

## APPENDIX № 2 – SUMMARY OF THE SIGNIFICANT INDIVIDUAL ACCOUNTING POLICIES OF SIRMA GROUP HOLDING

### 2.1. Basis for the preparation of the individual financial statements

Individual financial statement of Sirma Group Holding have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting Standards and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC), which are effectively in force on 1 January 2018 and have been accepted by the Commission of the European Union. IFRSs as adopted by the EU is the commonly accepted name of the general purpose framework – the basis of accounting equivalent to the framework definition introduced by § 1, p. 8 of the Additional Provisions of the Accountancy Act "International Accounting Standards" (IASs).

As of the date of preparation of the financial statements, the IASB / IFRIC has issued standards and interpretations that are not yet in force. Some of them have been adopted by the European Union and others have not yet been adopted. Standards issued by the IAS / IFRIC that have not yet entered into force at the date of issue of the financial statements and have not been applied earlier are listed below. The company intends to adopt these standards when they enter into force.

Published standards that are not yet in force and are not adopted earlier.

At the date of issue of these financial statements, the following standards were issued by the IASB and adopted by the EU but have not yet entered into force:

**IFRS 16 "Leases"** (in force for annual periods beginning after 1 January 2019 – not endorsed by EU). This standard has an entirely new concept. It establishes new principles for the recognition, measurement and presentation of a lease by introducing a new model with the objective to ensure a more faithful and adequate representation of such transactions both for lessee and lessor. The standard will supersede the effective so far standard related to leases – IAS 17.

(a) The main principle of the new standard is the introduction of a single lessee accounting model –an asset will be recognised for all contracts with duration of more than 12 months in the form of a 'right of use', which will be subsequently depreciated over the duration of the contract, and respectively, a financial liability will be stated for the lease liability under the contracts. This is the significant change in the current accounting practice. The standard allows an exception and retaining the old practice for leases of low-value assets and short-term leases;

(b) There would not be any significant changes with the lessors and they would continue to account for leases as per the old standard - operating and finance. As far as the new standard introduces a more thorough concept, a more detailed analysis of contractual terms should be carried out on their part as well and it is possible that grounds for reclassification of particular lease transactions may occur for them (lessors), too. The new standard requires more extensive disclosures. The management of the Company is considering the impact that this Standard may have on the financial statements of the Company.

#### **New standards and interpretations issued by the IASB, which have not yet been adopted by the EU.**

Currently, IFRSs adopted by the EU do not differ materially from those adopted by the IASB except for the following new standards, amendments to existing standards and new interpretations not yet endorsed by the EU at the date of approval of these financial statements (the dates of entry into force specified below are for full IFRSs):

**IFRS 17 "Insurance Contracts"** (in force for annual periods beginning on or after 1 January 2021) IFRS 9 (revised) "Financial Instruments" - Prepayments with negative benefits (effective for annual periods beginning on or after 1 January 2019);

**IAS 28 (revised) "Investments in associates and joint ventures"** - for long-term interests in associates and joint ventures (effective for annual periods beginning on or after 1 January 2019);

**Improvements to different standards "Improvements to IFRS (Cycle 2015-2017)"**, resulting from the annual IFRS Improvements Project (IFRS 3, IFRS 11, IAS 12 and IAS 23), mainly for the purpose of eliminating contradictions and clarifying the wording for annual periods beginning on or after 1 January 2019);

**IFRIC 22 - "Foreign currency transactions and prepayments"** (effective for annual periods beginning on or after 1 January 2018)

**IFRIC 23 - "Uncertainties in the treatment of income taxes"** (effective for annual periods beginning on or after 1 January 2019)

**IAS 19 (revised) "Employee Benefits"** - Improvement, curtailment or settlement of the plan (effective for annual periods beginning on or after 1 January 2019).

The Company expects the adoption of these standards and amendments to existing standards not to have a material effect on the financial statements of the Company during the period of their initial application.

The individual financial statements of the Company have been prepared on a historical cost basis except for property, plant and equipment, investment property and available-for-sale financial instruments, which are measured at revalued amount and respectively, at fair value.

The Company keeps its accounting books in Bulgarian Levs (BGN), which is accepted as being its presentation currency. The data in the separate financial statements and the notes thereto is presented in thousand Bulgarian Levs (BGN'000) except where it is explicitly stated otherwise.

The presentation of financial statements in accordance with International Financial Reporting Standards requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities, the amounts of income and expenses and the disclosure of contingent receivables and payables as at the date of the financial statements. These estimates, accruals and assumptions are based on the information, which is available at the date of the financial statements, and therefore, the future actual results might be different from them (whereas in the conditions of financial crisis the uncertainties are more significant).

#### Working company

The annual individual financial statements are prepared on a going concern basis on an accrual basis in accordance with accepted accounting policies, unchanged throughout the reporting period. There is no decision to restructure the company at the end of the reporting period.

#### 2.2 Consolidated financial statement of the company

The Company has started the process of preparation of its consolidated financial statements for the third quarter of 2018 in accordance with IFRS for year 2018 whereas these individual financial statements will be included therein. In accordance with the planned dates, the management expects that the consolidated financial statements will be prepared for issue not later than 30 November 2018 and after this date the financial statements will be publicly made available to third parties.

