

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

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

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

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.

From the adoption of those standards and / or interpretations that are practicable for annual periods beginning on January 1, 2018 for companies in the Republic of Bulgaria, there have been changes in the accounting policy of the Company regarding the principles, rules and criteria for accounting for the following reporting facilities as well as the presentation and disclosure of financial information about them: trade receivables, related party receivables, loans granted, cash and cash equivalents, other long-term equity investments, revenue from contracts with clients, other income and liabilities under contracts with customers.

#### Accounting policy applicable from 1 January 2018

The changes stem from the application of the following standards and interpretations:

- **IFRS 2 (amended) "Share-based Payment"** – Classification and measurement of sharebased payment transactions (in force for annual periods beginning on or after 1 January 2018 – not endorsed by EC).

These amendments clarify three major issues: (a) the treatment of the conditions and effects related to obtaining vested rights in the measurement and accounting for cash-settled share-based payment transactions; (b) approach for the classification of share-based payment transactions with net settlement features for the purposes of withholding personal tax for entity's employees (in the form of equity instruments) – by introducing an exception from the common rule in order to achieve a facilitation in the practice, these transactions shall be classified in a way as if in the absence of the net share settlement feature; and (c) a new rule of accounting whereby a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

- **IFRS 9 Financial Instruments** (in force for annual periods beginning on or after 1 January 2018 adopted by the EC). This standard is a new standard for financial instruments. Its ultimate purpose is to replace IAS 39 entirely. The drafting of the new standard has gone through three phases and has covered the following range of basic methodological issues: 1. Classification and evaluation of financial assets and liabilities; 2. Accounting for the hedge; and 3. Methodology for determining the impairment. At present, IFRS 9 has been issued four times in November 2009, October 2010, November 2013, and finally, again in full, in July 2014. 1. Classification and valuation of financial assets and liabilities - with the first issues, it replaces those parts of IAS 39 that are relevant to the classification and measurement of financial instruments. It establishes new principles, rules and criteria for classification and assessment approach, hybrid contracts, while retaining almost all the IAS 39 provisions for recognizing and writing off financial assets and liabilities. IFRS 9 introduces a requirement that the classification of financial assets be based on the business model of the entity's management and the characteristics of the contracted cash flows of the assets concerned. On this basis, the two main categories of ex-post valuations are determined - at amortized cost and at fair value. The new rules lead to changes mainly in accounting for financial assets such as debt instruments and financial liabilities adopted at fair value through profit or loss (for credit risk). A specificity in the classification and the fair value model for financial assets is the category "with subsequent fair value measurement over other comprehensive income", which may include certain debt and equity instruments under certain conditions. 2. Accounting for hedge - a new chapter is included in the Standard, which introduces a new, more relaxed approach and resp. a hedge accounting model that allows a consistent and comprehensive coverage of all financial and non-financial risk exposures subject to economic hedge operations and a better presentation of the risk management activities in the

financial statements, especially the relationship with hedging transactions and the scope and type of documentation to be used. The requirements for the structure, content and approach of hedge disclosures have also been improved. Additionally, the option to account for changes in the fair value of financial liabilities measured at fair value through profit or loss has been introduced but, due to changes in the quality of the company's own creditworthiness (own credit risk), this effect should be presented in the other comprehensive income rather than in profit or loss. 3. Methodology for determining impairment - the change is a cardinal one and introduces the application of the concept and approach of "expected loss". According to this approach, all expected losses of a financial asset at amortized cost are recognized earlier, typically using the three-step model, depending on the change in credit quality, and not only in the event of a default event, as in current model under IAS 39. The three stages are: a. upon initial recognition of the financial asset - impairment for a 12-month period, b. with increased credit risk - for the life of the asset; and, respectively, c. in the event of default, the actual impairment. This model also defines the rules for measuring the impairment losses and respectively the application of the effective interest rate on the recognition of interest income. Impairment of debt instruments measured at fair value through other comprehensive income is also determined and measured using the methodology for both financial assets at amortized cost. For trade receivables, lease receivables, and assets under contracts with customers, the Standard permits the use of a simplified model to measure impairment, but retains the concept of "expected loss".

