

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The consolidated financial statements are prepared on a historical cost basis.

The Bulgarian subsidiaries of the Group, as well as the associated company Sirma Mobile JSC, keep their accounting registers in BGN, which accept as their functional and reporting currency presentation. Overseas subsidiaries, associates and joint ventures organize their accounting and accountability according to the requirements of the relevant local law.

The data in the consolidated financial statements and the notes thereto are presented in BGN thousand unless otherwise explicitly disclosed, and the Bulgarian lev is accepted as a presentation currency of the Group's presentation. The accounts of the overseas companies are translated from local currency into Bulgarian lev for the purposes of each consolidated financial statement according to the Group's policy.

The presentation of a financial statement in accordance with International Financial Reporting Standards requires management to make the best estimates, accruals and reasonable assumptions that have an effect on the reported amounts of assets and liabilities, income and expenses and disclosure of contingent receivables and payables at the end of the reporting period. These estimates, accruals and assumptions are based on the information available at the end of the reporting period, which is why future actual results could be different from those. Objects that imply a higher degree of subjective judgment or complexity of calculations or where assumptions and accounting estimates are material to the financial statements.

## 2.2 Definitions

### **Parent company**

This is the company that controls the business and financial policies and activities of its subsidiaries by holding more than 50% of the shares in its capital and / or voting rights or by virtue of a written control agreement between the shareholders. The parent company is SIRMA GROUP HOLDING JSC.

### **Subsidiaries**

These are companies, including non-legal entities, in which the parent, directly or indirectly, holds more than 50% of the voting rights in the general meeting (share capital) and / or has the right to appoint more than 50% to the directors of the respective company or by virtue of a written control agreement between the shareholders and can exercise control over their financial and operating policies (including under a shareholder control agreement). Subsidiaries are consolidated from the date that effective control is acquired by the Group and cease to consolidate from the date that control is deemed to have ceased and is transferred outside the Group. For their consolidation, the full consolidation method is applied.

### **Joint venture**

A joint venture is created under a contractual agreement on the basis of which two or more parties (companies) are engaged in a joint economic activity which is subject to joint control.

Joint control is a contractual sharing of control over a business. It is determined by the requirement that the strategic financial and operational decisions relating to the business and development of the joint venture are made with the unanimous consent of the venturers.

Controlling partner in a joint venture is the side (the company) that participates in the joint venture and shares joint control of the latter.

The joint venture is included in the consolidated financial statements of the Group using the equity method from the date on which effective joint control is acquired by the venturer (specifically, the parent) and ceases to be consolidated by that method from the date that the joint venture when the joint venture is transformed into a subsidiary, or from the date that it is assumed that joint control is transferred from the venturer to third parties.

### **Associated company**

It is a company in which the investor (specifically, the parent company) exerts a significant influence but which is neither a subsidiary nor a joint venture of the investor.

Significant influence is the right to participate in decision-making related to the financial and operating policies of the investee, but there is no control or joint control over that policy. This is typically the case when: (a) possession, directly or indirectly by the investor, of 20% to 50% of the capital of the investee (including by shareholder agreement) and ) In addition, the investor has representation in the management body of the company in which the investment company is / are involved in the decision-making process regarding the policy and strategy of the investee and / or there are significant transactions between the investor

and the company in which it is invested.

The associate is included in the consolidated financial statements of the Group using the equity method from the date on which significant influence has been acquired by the investor (specifically, the parent) and ceases to be included in this method or from the date when the company is transformed into a subsidiary or from the date that it is assumed that significant influence has been transferred from the investor to third parties.

## 2.3 Consolidation principles

The consolidated financial statements include the financial statements of the parent, subsidiaries, joint ventures and associates prepared as of March 31, 2018. Consolidation has applied the "economic entity" approach and the "proportional share in net assets" method has been selected for the measurement of non-controlling interest in business combinations and other forms of acquisitions of subsidiaries.

