

ACCOUNTING POLICY AND EXPLANATORY NOTES

To the interim financial statements As at 30.06.2020

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 30.06.2020 r:

Potbul Invest Foundation, 4655400, 22.17%
Garant 5 Ltd, 2595972, 12.36%
ZUPF Allianz Bulgaria AD 1311322, 6.24%.

The listed company staff includes 6 employees.

Statement of Compliance

Stara Planina Hold Plc presents its 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 financial statements. The company complies with the principles and stipulations of the Accountancy Act.

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 2020 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. 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.

When preparing this financial statement, the management used judgments, estimates and assumptions which affect the application of the accounting policies and the reported amounts of assets and liabilities, revenue and expenditures. The actual result may differ from these estimates.

Estimates and main assumptions are reviewed on a regular basis.

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 and Joint Ventures.

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)

The investments in equity instruments (minority interests) are classified as reported at fair value through other comprehensive income (FVOCI) in accordance with IFRS 9.

All 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, 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.

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.

Trade receivables are classified at amortized cost in accordance with IFRS 9.

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.

Cash are 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 institution and it is of a low credit risk.

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

IFRS 15 creates a comprehensive framework for determining whether, to what extent and when revenue is recognized. 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.

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 mostly the loans provided to subsidiaries and associates.

Loan contract dated 30.04.2020 with Bulgarian Rose Plc, associated company of Stara Planina Hold Plc, amounting to BGN 500,000 with maturity till 30.04.2021 at 3% annual interest. Balance at end of the period BGN 0.

Loan contract dated 16.05.2016 with Boryana Jsc, associated company of Stara Planina Hold Plc, amounting to BGN 500,000 with maturity till 16.05.2021 at 3% 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 18.05.2021 at 3% annual interest. Balance at end of the period BGN 83,000.

Contract dated 29.01.2020 with Ustrem Ltd, associated company of Stara Planina Hold amounting to BGN 75,000 with maturity till 29.07.2020 at 3% annual interest.

Loan contract dated 25.04.2019 with Fazan Jsc, subsidiary company of Stara Planina Hold Plc, amounting to BGN 407,000 with maturity till 25.12.2021 at 2.5% annual interest.

Loan contract dated 09.01.2020 with Fazan Jsc, subsidiary company of Stara Planina Hold Plc, amounting to BGN 550,000 with maturity till 09.01.2022 at 2.5% annual interest.

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.

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 exposed to risk of changes in the price of equity stock classified as FVOCI held for long-term investment.

The company 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, accounting policies have not been changed.

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



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 30.06.2020	Machinery and equipment	Fixtures	Others	Total
Acquired	5	21	4	30
Depreciation	5	18	0	23
Closing balance	0	3	4	7

Note 2

Investments in subsidiaries, associates and other investments

Name and domicile of the companies	Amount	Fair value	Percent age of the capital	Investmen t in securities listed on a stock exchange	Investment in securities not accepted for trading on a stock exchange
1. Subsidiaries					
Hydraulic elements and systems Plc, Yambol	2 331	41 237	64,53	2 331	0
Elhim - Iskra Plc, Pazardzhik	8 323	8 776	51,40	8 323	0
Fazan Jsc, Ruse	2 413	2413	92,65	0	2413
SPH Invest Jsc, Sofia	3 542	3 542	99,39	0	3 542
Vinprom Jsc, Veliko Tarnovo	1 954	1 954	95,69	0	1 954
Dionisii Jsc, Nikopol	99	99	68,99	0	99
SPH Trans Ltd, Sofia	33	33	65,00	0	33
Total 1	18 695	58 144		10 654	8 041
II. Associates					
M+C Hydraulic Plc, Kazanluk	5 409	75 457	30,61	5 409	0
Bulgarian Rose Plc	1 903	4816	49,99	1 903	0
Boryana Jsc, Cherven Briag	429	429	50,00		429
Ustrem Ltd, Svishtov	319	319	45,00	0	319
Total 2	8 060	81 021		7 312	748
III. Other companies					
Asset Insurance Jsc, Sofia	2 733	2 733	20,00	0	2 733
Leasing Company Jsc, Sofia	95	95	5,00	0	95
Ptici & Ptichi produkti Jsc, Pleven	0	0	24,20	0	0
Medical Center "Center for Prevention of the health" Ltd, Sofia	2	2	25,00	0	2
Forsan Bulgaria Ltd, Sofia	0	0	50,00	0	0
Total 3	2 830	2 830		0	2 830
TOTAL (1+2+3)	29 585	141 995		17 966	11 619

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 30.06.2020 and the share interest are presented in the following table. For the fair value of investments in subsidiaries and associates not admitted to trading on the BSE their historical cost is adopted.