#### 2.3 Comparatives

In these individual financial statements, the Company presents comparative information for one prior year. Where necessary, comparative data is reclassified (and restated) in order to achieve comparability in view of the current year presentation changes.

#### 2.4 Functional currency and recognition of exchange differences

The functional currency of the Company companies in Bulgaria being also presentation currency for the Company is the Bulgarian Lev. The Bulgarian Lev is fixed to the Euro, under the BNB Act, at the ratio BGN 1.95583:EUR 1. Upon its initial recognition, a foreign currency transaction is recorded in the functional currency whereas the exchange rate to BGN at the date of the transaction or operation is applied to the foreign currency amount. Cash, receivables and payables, as monetary reporting items, denominated in a foreign currency, are recorded in the functional currency by applying the exchange rate as quoted by the Bulgarian National Bank (BNB) for the last working day of the respective month. At 31 December, these amounts are presented in BGN at the closing exchange rate of BNB. The non-monetary items in the individual statement of financial position, which are initially denominated in a foreign currency, are accounted for in the functional currency by applying the historical exchange rate at the date of the transaction and are not subsequently re-valued at the closing exchange rate. Foreign exchange gains or losses arising on the settlement or recording of foreign currency commercial transactions at rates different from those at which they were converted on initial recognition, are recognised in the individual statement of comprehensive income in the period in which they arise and are presented net under "other operating income/(losses)".

#### 2.5 Revenue

Revenue in the Company is recognised on accrual basis and to the extent and in the way the economic benefits will flow to The Company and respectively, the business risks are born thereby, and as far as revenue can be reliably measured.

Upon sale of finished products, goods and materials, revenue is recognised when all significant risks and rewards of ownership have passed to the buyer. Upon rendering of services, revenue is recognised by reference to the stage of completion of the transaction at the end of the reporting period, if this stage as well as the costs incurred for the transaction and the costs to complete the transaction, can be measured reliably. Revenue is measured on the basis of the fair value of the products, goods and services sold, net of indirect taxes (excise duties and VAT) and any discounts and rebates granted. Foreign exchange gains or losses related to cash, trade receivables and payables, denominated in foreign currency, are recognised in the individual statement of comprehensive income (within profit or loss for the year) in the period, in which they arise and are presented net under 'other operating income/(losses), net'. The gains from revaluation of investment property to fair value are presented in the individual statement of comprehensive income (within profit or loss for the year) on the line 'other operating income/(losses), net'. Revenue from investment property leased-out under the terms of operating lease is also accounted for under this item of the individual financial statements. Upon sale on an instalment plan, revenue is recognised on the date of sale, excluding the incorporated interest.

Finance income is included in the individual statement of comprehensive income when earned and comprises: interest income on granted loans and term deposits, interest income on receivables under special contracts, interest income on past due receivables, income/gains from deals with investments in available for-sale securities including dividends, net gains on exchange differences under loans in foreign currency.

#### 2.6 Expenses

Expenses are recognised in The Company when they are incurred based on the accrual and matching concepts (to the extent that this would not lead to recognition of an asset or liability not satisfying the definitions for assets and liabilities in the Framework and IFRS themselves).

Deferred expenses are put off and recognised as current expenses in the period when the contracts, where to they refer, are performed. Losses from revaluation of investment property to fair value are presented in the individual statement of comprehensive income (within profit or loss for the year) on the line 'other operating income/(losses)'. Finance costs are included in the individual statement of comprehensive income when incurred separately from finance costs and comprise: interest expenses under loans received, bank fees and charges under loans and guarantees, foreign exchange net loss from loans in foreign currencies, expenses/losses from investments in available-for-sale securities, expenses on debt settlement transactions, loss on fair value measurement of available-for-sale investments in the acquisition of a subsidiary performed in stages.

## 2.7 Property, plant and equipment

Property, plant and equipment (fixed tangible assets) are presented in the individual financial statements at revalued amount less the accumulated depreciation and impairment losses in value.

### Initial acquisition

Upon their initial acquisition, property, plant and equipment are valued at acquisition cost (cost), which comprises the purchase price, including customs duties and any directly attributable costs of bringing the asset to working condition for its intended use. The directly attributable costs include the cost of site preparation, initial delivery and handling costs, installation costs, professional fees for people involved in the project, non-refundable taxes, expenses on capitalised interest for qualifying assets, etc.

Upon acquisition of property, plant and equipment under deferred settlement terms, the purchase price is equivalent to the present value of the liability discounted on the basis of the interest level of the attracted by The Company credit resources with analogous maturity and purpose.

The Company has set a value threshold of BGN 700, below which the acquired assets, regardless of having the features of fixed assets, are treated as current expense at the time of their acquisition.

### Subsequent measurement

Repairs and maintenance costs are recognized as current in the period in which they are incurred. Subsequent expenditures relating to property, plant and equipment that have the nature of replacement of certain parts and components or of reorganization and reconstruction are capitalized at the carrying amount of the asset and its residual useful life is reviewed at the capitalization date. At the same time, the non-depreciated part of the replaced components is written off from the carrying amount of the assets and is recognized in the current expense for the reorganization period.

### Depreciation methods

The Company applies the straight-line depreciation method for property, plant and equipment. Depreciation of an asset begins when it is available for use. Land is not depreciated. The useful life of The Company's assets is dependent on their physical wear and tear, the characteristic features of the equipment, the future intentions for use and the expected obsolescence.

