

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

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

Individual interim financial statement of Sirma Group Holding JSC 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 2019 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).

For the current financial year, the Company has adopted all new and / or revised standards and interpretations issued by the International Accounting Standards Board (IASB) and by the IFRS Interpretation Committee, respectively, which were relevant to its operations.

The individual financial statements of the Company have been prepared on a historical cost basis except for 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). The items presuming a higher level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the financial statements, are disclosed.

#### Working company

The interim 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 Q3 2019 in accordance with IFRS for year 2019 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 29 November 2019 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

### 2.5.1 Recognition of revenue under contracts with clients

Revenue in the Company is recognized when control over the goods and / or services promised to the customer contract is transferred to the customer. Control is transferred to the client when the obligations to perform the contract are met by transferring the promised goods and / or performing the promised services.

Overall, the Company has come to the conclusion that it is the principal in its revenue arrangements, as the Company usually controls the goods or services before transferring them to the customer.

The Company recognizes revenue when (or is) satisfied the obligation to perform, under the terms of the contract, by transferring the promised product or service to the customer. An asset (product or service) is transferred when (or as) a customer has control over that asset.

#### *Valuing a contract with a client*

A contract with a client is only available when, upon its entry into force, it: (a) has a commercial character and a motive; (b) the parties have approved it (verbally, in writing or on the basis of 'established and generally recognized business practice'), and committed to fulfilling it, (c) the rights of each party; and (d) the payment arrangements can be identified; and (e) there is a likelihood that the remuneration to which the company is entitled in the performance of its execution obligations will be received. When assessing the collection rate, all relevant facts and circumstances of the transaction are taken into account, past experience, common business practices, published rules and statements made by the company, collateral and satisfaction.

A contract for which any of the above criteria has not yet been met is subject to a reassessment of each reporting period. Remuneration received under such a contract is recognized as a liability (contract liability) in the statement of financial position until: a. all criteria for recognition of a client contract are not met; b. the company has fulfilled its performance obligations and has received all or almost all (nonrefundable) remuneration; and / or c. when the contract is terminated and the remuneration received is not refundable.

In the initial assessment of its client contracts, the company further analyzes and assesses whether two or more contracts are to be considered in their combination and to be reported as one and respectively. whether the promised goods and / or services in each separate and / or combined contract have to be counted as one and / or more performance obligations.

Any promise to transfer goods and / or services that are identifiable (on their own and in the context of the contract) is reported as a performance obligation.

The Company recognizes revenue for each separate performance obligation at the level of an individual contract with a client by analyzing the type, timing and terms of each particular contract. For contracts with similar characteristics, revenues are recognized on a portfolio basis only if their grouping in a portfolio would not have a materially different effect on the financial statements.

When an other (third) party is performing the performance obligations, the company determines whether it acts as a principal or agent by assessing the nature of its promise to the client: to provide the designated goods or services alone (principal) or to arrange for another party to provide them (agent). The company is the principal and recognizes revenue as the gross amount of the consideration if it controls the promised goods and / or services before transferring it to the client. However, if the company does not receive control over the promised goods and / or services and its obligation is only to organize a third party to provide these goods and / or services, then the company is an agent and recognizes the proceeds of the transaction at the amount of the net amount for services provided as agent.

### 2.5.2 Measurement / (evaluation) of revenue under contracts with clients

*Revenue* is measured on the basis of the transaction price specified for *each contract*.

*The transaction price* is the amount of the consideration the company expects to be entitled to, except for amounts collected on behalf of third parties. In determining the transaction price, the company takes into account the terms of the contract and its usual business practices, the influence of variable remuneration, the existence of a significant financial component, non-monetary remuneration and remuneration owed to the client (if any). For contracts with more than one execution obligation, the transaction price is allocated to each performance obligation based on the individual sales prices of each commodity and / or service determined by one of the methods accepted in IFRS 15, giving priority to the "observable sales prices".

The Company examines whether there are other promises in the contract that are separate performance obligations for which part of the transaction price should be allocated.

When determining the transaction price, account is taken of the impact of variable remuneration, the existence of significant components of funding, non-monetary remuneration and remuneration owed to the client (if any).

*The change in the scope or price* (or both) of the contract is recorded as a separate contract and / or as part of the existing contract depending on whether the change is related to the addition of identifiable goods and / or for them price. Depending on this: (a) the modification is recorded as a separate contract if the scope of the contract is expanded due to the addition of distinct goods and / or services and the change in the contract price reflects the individual sales prices of the added goods and / or services; (b) the modification is recognized as a termination of the existing contract and the conclusion of a

future contract if the remaining goods and / or services are identifiable from those transferred prior to the modification but the change in the contract price does not reflect the individual sales prices of the added goods and / or services; (c) the modification is accounted for as part of the existing contract (cumulative adjustment) if the remaining goods and / or services are not identifiable from those transferred prior to the modification and are therefore part of a partially settled performance obligation.

