monbat Plc - www.monbat.com BSE Ticker – 5 MB

Monbat is a public company whose shares were admitted to trading in 2007 on the regulated market of the Bulgarian Stock Exchange - Sofia AD. At present the securities of the company are being traded on the Premium Segment. The company is included in the composition of all representative indexes of the Bulgarian Stock Exchange - Sofia AD - SOFIX, BG40, BGTR30 and the index of companies with best corporate governance - Corporate Governance Index (CGIX). Since its listing on the Bulgarian Stock Exchange - Sofia AD, for sixth consecutive years the company has been an annual corporate champion in the investor rating "Capital 50" in the category "Company with Best Corporate Governance". In 2012, the Bulgarian Stock Exchange - Sofia AD declared Monbat Plc to be the issuer with the highest contribution to the development of the capital market in Bulgaria.

The principal activity of MONBAT Plc is production of lead-acid starter and stationary accumulator batteries and their servicing. The products of the company can be divided in the following main groups: starter batteries (70 %), stationary batteries for telecom application (25 %), semi-traction batteries (3%), special batteries army power range (1.50%) and locomotive batteries (0.50%).

The only competitive company of MONBAT Plc listed and traded on the Bulgarian Stock Exchange is Elhim Iskra Plc which is specialized mainly in production of starter batteries and its production portfolio does not include lead production and recycling and stationary batteries for telecommunication application production. For this reason we do not consider this company as a 100 % peer company.

Markets and Sales

The companies in the economic group of MONBAT AD produce a wide range of products and have well grounded positions in the local markets, the markets of the Balkan region and expanded presence in the Western European markets, including Germany, France, Italy, Great Britain, Belgium, Switzerland, Norway, England, Sweden, Italy, Poland.

The consolidated net sales revenues generated in 2012 were in the amount of EUR 103

307 thousands which is an 11 % increase compared to 2011. The consolidated net profit generated in 2012 was in the amount of EUR 8 463 thousands which is a 9 % increase compared to 2011.

The 2013 Q3 consolidated net sales revenues are in the amount of EUR 87 912 thousands which is a 25.04 % increase compared to Q3 2012

The consolidated net profit generated in Q3 2013 is in the amount of EUR 8 020 thousands which is a 44.09 % increase compared to Q3 2012.

Individual Net Sales Revenues in EUR				Individual Net Profit in EUR			
2012		Q3 2013		2012		Q3 2013	
Monbat Plc	Elhim Iskra Plc	Monbat Plc	Elhim Iskra Plc	Monbat Plc	Elhim Iskra Plc	Monbat Plc	Elhim Iskra Plc
93 756 103	15 679 276	89 221 455	11 710 629	4 627 702	872 263	7 480 200	251 555

* Elhim Iskra Plc does not have subsidiaries and respectively does not prepare consolidated statements. For this purpose the comparison data are presented on an individual basis.

HISTORICAL INFORMATION ABOUT THE ISSUER

The company was incorporated in the Republic of Bulgaria in accordance with the Bulgarian legislation in 1959 as a state owned factory under the name Akumikar EAD and later on re-named as Monbat Plc. In 1998 the company became a private company with Prista-Oil being as a major shareholder. After a successful initial public offering /IPO/ held at the end of 2006, in early 2007 the company's securities were admitted to trading on the Official equities market, segment B of the Bulgarian Stock Exchange Sofia – AD.

The share registered capital of the company is in the amount of BGN 39 000 000 divided in 39 000 000 dematerialized registered shares with a nominal value of BGN 1.00 each of them.

Monbat Plc is a part of an economic group. Major shareholder of the issuer is Prista Oil Holding EAD, Sofia. Prista Oil Holding EAD and Monbat Trading Ltd. are related parties and jointly hold 75.57 % of the votes at the general assembly of Monbat Plc.