The Company applies IFRSs with the date of initial application - January 1, 2018. The Company has not restated comparative information that continues to be reported under IAS 39

The Company has assessed the effects of the three aspects of IFRS 9.

In addition, the Company has adopted the related amendments to IFRS 7 Financial Instruments: Disclosures that are applicable to the disclosures for the year 2018 but are not fully applied to comparative information

#### (b) Classification and evaluation

IFRS 9 introduces a new approach to the classification of financial assets that is based on the characteristics of the contractual cash flows of the financial assets and the business model in which they are managed. The impact of IFRS 9 on the classification and measurement of financial assets is presented below.

IFRS 9 keeps to a large extent the existing requirements in IAS 39 for the Classification and Valuation of Financial Liabilities.

Categories of financial assets in accordance with IFRS 9:

- Debt instruments measured at amortized cost;
  - Debt instruments measured at fair value through other comprehensive income (reclassified to profit or loss);
  - Equity instruments measured at fair value through other comprehensive income (without reclassification of profit or loss);
  - Financial assets (debt instruments, equity instruments and derivatives) measured at fair value through profit or loss.
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- **IFRS 7 (revised) Financial Instruments: Disclosures** - Relating to the Restatement of Comparative Periods and Related Disclosures in the Application of IFRS 9 (effective for annual periods beginning on or after 1 January 2018 adopted by the EC). This change is related to the introduction of a relief on the need to restate the comparative financial statements and the ability to provide modified disclosures when moving from IAS 39 to IFRS 9 at the date of application of the Standard by the entity and whether it chooses the option to recalculate earlier periods.
  - **IFRS 15 Revenue from contracts with customers** (effective for annual periods beginning on or after 1 January 2018, adopted by the EC). This standard is an entirely new standard for recognizing and evaluating the revenues of enterprises of all types. It introduces a new concept and, on that basis, a comprehensive set of new principles, rules and approaches for the recognition, reporting and disclosure of information on the type, amount, period and cash flow uncertainty stemming from customer contracts. The Standard completely replaces the current income recognition standards, mainly IAS 18 and IAS 11, and the related interpretations. The leading concept of the new standard is the creation of a 5-step model whereby the determination of parameters and time of revenue are commensurate with the obligation of each party to execute the transaction between them. The key components are: (a) commercial contracts with customers and an assessment of the probability of the entity collecting the contracted amounts under the terms of that contract; (b) the identification of the individual performance obligations under the contract for goods or services

- their severability from the other commitments under the contract from which the client would derive benefits; (c) determining transaction price - the amount the entity expects to receive against the transfer of the relevant good or service to the customer - particular attention is paid to the types of variable components in the price, the financial component as well as the component received in kind; (d) allocation of the transaction price between the individual execution obligations under the contract - normally based on the individual selling price of each component (commodity / service); and (e) the timing or period of recognition of revenue - in the successful performance of a contractual obligation by transferring control over the promised good or service, either at a given time or for a certain period of time. Rules and criteria (a) have been introduced to identify performance obligations based on specific promises for the delivery of goods or services, (b) to identify whether a company is a principal or an agent in the supply of goods or services, and (c) for the transfer of licenses. The introduction of this standard usually leads to more substantial changes: (a) in complex contracts with tied sales of goods and services, a clear distinction will be needed between the goods and services of each component and a condition under the contract; (b) the probability of a change in the moment of recognition of the sale; (c) increasing disclosures; and (d) introducing additional rules for the recognition of revenues from a certain type of contract - licenses; consignments; one-off pre-tax charges; guarantees and other similar ones. The Standard permits both full retrospective application and a modified retrospective application from the beginning of the current reporting period (2018) with certain disclosures for prior periods. The management has conducted a study and has determined that changes under the new standard affect the accounting policy and the values and classification of the Company's assets, liabilities, operations and performance in respect of: revenue from contracts with customers, other income, assets under contracts with clients, liabilities under contracts with clients. The management has chosen to apply a modified retrospective application for the first time to IFRS 15 and not to restate the comparative figures. There is no effect on the initial balances of the changes made. The Standard permits both full retrospective application and a modified retrospective application from the beginning of the current reporting period (2018) with certain disclosures for prior periods.