On 23.06.2020 Stara Planina Hold AD sold its share in the capital of "Forsan Bulgaria" Ltd. at face value. The value of the investment in the balance sheet of the company at the moment of sale is zero, due to the undervaluation.

Investments in equity instruments (minority shares), pursuant to IFRS 9, are classified as reported at fair value through the statement of other comprehensive income (FVOCI).

Note 3

Other financial assets	30.06.2020	31.12.2019
Additional cash contribution in accordance with art. 246, para 2, item 4 of Commerce Act	609	609

In 2016 an additional monetary contribution was made in accordance with art. 246, para 2, item 4 of Commerce Act at the amount of BGN 609 thousand in the Reserve fund of Asset Insurance AD - a minority interest company in the Stara Planina Hold Plc portfolio.

Note 4

Long-term receivables from related parties	30.06.2020	31.12.2019
Additional cash contribution in accordance with Art. 134 of the Commerce Act	200	200
Loans	957	407
Closing balance	1157	607

Note 5

Long-term receivables	30.06.2020	31.12.2019
Loans	8977	9072

Note 6

Deferred tax assets	30.06.2020	31.12.2019
Temporary tax differences since the application of IFRS 9	29	29

Note 7

Short-term receivables from related parties	30.06.2020	31.12.2019
Loans	628	553
Interest on loans	81	64
Receivables from dividends	5605	1000
Closing balance	6314	1617

Note 8

Trade and other receivables	30.06.2020	31.12.2019
Loans		375
Interest on loans	35	172
Prepayments	11	9
Prepaid expenses	3	3
Receivables from dividends	28	
Closing balance	77	559

Note 9

Cash and cash equivalents	30.06.2020	31.12.2019
Cash	4	7
Cash in current accounts	2996	3127
Cash deposits	8	8
Closing balance	3008	3142

Note 10

Equity	30.06.2020	31.12.2019
Share capital	21000	21000
Bought own shares	-226	-226
Reserves	9448	9448
Discounts of bought own shares	-541	-541
Reserves from changes in fair value of investments in equity instruments	385	385
Retained earnings	3908	3085
Net result for the period	5006	6427
Closing balance	38980	39578

Note 11

Non-current liabilities	30.06.2020	31.12.2019
Obligations bonuses	199	182

Note 12

Deferred tax liabilities	30.06.2020	31.12.2019
Temporary tax differences since the application of IFRS 9	72	72

Note 13

Dividends payables	30.06.2020	31.12.2019
Dividends payables	10 101	5 192

Note 14

Trade and other liabilities	30.06.2020	31.12.2019
Obligations bonuses	189	175
Contributions	8	9
Income tax on individuals	55	14
Tax expenses	1	2
Dividend tax	158	
Other liabilities		2
Closing balance	411	202

Note 15

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

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

Note 16

Dividend income	30.06.2020	30.06.2019
Dividend income	5633	7124

Note 17

Other financial income/expenses	30.06.2020	30.06.2019
Interest income from loans	135	125
Revenue from investment operations	2	
Other financial income/expenses	-2	-3
Closing balance	135	122

Note 18

Cost of materials	30.06.2020	30.06.2019
Cost of office supplies	1	2
Expenses for office furniture	1	2
Maintenance costs for office equipment	3	5
Costs for sanitation	2	1
Closing balance	7	10

Note 19

Cost of hired services	30.06.2020	30.06.2019
Legal expenses	21	21
Auditing services	4	4
Advertising costs	7	2
Subscription costs	2	2
Postage	1	1
Maintenance of computers	5	4
Fees for state institutions	4	5
Civil contracts	35	19
Other	1	10
Closing balance	80	68

Note 20

Employee expenses	30.06.2020	30.06.2019
Management salaries	289	285
Staff salaries	161	130
Social security costs	28	24
Closing balance	478	439

Note 21

Other expenses	30.06.2020	30.06.2019
Entertainment expenses	14	5
Seminars	1	3
Membership fee	40	10
Donations	103	6
Medical service	37	20
Business trips		1
Other	1	4
Closing balance	196	49

Chief Accountant: Kremena Dulgerova

Executive Director: Vasil Velev