The financial statements of subsidiaries, joint ventures and associates for the purpose of consolidation are prepared for the same accounting period as the parent's and the application of a single accounting policy.

### 2.3.1. Consolidation of subsidiaries

In the consolidated financial statements, the subsidiaries' consolidated financial statements are consolidated using the "full consolidation" method, in order, by applying an accounting policy that is unified for major items. The parent company's investments are eliminated against the equity interest of the subsidiaries at the acquisition date. Intra-group operations and estimates are fully eliminated, unrealized intragroup profit or loss. The effect of deferred tax on these eliminating consolidation entries is also reported.

Shares of third party shareholders in subsidiaries other than those of the parent's shareholders are stated separately in the consolidated statement of financial position, consolidated statement of comprehensive income and statement of changes in equity as "non-controlling interest". The non-controlling interest includes: (a) the amount of the share of third-party shareholders at the date of consolidation for the first time in the fair value of all identifiable assets acquired, liabilities assumed and the contingent liabilities of each of the respective subsidiaries (b) the change in the amount of the share of those persons in the equity of each of the respective subsidiaries from their first consolidation by the end of the current reporting period.

The following rates are used for the recalculation of the Subsidiaries' reports in foreign currencies in BGN:

US Dollar:

1. The statement of comprehensive income is restated at the weighted average USD exchange rate, which is 1,59097 BGN/USD as at 31.03.2018 and as of 31.03.2017 – 1,83638 BGN/USD
2. The statement of financial position has been restated on the basis of the BNB closing exchange rate at 31.03.2018, which is 1,5874 BGN/USD and the closing rate at 31.12.2017, which is BGN 1,63081 BGN/USD
3. The cash flow statement is recalculated at the USD weighted average exchange rate, which is 1,59097 BGN/USD as at 31.03.2018 and as of 31.03.2017 – 1,83638 BGN/USD

Euro:

The EUR / BGN exchange rate is fixed – 1,95583 BGN/EUR

British Pound:

1. The statement of comprehensive income is restated at the GBP weighted average exchange rate, which is 2,22094 BGN/GBP as at 31.03.2018 and as of 31.03.2017 – 2,274 BGN/GBP
2. The statement of financial position has been restated on the basis of the BNB closing exchange rate at 31.03.2018, which is 2,23649 BGN/GBP and the closing rate as at 31.12.2017, which is 2,2044 BGN/GBP
3. The cash flow statement is restated at the GBP weighted average exchange rate, which is 2,22094 BGN/GBP as at 31.03.2018 and as of 31.03.2017 – 2,274 BGN/GBP

The differences formed from the restatements are recorded in the balance sheet under the heading "Reserves from recalculated accounts".

### 2.3.2. Acquisition of subsidiaries

When acquiring a subsidiary (enterprise) of the Group in business combinations, the acquisition method (purchase and sale) is used. The consideration transferred includes the fair value at the date of exchange of the assets provided, the liabilities incurred or assumed and the equity instruments issued by the acquiring company in exchange for the acquisition of control of the acquiree. It also includes the fair value of any asset or liability that is the result of a contingent consideration arrangement.

The direct costs associated with the acquisition are recognized as current for the period in which they are incurred, except for the cost of debt issuance or equity instruments that are recognized as a component of equity.

All acquired identifiable assets, liabilities assumed and contingent (condensed) liabilities in the business combination are initially measured at their fair value at the date of exchange. Any excess of the sum of the consideration transferred (measured

at fair value), the amount of the non-controlling interest in the acquiree and, when acquiring phases, the fair value of the acquisition date of the previously held equity interest in the acquiree over the acquiree's identifiable assets; liabilities assumed by the acquiring company is treated and recognized as a goodwill. If the share of the acquiring company in the fair value of the net identifiable assets acquired exceeds the cost of the business combination, that excess is recognized immediately in the consolidated income statement of the Group in the item "gains / (losses) from acquisition / subsidiaries ". Any non-controlling interest in a business combination is measured using the "proportionate share in net assets" of the acquiree.