### 2.5.3 Approach for recognizing major types of revenue under customer contracts

#### A. Revenue from contracts with customers

The company's activities are related to the development and marketing of standard software, customer specification software development, hardware trading, accounting, legal and other administrative services.

##### *Sales*

The sales that the company realizes are in the country and abroad, both according to the company's specification (technology) and the specification (technology) of the customer. In general, the company has come to the conclusion that it acts as a principal in its dealings with customers, unless otherwise explicitly disclosed for certain transactions as the company ordinarily controls the goods and / or services before transferring them to the customer.

##### *Sales of products according to the company's specification*

For sales by company specification, control is transferred to the customer at a specific time.

In the case of sales in the country, this is usually the case when the goods and servants are handed over to the customer when the customer can dispose with the goods, managing their use and receiving substantially all other benefits.

When selling abroad, the estimate of the moment when the customer receives control of the goods sold is made on the basis of the agreed terms of sale under INCOTERMS.

##### *Revenue from services*

*Revenue from services is recognized in the accounting period in which the services are provided. The company transfers control over the services over time and therefore satisfies the obligation to execute and recognizes revenue over time. If, at the end of the reporting period, the service contract is not fully realized, revenue is recognized on the basis of the actual service provided by the end of the reporting period as a proportion of the total services to be provided as the client receives and consumes the benefits simultaneously. The Customer pays the services provided on the basis of the clauses stipulated in the specific contract, the usual time for payment of the remuneration is up to 30 days after the services are provided. In cases where the services provided by the Company exceed the payment, a contract asset is recognized. If payments exceed the services provided, a liability under a contract is recognized.*

##### *Revenue from sales of current assets*

*Revenues from sales of short-term assets and material are recognized when the control of the assets sold is transferred. Delivery occurs when the assets have been shipped to the customer, the risks of potential losses are passed on to the buyer and either he has accepted the assets in accordance with the sales contract.*

#### B. Other revenues

*Dividend income is recognized when the right to receive is recognized.*

*Interest income from the use of interest-bearing assets by the Company is recognized using the effective interest method on the gross carrying amount of financial assets except for financial assets impaired (Phase 3) for which interest income is calculated by applying the effective interest rate on their amortized cost (the gross carrying amount adjusted for the provision for expected credit losses).*

*The effective interest rate is the interest rate that precisely discounts the expected future cash payments or receipts over the expected life of the financial instrument or, when appropriate for a shorter period, to the carrying amount of the financial asset or financial liability. The calculation includes all fees and other fees paid or received by the counterparties, which are an integral part of the effective interest rate, transaction costs and all other bonuses and rebates.*

*Revenue from servicing service fees is recognized as income on disposal of services.*

*Rental income / operating leases / are recognized on a time basis over the term of the contract in accordance with IAS 17 Leases*

### 2.5.4 Costs from contracts with customers

As contract costs with customers, the Company recognizes:

- the additional and directly related costs that it assumes when signing a contract with a client and which would not have arisen if the contract was not concluded and expects that costs to be reimbursed over a period of more than 12

months (costs of obtaining a contract with a client) and

- The costs incurred in executing a contract with a client and directly related to the specific contract help to generate resources for use in the actual execution of the contract and are expected to be reimbursed over a period of more than twelve months ( performance of such contracts).

The Company does not incur any costs of obtaining contracts with clients and costs for the performance of such contracts that are eligible for and subject to capitalization.

Expenditures in the Company are recognized at the time of their occurrence and based on the principles of accrual and comparability.

Finance costs consist of interest costs on loans and finance leases, debenture loan fees, bank charges and other direct costs on loans and bank guarantees.

Expenses for future periods (prepaid expenses) are deferred for recognition as current expense over the period in which the contracts to which they relate are being met.

#### 2.5.5 Balances on contracts with customers

##### *Trade receivables and assets under contracts*

The contract asset is the right of the company to receive remuneration in return for the goods or services it has transferred to the client but which is not unconditional (the charge for the receivable). If, through the transfer of the goods and / or the provision of the services, the company fulfills its obligation before the client pays the relevant remuneration and / or before the payment becomes due, a contract asset is recognized for the earned remuneration (which is conditional). Recognized contract assets are reclassified as a trade receivable when the right to remuneration becomes unconditional. The right to remuneration is considered to be unconditional if the only condition for payment of the remuneration to be due is the expiration of a certain period of time.

##### *Liabilities under contracts*

As a liability under a contract, the company presents the payments received by the client and / or an unconditional right to receive a payment before fulfilling its contractual obligations. Contract liabilities are recognized as income when (or as) it has been settled.

