

ACCOUNTING POLICY AND EXPLANATORY NOTES

**To the Financial Statements
As at 31.12.2016**

GENERAL INFORMATION

STARA PLANINA HOLD Plc was formed in Bulgaria on 27.09.1996 for an unlimited duration. The Holding is a successor of Central Privatization Fund AD. On 19.12.1997 Central Privatization Fund AD was renamed to Central Fund Hold Plc, and since 30.04.1999 the company has been existed under its current name.

Stara Planina Hold Plc is registered in the Commercial Register at the Registry Agency. UI Code 121227995.

The company is not registered under the VAT Act.

Stara Planina Hold Plc is a public company as stipulated in Art. 110 of the Law on Public Offering of Securities.

The seat and the registered address are in the city of Sofia, Izgrev district, 20 Frederic Joliot-Curie, 9th floor; telephone/fax: 02/9634159; 9630577; 9633754; e-mail office@sphold.com, website www.sphold.com.

The scope of business activity of the holding shall be as follows: acquisition, management, evaluation and sale of share participations in Bulgarian and foreign companies; acquisition, management and sale of bonds, evaluation and sale of patents, transfer of licenses for use of patents, belonging to companies, in which the holding public limited company has participation; financing of companies, in which the holding public limited company has participation; other commercial transactions, except those prohibited by law.

The capital of Stara Planina Hold Plc is 21,000,000 (twenty-one million) leva divided into 21,000,000 (twenty-one million) common registered shares of one lev face value each.

The management body of the company is the Board of Directors with the following composition:

- Evgeniy Vasilev Uzunov – Chairman of the Board of Directors and representative of the company;
- Vasil Georgiev Velev – executive member of the Board of Directors and representative of the company;
- Finance Invest OOD, town of Plovdiv, UIC 115016144, represented for the purpose of performing its obligations as a member of the Board of Directors by the legal representative Spas Borisov Videv;
- Stefan Atanasov Nikolov – member of the Board of Directors.

Shareholders with more than 5% stake to 31.12.2016 r:

Potbul Invest Foundation, 4655400, 22.17%
Garant 5 Ltd, 2595972, 12.36%
ZUPF Allianz Bulgaria AD 1444174, 6.88%.

The listed company staff includes 4 employees.

Statement of Compliance

Stara Planina Hold Plc presents its financial statement in compliance with the International Financial Reporting Standards (IFRS) and retains their use as an applicable basis of the preparation of the 2016 financial statement. The company complies with the principles and stipulations of the Accountancy Act, effective date 01.01.2016.

Basis for preparation of the financial statements

The financial statements of Stara Planina Hold Plc have been prepared in compliance with all International Financial Reporting Standards (IFRS) which consist of: Financial Reporting Standards and interpretations of the IFRS Interpretations Committee (IFRIC) approved by the International Accounting Standards Board (IASB) and the International Accounting Standards as well as the interpretations of the Standing Interpretations Committee (SIC) approved by the International Accounting Standards Committee (IASC) effective as of 1 January 2016 and adopted by the European Commission.

The financial statements have been prepared based on the assumption that the company is a going concern and that the company will continue to operate in the foreseeable future.

The financial statements of the company have been prepared on a historical cost basis, modified in certain cases by revaluating some assets at their fair value and this has been indicated in the respective accompanying notes.

The company maintains its accounting records in Bulgarian lev (BGN) adopted as its reporting and functional currency for financial statements presentation. The data in these financial statements and in the notes hereto are presented in thousands of (BGN) unless expressly stated otherwise.

Upon initial recognition, foreign currency transactions are recorded in the functional currency with the exchange rate at the date of transaction or operation, as published by Bulgarian National Bank (BNB), being applied

to the foreign currency amount. As of 31 December, cash, receivables and payables, being monetary accounting items denominated in foreign currency, are measured in BGN by applying the closing exchange rate published by BNB.

In these financial statements the company presents comparative information for one prior year, as the items in the Statement of Financial Position and the Statement of Changes in Equity as well as the explanatory notes thereto contains comparative data at the beginning of the earliest comparative period.