When the business combination of the acquisition of a subsidiary takes place in stages, the previous acquisition held by the acquirer is remeasured to its fair value at the acquisition date and the effects of that revaluation are recognized in the current profit or loss of the Group, financial income "and" financial expenses "or" profits / (losses) from an associate ", incl. any previously reported effects in other components of the comprehensive income are recycled.

### 2.3.3. Sale of subsidiaries

In the case of a sale or other form of loss (transfer) of control over a subsidiary:

- The assets and liabilities (including if there is a goodwill) of the subsidiary are written off at book value at the date of loss of control;
- The non-controlling interest in this subsidiary is written off at book value in the consolidated statement of financial position at the date of the loss of control, all components of other comprehensive income relating to them;
- Recognition of the consideration received at fair value from the transaction, event or operation that resulted in the loss of control;
- Reclassified to "gains or losses for the year" or transferred to accumulated profits all components of equity that represent unrealized gains or losses - as required by the relevant IFRS under which those equity components fall;
- Any resulting difference, such as "gain or loss on disposal (sale) of a subsidiary", is recognized in the consolidated statement of comprehensive income attributable to the parent.
- The remaining holding shares in associates or available-for-sale investments are initially measured at fair value at the date of sale and subsequently evaluated in accordance with the accounting policy adopted by the Group.

The acquisition method (purchase and sale) also applies to consolidation and / or restructuring operations under common control, in the case of direct acquisitions of the parent company.

### 2.3.4. Transactions with non-controlling interest

Non-controlling operations are treated by the Group as transactions with entities owning the equity instruments of the Group. The effects of the parent's sales of units without loss of control to non-controlling interests are not treated as components of the Group's current profit or loss but as movements directly to the components of its equity, usually to the reserve component "retained earnings". Conversely, in the case of purchases by the parent company, without acquiring control, of additional shares of non-controlling interests, any difference between the amount paid and the corresponding share of the net book value of the subsidiary's net assets is also recognized directly in the consolidated statement for equity, usually to the "retained earnings" reserve component.

When the Group ceases to have control and significant influence, any remaining minority investment as a share in the capital of the company concerned is remeasured at fair value, the difference to carrying amount being recognized in current profit or loss, respectively all amounts previously recognized in other components of comprehensive income are accounted for as in a direct release operation to all components associated with the original investment (in the subsidiary or associate).

### 2.3.5. Consolidation of associated and joint ventures

For the inclusion of associates and joint ventures, the equity method is applied in the consolidated financial statements, according to which the parent's investment in them is initially reported at cost (cost) and subsequently recalculated to reflect changes in the share of the investor (specifically, the parent company) into the net assets of the associates and joint ventures after the acquisition. The Group's investment in associates and joint ventures also includes goodwill, when acquired, net of any recognized impairment.

Profit or loss after acquisition for the Group (through the parent) of associates and joint ventures for the reporting period represents its share in its net financial results (after tax) from its business activity for that period, which is recognized and presented on a separate line in the consolidated statement of comprehensive income.

Similarly, the Group's share in changes after the acquisition of the other components of the comprehensive income of associates and joint ventures is also recognized and presented as a movement in the other comprehensive income components in the consolidated income statement or the Group's consolidated balance sheet in the statement of changes in equity. The Group recognizes its share of losses of associates and joint ventures up to the amount of its investment, and the internal loans granted to them.

The internal estimates between the Group and the associate and joint ventures are not eliminated. Unrealized gains or losses on transactions between them are eliminated to the percentage of group participation in associates and joint ventures, including including impairment in the event of loss. The deferred tax effect of these consolidation procedures is also reported.

## 2.4 Comparative data

The Group presents comparative information in this consolidated financial report for one prior year. When necessary, comparative data are reclassified (and recalculated) to achieve comparability with changes in performance in the current year.