DESCRIPTION OF THE SITUATION IN THE SECTOR

Monbat Plc is an export-oriented company, since over 86 % of production is being exported to European markets. In this respect, the global changes that occur in the field of production and sale of lead-acid batteries have extremely important impact.

During 2012, demand for new cars in Europe reached the lowest level recorded since 1995, with an 8.2% decrease in new passenger vehicle registrations compared with 2011. Although this has unavoidably impacted on OEM sales of automotive batteries, demand in the aftermarket has remained stable. Start-stop systems have also continued to grow in popularity amongst European OEMs looking to lower CO2 emissions in new micro-hybrid car models, further increasing demand for advanced Start-Stop Batteries. During 2012, hybrid-electric and full-electric vehicles sales picked up at least in some countries. While not yet the breakthrough moment hoped for, policy makers and industry representatives have continued to strengthen the regulatory framework that will facilitate their eventual deep commercialisation. In addition, new electric vehicle models are being released by European car manufacturers in 2013. In July 2012, the European Commission put forward proposals to cut average emissions from new cars to 95 grams of CO2 per km in 2020. This was followed in September by a refocus of their e-Mobility Research and Innovation policy away from “institutional silo thinking”; and most recently in early

2013 by the setting of minimum requirements for the number of electric vehicle charging points to be installed in each Member State by 2020.

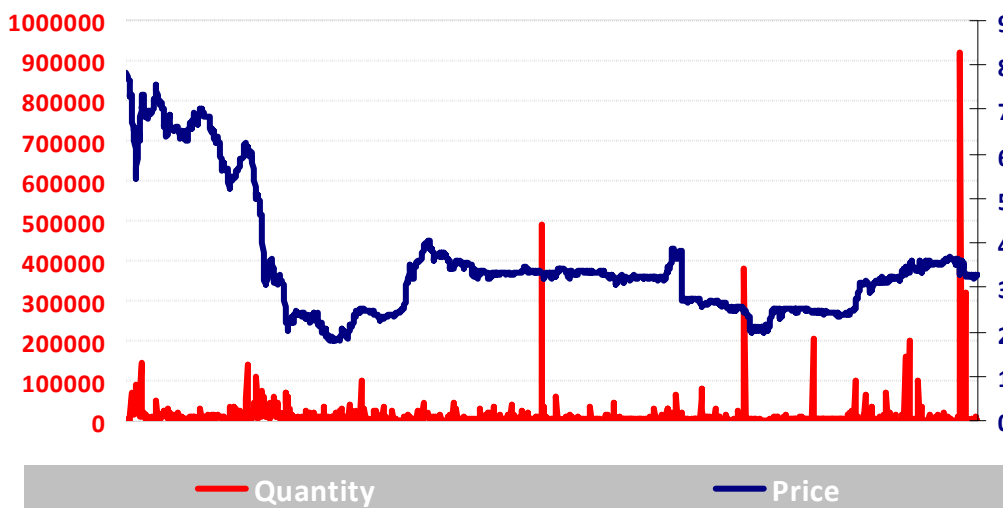
In 2013 rearrangements occurred among the leading competitors in the industry, due to business and financial complications, suggesting in medium term new allocation of the batteries market at a global level, including in Central and Eastern Europe.

PROBLEMATIC SITUATION

In July 2008, the corporate Board of Monbat Plc, under the conditions of the global economic crisis and the general collapse of the securities market in Bulgaria, decided to initiate the implementation of a long-term buy back program of company's own shares with the purpose – under unfavorable market conditions on the capital markets and negative market trends, to support and stabilize the share price of the company in long-term aspect. The decision of the company's corporate Board was approved following intensive consultations with the major shareholders of Monbat Plc and corporate brokers on the capital market which once again proved that the company is completely open to the market while undertaking significant steps.