ACCOUNTING POLICY

Financial instruments

Non-derivative financial instruments

The participation of Stara Planina Hold Plc in subsidiaries and associated companies is reported in accordance with the provisions and requirements of IFRS 10: Consolidated financial statements and IAS 28: Investments in Associates.

Subsidiaries are those enterprises which are controlled by the company. Control over the subsidiaries is expressed by the company's ability to manage and define the financial and business policies of the subsidiaries so as to benefit from their operations. In the separate financial statements of the company, investments in subsidiaries are accounted for at their cost.

The company recognizes subsidiary dividends in the profit or loss account of its separate financial statements when entitlement to dividends is established.

Associates are those enterprises over which the company is capable of exerting significant influence but are not subsidiaries, nor jointly controlled entities. Investments in associates are accounted for at their cost. The company recognizes dividends from associates in the profit or loss account of its separate financial statements when entitlement to dividends is established.

Long-term participation in other companies' capital is reported in accordance with IAS 39 in the investments in other enterprises account. Financial instruments: recognition and measurement. Participation is initially

reported at acquisition cost and classified as available-for-sale financial assets. Revaluation is not performed due to lack of reliable information on the price.

There are no conditions or events that require the recognition of impairment of investments in subsidiaries, associates and minority interests.

Derivative financial instruments

The company has not used derivative financial instruments for hedging against currency, interest rate and cash flow risks.

Tangible fixed assets

The company has adopted a threshold of significance in the amount of 700 BGN under which tangible assets, regardless if fixed or not, are accounted for as current expenditures upon acquisition.

Tangible fixed assets are initially accounted for at acquisition cost, which includes the purchase price (including duties and non-recoverable taxes) and all direct costs. Direct costs are the costs necessary to render the asset operational as per its intended use.

Following the initial recognition, each individual tangible fixed asset is accounted for at acquisition cost less accrued depreciation and accumulated impairment loss.

Taking into consideration the subsequent expenses related to individual tangible fixed assets, the book value of the asset is corrected when it is probable that the economic benefits for the company shall exceed the initially measured standard efficiency of the existing asset. All other subsequent expenses are recognized as costs during the period when incurred.

Tangible fixed assets are written off upon their sale or when no economic benefits are expected from their use, or upon their write-off.

When a tangible fixed asset is transformed into goods, no profit or loss is reported. The acquisition cost shall be the book value of the tangible fixed asset which is written off.

If a tangible fixed asset is acquired as a result of a complete or partial swap for another dissimilar in nature asset or assets, the acquisition cost will be measured at the fair

value, which is equivalent to the fair value of the swapped asset, adjusted with all transferred cash. The difference between the acquisition cost of the obtained asset and the carrying amount of the swapped asset, along with all transferred cash are reported as profit or loss.

The depreciated cost of tangible fixed assets is equal to their book value. Tangible fixed assets are depreciated on a straight-line basis according to their expected useful life (service life). Service life is determined according to the period for which it is assumed that the depreciable assets will be used by the company, taking into account their probable physical wear and obsolescence. The terms are defined as follows:

- Buildings - 25 years
- Plant and equipment – 3.33 years
- Motor vehicles - 4 years
- Computers - 2 years
- Other fixed assets – 6.66 years

Impairment of assets

Depreciable assets are regularly tested for impairment when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

The depreciation loss from an asset is recognized immediately as a current operating expense. If after the depreciation of an asset, its recoverable value exceeds the book value, the depreciation loss recovery is reported as current operating income up to the amount of the previous depreciation, which was reported as a current operating expense.

Assets for which impairment loss has been recognized are subsequently tested for possible recovery of the impairment at each date of preparation of financial statements.

Intangible fixed assets

The company does not own such assets.

Inventory

The company does not have any inventory.

Receivables

Receivables are disclosed and reported at nominal value less write-offs for bad debts.

The approximate measurement of doubtful and bad receivables is performed when the recovery of the entire amount or a part thereof is highly uncertain.

Bad receivables are written off completely upon establishing the existence of legal grounds to do so.

The performed analysis of company receivables found that all due amounts are recoverable and there are no circumstances or events necessitating the impairment of receivables.