The key components are:

- (a) contracts with clients of a commercial nature and an assessment of the probability that the entity will recover the agreed amounts under the terms of the contract;
- (b) the identification of the individual performance obligations under the contract for goods or services - their severability from the other commitments under the contract from which the client would derive benefits;
- (c) Determining transaction price - the amount the entity expects to receive against the transfer of the relevant good or service to the customer - particular attention is paid to the types of variable components in the price, the financial component as well as the component received in kind;
- (d) allocation of the transaction price between the individual performance obligations under the contract usually based on the individual sales price of each component (product / service); and
- (e) the timing or period of revenue recognition - in the successful performance of a contractual obligation by transferring control over the promised good or service, whether at a given time or for a certain period of time.

Rules and criteria have been introduced to identify performance obligations on the basis of specific promises for the supply of goods or services, (b) to identify whether a company is a principal or an agent in the supply of goods or services, and (c) for the transfer of licenses. The introduction of this standard usually leads to more substantial changes: (a) in complex contracts with tied sales of goods and services, a clear distinction will be needed between the goods and services of each component and a condition under the contract; (b) the likelihood of a change in the moment of recognition of the sale; (c) increasing disclosures; and (d) introducing additional rules for the recognition of revenues from a certain type of contract - licenses; consignments; one-off pre-tax charges; guarantees and more. similar.

- The Standard permits both full retrospective application and a modified retrospective application from the beginning of the current reporting period (2018), with certain disclosures for prior periods.

The management has conducted a study and has determined that changes under the new standard affect the accounting policy and the values and classification of the Company's assets, liabilities, operations and performance in respect of: revenue from contracts with customers, other income, assets under contracts with customers, liabilities under contracts with customers. The management has chosen to apply a modified retrospective application for the first time to IFRS 15 and not to restate the comparative figures. There is no effect on the initial balances of the changes made.

The Company has adopted IFRS 15 using a modified retrospective application as the date of initial application was adopted on 1 January 2018. According to this method, the Standard may be applied either to all contracts at the date of initial application or only to contracts that are not met by that date. The Company preferred to apply the standard only to contracts that were not met on 1 January 2018.

The cumulative effect of initial application of IFRS 15 is recognized at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information is not restated and continues to be accounted for under IAS 11, IAS 18 and Related Interpretations.

The Company has assessed the effects of the application of the new standard on the annual financial statements and has not identified areas to be affected that have an impact on the amounts of operating income and / or receivables and equity components, as long as no material change is expected in the business model, nor a change in the time horizon of transferring control to customers from the services provided by the Company or the reporting of sales of goods.