Assets and liabilities under contract are presented to other receivables and payables in the statement of financial position. They are included in the group of current assets when their maturity is within 12 months or in a normal operating cycle of the company and the rest are non-current. Assets and liabilities arising from a contract are presented net in the statement of financial position even if they are the result of different contractual obligations for performance of the contract.

After initial recognition, trade receivables and contract assets are reviewed for impairment in accordance with the IFRS 9 Financial Instruments.

#### 2.5.6 Customer repayment obligations

The reimbursement obligation includes the company's obligation to reimburse part or all of the consideration received (or to be received) by the customer under contracts for the expected retrospective volume and / or quality compensation discounts. Initially, the reimbursement obligation is assessed at the amount that the company does not expect to have the right and which the company expects to repay to the customer. At the end of each reporting period, the Company updates the assessment of the reimbursement obligations, respectively, of the transaction price and the recognized revenue.

Repayment commitments under customer contracts are presented under "Other current liabilities" in the statement of financial position.

Financial income is included in the statement of comprehensive income (in profit or loss for the year) when incurred and consists of: interest income on loans granted and term deposits, interest income on receivables under special contracts, interest receivable overdue receivables, income / gains from transactions in available-for-sale securities, incl. dividends, net exchange rate gains on foreign currency borrowings, income from debt settlement operations, gains from fair value measurement of available-for-sale investments that are part of the phased acquisition of a subsidiary.

Financial income is presented separately from the financial expenses on the face of a statement of comprehensive income (in profit or loss for the year).

##### *Recognition of interest income*

Interest income is calculated by applying the effective interest rate on the gross carrying amount of financial assets excluding financial assets that are impaired (Stage 3) for which interest income is calculated by applying the effective interest rate on their amortized value (ie the gross book value adjusted for the loss provision).

## 2.6 Expenses

Expenses are recognised as they are incurred, following the accrual and matching concepts, to the extent that this would not cause recognition of assets and liabilities that do not satisfy the relevant definitions under IFRS.

Deferred expenses are put off and recognised as current expenses in the period when the contracts, where they refer, are performed.

Losses from revaluation of investment property to fair value are presented in the statement of comprehensive income (within profit or loss for the year) on the line 'other operating income/(losses)'.

Finance costs are included in the statement of comprehensive income (within profit or loss for the year) when they arise, separately from financial income and are comprised of: interest expenses under loans received, bank fees and charges under loans and guarantees, foreign exchange net loss from loans in foreign currencies, expenses/losses on investments in securities and shares and impairment of granted commercial loans.

## 2.7 Financial income

Financial income is included in the statement of comprehensive income (in profit or loss for the year) when incurred and consists of: interest income on loans granted and term deposits, interest income on receivables under special contracts, interest receivable overdue receivables, income / gains from transactions in available-for-sale securities, incl. dividends, net exchange rate gains on foreign currency borrowings, income from debt settlement operations, gains from fair value measurement of available-for-sale investments that are part of the phased acquisition of a subsidiary.

Financial income is presented separately from the financial expenses on the face of a statement of comprehensive income (in profit or loss for the year).

## 2.8 Financial expenses

Financial expenses are included in the statement of comprehensive income (in profit or loss for the year) when they arise, separately from financial income, and consist of: interest expense, incl. bank charges and other direct costs on loans and bank guarantees, net foreign exchange losses on foreign currency loans, negative exchange rate differences, foreign exchange transaction costs / losses on securities investments and interests, and interest on finance leases.

## 2.9 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.

### 2.10 Intangible assets

#### *Goodwill*

Goodwill represents the excess of the cost of an acquisition (the consideration given) over the fair value of the share of Sirma Group Holding JSC in the net identifiable assets of the subsidiaries (Bulgarian Rose Sevtopolis AD, Medica AD and Unipharm AD) at the date of its acquisition (the business combination). This goodwill on the merger of the subsidiaries into the parent company is recognised in the separate statement of financial position of the parent. Goodwill is presented within the 'intangible assets' group.

Goodwill is measured at acquisition cost (cost), determined at the date of the actual business combination, less the accumulated impairment losses. It is not amortised. It is subject to annual review for existence of impairment indicators. Impairment losses on goodwill are presented in the separate statement of comprehensive income (within profit or loss for the year) in the item 'impairment of non-current assets'.

#### *Other 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).

### 2.11 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.

Under IAS 40, an entity may transfer property from or to investment property only if there is a change in use. A change in the use of a property occurs when the property meets or ceases to meet the definition of investment property and there is evidence of change in use. Examples of evidence of change in use are:

- start-up by the owner or development for use by the owner - for transferring from investment property to a property used by the owner;
- commencement of development for sale - for transfer from investment property into inventories;
- end of use by the owner - for transferring from a property used by the owner into an investment property; as well
- start of an operating lease to another party - for transfer from inventory to investment property.

