



ACCOUNTING POLICY AND EXPLANATORY NOTES

To the Consolidated Financial Statements as at 31.12.2018

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 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 31.12.2018 r:

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

LIST

Of subsidiaries included in the consolidated financial statements

<i>Enterprise</i>	<i>Location</i>	<i>Share capital and voting rights</i>
Hydraulic elements and systems Plc	Yambol	64.53%
Elhim-Iskra Plc	Pazardzhik	51.40%
Fazan Plc	Ruse	92.65%
Slavyana Jsc	Slavyanovo	98.74%
Vinprom Jsc	Veliko Tarnovo	95.69%
Dionisii Jsc	Nikopol	68.99%

LIST

Of associated companies included in the consolidated financial statements

<i>Enterprise</i>	<i>Location</i>	<i>Share capital and voting rights</i>
M+C Hydraulic Plc	Kazanluk	30.61%
Bulgarian Rose Plc	Karlovo	49.99%
Boryana Jsc.	Ch. Briag	50.00%
Ustrem Ltd	Svishtov	45.00%

Explanatory information

1. Taking into account the influence of the holding on the decision-making process with regard to the associates and the need to provide more comprehensive and correct information to the shareholders, investors and all interested parties, as of 01.01.2011 Stara Planina Hold Plc applies accounting policy aimed to further assist investors in making a well-founded investment decision.

2. The Financial Statements of the enterprise group for the current period are consolidated with the Financial Statement of the parent for the same period.

3. The Cost method of accounting has been applied for the investments in enterprise group in the Separate Financial Statements of the Stara Planina hold Plc.

4. Data in the consolidated statement of financial position for the previous reporting period are stated based on the data presented in the consolidated statement of financial position as of 31.12.2017 prepared on the basis of the financial statements of the group entities at the same date.

5. Consolidation of Separate Financial Statements of enterprise group and Separate Financial Statements of the parent has been made successively for the assets, liabilities, equity, incomes and expenses.

6. In the procedure of consolidation the value of shares of the parent in the subsidiaries has been eliminated successively for:

- Issued capital
- Capital reserves
- Retained earnings/losses

7. The consolidated profit for equity holders of the parent company is BGN 7 556 thousand.

8. Non-controlling interest in the Consolidated statement of financial position is BGN 87 004 thousand.

9. Profit attributable for non-controlling interest in the Consolidated Statement of comprehensive income is BGN 12 848 thousand.

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

Statement of Compliance

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

Basis for preparation of the consolidated financial statements

The consolidated 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 2018 and adopted by the European Commission.

The consolidated 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 consolidated 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 consolidated 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 consolidated 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.

Classification and measurement of investments in equity instruments (minority interests)

As at 31 December 2017, the Group companies have investments in equity instruments (minority interests) classified as available-for-sale under IAS 39, measured at acquisition cost, held for long-term strategic investment purposes. These investments continue to be held for the same purposes and at the initial application of IFRS 9 the management has classified these as reported at fair value through other comprehensive income (FVOCI). As of the date of initial application, the fair value of those investments is determined, according to an independent valuer's report, by making the necessary revaluations. They are recorded in the Reserve from changes in the fair value of investments in equity instruments at of the date of initial application (1 January 2018) of the Standard. Deferred tax liabilities were deducted against a write-down of the reserve and deferred tax assets indicated in the increase of the reserve.

All future changes in the fair value of these investments will be presented in other comprehensive income and no impairment losses will be recognized in profit or loss and the amounts accumulated in other comprehensive income will not be reclassified in profit or loss after their derecognition (upon any future sale of the investments). Income from dividends will continue to be recognized in the profit or loss for the period.

Loans provided, trade and other receivables, cash and cash equivalents which as at 1 January 2018 in accordance with IAS 39 have been classified as "loans and receivables" are classified in the category reported at "amortized cost" in accordance with IFRS 9.

These assets are subsequently measured at amortized cost using the effective interest method. Amortized cost is reduced by the impairment losses. Interest income, foreign exchange rate gains and losses and impairment are recognized in the profit or loss. Any gain or loss from derecognition is recognized in profit or loss.

Impairment of financial assets

IFRS 9 replaces the "incurred losses" model in IAS 39 with "expected credit loss" (ECL) model. This will require a significant subjective judgment as to how the changes in the economic factors affect the expected credit loss which will be determined based on the

weighing of probabilities. The new impairment model will be applied to financial assets reported at amortized cost, contract assets and debt instruments at fair value through other comprehensive income but will not be applied to investments in equity instruments. According to IFRS 9, credit losses are recognized earlier than what's provided for in IAS 39. For assets falling within the scope of IFRS 9 impairment model, the expectations are that these will rise and become more volatile.

As a result of the application of IFRS 9, the Company has adopted the subsequent amendments to IAS 1 - Presentation of Financial Statements which requires that impairment of financial assets be presented as a separate item in the profit or loss account and the other comprehensive income. In previous periods, the Company had adopted the approach of incorporating the impairment of trade receivables in the other expenses. In addition, the Company has adopted the subsequent amendments to IFRS 7 Financial Instruments: Disclosures which have been applied to the 2018 disclosures but generally have not been applied to the comparable information.

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

Group recognizes the identifiable non-monetary asset without physical substance as intangible assets when they meet the

definition of an intangible asset and the recognition criteria stipulated in IAS 38.