## 2.5 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 March, 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)".

For the purposes of each consolidated financial statement, the foreign currency financial statements of the subsidiaries abroad are recalculated: the functional currency of the foreign subsidiary in the presentation currency (BGN) adopted in the consolidated financial statements, such as:

(a) all assets and liabilities are restated in the local currency at the closing exchange rate of the local currency at 31 March or at the date of the company's disposal;

(b) all revenue and expenditure items shall be translated into the local currency at the average exchange rate of the local currency relative to it for the reporting period;

(c) all exchange differences resulting from the restatements are recognized and presented as a separate component of equity in the consolidated statement of financial position -

"Revaluation reserve in the currency of presentation of foreign operations", and

(d) the exchange differences arising on the foreign currency translation of the net investment in foreign (foreign) companies, together with the loans and other foreign exchange instruments accepted as hedges of those investments, are recognized directly in equity.

In the case of a disposal (sale) of a foreign operation (a company), the cumulative amount of exchange differences that were directly recognized as a separate component of the equity is recognized as part of the profit or loss in the consolidated statement of comprehensive income in line "Profit / Loss" from acquiring and disposing of subsidiaries, net "obtained on disposal (sale)".

Goodwill and fair value adjustments arising on the acquisition of a foreign (foreign) company are treated in the same way as the assets and liabilities of that company and are translated in the presentation currency at the closing rate.

## 2.6 Revenue

Revenue in the Group is recognized on an accrual basis and to the extent and manner in which the economic benefits are acquired by the Group and respectively the Group. economic risks are borne, as well as the revenue can be reliably measured. The Group's revenue types are presented in the Appendices.

In sales of goods, goods and materials, revenue is recognized when all material risks and rewards of ownership pass through to the buyer.

In the provision of services, revenue is recognized by taking into account the stage of completion of the transaction at the end of the reporting period if this stage can be measured reliably, as well as transaction costs and closing costs.

Revenue is measured on the basis of the fair value of the goods, goods and services sold, net of indirect taxes (excise and value added tax), discounts and rebates.

Positive and negative exchange rate differences related to cash, trade receivables and payables denominated in foreign currency are included in the consolidated statement of comprehensive income (in profit or loss for the year).

Financial income is included in the consolidated statement of comprehensive income when incurred and consists of: interest income on loans granted and term deposits, interest income on receivables under special contracts, income from interest on arrears, income / gains from transactions with investments in available-for-sale securities, incl. dividends, net foreign exchange gains on foreign currency loans, 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. They are presented separately from the financial expenses on the face of the consolidated statement of comprehensive income.

## 2.7 Expenses

Expenses in the Group are recognized at the time they are incurred and based on the principles of accrual and comparability (to the extent that it would not result in the recognition of an asset or liability that does not meet the definitions of assets and liabilities in the Common (Conceptual) the IFRSs themselves).

Deferred expense is deferred for recognition as current expense for the period in which the contracts to which it relates are performed.

Losses arising from the revaluation of investment property to fair value are presented in the consolidated statement of comprehensive income (in profit or loss for the year) in the line "Other operating income / (loss)".

Financial expenses are included in the consolidated statement of comprehensive income when they arise separately from financial income and consist of: interest expense on borrowings, bank charges on loans and guarantees, net foreign exchange losses on foreign currency loans, costs / losses on transactions in available-for-sale securities, debt service transaction costs, loss from fair value measurement of available-for-sale investments that are part of the phased acquisition of ashterno company.

## 2.8 Property, plant and equipment

Property, plant and equipment (fixed tangible assets) are presented in the consolidated 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 Group 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 Group 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.

## 2.9 Intangible assets

#### **Goodwill**

Goodwill is the excess of the cost of the acquisition (remuneration) over the fair value of the Group's share of the net identifiable assets of the acquiree at the acquisition date (business combination). In the consolidated financial statements, it is initially measured at cost (cost) and subsequently at cost less accumulated impairment losses. Reputation is not amortized.