- **IFRS 16 Leases** (effective for annual periods beginning on or after 1 January 2019 adopted by the EC). This standard has a completely changed concept. It introduces new principles for the recognition, measurement and presentation of leases by imposing a new model in order to provide a more reliable and adequate representation of these transactions, especially with the lessee. The Standard will replace the current lease standard IAS 17. a) In the case of lessees, the guiding principle of the new standard is the introduction of a one-size-fits-all model of leased balance sheet accounting - for all leasing contracts with a real life of more than 12 months, an asset in the form of a "right of use" for the period of the contract and, respectively, a financial liability for the obligation under these contracts will be reported. This is also the essential change from current reporting practice. For short-term or very low-cost leases an exception is allowed and retention of past practice; (b) Lessors will not experience material changes in the accounting practice and they will continue to recognize the leases similar to those of the old Standard IAS 17, both operating and financial. As far as the new standard provides a more complete concept, a more detailed analysis of the terms of the contracts should also be made, and it may be possible for them (the lessors) to create grounds for reclassification of certain leasing transactions. The new standard requires expanding disclosures.
- **IFRIC 23 (amended) Uncertainties in the treatment of income taxes** (effective for annual periods beginning on or after 1 January 2019 adopted by the EC). This Interpretation provides guidance on accounting treatment and reporting of income taxes under IAS 12 when certain uncertainties about tax treatment are available. It does not affect taxes and other government receivables and fees beyond IAS 12 nor does it include special requirements for interest and other penalties associated with tax uncertainties. The clarification covers the following questions: (a) whether an entity considers separate uncertainties about tax treatment; (b) assumptions made by an entity for the purpose of verifying and assessing tax treatment by the tax authorities; (c) how the entity determines the taxable profit or loss, tax bases, unused tax losses, tax rates and unused tax credits; (d) how the entity assesses and addresses changes in facts and circumstances; and (e) the entity's approach to assessing the individual uncertainties of tax treatment individually or in combination with others. Management is in the process of exploring, analyzing and evaluating the effects of changes that would affect accounting policies and the classification and presentation of assets, and the liabilities of the company.
- **IFRS 9 (amended) - Financial Instruments** - for cases of negative early repayment and modification of financial liabilities (effective for annual periods beginning on or after 1 January 2019 adopted by the EC). This change covers two issues: a) amend the current requirements of IFRS 9, allowing the classification of certain financial assets at amortized cost and they pass the test SPGL, irrespective of conditions for early repayment with negative compensation. Negative compensation occurs when the terms permit the debtor to pay early instrument before its maturity, and early the amount paid may vary from the remaining outstanding principal and interest, but this negative compensation must be reasonable and relevant for the early termination of the contract. Pre-payment in itself is not a sufficient indicator of judgment, ie. it is important to assess against the prevailing interest rate, and against it - the amount of prepayment may also be in favor of a party that initiates it. It is important that the calculation of the compensation be consistent as an approach in the case of a penalty for early payment and in favor of an earlier payment. Also, the asset should be in the "held for cash flow" category according to the business model of the entity;

(b) confirms that when a financial liability measured at amortized cost is modified without being derecognised, the effect of that modification should be recognized in profit or loss. The effect is measured as the difference between the original agreed cash flows and those after the modification discounted at the original effective interest rate.

Management is in the process of exploring, analyzing and evaluating the effects of changes that would affect the accounting policy and the classification and presentation of the Company's assets and liabilities.

- **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** (in force for annual periods beginning on or after 1 January 2018 –endorsed by EC). This Interpretation applies to the accounting for foreign currency transactions or part of them upon the receipt of advance consideration before the entity recognises the related asset, expense or income. In these cases the entities shall recognise first a non-monetary asset for the advance consideration (advance consideration paid on supply of assets or services) or a nonmonetary liability for deferred income (advance consideration received from clients on sales). Upon receipt of such advance consideration in a foreign currency, the transaction date shall be used to determine the exchange rate while in case of multiple payments the entity shall determine a date of the transaction for each individual payment. Following this, the interpretation clarified that upon the initial recognition of the respective asset, expense or income, as a result of the payment or receipt of advance consideration or a series of payments or receipts in a foreign currency, the transaction date is the date of initial recognition of the non-monetary asset or liability (in case of one-off payment/receipt) or the date of each separate payment/receipt. This Interpretation may be applied on a fully retrospective basis or prospectively, either: (a) from the beginning of the reporting period in which it is first applied; or (b) from the beginning of the period preceding the period in which the entity first applies the interpretation.