Unlike many capital markets that gradually managed to recover from the effects of the global economic crisis, the Bulgarian capital market, which is characterized by a lack of liquidity, variety of market products and plenty of foreign investors, failed to restore its pre-crisis levels. That is why Monbat Plc continued the redemption of its own shares during the last 5 years. Thus, in early 2013, the company had in possession 2 588 520 own shares, representing 6.64 % of the share capital acquired at the average price of BGN 5.80 per share.

**MOVEMENT OF THE SHARE PRICE FOR THE PERIOD 2008 -
NOVEMBER 2013**



PROBLEMS ENCOUNTERED:

1. During the last five years Monbat Plc has been a major buyer on the stock market of this issue and respectively had become a market maker of its own shares.
2. The free float of the company was reduced from 25.00 % in the beginning of the Buy back program to 18.36 %. Thus the possibility to improve the liquidity of the company was additionally limited.
3. Pursuant to the Bulgarian legislation exercising all rights over the treasury shares are to be ceased – right to vote and right to dividend.
4. The company invested its own funds in the amount of over EUR 7.60 mln. that could have been invested in the growth of the company or its subsidiaries.

OPTIONS FOR SOLUTION OF THE PROBLEM

1. Searching for a strategic investor to acquire 6.64 % of the share capital of the company.
2. Acquisition from related and/or interested parties.
3. Sale of shares under market conditions to unlimited number of investors.

CHOSEN SOLUTION OF THE PROBLEM AND EXPLANATION OF THE CHOICE MADE

Having analyzed the capital structure of the company and the current legal regulations, the corporate Board of the company adopted a resolution 6.64 % of the treasury shares to be sold on a regulated market under market conditions to unlimited number of investors.

Furthermore, the chosen method of sale allows the company, within the process of selling the shares on a regulated securities market, to benefit from a tax preference, namely in case of achieving positive financial results - positive difference between the purchase and selling price, in case that the transaction is being implemented on the regulated market of securities not to pay a corporate tax of 10%.

DIFFICULTIES IN THE PROCESS OF IMPLEMENTATION

Inquiries were received in the company for purchase of shares from potential investors who are related to the major shareholder to buy a large portion of the available treasury shares. In this case, the sale had to be consistent with the provisions of the law. Pursuant to the Bulgarian legislation in case of sale of over 2 % of the public company's assets when the transaction involves persons who hold directly or through related persons over 25 percent of the capital, a resolution of the General Assembly of Shareholders of the public company must be obtained.

In this case, when adopting such a resolution the major shareholder and its related parties may not participate in the vote and the resolution is to be adopted only with the votes of the minority shareholders. The procedure for adoption of such a resolution is significantly restrictive, time consuming, and the outcome was not clear.

That is why the corporate Board of the company preferred not to be bound by that resolution and accordingly preserved its position the shares to be offered to unlimited number of investors under current market prices. The lack of liquidity in the Bulgarian capital market and the

limited number of foreign investors, respectively the massive offering from the company resulted in a decrease in the share price in the amount of 10 % on a monthly basis.



RESULTS

As a result of the sales of treasury shares the capital structure was extended and enriched.

- 14 new investors have acquired 375 600 treasury shares or 1,47 % of the capital.
- 34 of the previous shareholders have acquired 707 629 treasury shares or 1.81 % of the capital
- Physical persons – 86 new shareholders have acquired 113 189 treasury shares or 0.29 % of the capital

Total sales: 1 396 418 treasury shares or 3.58 % of the capital.

Following the sale, the securities' price of Monbat Plc remained stable within the permissible market deviation.

Due to the conducted during the last six years policy of transparency, good corporate governance and continuous dialogue with different groups of investors, financial media and analysts the company managed, under the conditions of the stagnating Bulgarian capital market, to sell much of the treasury shares, thereby enriching and developing its capital structure.

By present it is still early to make a valuation of the achieved securities liquidity due to the fact that the sale of a part of the treasury shares was completed quite recently and still the sale of 1 045 000 treasury shares is forthcoming.