The useful life per group of assets is as follows:

- buildings – 20-70 years
- installations – 5-25 years
- machinery and equipment – 5-10 years
- computers and mobile devices – 2-5 years
- servers and systems – 2-5 years
- motor vehicles – 7-12 years
- furniture and fixtures – 5-12 years

The useful life, set for any tangible fixed asset, is reviewed by the management of the Company at the end of each reporting period and in case of any material deviation from the future expectations of their period of use, the latter is adjusted prospectively.

### Impairment of assets

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount might permanently differ from their recoverable amount. If any indications exist that the estimated recoverable amount of an asset is lower than its carrying amount, the latter is adjusted to the recoverable amount of the asset. The recoverable amount of property, plant and equipment is the higher of fair value less costs to sell or the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions and assessments of the time value of money and the risks, specific to the particular asset. Impairment losses are recognised in the individual statement of comprehensive income (within profit or loss for the year) unless a revaluation reserve has been set aside for the respective asset. Then the impairment is treated as a decrease in this reserve (through other comprehensive income) unless it exceeds its amount and the excess is included as expense in the individual statement of comprehensive income (within profit or loss for the year).

### **Gains and losses on disposal (sale)**

Tangible fixed assets are derecognised from the individual statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of 'property, plant and equipment' group are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They are stated net under 'other operating income/(losses), net' on the face of the individual statement of comprehensive income (within profit or loss for the year). The part of 'revaluation reserve' component attributable to the sold asset is directly transferred to 'retained earnings' component in the individual statement of changes in equity.

### **2.8 Intangible assets**

Intangible assets are stated in the individual financial statements at acquisition cost less accumulated amortisation and any impairment losses in value. The intangible assets include mainly intellectual property rights, software and complex intangible assets (licences and pharmacy chain locations). The Company applies the straight-line amortisation method for the intangible assets with determined useful life from 2 to 10 years. The carrying amount of the intangible assets is subject to review for impairment when events or changes in the circumstances indicate that the carrying amount might exceed their recoverable amount. Then impairment is recognised as an amortisation expense in the individual statement of comprehensive income (within profit or loss for the year). Intangible assets are derecognised from the individual statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of intangible assets are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They are stated net under 'other operating income/(losses), net' on the face of the individual statement of comprehensive income (within profit or loss for the year).

### **2.9 Investment property**

Investment property is property lastingly held by the Company to earn rentals and/or for capital appreciation. They are presented in the individual statement of financial position at fair value. Gains or losses arising from a change in the fair value of investment property are recognised in the individual statement of comprehensive income (within profit or loss for the year) as 'other operating income/(losses), net' for the period in which they arise. The income gained on investment property is presented in the same item of the individual statement of comprehensive income. Investment properties are derecognised from the individual statement of financial position when they are permanently withdrawn from use and no future economic benefits are expected therefrom or on disposal. Gains or losses arising from the disposal of investment property are determined as the difference between the net disposal proceeds and the carrying amount of the asset at the disposal date. They are presented under 'other operating income/(losses), net' in the individual statement of comprehensive income (within profit or loss for the year). Transfers to, or from, The Company of 'investment property' is made only when there is a change in the functional designation and the use of a particular property. In case of a transfer from 'investment property' to 'owner-occupied property', the asset is recognised in the new group at deemed cost, which is its fair value at the date of transfer. To the opposite, in case of a transfer from 'owner-occupied property' to 'investment property' the asset is measured at fair value at the date of transfer while the difference to its carrying amount is presented as a component of the individual statement of comprehensive income (within other comprehensive income) and within 'revaluation reserve – property, plant and equipment' in the statement of changes in equity.

### **2.10 Investments in subsidiaries and associates**

Long-term investments representing shares in subsidiaries and associates are presented in the financial statements at cost, which represents the fair value of the consideration paid, incl. the direct costs of acquiring the investment, less accumulated impairment.

The investments held by the Company in subsidiaries and associates are subject to review for impairment. When the impairment is established, it is recognized in the statement of comprehensive income (in profit or loss for the year).

In purchases and sales of investments in subsidiaries and associates the date of trading (conclusion of the deal) is applied.

Investments in associates and joint ventures are derecognised when the rights related thereto are transferred to third parties as a result of occurrence of legal rights for that and thus the significant influence over or joint control of the economic benefits from the investments is being lost. The income from their sale is presented in 'gain/(loss) from subsidiaries and associates' of the individual statement of comprehensive income (within profit or loss for the year).

### **2.11 Available-for-sale investments**

Investments in the form of available-for-sale financial assets are non-derivative financial assets representing shares and units in the equity of other companies (minority interests) held for the long-term.

### **Initial measurement**

Available-for-sale investments (financial assets) are initially recognised at cost, being the fair value of the consideration given including the direct expenses associated with the investment (financial asset) acquisition

### **2.12 Inventories**

Inventories are valued in the individual financial statements as follows:

- raw materials, consumables and goods – at the lower of acquisition cost and net realisable value;
- semi-finished products and work in progress – at the lower of production cost and net realisable value.;

Expenses incurred in bringing a certain product within inventories to its present condition and location, are included in the acquisition cost (cost) as follows:

- raw materials, materials and goods – all delivery costs, including the purchase price, import customs duties and charges, transportation expenses, non-refundable taxes and other expenses, incurred for rendering the materials and goods ready for usage (sale);
- semi-finished products and work in progress – all necessary expenses on production that constitute the production cost, which includes the cost of direct materials and labour and the attributable proportion of production overheads (both variable and fixed), but excluding administrative expenses, exchange rate gains and losses and borrowing costs. The inclusion of conditionally constant overheads in the cost of production of incomplete production is based on a normal capacity determined on the basis of a typical average maintenance volume. The chosen basis for their distribution at the level of the products is the standard of man's hours of the directly employed personnel in the production of the particular product.