Cash

Cash is short-term financial assets in the form of cash in hand and/or cash equivalents. Cash means available cash in hand or in demand deposits. Cash equivalents are short-term highly liquid investments which are easily transferable into the respective cash amounts and which bear insignificant risk from fluctuations in their value.

Cash and cash equivalents include cash on hand and at the bank.

In order to prepare the statement of cash flows, proceeds from customers and payments to providers are reported as gross amounts, VAT (20%) included.

Liabilities

Liabilities for dividends are recognized following a decision to this end by the General meeting of shareholders.

Retirement benefits and other liabilities

The employer provides the obligatory social security, retirement, healthcare and unemployment benefits to its staff.

Social security and retirement plans offered by the company in its capacity as employer are based on Bulgarian legislation and constitute predetermined fixed instalments.

Short term employee benefits (due within 12 months following the end of the period when earned) are recognized as expenses in the income statement during the period wherein the work was performed and as a current liability (less all amounts paid out and any due deductions) without discounting. The expected

expenditures on the accumulated unused compensated absences due for payment are measured as at the date of the company's financial statements. The valuation includes the undiscounted expenditures for the compensation itself and the respective obligatory public social security insurance payable by the employer.

Provisions

Provisions are recognized when the company has current legal or constructive obligation resulting from a past event the settlement of which requires the allocation of economically-beneficial resources when it is possible to measure reliably the sum necessary to settle the obligation. If discounted, the reported provision will be increased for each period in order to reflect the expired time. Such an increase will be recognized as a financial expenditure.

The contingent liability is disclosed in the statements unless the probable necessity for outgoing cash flow resources, including economic benefits to cover the liability, is deferred.

Temporary tax differences

Temporary tax differences are accrued using the balance sheet method for all temporary differences between the assets and liabilities' tax base and their book value, measured for accounting purposes. When calculating temporary tax differences, the applicable tax rates for the periods of reverse occurrence are used.

The main temporary differences arise as a result of receivables impairment and accrued provisions costs. Recoverable temporary tax differences arising from the transfer of idle tax losses from prior reporting periods are only recognized when it is possible to have sufficient future taxable profit, within the legal term, against which to offset these losses.

Recognizing income and expenses

Income is determined at fair value of received and payable consideration as cash or cash equivalents.

Income is recognized when: (a) it is probable that the entity will have future economic benefit associated with the transaction; (b) the

amount of revenue can be measured reliably; (c) the costs incurred or to be incurred with respect to the transaction can be measured reliably; and (d) revenue from each transaction is recognized together with its related costs. Income is not recognized when costs cannot be measured reliably.

Income arising from the rendering of services is recognized by reference to the stage of completion of the transaction at the balance sheet date provided the results of the transaction can be measured reliably. The results of a transaction can be measured reliably when all of the following conditions have been met: (a) the income amount can be measured reliably; (b) it is probable that the economic benefits from the transaction will flow to the entity; (c) the stage of completion at the balance sheet date can be measured reliably; and (d) the costs incurred, or to be incurred, with respect to the transaction can be measured reliably. The stage of completion of the transaction is determined by assessing the performed work.

Interest income is recognized currently on a time basis taking into account the effective income derived from the asset.

Operating expenses are accrued at the time they arise regardless of the cash inflow and payments. Expenditures are reported and recognized in accordance with the requirement for the existence of a cause-and-effect relationship between income and expenditures.

Related parties

For the purpose of preparing these financial statements, the members of the Board of Directors have presented in the annual report the related and controlled by them legal entities. Related to them persons, under the international accounting standards, are also close members of their families. Related entities to the company are subsidiaries and associates companies.

Changes in the related to Stara Planina Hold Plc entities are tracked through the entire reporting period and the previous reporting period, as far as it concerns reporting of transactions and events in the financial statements.

The Board of directors of Stara Planina Hold Plc adopted procedures for the avoidance and disclosure of conflicts of interest. These oblige Board members to avoid and not to allow actual or potential conflict of interest to occur, and if necessary to disclose conflicts of interest providing shareholders with access to information on their transactions with the company or related parties.