Goodwill arising on the acquisition of a subsidiary is presented in the consolidated statement of financial position of the "intangible assets" group, and that arising from the acquisition of joint and associate companies (enterprises) is incorporated in the total value of the investment and is indicated in the group "Investments in joint ventures" or "investments in associates" respectively.

The goodwill for the acquisition of joint ventures and associates (enterprises) is tested as part of the total balance (value) of the investment. Self-recognized goodwill on the acquisition of subsidiaries (enterprises) is tested for impairment at least annually. Impairment losses on goodwill are not reversed. Gains or losses on disposal (disposal) of a subsidiary (group) of the Group also include the carrying amount of goodwill, the deductible for the (released) company.

Reputation is allocated to Cash Generating Units (CGUs) for testing for impairment. Reputation is shared between those (CGUs) expected to benefit from the synergies of the associated business combination and represent the lowest level within the Group, to which management observes reputation.

CGU is defined as the smallest identifiable group of assets that generates cash receipts that are largely independent of the cash flows of other assets or group of assets. The CGUs are the companies in the group.

The recoverable amount (CGU) is based on the greater of its fair value less costs to sell and its value in use determined using the discounted cash flow method. When this value is less than its carrying amount, the impairment loss is recognized in operating income.

The impairment loss is recognized for the first time as an adjustment to the carrying amount of the goodwill allocated to (CGU) and the remainder of the loss, if any, is allocated proportionally to the other long-term assets of the unit.

Goodwill is not depreciated and subject to an impairment test at least annually by comparing its carrying amount with its recoverable amount at the closing date based on the actual December and the last three-year plan, or more frequently when the events or circumstances indicate that the balance value can not be restored. Such events and circumstances include, but are not limited to:

- significant deviation of the economic performance of the asset compared to the budget;
- significant deterioration of the asset's economic environment;
- loss of a big client;
- Significant increase in interest rates.

Impairment losses on goodwill are presented in the statement of comprehensive income (in profit or loss for the year) to the item "impairment of non-current assets".

#### **Other intangible assets**

Intangible assets are presented in the financial statements at cost (cost) less accumulated amortization and impairment losses.

The Company applies a straight-line method of amortization of intangible assets over a useful life of 2-10 years.

Initial valuation of tangible intangible assets upon acquisition is measured at acquisition cost, which includes the purchase price (including duties and non-recoverable taxes) and all direct costs of preparing the asset for its intended use.

Intangible assets are stated at cost (cost) less accumulated amortization and impairment losses. The intangible asset is stated at cost, less accumulated amortization and any accumulated impairment losses; or

The carrying amount of intangible assets is reviewed for impairment when there are events or changes in circumstances that indicate that the carrying amount could exceed their recoverable amount. Then the impairment is included as an expense in the statement of comprehensive income (in profit or loss for the year).

Expenditure on research (or in a research phase on an internal project) is recognized as an expense when incurred.

Costs that can be assigned directly to the development phase of an intangible asset are capitalized if they meet the following criteria:

- The completion of the intangible asset is technically feasible so that it is available for use or sale;
- The Company intends to terminate the intangible asset and use it or sell it;
- The Company has the possibility to use or sell the intangible asset;
- The intangible asset will generate probable future economic benefits. In addition, there is a market for the production of the intangible asset or for the intangible asset itself, or if it is used in the Company's business, it will generate economic benefits;
- Appropriate technical, financial and other resources are available to complete the development and use or sale of the intangible asset;
- Expenses relating to the intangible asset during its development can be measured reliably.

Expenses for the development of intangible assets that do not meet these capitalization criteria are recognized at the time they are incurred.

Intangible assets are written off from the statement of financial position when they are permanently out of use and no future economic benefits are expected or sold. Gains or losses on sales of individual assets in the "intangible assets" group are determined by comparing proceeds from the sale and the carrying amount of the asset at the date of sale.