When an enterprise decides to dispose of an investment property without development, it continues to treat the property as an investment asset until it derecognizes it (withdraws from the statement of financial position) and does not reclassify it as a physical inventory. Similarly, if an enterprise re-develops an existing investment property for continued future use as an investment property, it remains an investment property and is not reclassified as owner-occupied property during the re-development period.

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.

## 2.12 Investments in subsidiaries and associates

### Investments in subsidiaries

The Company classifies, as investments in subsidiaries, the shares and units held by it in other companies over which it exercises control. It is assumed that there is control when the company:

- owns directly or indirectly through subsidiaries more than half of the voting rights in an enterprise;
- holds half or less than half of the voting rights in an enterprise and:
  - o Owns more than half of the voting rights by virtue of an agreement with other investors;
  - o has the power to manage the financial and operating policies of an entity by virtue of a statute or an agreement;
  - o has the power to appoint or dismiss a majority of the members of the Board of Directors or an equivalent governing body, and control over the entity is through that board or body; or
  - o has the power to cast a majority of votes at meetings of the Board of Directors or an equivalent governing body, and control over the entity is through that board or body.

Long-term investments representing shares in subsidiaries and associates are presented in the financial statements at cost (cost), which is the fair value of the consideration paid, incl. the direct costs of acquiring the investment, less accumulated impairment. Shares of subsidiaries are not traded on stock exchanges, which creates practical difficulties for the application of alternative valuation methods to reliably determine their fair value.

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).

Upon purchase and sale of investments in subsidiaries and associates, the "date of conclusion" of the transaction is applied.

Investments are derecognized when the rights that result from them are transferred to other entities when the legal basis for that is established and thus the control of the economic benefits of the corresponding relevant specific type of investment is lost. Profit / (loss) on sale is reported as "financial income" or "finance expense" in the statement of comprehensive income (in profit or loss for the year).

### Investments in associates

Investments in shares and equity interests of companies in which Sirma Group Holding AD has significant influence are classified as investments in associates.

Significant influence is the right to participate in decision-making related to the financial and operating policy of the investee, but there is no control or joint control over that policy. A significant influence is deemed to exist when the company holds 20% or more of the votes in the investee, directly or indirectly (through subsidiaries), unless there is evidence to the contrary.

Long-term investments representing shares and interests in associates are stated in the financial statements at cost less any impairment losses. Similarly, these equity instruments are, in most cases, not traded on stock exchanges, or stock sales on stock markets are minimal in size, which makes it difficult to reliably determine their fair values based on alternative valuation methods. Long-term investments in associates held by the Company are subject to impairment testing at the end of each reporting period. When the conditions for impairment are determined and the amount is determined, it shall be reflected in the statement of comprehensive income.

In the case of purchase and sale of investments in associates, a "trading date" is applied (date of conclusion of the transaction). Investments in associates are derecognized when the legal basis for that occurs.

The impairment costs of investments are in line "Financial expenses" on the face of the Statement of Comprehensive Income.

### 2.13 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.

### 2.14 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.

### 2.15 Trade and other receivables

Trade receivables are the unconditional right of the company to receive remuneration under contracts with customers and other counterparties (ie it is only time-out before the payment of the remuneration).

#### *Initial evaluation*

Trade receivables are initially reported and reported at fair value based on the price of the transaction, which is normally equal to their invoice value, unless they contain a significant financing component that is not accrued additionally. In that case, they are recognized at their current value, determined at a discount rate in the amount of an interest rate deemed to be inherent to the debtor.

#### *Subsequent assessment*

The Company holds trade receivables solely for the purpose of collecting contractual cash flows and then evaluates them at amortized cost less the amount of accumulated impairment for expected credit losses.

#### *Impairment*

The Company applies the pattern of expected credit losses for the entire duration of all trade receivables using the simplified approach assumed by IFRS9 and based on a matrix model for the percentage of loss.

Impairment of receivables is accrued through a corresponding Correction Account for each type of receivable to the item "Impairment of financial assets at the face of the statement of comprehensive income (in profit or loss for the year)".

### 2.16 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 income is recognized in accordance with the stage of classification of the relevant loan or other receivable from financial resources granted on the basis of the effective interest method.

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.

### 2.17 Cash and cash equivalents

Cash includes cash and cash on hand, and cash equivalents - deposits with banks with original maturity of up to three months and deposits with longer maturity which are freely available to the Company under the terms of the arrangements with banks during the deposit.

#### *Subsequent assessment*

Cash and cash equivalents in banks are subsequently presented at amortized cost less accumulated impairment for expected credit losses.