During the reporting year the members of the Board of directors and the parties related thereto did not enter into contracts with the company under terms outside regular business operations or agreements deviating significantly from market conditions.

There are no transactions outside the regular business operations of the issuer or such deviating significantly from market conditions.

Transactions between Stara Planina Hold Plc and related parties during the reporting period include only the loans provided to subsidiaries and associates.

Loan contract with Fazan Plc a subsidiary of Stara Planina Hold Plc, in the amount of 760 thousand BGN maturing on 01.10.2017 at an annual interest rate of 4.5%.

Loan contract dated 16.05.2016 with Boryana Jsc, associated company of Stara Planina Hold Plc, amounting to BGN 500,000 with maturity till 16.05.2017 at 4.5% annual interest. Balance at end of the period BGN 370,000.

Events after the balance sheet date

Events both favorable or unfavorable, that occur between the end of the reporting period and the date that the financial statements are authorized for issue, may be: (a) adjusting events – events that provide further evidence of conditions that existed at the end of the reporting period, and (b) non-adjusting events – events that are indicative of a condition that arose after the end of the reporting period.

The Company adjusts recognized amounts or recognizes amounts which have not been recognized, in case of reported adjusting events.

The Company does not adjust recognized amounts or does not recognize amounts which have not been recognized in case of reported non-adjusting events. These are only

disclosed in the Notes to the annual financial statements.

Financial risk management

The Management monitors overall risk and finds ways to neutralize potential negative effects on company accounting indicators.

Currency risk. Stara Planina Hold Plc does not hold any foreign currency instruments and therefore the company is not exposed to significant currency risks.

Interest risk. The company is not exposed to significant market interest risks since it does not hold significant interest-bearing assets or liabilities based on floating interest rates.

Other price risk. The company is not exposed to high prices risk related to investments reported at fair value as it does not possess such. It is not exposed to other price risks related to financial assets associated with inventory prices.

Credit risk. The company is not exposed to significant credit risk. Risk management is assigned by company executives.

Liquidity risk. The company is not exposed to liquidity risks. Liquidity risk management is monitored by company executives.

Approximate accounting estimates, fundamental errors and amendments to the accounting policy. The estimates are subject to review in case of changes in the circumstance these are based on or as a result of additional experience and subsequent developments. The effects of changes in accounting estimates are taken into account when determining the profit or loss, as follows:

- a) For the period of the change - if changes affect only the period in question;
- b) For the period of the change and future periods - if changes also affect the periods in question.

The effect of the changes in the accounting estimate is included in the same entry of the comprehensive income statement as

previously used for the estimated value. The error related to prior periods is reported during the current period by increasing or decreasing the retained profit balance from previous years. The comparative information from the prior reporting period is recalculated. When the reduction of retained profits is greater than its balance, the difference is accounted for as retained loss from previous years. Changes in the accounting policy are to be made only when required by law, accounting standards, or if the change will lead to a more adequate representation of the events or transactions reported in the financial statements.

Changes in the accounting policy are to be applied retrospectively. Every adjustment resulting from the change needs to be reported as an adjustment to the retained profits balance for previous years. The comparative information has to be recalculated. The difference resulting from the recalculation of tax expenses in the income and expenditure statement for the prior period is reported as an adjustment of the retained profit (retained loss). Changes in the accounting policy will be adopted without retrospective action when the adjustment of the retained profit balance for prior years cannot be measured reliably. Changes in the accounting policy arising from the adoption of new accounting standards or modifications and amendments to existing ones will be reported in accordance with the requirements indicated in the new or amended accounting standard, if specified. When the respective accounting standard does not stipulate specific requirements for reporting changes in the accounting policy, these are to be reported in accordance with IAS 8.

During the reporting year the accounting policy of the company did not change for prior reporting periods. No errors were found for the current and prior reporting periods. As a result there are no changes resulting from errors or changes due to modifications of the accounting policy, or changes in accounting estimates.



The financial statements are prepared for the year ended on 31.12.2016 and approved by the Board of Directors of Stara Planina Hold Plc on 20.03.2017.