Upon use (putting into production or sale) of inventories, they are currently expensed by applying the weighted average cost (cost) method.

The net realisable value represents the estimated selling price of an asset in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

#### 2.13 Trade and other receivables

Trade receivables are recognised in the individual financial statements and carried at fair value based on the original invoice amount (cost) less any allowance for uncollectable debts. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the receivables are initially valued at their fair value and subsequently – at amortised cost, after deducting the interest incorporated in their nominal value and determined following the effective interest method (Note 2.25). An estimate allowance for doubtful and bad debts is made when significant uncertainty exists as to the collectability of the full amount or a part of it. Bad debts are written-off when the legal grounds for this are available. Impairment of trade receivables is being accrued through a respective corresponding allowance account for each type of receivable in the item 'other expenses' on the face of the individual statement of comprehensive income (within profit or loss for the year).

#### 2.14 Interest-bearing loans and other financial resources granted

All loans and other financial resources granted are initially recognised at cost (nominal amount), which is accepted to be the fair value of the consideration received on the transaction, net of the direct costs related to these loans and granted resources. After the initial recognition, the interest-bearing loans and other granted resources are subsequently measured and presented in the individual financial statements at amortised cost by applying the effective interest rate method. Amortised cost is calculated by taking into account all types of charges, commissions, and other costs, associated with these loans. Gains and losses are recognised in the individual statement of comprehensive income (within profit or loss for the year) as 'finance income' (interest) or 'finance costs' throughout the amortisation period, or when the receivables are settled, derecognised or reduced. Interest-bearing loans and other financial resources granted are classified as current ones unless (and for the relevant portion thereof) The Company has unconditionally the right to settle its obligation within a term of more than 12 months after the end of the reporting period.

#### 2.15 Cash and cash equivalents

Cash and cash equivalents include cash balances, current accounts and short-term deposits with banks with an original maturity of up to 3 months.

For the purposes of the individual statement of cash flows:

- cash proceeds from customers and cash paid to suppliers are presented at gross amount, including value added tax (20%);
- interest on investment purpose loans received is reported as payments for financial activities while the interest on loans related to current activities (working capital) is included in the operating activities;
- VAT paid on fixed assets purchased from foreign suppliers is presented on the line 'taxes paid' while that paid on assets purchased from local suppliers is presented as 'cash paid to suppliers' in the cash flows from operating activities as far as it represents a part of the operating flows of The Company companies and is recovered therewith in the respective period (month);

#### 2.16 Trade and other payables

Trade and other current amounts payable are carried to the individual financial statements at original invoice amount (acquisition cost), which is the fair value of the consideration to be paid in the future for goods and services received. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been

envisaged or the interest considerably differs from the common market interest rates, the payables are initially valued at their fair value and subsequently – at amortised cost, after deducting the interest incorporated in their nominal value and determined following the effective interest method.

#### 2.17 Interest-bearing loans and other borrowings

All loans and other borrowings are initially recognised in the individual financial statements at cost (nominal amount), which is accepted to be the fair value of the consideration received on the transaction, netted of the direct costs related to these loans and borrowings. After the initial recognition, the interest-bearing loans and other borrowings are subsequently measured and presented in the individual financial statements at amortised cost by applying the effective interest rate method. Amortised cost is calculated by taking into account all types of charges, commissions and other costs, including any discount or premium on settlement, associated with these loans. Gains and losses are recognised in the individual statement of comprehensive income (within profit or loss for the year) as finance income or costs (interest) throughout the amortisation period, or when the liabilities are derecognised or reduced.

Interest-bearing loans and other borrowings are classified as current ones unless (and for the relevant portion thereof) The Company has unconditionally the right to settle its obligation within a term of more than 12 months after the end of the reporting period.

#### 2.18 Capitalisation of borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset of The Company are capitalised as part of the cost of that asset. A qualifying asset is an asset that necessarily takes a period of at least 12 months to get ready for its intended use or sale. The amount of borrowing costs eligible for capitalisation to the value of a qualifying asset is determined by applying a capitalisation rate. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when the following conditions are met: expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Borrowing costs are also reduced by any investment income earned on the temporary investment of those borrowed funds.

#### 2.19 Leases

##### Finance lease

###### **Lessee**

Finance leases, which transfer to The Company a substantial part of all risks and rewards incidental to ownership of the leased property, plant and equipment, are recognised as assets in the statement of financial position of the lessee and are presented as leased item of property, plant and equipment at their immediate sale price or, if lower, at the present value of the minimum lease payments.