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 received investment credits are included as payments for financial activity, and interest on loans serving the current activity (for working capital) is included in operating activities;
- interest received on deposits with banks is included in the cash flows from investing 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);
- receipts and payments from and overdrafts are shown net of the company.
- permanently blocked cash over 3 months is not treated as cash and cash equivalents.
- receipts from factoring contracts are presented in cash flows from financing activities

### 2.18 Trade and other payables

Trade and other current liabilities in the statement of financial position are presented at the cost of the original invoices (cost), which is considered as the fair value of the transaction and will be paid in the future against the goods and services received. In the case of deferred payments over the normal credit term, where no additional interest payment is provided, or the interest differs significantly from the usual market rate, the liabilities are initially measured at their fair value on the basis of their current value at a discount rate inherent in the company, and subsequently - at amortized cost.

### 2.19 Interest-bearing loans and other borrowings

In the statement of financial position, all loans and other borrowed financial assets are initially stated at cost (nominal amount), which is taken as the fair value of the transaction received net of the direct costs associated with these loans and borrowed funds. After initial recognition, interest-bearing loans and other borrowed funds are subsequently measured and presented in the statement of financial position at amortized cost determined using the effective interest method. Amortized cost is calculated by taking into account all types of charges, commissions and other costs, incl. discount or premium associated with these loans. Gains and losses are recognized in the statement of comprehensive income (profit or loss for the year) as financial income or expense (interest) over the amortization period or when the liabilities are derecognized or reduced.

Interest expense is recognized for the period of the financial instrument on the basis of the effective interest method.

Interest-bearing borrowings and other borrowed financial resources are classified as current except for the portion for which the Company has an unconditional right to settle its liability within 12 months of the end of the reporting period.

### 2.20 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.

## 2.21 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

#### **Accounting policy applicable from 1 January 2019**

##### **Lessee**

IFRS 16 Leases establishes lessees to recognize all leases under a single model that imposes balance sheet recognition, similar to accounting for the finance lease under IAS 17.

Under the new standard, a contract contains a lease if it transfers the right to control the use of an identified asset for a certain period of time for remuneration. On the date of the commencement of the lease, the lessee recognizes an asset in the form of a "right of use" of the individual underlying asset and a financial liability representing the present value of the obligation to pay the lease amounts.

The Standard admits two mitigating exceptions: (a) short-term (up to 12 months) and / or (b) lowvalue leasing contracts.

If lessees choose to benefit from the short-term and / or low-value leases of the standard, the lease payments relating to those contracts should be reported as current costs on a straight line basis over the contract period or on another systematic basis, of the operating lease accounting rules under IAS 17.

##### *Initial evaluation*

The lessee recognizes a "right of use" asset and a lease liability on the date when the lease is available for use.

In the initial measurement, the "right of use" asset is stated at cost, which includes the amount of the initial assessment of the lease liability, all payments to and before the lease date less amounts for incentives, all initial direct costs and the provision for costs associated with the dismantling and relocation of the asset.

The liability "lease obligation" is initially recognized at the present value of all lease payments outstanding at that time at the interest rate inherent in the lease or the interest rate on the tenant's borrowed capital.

##### *Subsequent assessment*

The Company's approach to subsequent balance revaluation of the "right of use" asset is the revaluation model under IAS 16, revalued value less subsequent accrued amortization and accumulated impairment losses

Subsequently, the lease obligation was changed to:

- in the direction of increase - with accrued interest rates;
- in the direction of reduction - with the payments of contributions (interest and principal), and

• recalculation of the liability due to changes in the guaranteed residual value, changes in future lease payments due to a change in the applied index or rate used to calculate lease payments, changes in the lease term, and changes in the valuation of the asset acquisition option.

Any adjustments to the lease obligation also adjust the "right of use" asset and, if it is fully amortized, are accounted for as current expense in current profit or loss.

#### **Lessor**

IFRS 16 Leasing does not substantially alter the accounting of leases for lessors. They will continue to classify each lease as a financial or operating arrangement by applying in practice rules analogous to those in IAS 17 that are substantially translated into the new IFRS 16.

#### **Accounting policy applicable until 31 December 2018**

##### **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.

## 2.22 Provisions

Provisions are recognized when the company has a present (constructive or legal) liability as a result of a past event, and it is probable that the settlement / settlement of that obligation is related to the expiration of resources. Provisions are measured on the basis of the best estimate of management at the date of the financial statement of the expenses necessary to settle the liability. The estimate is discounted when the obligation is due to maturity. When it is expected that part of the resources to be used to settle the obligation to be recovered from a third party, the company recognizes a receivable if there is a high degree of security of its receipt, its value can be reliably established and accounts for income (credit) on the same position in the statement of comprehensive income (profit or loss for the year), where the provision itself is presented.

## 2.23 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.

## 2.24 Share capital and reserves

Sirma Group Holding JSC 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.