NOTES ON THE STATEMENT OF FINANCIAL POSITION

(In all applications amounts are shown in thousands BGN unless otherwise stated)

Note 1

Property, plant and equipment

| Reporting period to 31.12.2016 | Machinery and equipment | Fixtures | Others | Total |
|-----------------------------------|----------------------------|----------|--------|-------|
| Acquired | 4 | 14 | 4 | 22 |
| Depreciation | 4 | 10 | 0 | 14 |
| Closing balance | 0 | 4 | 4 | 8 |

Note 2

Investments in subsidiaries, associates and other investments

| Name and domicile of the companies | Amount | Fair value | Percentage of the capital | Investment in securities listed on a stock exchange | Investment in securities not accepted for trading on a stock exchange |
|---|---------------|----------------|---------------------------|---|---|
| I. Subsidiaries | | | | | |
| Hydraulic elements and systems Plc, Yambol | 2 331 | 50 085 | 64,53 | 2 331 | 0 |
| Elhim - Iskra Plc, Pazardzhik | 8 323 | 16 016 | 51,40 | 8 323 | 0 |
| Fazan Plc, Ruse | 1 603 | 848 | 88,07 | 1 603 | 0 |
| Slavyana Jsc, Slavyanovo | 3 512 | 3 512 | 98,74 | 0 | 3 512 |
| SPH Trans Ltd, Sofia | 33 | 33 | 65,00 | 0 | 33 |
| Total 1 | 15 802 | 70 494 | | 12 257 | 3 545 |
| II. Associates | | | | | |
| M+C Hydraulic Plc, Kazanluk | 5 409 | 80 250 | 30,91 | 5 409 | 0 |
| Bulgarian Rose Plc | 1 903 | 7 090 | 49,99 | 1 903 | 0 |
| Boryana Jsc, Cherven Briag | 429 | 429 | 50,00 | | 429 |
| Total 2 | 7 741 | 87 769 | | 7 312 | 429 |
| III. Other companies | | | | | |
| Asset Insurance Jsc, Sofia | 2 709 | 2 709 | 20,00 | 0 | 2 709 |
| Leasing Company Jsc, Sofia | 13 | 13 | 5,00 | 0 | 13 |
| Ptici & Ptichi produkti Jsc, Pleven | 287 | 287 | 24,20 | 0 | 287 |
| Forsan Bulgaria Ltd, Sofia | 0 | 0 | 50,00 | 0 | 0 |
| Medical Center "Center for Prevention of the health" Ltd, Sofia | 3 | 3 | 25,00 | 0 | 3 |
| Total 3 | 3 012 | 3 012 | | 0 | 3 012 |
| TOTAL (1+2+3) | 26 555 | 161 275 | | 19 569 | 6 986 |

Data for the current period related to subsidiaries and associates such as name, seat, investment volume, fair value of traded stocks, as per the bulletin of the Bulgarian Stock Exchange - Sofia as at 31.12.2016 and the share interest are presented in the following table. The historical cost of investments which are not traded on the Bulgarian Stock Exchange is accepted as their fair value.

Note 3

| Short-term receivables from related parties | 31.12.2016 | 31.12.2015 |
|--|------------|------------|
| Loans | 1130 | 760 |
| Interest on loans | 121 | 85 |
| Receivables from dividends | 348 | |
| Closing balance | 1599 | 845 |

Note 4

| Trade and other receivables | 31.12.2016 | 31.12.2015 |
|------------------------------------|------------|------------|
| Loans | 3025 | 1475 |
| Interest on loans | 199 | 120 |
| Interest on deposits | 0 | 11 |
| Prepayments | 8 | 8 |
| Prepaid expenses | 4 | 4 |
| Closing balance | 3236 | 1618 |

Note 5

| Cash and cash equivalents | 31.12.2016 | 31.12.2015 |
|----------------------------------|------------|------------|
| Cash | 6 | 3 |
| Cash in current accounts | 2283 | 165 |
| Cash deposits | 6407 | 9620 |
| Closing balance | 8696 | 9788 |