At the date when these financial statements have been approved for issue, there are several new standards and interpretations as well as amended standards and interpretations, issued but not yet in force for annual periods beginning on or after 1 January 2018, which have not been adopted by the Company for early application. The management has decided that out of them the following are likely to have a potential impact in the future for changes in the accounting policies, and in the classification and value of reporting items in Company's financial statements for subsequent periods, namely:

- **Amendments to the Conceptual Framework for Financial Reporting** (in force for annual periods beginning on or after 1 January 2020, not endorsed by EC). These amendments include revised definitions of “asset” and “liability”, as well as new guidance for their measurement, derecognition, presentation, and disclosure. The amendments to the Conceptual Framework are accompanied by amendments to some references thereto in the International Financial Reporting Standards, including IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32. Some of the references state which version of the Conceptual Framework statements in the respective standards should refer to (the IASC framework adopted by IASB in 2001, the IASB framework of 2010, or the new revised framework dated 2018), while others specifically state that the standard's definitions have not been updated in accordance with the framework's latest amendments.
- **IFRS 3 (revised) - Business Combinations** (effective for annual periods beginning on or after 1 January 2020, not adopted by the EC). This change relates to the definition of "business" given in the appendix to the Standard and is related to the difficulties the acquirer encounters in assessing whether a business or pool of assets is acquired. The amendment aims to: (a) clarify that, in order to be defined as a business, the acquired set of activities and assets must include, as a minimum, the inputs and operational processes that together result in the creation of a product; (b) narrowing the definitions of "business" and "product" by focusing on the goods and services provided to the customer and by removing the focus on cost-cutting; (c) to add guidance and illustrative examples to help businesses assess whether an operational process has been acquired; (d) remove the requirement to assess whether market participants are able to replace the missing resources and operational processes in the acquiree to continue to create a product; and (e) add the option to the so- a concentration test that allows a simple assessment of whether a set of activities and assets is business or not. The management is in the process of exploring, analyzing and evaluating the effects of changes that would affect the accounting policy and the classification and presentation of the Company's assets and liabilities.

- **Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Estimates and Errors** (in force for annual periods beginning on or after 1 January 2020 - not adopted by the EC). These changes concern the refinement of the definition of "materiality" in both standards. In their view, the new definition of materiality is that "information is material if a missed, inaccurate or disguised one could reasonably be expected to influence the decisions of the main users of financial statements with a common purpose that provide financial information for a reportable enterprise ". There are three new aspects of the definition that should be noted: (a) "cover-up" - the current definition focuses only on omission and imprecise presentation. The IASB concludes that the concealment of essential information may have the same effect as the omission of essential information; (b) 'reasonable expectation to influence the decisions of the main users' - this definition refers to ' could influence ', which according to the IASB can be assumed to require too much information, since almost everything 'could affect' the decisions of some consumers, even the probability of being minimal; and (c) "primary users" - this definition only refers to "users", which, according to the IASB, may be adopted too broadly, take into account all possible users of the financial statements when deciding what information to disclose. Also, five ways of concealing essential information are explicitly mentioned: (a) use of language for an essential element that is evasive or unclear; (b) information about a material item, transaction or event that is scattered in different locations in the financial statements; (c) dissimilar elements, transactions and events, in substance, which are inappropriately presented collectively; (d) similar items, transactions and events that are inappropriately represented on their own; and (e) material information is concealed through insignificant information to such an extent that it becomes unclear what information is material.

Additionally, with regard to the stated below new standards, amended/revised standards and new interpretations that have been issued but not yet in force for annual periods beginning on 1 January 2018, the management has judged that they are unlikely to have a potential impact resulting in changes in the accounting policies and the financial statements of the Company:

- **IFRS 10 (amended) "Consolidated Financial Statements" and IAS 28 (amended) "Investments in Associates and Joint Ventures"** – regarding the sale or contribution of assets between an investor and its associates or joint ventures (postponed effective date, to be determined by the IASB). These amendments address the accounting treatment of the sale or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the assets sold or contributed constitute in substance a business as defined in IFRS 3. If these assets as an aggregate do not meet the definition of a business, then the investor shall recognise gain or loss only to the extent of other unrelated investor's interests in the associate or joint venture. In cases of sale or contribution of assets, which as an aggregate constitute a business, the investor shall recognise the full gain or loss on the transaction. The amendments will be applied on a prospective basis. IASB postponed the initial date of application of these amendments for an indefinite period.
- **IFRS 17 "Insurance Contracts"** (in force for annual periods beginning on or after 1 January 2021 – not endorsed by EC). This is an entirely new accounting standard on all types of insurance contracts, including some guarantees and financial instruments, and includes rules on recognition and measurement, presentation and disclosure. The standard will supersede the effective so far standard related to insurance contracts – IFRS 4. It establishes an entirely new overall model for insurance contracts' accounting, covering all relevant accounting aspects. It is not applicable to the Company's operations.
- **IAS 28 (amended) "Investments in Associates and Joint Ventures"** – regarding long term interests in associates and joint ventures (in force for annual periods beginning on or after 1 January 2019 – not endorsed by EC). The amendment clarifies that an entity should apply IFRS 9 including its impairment requirements regarding long term interests in associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. A change in the intents and plans of the management are not regarded as evidence for a change in use.

- **IAS 19 (amended) “Employee Benefits”** (in force for annual periods beginning on or after 1 January 2019 – not endorsed by EC). This amendment clarifies that in case of changes to defined benefit plan amendments, curtailments and settlements, upon determining the current service cost and interest costs for the period following the restatement, the entity is obliged to use the assumptions made therein. Additionally, changes are envisaged to the disclosure of impact for changes to defined benefit plan amendments, curtailments and settlements in relation to the plan asset ceiling.

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

## 2.2 Consolidated financial statement of the company

The Company has started the process of preparation of its consolidated annual financial statements for 2018 in accordance with IFRS for year 2018 whereas these individual financial statements will be included therein. In accordance with the planned dates, the management expects that the consolidated financial statements will be prepared for issue not later than 30 April 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. Accounting policy applicable until December 31, 2017

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

Upon sale of finished products, goods and materials, revenue is recognised when all significant risks and rewards of ownership have passed to the buyer.

Upon rendering of services, revenue is recognised by reference to the stage of completion of the transaction at the

date of the statement of financial position, if this stage as well as the transaction and completion costs, can be measured reliably.

Revenue is measured on the basis of the fair value of the products, goods and services sold, net of indirect taxes (excise duties and VAT) and any discounts and rebates granted.

Net foreign exchange differences related to cash, trade receivables and payables, denominated in a foreign currency, are recognised in the statement of comprehensive income (within profit or loss for the year) when they arise and are presented net under 'other operating income/(losses)'.

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

Revenue from investment property leased-out under the terms of operating lease is also accounted for under this item.

Upon sale on an instalment plan, revenue is recognised on the date of sale, excluding the incorporated interest.

Finance income is presented separately on the face of the statement of comprehensive income (within profit or loss for the year) and is comprised of interest income on granted loans and term deposits, net gain on exchange differences from revaluation of loans in a foreign currency, proceeds/gains from investments in securities and shares, including dividends.

## 2.5.2. Accounting policy applicable from January 1, 2018

### 2.5.2.1 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 provides 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.

#### 2.5.2.2 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 / 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.

#### 2.5.2.3 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*

### **2.5.2.4 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.

### **2.5.2.5 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.

### **2.5.2.6 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*

##### **Accounting policy applicable from 1 January 2018**

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).

##### **Accounting policy applicable until 31 December 2017**

Interest income is calculated by applying the effective interest rate on the gross carrying amount of financial assets.

## 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, whereto 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.

### 2.6.1 Finance income and expenses

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).

##### **Accounting policy applicable from 1 January 2018 onwards**

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).

##### **Accounting policy applicable until 31 December 2017**

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 and receivables, interest income on current current accounts and deposits, positive exchange differences from currency transactions and income / gains on securities and equity investments transactions, incl. of dividend.

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.