**Treasury shares** are presented in the statement of financial position at cost (acquisition price) and their gross amount is deducted from Company's equity. Gains or losses on sales of treasury shares are at the account of retained earnings and are carried directly to Company's equity in the 'retained earnings' component.

**Revaluation reserve – property, plant and equipment** is set aside from:

- the revaluation surplus between the carrying amount of property, plant and equipment and their fair values at the date of each

revaluation; and

- gain from the difference between the carrying amount of property, stated within the group 'owner occupied property', and their fair value at the date on which they are transferred to the group 'investment property'.

Deferred tax effect on the revaluation reserve is directly carried at the account of this reserve.

Revaluation reserve is transferred to the 'accumulated profits' component when the assets are derecognised from the statement of financial position or are fully depreciated.

The revaluation reserve covers the impairment of the assets with which it relates. It may be used in the implementation of Company's dividend and capital policies only after it is transferred to the 'retained earnings' component.

**Premium 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.

**The reserve from financial assets** is formed from the effects of fair value measurement of other long-term equity investments. When these investments are derecognised, the resulting reserve is not recycled through the statement of comprehensive income (through profit or loss for the period).

**Other reserves** are formed by distribution of profits by decisions of the General Meeting of Shareholders.

## 2.25 Financial instruments

A financial instrument is any contract that generates both a financial asset in an enterprise and a financial liability or equity instrument in another entity.

### Financial assets

#### *Initial Recognition, Classification, and Valuation*

Upon initial recognition, financial assets are classified into three groups, where they are subsequently measured at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss.

The Company initially estimates financial assets at fair value and, in the case of financial assets not reported at fair value through profit or loss, the direct transaction costs are added. Exceptions are trade receivables that do not contain a significant component of finance - they are valued on the basis of the transaction price determined in accordance with IFRS 15 and the invoice issued.

Purchases or sales of financial assets the terms of which require delivery of assets over a period of time normally established by a statutory provision or practice in the relevant market (regular purchases) are recognized on the trade date (transaction) . on the date that the company is committed to purchase or sell the asset.

Classification of financial assets upon initial recognition depends on the characteristics of the contractual cash flows of the respective financial asset and the business model of the company for its management. In order to be classified and measured at amortized cost or at fair value in other comprehensive income, the terms of a financial asset must generate cash flows that represent "principal and interest payments only PIPO" on the outstanding amount of the principal. For this purpose, an PIPO test is performed at the level of the instrument. The business model of a financial asset management company reflects the way the company manages its financial assets to generate cash flows.

The business model determines whether cash flows are the result of the collection of contractual cash flows, the sale of financial assets, or both.

#### *Subsequent assessment*

For the purposes of ex-post evaluation, financial assets are classified into four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through other comprehensive income with the "recycling" of cumulative gains or losses (debt instruments)
- Financial assets at fair value through other comprehensive income without "recycling" of cumulative gains and losses (equity instruments)
- Financial assets at fair value through profit or loss (debt and equity instruments)

#### Classification groups

##### *Financial assets at amortized cost (debt instruments)*

The Company measures financial assets at amortized cost when both of the following conditions are met:

- the financial asset is held and used within a business model that is designed to hold it in order to obtain the contractual cash flows from it, and
- the terms of the contract for the financial asset give rise to cash flows at specific dates that represent only principal payments and interest on the outstanding amount of the principal.

Financial assets at amortized cost are subsequently measured using the Effective Interest Rate Method (EAP). They are subject to impairment. Gains and losses are recognized in the statement of comprehensive income (in profit or loss for the year) when the asset is derecognized, modified or impaired.

Financial assets at amortized cost of the company include: cash and cash equivalents in banks, trade receivables, incl. from related parties granted loans to affiliated enterprises and loans to third parties.

##### *Financial assets at fair value in other comprehensive income (equity instruments)*

Upon initial recognition, the Company may make an irrevocable choice to classify certain equity instruments as designated at fair value in other comprehensive income but only when they meet the definition of equity in accordance with IAS 32 Financial Instruments: Presentation and are not held for trading purpose. Classification is determined on an individual level, instrument by instrument.

When these assets are derecognised, the gains and losses from fair value measurement recognized in other comprehensive income are not recycled through profit or loss. Dividends are recognized as "financial income" in the statement of comprehensive income (in profit or loss for the year) when the payment entitlement is established, except when the company benefits from such proceeds as a reimbursement of part of the cost of acquisition the financial asset, in which case the gains are reported in the other comprehensive income. Equity instruments designated as such at fair value in other comprehensive income are not subject to impairment testing.

The Company has made an irrevocable choice to classify in its category its minority equity investments that it holds in the long term and in relation to its business interests in these companies. Some of them are traded on capital markets and another - they are not presented in the statement of financial position under the article "Other long-term equity investments".