Note 6

| Equity | 31.12.2016 | 31.12.2015 |
|--------------------------------|------------|------------|
| Share capital | 21000 | 21000 |
| Bought own shares | -121 | -221 |
| Reserves | 9448 | 9448 |
| Discounts of bought own shares | -118 | -215 |
| Retained earnings | 2289 | 2203 |
| Net result for the period | 5146 | 4734 |
| Closing balance | 37644 | 36949 |

Stara Planina Hold Plc sold 100,000 own shares. The sale was carried out as a package deal on November 8, 2016. After the deal Stara Planina Hold Plc holds 121,265 own shares, representing 0.58% of the share capital of the holding. The part of formed negative premium reserve on the purchase of shares in the amount of BGN 97 thousand was written off. Balance remains BGN 118 thousand.

Note 7

| Dividends payables | 31.12.2016 | 31.12.2015 |
|---------------------------|------------|------------|
| Dividends payables | 2221 | 1147 |
| Closing balance | 2221 | 1147 |

Note 8

| Trade and other liabilities | 31.12.2016 | 31.12.2015 |
|------------------------------------|------------|------------|
| Unused leave | | 1 |
| Obligations bonuses | 208 | 85 |
| Contributions | 5 | 5 |
| Income tax on individuals | 14 | 10 |
| Tax expenses | 2 | 2 |
| Closing balance | 229 | 103 |

Note 9

Between Stara Planina Hold Plc and Asset Insurance Jsc has been contracted to take subject to a contingent liability. Under this contract Stara Planina Hold Plc undertakes to provide Asset Insurance Jsc upon request and upon the occurrence of an activating event amount to BGN 294 thousand.

NOTES ON THE STATEMENT OF COMPREHENSIVE INCOME

Note 10 (In all applications amounts are shown in thousands BGN unless otherwise stated)

| Dividend income | 31.12.2016 | 31.12.2015 |
|------------------------|------------|------------|
| Dividend income | 5609 | 5326 |

Note 11

| Other financial income/expenses | 31.12.2016 | 31.12.2015 |
|---|------------|------------|
| Interest income from loans | 123 | 130 |
| Interest income on deposits | 72 | 147 |
| Gains from transactions with financial assets | 428 | 1 |
| Other | -1 | -1 |
| Closing balance | 622 | 277 |

Note 12

| Other income | 31.12.2016 | 31.12.2015 |
|---|------------|------------|
| Derecognition of liabilities with expired limitation period | 78 | 73 |

Note 13

| Cost of materials | 31.12.2016 | 31.12.2015 |
|--|------------|------------|
| Cost of office supplies | 2 | 2 |
| Expenses for office furniture | 3 | 2 |
| Maintenance costs for office equipment | 8 | 7 |
| Costs for sanitation | 2 | 2 |
| Closing balance | 15 | 13 |

Note 14

| Cost of hired services | 31.12.2016 | 31.12.2015 |
|-------------------------------|------------|------------|
| Legal expenses | 42 | 42 |
| Auditing services | 4 | 4 |
| Advertising costs | 21 | 15 |
| Subscription costs | 4 | 5 |
| Postage | 1 | 1 |
| Maintenance of computers | 7 | 7 |
| Fees for state institutions | 5 | 4 |
| Civil contracts | 101 | 39 |
| Other | 27 | 9 |
| Closing balance | 212 | 126 |

Note 15

| Employee expenses | 31.12.2016 | 31.12.2015 |
|--------------------------|------------|------------|
| Management salaries | 497 | 492 |
| Staff salaries | 156 | 193 |
| Social security costs | 29 | 31 |
| Closing balance | 682 | 716 |

Note 16

| Other expenses | 31.12.2016 | 31.12.2015 |
|------------------------|------------|------------|
| Entertainment expenses | 16 | 13 |
| Seminars | 127 | 28 |
| Membership fee | 27 | 7 |
| Donations | 10 | 6 |
| Medical service | 50 | 4 |
| Life insurance | 11 | 11 |
| Other | 10 | 17 |
| Closing balance | 251 | 86 |

Chief Accountant: Kremena Dulgerova

Executive Director: Vasil Velev