The lease payments are apportioned between the finance cost (interest) and the attributable portion (reduction) of the lease liability (principal) so as to achieve a consistent interest rate on the remaining outstanding principal balance of the lease liability. Interest expense is included in the individual statement of comprehensive income (within profit or loss for the year) as finance costs (interest) based on the effective interest rate

Assets acquired under finance lease are depreciated on the basis of their useful economic life and within the lease term.

###### **Lessor**

Finance lease, where a substantial portion of all risks and rewards incidental to the ownership of the leased asset is transferred outside The Company, is written-off from the assets of the lessor and is presented in the statement of financial position as a receivable at an amount equal to the net investment in the lease. The net investment in the lease agreement represents the difference between the total amount of minimum lease payments under the finance lease agreement and the non-guaranteed residual value, accrued for the lessor and the non-earned finance income.

The difference between the carrying amount of the leased asset and the immediate (fair selling) value is recognised in the individual statement of comprehensive income (within profit or loss for the year) in the beginning of the lease term (when the asset is delivered) as sales income.

The recognition of the earned finance income as current interest income is based on the application of the effective interest rate method.

##### Operating lease

###### **Lessee**

Leases where the lessor keeps a substantial part of all risks and economic benefits incidental to the ownership of the specific asset are classified as operating leases. Therefore, the asset is not included in the statement of financial position of the lessee.

Operating lease payments are recognised as expenses in the individual statement of comprehensive income (within profit or loss

for the year) on a straight-line basis over the lease term.

#### **Lessor**

Lessor continues to hold a significant part of all risks and rewards of ownership over the said asset. Therefore the asset is still included in the composition of property, plant and equipment while its depreciation for the period is included in the current expenses of the lessor.

Rental income from operating leases is recognised on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

#### **2.20 Pensions and other payables to personnel under the social security and labour legislation**

The employment and social security relations with workers and employees of The Company are based on the Labour Code and the provisions of the effective social security legislation for the companies operating in Bulgaria

##### **Short-term benefits**

Short-term benefits to hired personnel in the form of remuneration, bonuses and social payments and benefits (due for payment within 12 months after the end of the period when the employees have rendered the service or have satisfied the required terms) are recognised as an expense in the statement of comprehensive income (within profit or loss for the year) for the period when the service thereon has been rendered and/or the requirements for their receipt have been met, unless a particular IFRS requires capitalisation thereof to the cost of an asset, and as a current liability (less any amounts already paid and deductions due) at their undiscounted amount.

At each date of individual balance sheet, the companies of The Company measure the estimated costs on the accumulating compensated absences, which amount is expected to be paid as a result of the unused entitlement. The measurement includes the estimated amounts of employee's remuneration and the statutory social security and health insurance contributions due by the employer thereon.

##### **Long-term retirement benefits**

###### **Defined contribution plans**

The major duty of the companies - employers in Bulgaria is to make the mandatory social security contributions for the hired employees to the Pensions Fund, the Supplementary Mandatory Pension Security (SMPS) Fund, to the General Diseases and Maternity (GDM) Fund, the Unemployment Fund, the Labour Accident and Professional Diseases (LAPD) Fund, and for health insurance.

The rates of the social security and health insurance contributions are defined annually in the Law on the Budget of State Social Security and the Law on the Budget of National Health Insurance Fund for the respective year. The contributions are split between the employer and employee in line with rules of the Social Security Code (SSC).

These pension plans, applied by the Company in its capacity as an employer, are defined contribution plans. Under these plans, the employer pays defined monthly contributions to the government funds as follows: Pensions Fund, GDM Fund, Unemployment Fund, LAPD Fund as well as to universal and professional pension funds – on the basis of rates fixed by law, and has no legal or constructive obligation to pay further contributions if the funds do not hold sufficient means to pay the respective individuals the benefits they have worked-out over the period of their service. The obligations referring to health insurance are analogous.

There is no established and functioning private voluntary social security scheme at The Company.

The contributions, payable by the companies of The Company under defined contribution plans for social security and health insurance, are recognised as a current expense in the statement of comprehensive income (within profit or loss for the year) unless a particular IFRS requires this amount to be capitalised to the cost of an asset, and as a current liability at their undiscounted amount along with the accrual of the respective employee benefits to which the contributions refer and in the period of rendering the underlying service.

###### **Defined benefit plans**

In accordance with the requirements of the Labour Code, the employer of the companies in Bulgaria is obliged to pay to its personnel upon retirement an indemnity, which depending on the length of service at the entity varies between two and six gross monthly salaries as at the termination date of the employment. In their nature these are unfunded defined benefit schemes.

The calculation of the amount of these liabilities necessitates the participation of qualified actuaries in order to determine their present value at the date of the financial statements, at which they are presented in the individual statement of financial position, and respectively, the change in their value – in the individual statement of comprehensive income as follows: (a) current and past service costs, interest costs and the gains/losses on a curtailment and settlements are recognised immediately when incurred and are presented in current profit or loss under 'employee benefits expense'; and (b) effects from remeasurement of obligations that in substance represent actuarial gains and losses are recognised immediately when occurred and are presented to other

comprehensive income in the item 'remeasurements of defined benefit pension plans'. Actuarial gains and losses arise from changes in the actuarial assumptions and experience adjustments.

At the date of issue of the individual financial statements, the companies of The Company assign certified actuaries who provide their report with calculations regarding the long-term retirement benefit obligations. For this purpose, they apply the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows, which are expected to be paid within the maturity of this obligation, and using the interest rates of long-term government bonds of similar term, quoted in the respective country where the company itself operates.