Intangible 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.

Intangible assets subject to depreciation are amortized using the straight-line method during the expected useful life.

Inventory

Inventory is measured at initial delivery cost, which is the sum of all purchase and processing costs, as well as other expenditures related to the delivery of the inventory to its current location and state.

The weighted average cost method is used to measure inventory upon write-off.

Inventory are valued at the lower of the supply cost and the net realizable value with the difference accounted for as other operating costs. At the end of the reporting period, the net realizable value of inventory are measured. Net realizable value is the presumed sales price within the course of normal business operations less the approximately measured sales costs

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.

Trade receivables which as at 1 January 2018 were classified as loans and receivables under IAS 39 are now classified at amortized cost in accordance with IFRS 9.

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.

Cash which as at 1 January 2018 was classified as loans and receivables under IAS 39 is now classified at amortized cost under IFRS 9.

The Company reckons that no impairment of the available cash is needed as it is held in a financial institutions and it is of a low credit risk.

Liabilities

Payables to suppliers and other current liabilities in BGN are accounted at acquiring cost, which is the fair value of the transaction. Liabilities denominated in foreign currencies are valued in BGN in the exchange rate of the day of their occurrence and are revaluated at the closing exchange rate of BNB to 31.12.2018.

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 result from the impairment of receivables, revaluations to fair value and accrued provision costs.

In connection with the changes in the accounting policies arising from the application of IFRS 9 and the revaluation to fair value of the minority interests, deferred tax assets and liabilities have been accrued.

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

IFRS 15 creates a comprehensive framework for determining whether, to what extent and when revenue is recognized. This standard replaces IAS 18 Revenue, IAS 11 Construction Contracts and the pertinent interpretations. According to IFRS 15, revenue is recognized when a customer obtains control over the goods or services. Determination of the time when control is transferred – at a point of time or over time, requires the exercise of judgment.

According to management's judgment, the application of the standard will not significantly affect the financial statement as it doesn't change the point of time when revenue is recognized and their value.

The group has applied IFRS 15 with the date of initial application being 1 January 2018 and there has been no significant effect since the initial application of the standard. Therefore, the comparable information presented for 2017 has not been recalculated – it has been presented as it was previously reported in accordance with IAS 18 and the applicable interpretations. Generally, the IFRS 15 disclosure requirements have not been applied towards the comparative information.

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 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 mostly the loans provided to subsidiaries and associates.

Loan contract dated 26.05.2018 with Bulgarian Rose Plc, associated company of Stara Planina Hold Plc, amounting to BGN 1,000,000 with maturity till 26.05.2019 at 3.0% annual interest. Fully repaid at the end of the reporting period.

Loan contract dated 16.05.2017 with Boryana Jsc, associated company of Stara Planina Hold Plc, amounting to BGN 500,000 with maturity till 16.05.2019 at 3.5% annual interest. Balance at end of the period BGN 470,000.

Contract dated 18.05.2018 with Ustrem Ltd, associated company of Stara Planina Hold amounting to BGN 100,000 with maturity till

18.05.2019 at 3.5% annual interest. Balance at end of the period BGN 83,000.

Additional cash contribution, according to Art. 134 of the Commercial Act, amounting to BGN 200 thousand in the capital of Ustrem Ltd, associated company of Stara Planina Hold Plc.

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.

The market risk consists of three types of risk: Currency risk –the risk that the value of a financial instrument will fluctuate due to the change in the currency exchange rates

Interest risk – the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates

Price risk – this is the risk that the value of a financial instrument will fluctuate as a result of changes in the market prices.

The main sales in the group are realized in the European Union and from exports to third countries. Payments are in Euros and US Dollars. The management monitors exchange rate movements and takes measures to avoid the negative consequences of their variance.

The interest bearing financial instruments of Stara Planina Hold Plc are only from the granted loans. All of them are with fixed annual interest rate of 2.5 – 3.5%.

Investments in subsidiary and associated enterprises are reported and presented as per the acquisition cost method.

The risk of changes in the market prices of equity instruments arises from equity stocks classified as reported at fair value through

other comprehensive income (FVOCI), (in 2017: available-for-sale), held for long-term investment.

Credit risk – Stara Planina Hold Plc has granted loans to enterprises from its portfolio which have longstanding and untarnished credit reputation which minimizes credit risk.

Due to the nature of the financial instruments used by Stara Planina Hold Plc, the liquidity risk and the interest risk of the cash flow are also kept at a minimum.

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, accounting policies have been changed as a result of the initial application of IFRS 9. They have been applied retrospectively with the following exceptions:

- The Company has employed the exemption not to recalculate the comparable information for previous periods with respect to classification and valuation requirements (including impairment). Hence the comparable periods have not been recalculated. The differences in the carrying amounts of the financial assets arising from the adoption of IFRS 9 are recognized in reserves as at 1 January 2018. Accordingly, the information presented for 2017 generally doesn't reflect the IFRS 9 requirements but rather those provided for in IAS 39.

No errors were found for the current and prior reporting periods. As a result there are no changes resulting from errors.



These consolidated financial statements are prepared for the year ended on 31.12.2018 and approved by the Board of Directors of Stara Planina Hold Plc on 25.04.2019.

Chief Accountant: Kremena Dulgerova

Executive Director: Vasil Velev