## 2.7 Property, plant and equipment

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

### **Initial acquisition**

Upon their initial acquisition, property, plant and equipment are valued at acquisition cost (cost), which comprises the purchase price, including customs duties and any directly attributable costs of bringing the asset to working condition for its intended use. The directly attributable costs include the cost of site preparation, initial delivery and handling costs, installation costs, professional

fees for people involved in the project, non-refundable taxes, expenses on capitalised interest for qualifying assets, etc.

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

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

#### **Subsequent measurement**

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

#### **Depreciation methods**

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

The useful life per group of assets is as follows:

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

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

#### **Impairment of assets**

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

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

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

### **2.8 Intangible assets**

#### *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).

### 2.9 Investment property

Investment property is property lastingly held by the Company to earn rentals and/or for capital appreciation. They are presented in the individual statement of financial position at fair value. Gains or losses arising from a change in the fair value of investment property are recognised in the individual statement of comprehensive income (within profit or loss for the year) as 'other operating income/(losses), net' for the period in which they arise. The income gained on investment property is presented in the same item of the individual statement of comprehensive income.

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.

### 2.10 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.

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

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

##### **Initial measurement**

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

#### **2.12 Inventories**

Inventories are valued in the individual financial statements as follows:

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

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

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

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

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

### 2.13 Trade and other receivables

Trade receivables are 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*

##### **Accounting policy applicable from 1 January 2018**

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).

##### **Accounting policy applicable until 31 December 2017**

Impairment of trade receivables is estimated based on the pattern of losses incurred. Estimates of losses on doubtful and uncollectible receivables are estimated when there is high uncertainty about the collection of all or part of the amount.

Uncollectible claims are written when the legal grounds for that occur.

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

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

Interest 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.

### 2.15 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*

##### **Accounting policy applicable from 1 January 2018**

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

##### **Accounting policy applicable until 31 December 2017**

Cash and cash equivalents at banks are subsequently presented at amortized cost less accumulated impairment for actual 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

#### 2.16 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.

#### 2.17 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.

#### 2.18 Capitalisation of borrowing costs

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

#### 2.19 Leases

##### Finance lease

##### **Lessee**

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

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

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

##### **Lessor**

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

The difference between the carrying amount of the leased asset and the immediate (fair selling) value is recognised in the

individual statement of comprehensive income (within profit or loss for the year) in the beginning of the lease term (when the asset is delivered) as sales income.

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

### Operating lease

#### **Lessee**

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

Operating lease payments are recognised as expenses in the individual statement of comprehensive income (within profit or loss for the year) on a straight-line basis over the lease term.

#### **Lessor**

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

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

### 2.20 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.

### 2.21 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.

## 2.22 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.

## 2.23 Financial instruments

### 2.23.1 Accounting policy applicable from 1 January 2018

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".

### 2.23.2. Accounting policy applicable until December 31, 2017

#### **Financial assets**

The Company classifies its financial assets in the following categories: 'loans (credits) and receivables', 'available-for-sale assets' and 'assets at fair value through profit'. The classification depends on the nature and purpose (designation) of the financial assets at the date of their acquisition. The management of the parent company together with the management of the respective subsidiary determine the classification of the financial assets for the purposes of The Company at the date of their initial recognition in the statement of financial position.

The Company companies usually recognise their financial assets in the statement of financial position on the trade date, being the date on which they commit to purchase the respective financial assets. All financial assets are initially measured at their fair value plus the directly attributable transaction costs.

Financial assets are derecognised from The Company's individual statement of financial position when the rights to receive cash from these assets have expired or have been transferred, and The Company has transferred substantially all the risks and rewards of ownership of the asset to another entity (person) external thereto. If The Company retains substantially all risks and rewards associated with the ownership of a particular transferred financial asset, it continues to recognise the transferred asset in its individual statement of financial position but also recognises a secured liability (a loan) for the consideration received.

#### *Loans and receivables*

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

This group of financial assets includes: loans granted, trade receivables, other receivables from counterparts and third parties, cash and cash equivalents from the individual statement of financial. Interest income on loans and receivables is recognised by applying the effective interest rate except for short-term receivables (due in less than three months) where the recognition of such interest would be unjustifiable as immaterial and within the common credit terms. It is presented in the individual statement of comprehensive income (within profit or loss for the year) under the item 'finance income'.