#### Termination benefits

In accordance with the local provisions of the employment and social security regulations of The Company companies, the employer is obliged, upon termination of the employment contracts prior to retirement, to pay certain types of indemnities. The Company recognises employee benefit obligations on employment termination before the normal retirement date when it is demonstrably committed, based on an announced plan, including for restructuring, to terminating the employment contract with the respective individuals without possibility of withdrawal or in case of formal issuance of documents for voluntary redundancy. Termination benefits due more than 12 months are discounted and presented in the individual statement of financial position at their present value.

#### 2.21 Share capital and reserves

Sirma Group Holding AD is a joint-stock company and is obliged to register with the Commercial Register a specified share capital, which should serve as a security for the creditors for execution of their receivables. Shareholders are liable for the obligations of the Company up to the amount of the capital share held by each of them and may claim returning of this share only in liquidation or bankruptcy proceedings. The company reports its share capital at the nominal value of the shares registered in the court. According to the requirements of the Commercial Act and the Articles of Association, the parent company is obliged to set aside a Reserve Fund (statutory reserve) by using the following sources:

- at least one tenth of the profit, which should be allocated to the Fund until its amount reaches one tenth of the share capital or any larger amount as may be decided by the General Meeting of Shareholders;
- any premium received in excess of the nominal value of shares upon their issue (share premium reserve);
- other sources as provided for by a decision of the General Meeting.

The amounts in the Fund can only be used to cover annual loss or losses from previous years. When the amount of the Fund reaches the minimum value specified in the Articles of Association, the excess may be used for share capital increase.

The **treasury shares** are presented in the individual statement of financial position at acquisition cost (cost) and Group's equity is decreased by their gross purchase price. Gains or losses on sales of treasury shares are at the expense of retained earnings and are carried directly to Group's equity in the 'retained earnings' component.

The **prepayment reserve** is formed by the positive difference between the issue price and the nominal value of the issued shares at the time of the merger of a subsidiary.

#### 2.22 Financial instruments

##### Financial assets

The Company classifies its financial assets in the following categories: 'loans (credits) and receivables', 'available-for-sale assets' and 'assets at fair value through profit'. The classification depends on the nature and purpose (designation) of the financial assets at the date of their acquisition. The management of the parent company together with the management of the respective subsidiary determine the classification of the financial assets for the purposes of The Company at the date of their initial recognition in the statement of financial position. The Company companies usually recognise their financial assets in the statement of financial position on the trade date, being the date on which they commit to purchase the respective financial assets. All financial assets are initially measured at their fair value plus the directly attributable transaction costs. Financial assets are derecognised from The Company's individual statement of financial position when the rights to receive cash from these assets have expired or have been transferred, and The Company has transferred substantially all the risks and rewards of ownership of the asset to another entity (person) external thereto. If The Company retains substantially all risks and rewards associated with the ownership of a particular transferred financial asset, it continues to recognise the transferred asset in its individual statement of financial position but also recognises a secured liability (a loan) for the consideration received.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured in the individual statement of financial position at their amortised cost using the effective interest method less any allowance for impairment. These assets are included in The Company's current assets when having maturity within 12 months or within a common operating cycle of the respective company while the remaining ones are carried as non-current assets.

This group of financial assets includes: loans granted, trade receivables, other receivables from counterparts and third parties, cash and cash equivalents from the individual statement of financial. Interest income on loans and receivables is

recognised by applying the effective interest rate except for short-term receivables (due in less than three months) where the recognition of such interest would be unjustifiable as immaterial and within the common credit terms. It is presented in the individual statement of comprehensive income (within profit or loss for the year) under the item 'finance income'.

At the end of each reporting period, The Company companies assess whether events and circumstances have occurred that indicate the existence of objective evidence necessitating loans and receivables to be impaired.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative assets that are either acquired for the purpose of being sold or are not classified in any other category. For The Company, these are usually shares, bonds or interest in other (third) companies, acquired for investment purposes (available-for-sale investments), and are included within non-current assets, except where a Group company intends to sell them in the following 12 months and is actively searching for a buyer.

Available-for-sale financial assets are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment.

The available-for-sale financial assets are subsequently measured at fair value except for the shares in closed-end companies not traded in a stock-exchange market.

The effects, gains or losses, of revaluation to fair value of the available-for-sale investments are included in the individual statement of comprehensive income (within other comprehensive income) under the item 'net change in fair value of available-for-sale financial assets' and are accrued to a separate equity component – 'available-for-sale financial assets reserve'.

Where subsequent permanent impairment is identified or on sale of an available-for-sale investment, the amount of impairment and all previously accumulated losses (net) to the reserve are recognised in the individual statement of comprehensive income (within profit or loss for the year) as 'finance costs'. Analogously, on each sale of investment of this type, the unrealised gains accumulated in the reserve are recognised in the individual statement of comprehensive income (within profit or loss for the year) as 'finance income'.

The recycling of accumulated effects from change in the fair value of available-for-sale investments are presented within other comprehensive income (in 'net change in fair value of available-for-sale financial assets'), net of those resulting from new revaluations for the period.