#### *Write-off*

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised from the statement of financial position of the company when:

- the rights to receive cash flows from the asset have expired, or
- the rights to receive cash flows from the asset are transferred or the company has undertaken to pay the fully received cash flows without significant delay to a third party through a transfer agreement; wherein: or (a) the company has transferred substantially all the risks and rewards of ownership of the asset; or (b) the company has neither transferred nor retained substantially all the risks and rewards of ownership of the asset but has not retained control of it.

When the company has transferred its rights to receive cash flows from the asset or has entered into a transfer agreement, it assesses whether and to what extent it retains the risks and rewards of ownership. When the Company has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, it continues to recognize the transferred asset to the extent of its continuing involvement in the asset. In this case, the company also recognizes the related obligation. The transferred asset and the related liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continued interest in the form of a guarantee on the transferred asset is measured at the lower of: the initial carrying amount of the asset and the maximum amount of remuneration that the company may be required to pay.

#### *Impairment of financial assets*

The Company recognizes a write-down (provision for impairment) for expected credit losses for all debt instruments that are not carried at fair value through profit or loss. Expected credit losses are calculated as the difference between the contractual cash flows due under the terms of the contract and all cash flows that the company expects to receive discounted at the original effective interest rate. Expected cash flows also include the cash flows from the sale of the collateral held or other credit enhancements that form an integral part of the terms of the contract.

For the calculation of the expected credit losses on loans granted to related parties and third parties incl. cash and cash equivalents in banks, the Company applies the general approach for impairment set by IFRS 9. Under this approach, the Company applies a "three step" depreciation model based on changes to the initial recognition of the credit quality of the financial asset.

Expected credit losses are recognized in two stages:

- a. A financial asset that is not impaired at its initial origination / acquisition is classified in Stage 1. From its initial recognition, its credit risk and qualities are subject to continuous monitoring and analysis. Expected credit losses on financial assets classified in Phase 1 are determined on the basis of credit losses that arise from possible events of default that could occur within the next 12 months of the life of the asset (12-month expected credit loss for the instrument).
- b. In the event that its credit risk increases significantly after the initial recognition of a financial asset and as a result its performance deteriorates, it is classified in Stage 2. The expected credit losses of the financial assets classified in Stage 2 are determined for the total remaining life of the asset, regardless of the time of the default (expected credit losses over the lifetime of the instrument). The management of the company has developed a policy and a set of criteria for analyzing, identifying and assessing the occurrence of a state of "significant increase in credit risk" In the event that the credit risk of a financial asset increases to a level indicative of a occurrence of a default event, the financial asset is considered impaired and classified in Stage 3. At this stage, the loss incurred under the respective asset for its entire remaining life (term).

The management of the company has performed relevant analyzes, on the basis of which it has defined a set of criteria for non-performing events. One of these is arrears of contractual payments due for more than 90 days, unless for a particular instrument there are no circumstances that render this claim rebuttable. Along with it, other events are also observed, based on internal and external information indicating that the debtor is not in a position to pay (repay) all outstanding amounts under contract, incl. taking into account all the credit facilities provided by the company.

The Company corrects the expected credit losses, based on historical data, with estimated macroeconomic indicators that are found to be correlated and are expected to affect the amount of expected credit losses in the future. To calculate the expected credit losses of trade receivables and assets under contracts with customers, the Company has selected and applied a matrix-based approach for calculating expected credit losses and does not monitor subsequent changes in credit risk. Under this approach, it recognizes a write-down (provision for impairment) based on the expected credit loss for the entire maturity of the receivables at each reporting date. The Company has developed and implements a provisioning matrix based on historical experience of credit losses adjusted by predictors specific to debtors and the business environment and for which a correlation with the percentage of credit losses is established.

Financial assets are derecognized when there is no reasonable expectation that the cash flows of the contract will be collected.

## **Financial liabilities**

### *Initial Recognition, Classification, and Valuation*

Upon initial recognition, financial liabilities are classified as at fair value through profit or loss or as loans and borrowings, trade or other payables.

They are initially recognized in the statement of financial position at fair value net of direct transaction costs and subsequently measured at amortized cost using the effective interest method.

The financial liabilities of the Company include trade and other payables, loans and other borrowed funds, including bank overdrafts, derivative financial instruments

### *Subsequent assessment*

Subsequent valuation of financial liabilities depends on their classification.

### Classification groups

#### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated at initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of re-purchase in the near future. This category includes derivative financial instruments owned by the Company that are not designated as hedging instruments in a hedge relationship as defined in IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of comprehensive income (in profit or loss for the year) in the item.

Financial liabilities designated at initial recognition as such at fair value through profit or loss are determined as such at the date of initial recognition only if the IFRS 9 criteria have been met. The Company has not classified any of its financial liabilities as such at fair value in profit or loss.