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

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

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

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

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

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

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

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

Dividends on shares, classified as available-for-sale financial assets, are recognised in the individual statement of comprehensive income (within profit or loss for the year) when the respective company's right to these dividends is established.

The available-for-sale investments are reviewed at each reporting date for events or circumstances indicating the existence of objective evidence for impairment of a particular financial asset or group of assets. They are impaired if their carrying amount is higher than the expected recoverable amount. The recognised impairment loss is equal to the difference between the acquisition cost less the repayments and their recoverable amount, which is accepted to be equal to the present value of the expected future cash flows, discounted at the current interest rate or through the yield for similar financial assets.

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

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

##### *Financial liabilities*

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

#### **2.24 Income taxes**

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

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

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

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

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

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

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

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

As at 31.12.2018 the deferred taxes on the profit of the company are valued at a rate of 10% (31.12.2017: 10%).

#### **2.25 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.

## 2.26 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.

## 2.27 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.

## 2.28 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.

#### 2.29 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.

##### **Approximate estimates to 31 December 2017**

Estimates of losses on doubtful and uncollectible claims are made at the date of each statement, on an individual basis. Receivables that have difficulty in collecting them are subject to analysis to determine the portion of them that is actually recoverable, and the remainder to the nominal of the respective receivable is recognized in the statement of comprehensive income (in profit or loss for the year) impairment loss on financial assets.

After 180 days of delay, it is considered that there may be indicators of impairment. When assessing the collection of receivables, the management analyzes the entire exposure of each counterparty in order to establish the real possibility of collecting them, not only at the level of overdue individual receivables from the counterparty, including the potential options for collecting any interest on offsetting arrears. In case of high uncertainty about the collection of a receivable (group of receivables), it is assessed how much of it is secured (pledge, mortgage, collateral, bank guarantee) and thus their collectability is guaranteed (by future realization of collateral or payment by a guarantor). Receivables or portion thereof, for which management estimates that there is a very high uncertainty for their collection and are not secured, are depreciated at 100%.

##### **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.

### **Litigation provisions**

There are no the pending litigations against the Company in 2018 and therefore, it has not included provisions for litigation payables in the statement of financial position as at 31 December 2018.

## **IMPACT OF THE INITIAL ADOPTION OF IFRS 9 AND IFRS 15**

This Note presents the impact on the Company's financial statements for 2018 of the first-time adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers as at 1 January 2018. IFRS 9 Financial Instruments replaces the provisions of IAS 39 Financial Instruments: Recognition and Measurement with respect to the recognition, classification and measurement of financial assets and financial liabilities, the derecognition of financial instruments, impairment of financial assets and hedge accounting. It introduces new classification criteria and groups of financial assets, respectively new rules for their subsequent measurement and for the recognition of interest income. The other material difference is the adoption of a new approach to measure impairment – based on expected credit losses.

IFRS15 Revenue from Contracts with Customers replaces IAS 18 Revenue, which covers goods and services contracts, and IAS 11 Construction Contracts, which covers construction contracts, and the respective SIC and IFRIC. The new standard establishes a model of five steps to account for contracts with customers. This model is based on the principle that revenue is recognised when control of a good or service transfers to a customer at an amount reflecting the consideration the entity expects to be entitled to in return for the transfer of goods or services to the customer. The adoption of the new IFRS 15 Revenue from Contracts with Customers significantly increases the use of judgement in the recognition of revenue and provides guidance for accounting for contract expenses.

The adoption of IFRS 9 Financial Instruments has resulted in certain changes in the accounting policies and an adjustment to the amounts of the respective items recognised in the financial statements.

The adoption of IFRS 15 Revenue from Contracts with Customers has resulted in changes in the accounting policies, but has not necessitated adjustments to the respective items recognised in the financial statements.