CONCLUSIONS AND RECOMMENDATIONS

As a result of the implemented buy back program, the corporate Board of Monbat Plc managed to reach the initially set purposes, namely to preserve the market price of company's securities at reasonably high level and to reach the intended diversity of the shareholders' structure. The corporate Board of the company believes that the program has an overall positive outcome for the company and its presentation on the Bulgarian capital market. The only weakness in the continuous implementation of the redemption program under the conditions of the most serious during the last several years financial and economic crisis is, to a certain extent, the lack of consistent communication of the management's decision to sell the treasury shares.

This inevitably lead to a negative development of the stock price a certain degree of uncertainty among investors.

OPINIONS OF MARKER PARTICIPANTS:

Andreana Todorova, Research Analyst
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Andreana Todorova: „Monbat’s share buyback program was with an extended size and duration and it managed to fulfill the object of supporting the share price, thus preserving value for the shareholders. Additionally, it signaled an active approach of the management towards the market. The sale of the treasury stock in October – November 2013, although logical given the significant size of the treasury stake, depressed the share price despite the positive development of fundamentals and left an overhang risk, which is still present. The negative development of the price may have been mitigated if the sale was communicated with the broader market in advance, which might have also yielded a higher sale price through the involvement of more potential investors in the process.”

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Dimitar Georgiev: “Monbat is among the few Bulgarian companies that implemented a buy-back procedure since the market decline of 2008. Although the primary reason was to support the stock during the period of market panic and liquidation of long positions, the program was extended. The company is generating large cash-flows for its shareholders during the last several years, while it is investing in expanding its production capacity. The buy-back is an addition to the regularly distributed dividends, thus providing the shareholders another way to exit the investment if liquid assets are needed. Bulgarian stock market has low daily turnover and the lack of market-makers and large buy orders is making the sale of blocks impossible. Moreover, the buy-back absorbed the supply of shares of Bulgarian individual investors that followed the market bubble. The sale of shares from the buy-back is the consequence of the policy to create value for shareholders and to maintain the stock as one of the most liquid positions on the market.

Monbat managed to sell stocks at prices that are above the average value of acquisitions from the buy-back. A positive effect for shareholders can also be found in the change of structure of investors from short-term speculators to long-term value oriented investors. The only negative factor from the buy-back was the lower free-float that resulted to decrease in daily trading volumes but also limited the price volatility, which is regarded as positive factor for the market.

However, the sale of shares created a certain degree of uncertainty among investors. The intentions were not communicated well and buyers after the first sale were surprised from the additional supply. At the moment, market players are waiting for the rest of the shares to be sold before to make new investments on the stock.”

Camellia Lazarova, CFA, Investment advisor
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Camellia Lazarova: “Monbat’s stock buyback helped investors regain comfort with the company’s stocks during the most severe stages of the financial crisis as it demonstrated the management’s personal commitment and confidence in the long-term prospects for the business. It has also contributed to reducing share price volatility and increasing value to investors, and gave an opportunity for exit to investors who were willing to sell. The subsequent sale of treasury stock might have positive effects on the company as the cash raised from the sale could be used for new investments or for reduction of the company’s debt, which would strengthen the balance sheet. A clear policy regarding the company’s stock buyback programme, purposes of the share repurchase and intentions regarding the treasury stock would be appreciated by investors.”

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Elena Marinova: “I value Monbat’s share buyback programmes as a positive tool. Regarding the subsequent sale on the stock market of the repurchased shares I would recommend taking into consideration the following issues: (1) preliminary state (when announcing the share repurchase programme) what the company plans to make with the repurchased shares, ie. sale on the market, cancellation of the shares, management remuneration. This would add predictability in case of share overhang, for instance; (2) to make as thorough as possible initial impact assessment in case of subsequent share sale in order to minimize the stock price impact (properly set the discount from the market price available at the time of sale of the shares not to hurt stock price performance; volume of shares sold).”