Dividends on shares, classified as available-for-sale financial assets, are recognised in the individual statement of comprehensive income (within profit or loss for the year) when the respective company's right to these dividends is established. The available-for-sale investments are reviewed at each reporting date for events or circumstances indicating the existence of objective evidence for impairment of a particular financial asset or group of assets. They are impaired if their carrying amount is higher than the expected recoverable amount. The recognised impairment loss is equal to the difference between the acquisition cost less the repayments and their recoverable amount, which is accepted to be equal to the present value of the expected future cash flows, discounted at the current interest rate or through the yield for similar financial assets.

#### **Financial liabilities and equity instruments**

The Company classifies debt and equity instruments either as financial liabilities or as equity depending on the substance and the conditions of the contractual arrangements with the respective counterpart regarding these instruments.

#### *Financial liabilities*

The financial liabilities of The Company include loans and payables under factoring agreement, payables to suppliers and other counterparts. They are initially recognised in the individual statement of financial position at fair value net of the directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method.

#### **2.23 Income taxes**

*Current income taxes of the Bulgarian companies of The Company are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act (CITA). The nominal income tax rate in Bulgaria for 2018 is 10 % (2017: 10%).*

Deferred income taxes are determined using the liability method on all temporary differences of each individual company existing at the individual financial statements date, between the carrying amounts of the assets and liabilities and their tax bases.

Deferred tax liabilities are recognised for all taxable temporary differences, with the exception of those originating from recognition of an asset or liability, which has not affected the accounting and the taxable profit/(loss) at the transaction date.

Deferred tax assets are recognised for all deductible temporary differences and the carry-forward of unused tax losses, to the extent that it is probable they will reverse and a taxable profit will be available or taxable temporary differences might occur, against which these deductible temporary differences can be utilised, with the exception of the differences arising from the recognition of an asset or liability, which has affected neither the accounting nor taxable profit/(loss) at the transaction date.

The carrying amount of all deferred tax assets is reviewed at each reporting date and reduced to the extent that it is probable that they will reverse and sufficient taxable profit will be generated or taxable temporary differences will occur in the same period, whereby they could be deducted or compensated.

Deferred taxes, related to items directly credited or charged as other components of comprehensive income or as an equity item in the individual statement of financial position, are also reported directly in the respective component of the comprehensive

income or the equity item in the statement of financial position.

Deferred tax assets and liabilities are measured at the tax rates and on the bases that are expected to apply to the period and type of operations when the asset is realised or the liability – settled (repaid) on the basis of the tax laws that have been enacted or substantively enacted, and at tax rates of the country (Bulgaria) under the jurisdiction of which the respective deferred asset or liability is expected to be recovered or settled.

Deferred tax assets of a Group company are presented net against the deferred tax liabilities of this company when it is the tax payer in the respective jurisdiction, and this is only in cases where the company is legally entitled to perform or receive net payments of current tax liabilities or income tax receivables.

As of 30.09.2018 the deferred taxes on the profit of the company are valued at a rate of 10% (31.12.2017: 10%).

#### 2.24 Government grants

Government grants represent various forms of providing gratuitous resources by a government (local and central authorities and institutions) and/or intergovernmental agreements and organisations.

Government grants (from municipal, government and international institutions, including under the procedure of using the European funds and programmes) are initially recognised as deferred income (financing) when there is reasonable assurance that they will be received by The Company and that the latter has complied and complies with the associated thereto requirements. A government grant that compensates the Company for expenses incurred is recognised in current profit or loss on a systematic basis in the same period in which the expenses are recognised.

A government grant that compensates investment expenses incurred to acquire an asset is recognised in current profit or loss on a systematic basis over the useful life of the asset usually proportionately to the amount of the recognised depreciation charge.

#### 2.25 Net earnings or losses per share

Net earnings or losses per share are calculated by dividing net profit or loss attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the period.

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding during at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor.

This factor represents the number of days that the shares are outstanding as a proportion of the total number of days in the period. In case of a capitalisation, bonus issue or splitting, the number of the outstanding ordinary shares as at the date of such event, is adjusted as to reflect the proportional change in the number of outstanding ordinary shares as if the event has occurred in the beginning of the earliest presented period.

Diluted net earnings or losses per share are not calculated because no dilutive potential ordinary shares have been issued by the Company.

#### 2.26 Segment reporting

The Company identifies its reporting segments and discloses segment information in accordance with the organizational and reporting structure used by the management. Operating segments are business components that are regularly evaluated by management decision-makers using financial and operational information tailored to the segment for the purposes of ongoing monitoring and evaluation of performance (performance) and allocation of the company's resources.

Operating segments of the company are currently monitored and guided individually, with each operating segment being a separate business area that offers different products and benefits from various business benefits and risks.

#### Operational Segment Information

The Company uses one major measure - gross margin (profit) in assessing the results in operating segments and allocating resources between them. It is defined as the difference between segment revenue and segment costs directly attributable to the segment.

Segment assets, liabilities, respectively revenues, costs and results include those that are and may be directly relevant to the segment, and those that can be allocated on a reasonable basis. Typically, these are: (a) revenue - sales of output; (b) for costs - for basic raw materials, for depreciation and for the remuneration of manufacturing personnel; (c) for assets - property, plant and equipment and inventories; (d) for liabilities - liabilities to staff and social security. Capital costs (investments) by business segment are identifiable costs incurred during the acquisition or construction period of non-current segment assets that are expected to be used over more than one period.