#### *Borrowings received and other borrowed funds*

Following initial recognition, the Company measures interest-bearing borrowings and borrowings at amortized cost using the effective interest method. Gains and losses are recognized in the statement of comprehensive income (in profit or loss for the year) when the relevant financial liability is derecognized, as well as through amortization on an effective interest basis.

Amortized cost is calculated by taking into account any discounts or bonuses on acquisition, as well as fees or charges that are an integral part of the effective interest rate. Depreciation is included as "finance expense" in the statement of comprehensive income (in profit or loss for the year).

### *Write-off*

Financial liabilities are derecognized when the liability is extinguished or terminated or expires. Where an existing financial liability is replaced by another of the same creditor under substantially different terms or the terms of an existing liability are substantially altered, such exchange or modification is treated as a write-off of the original liability and recognition of a new liability. The difference in the relevant carrying amounts is recognized in the statement of comprehensive income (in profit or loss for the year).

### *Compensation of financial instruments*

Financial assets and financial liabilities are offset and the net amount is recognized in the statement of financial position if there is a legally enforceable right to offset the amounts recognized and if there is an intention to settle on a net basis or to realize the assets simultaneously and to settle the liabilities.

This requirement stems from the idea of the real economic substance of a company's relationship with a counterparty that, in the coexistence of these two requirements, the expected actual cash flow and the benefits of these estimates for the enterprise are the net flow, the net amount reflects the actual right or obligation of the company from these financial instruments - in all circumstances to receive or pay only the net amount. If both conditions are not met, it is assumed that the company's rights and obligations in respect of such counterparts (financial instruments) are not exhausted in all situations solely and solely by the receipt or payment of the net amount.

The netting policy also relates to the assessment, presentation and management of the actual credit and liquidity risk associated with these counterparts.

The criteria that apply to establishing the "existence of a current and legally enforceable right to netting" are:

- not depend on a future event, ie not applicable only at the occurrence of any future event;
- be practicable and legally enforceable in the course of (cumulative):

- the usual activity,
- in case of default / default, and
- in the event of insolvency or insolvency.

The applicability of the criteria is assessed against the requirements of the Bulgarian legislation and the established agreements between the parties. The condition of "the existence of a current and legally enforceable right to netting" is always and necessarily assessed together with a second condition - a "mandatory intent to settle these estimates on a net basis".

## 2.25 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 2019 is 10 % (2019: 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 at 30.09.2019 the deferred taxes on the profit of the company are valued at a rate of 10% (31.12.2018: 10%).

## 2.27 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.

## 2.28 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.

## 2.29 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.

## 2.30 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.

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

#### **Fair value measurement of financial instruments**

When the fair value of financial assets and financial liabilities reported in the statement of financial position can not be derived from quoted prices in active markets, their fair value is determined using other valuation models and techniques, including the discounted cash flow model. The input information used in these models is collected from monitored markets wherever possible, but when this can not be done, the determination of fair values implies the application of a certain degree of judgment. Such an assessment includes the consideration, analysis and assessment of incoming data such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors may affect the reported fair value of financial instruments.

#### **Calculation of expected credit losses for granted loans and guarantees, trade receivables and assets under contracts with clients**

Measuring the expected credit loss for financial assets measured at amortized cost (loans, receivables and assets under contracts with customers) as well as financial guarantees provided is an area that requires the use of complex models and material assumptions about future economic conditions and credit the behavior of customers and debtors (for example, the probability that counterparties will not meet their obligations and the resulting losses).

For the application of these requirements, the Company's management makes a number of material judgments, such as: (a) setting criteria to identify and assess a significant increase in credit risk; (b) selecting appropriate models and assumptions to measure expected credit losses; (c) establishing and assessing the relationship between historical past due rates and the behavior of certain macro indicators in order to reflect the effects of the forecasts for these macro indicators, (d) the formation of groups of similar financial assets (portfolios) for the purposes of measuring the expected credit losses; future in the calculation of expected credit losses.

#### **Revenue from contracts with customers**

When recognizing revenue and preparing the annual financial statements, management makes various judgments, estimates and assumptions that affect the reported revenue, expense, assets and liabilities under contracts and their corresponding disclosures. As a result of the uncertainty regarding these assumptions and estimates, material adjustments may be made to the carrying amount of the assets and liabilities concerned in the future and, respectively, reported costs and revenues.

#### **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**

In determining the present value of long-term employee retirement liabilities, calculations of certified actuaries based on assumptions of mortality, staff turnover, future salary levels, and discount factors have been used, which assumptions have been considered by the management to be reasonable and relevant for the company.

#### **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.

##### *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.

Revenue from rents from operating leases is recognized on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and settling an operating lease are added to the carrying amount of the assets lent and recognized on a straight-line basis over the lease term.