The Company manages the investments in securities, the trade receivables and the provided, respectively financial resources received as well as enterprise-level taxes, and they are not allocated at segment level.

The results of activities that are considered incidental to the main types of operations of the company as well as non-distributable income, expense, liabilities and assets are reported separately under the heading "common at company level". These amounts generally include: other operating income unless it results from segment activity, administrative expenses, interest income and expense, realized and unrealized gains and losses on currency and investment transactions, investments in other companies, trade and other receivables, trade payables and borrowings received, tax receipts, general purpose production and administrative equipment.

The applied accounting policy for segment reporting is based on that used by the company to prepare its statutory accounts.

## 2.27 Fair value measurement

Some of Company's assets and liabilities are measured and presented and/or just disclosed at fair value for financial reporting purposes. Such are: (a) on a recurring (annual) basis – available-for-sale financial assets, investment property, granted and received bank loans and loans from third parties, certain trade and other receivables and payables, finance lease receivables and payables; and other (b) on a nonrecurring (periodical) basis – non-financial assets such as property, plant and equipment.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent market participants at the measurement date. Fair value is an exit price and is based on the assumption that the sale transaction will take place either in the principal market for this asset or liability or in the absence of a principal market – in the most advantageous market for the asset or liability. Both the designated as a principal market and the most advantageous market are markets to which the Company must have an access.

Fair value is measured from the perspective of using the assumptions and judgments that potential market participants would use when pricing the respective asset or liability assuming that market participants act in their economic best interest.

In measuring the fair value of non-financial assets the starting point is always the assumption what would be the highest and best use of the particular asset for the market participants.

The Company applies various valuation techniques that would be relevant to the specific features of the respective conditions and for which its has sufficient available inputs while trying to use at a maximum the publicly observable information, and respectively, to minimize the use of unobservable information. It uses the three acceptable approaches – the market approach, the income approach and the cost approach – whereas the most frequently applied valuation techniques include directly quoted and/or adjusted quoted market prices, market comparables (analogues) and discounted cash flows, including based on capitalised rental income. All assets and liabilities that are measured and/or disclosed in the financial statements at fair value, are categorised within the following fair value hierarchy, namely:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques that use inputs other than directly quoted prices but are observable, either directly or indirectly, including where the quoted prices are subject to significant adjustments; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. The Company applies mainly fair value Level 2 and Level 3.

For assets and liabilities that are recognised at fair value in the financial statements on a recurring basis, the Company determines at the end of each reporting period whether transfers between levels in the fair value hierarchy are deemed to be made for a particular asset or liability depending on the inputs available and used at that date.

The Company has developed internal rules and procedures for measuring the fair value of various types of assets and liabilities. For the purpose, a specifically designated individual, subordinated to the Finance Director, organised the performance of the overall valuation process and also coordinates and observes the work of the external appraisers.

For the purposes of fair value disclosures, the Company has grouped the respective assets and liabilities on the basis of their nature, basic characteristics and risks as well as of the fair value hierarchical level.

## 2.28 Critical accounting judgments on applying The Company's accounting policies. Key estimates and assumptions of high uncertainty.

### Inventories

#### *Allowance for impairment*

At the end of each financial year, The Company companies review the state, useful life and usability of the existing inventories. Where inventories are identified that are potentially likely to not be realised at their current carrying amount in the following reporting periods, The Company companies impair the inventories to net realisable value.

### Actuarial calculations

Calculations of certified actuaries have been used every year when determining present value of long-term payables to personnel upon retirement on the basis of assumptions for mortality rate, staff turnover rate, future salaries level and discount factor.

### Impairment of investments in subsidiaries

At each date of the statement of financial position, the management assesses whether there are indicators of impairment of its investments in subsidiaries. The calculations were made by the management with the assistance of independent licensed assessors. As a result of the calculations, there is no need to recognize impairment of certain investments in subsidiaries.

### Operating lease

The Company classified a building, part of which had been leased to related parties under operating lease terms, in The Company of 'property, plant and equipment' of the individual statement of financial position. Since a significant part of the building was used by The Company as well, the management decided that the building should not be treated as investment

property.

#### Impairment of receivables

The losses from doubtful and bad debts are estimated at the date of the individual financial statements on individual basis for each receivable. Where difficulties in collecting certain receivables are observed, they are subject to analysis in order to determine the actually collectable portion therefrom while the remaining portion to the nominal value is recognised in the individual statement of comprehensive income (within profit or loss for the year) as impairment.

After 180 days of delay it is already considered that indicators for impairment may exist. In the assessment of the collectability of receivables, the management of The Company companies perform analysis of the total exposure of each counterpart in order to establish the actual possibility for their collection and not only at the level of past due individual receivables from the total amount due by the counterpart, including the potential for collecting interest for compensating delays. When the collectability of a receivable (a group of receivables) is highly uncertain, an assessment is made what part thereof is secured by collateral (pledge, mortgage, guarantees) and thus with ensured collection (through future realisation of the collateral or guarantee payment). Where the management has concluded that a very high uncertainty exists as to the collectability of certain receivables or part of them and they are not secured by collateral, the receivables are impaired to 100%

#### 2.29 Deferred tax assets

All deferred tax assets are recognized.

#### 2.30 Litigation provisions

The Company has no provisions for lawsuits.