## 2.10 Investment property

According to the accounting policy adopted by the parent company Sirma Group Holding JSC, investment properties are those properties which are held by the company for long-term rental income and / or because of the internal increase in their value. Where applicable, they are presented in the statement of financial position at their depreciation cost.

Investment property (where applicable) is written off from the statement of financial position when it is permanently withdrawn from use and no future economic benefits are expected or sold. Gains or losses on sales of individual assets in the investment property group are determined by comparing the sale proceeds and the carrying amount of the asset at the date of sale. They are stated net to "other operating income / (loss), net" in the statement of comprehensive income (in profit or loss for the year).

Transfers to and from the "investment property" group (where applicable) are made when there is a change in the functional purpose and purpose of a property. In the case of a transfer from "investment property" to "property for use in its own business", the asset is recorded in its new group at a historical cost that represents its depreciation at the date of the transfer. Conversely, when there is a transfer to "investment property" from "property to use in own business", the asset is measured at amortized cost at the date of the transfer.

## 2.11 Investments in subsidiaries and associates

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

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

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

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

## 2.12 Available-for-sale investments

According to the accounting policy adopted by the parent company Sirma Group Holding JSC, investments in the form of available-for-sale financial assets (where applicable) are non-derivative financial assets representing shares in other companies' equity (minority interest ) held in a long-term perspective.

### Initial measurement



Under the accounting policy adopted by the parent company Sirma Group Holding JSC and the Group, the investments (financial assets) available for sale are initially recognized at cost, which is the fair value of the consideration paid, including direct acquisition cost of the investment (the financial asset).

## 2.13 Inventories

According to the accounting policy adopted by the parent company Sirma Group Holding JSC, the inventories (where applicable) are measured in the financial statements as follows:

- materials and goods - at the lower of: the cost of delivery (cost) and the net realizable value;
- unfinished production - at the lower of: production cost and net realizable value;

The costs incurred to bring a product from inventory to its current state and location are included in the acquisition cost as follows:

- Materials and merchandise - all delivery costs, which include the purchase price, import duties and taxes, transportation costs, non-refundable taxes and other costs that contribute to bringing the materials and goods into ready-to-use / selling type;
- unfinished production - all necessary production costs that form the cost of production, including direct costs of materials and labor, and deducting part of the total cost of production (variable and fixed), excluding administrative costs, exchange differences and borrowing costs financial resources.

**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 rate of man's hours of the directly employed personnel in the production of the particular product.**

In the use (insertion and sale) of inventories, they are written off using the weighted average method (cost).

Net realizable value is the estimated selling price of an asset in the normal course of business less the estimated costs of completing the asset in its commercial form and the estimated cost of realization.

## 2.14 Trade and other receivables

Trade receivables are presented and reported at fair value based on the value of the original invoice (cost) less the amount of impairment for uncollectible amounts. 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 receivables are initially measured at their fair value and subsequently - at amortized cost, net of the embedded in their nominal value, an interest rate determined by the effective interest method.

Estimates of losses on doubtful and uncollectible claims are made 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. Impairment of receivables is accounted for by the corresponding corrective account for each type of receivable under the item "other expenses" on the face of the statement of comprehensive income (in profit or loss for the year).

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

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

## 2.16 Cash and cash equivalents

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

For the purposes of the individual statement of cash flows:

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

## 2.17 Trade and other payables

Trade and other current liabilities are stated at the cost of the original invoices (cost) or the value of the accrued revenue, 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 period (where applicable) where no additional interest payment or interest is foreseen is significantly different from the usual market rate, the liabilities are initially measured at their fair value and subsequently amortized value after deducting the interest accrued at their nominal value, determined using the effective interest method.

## 2.18 Interest-bearing loans and other borrowings

All loans and other borrowed financial resources are initially recognized at cost (nominal amount), which is considered 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 at amortized cost determined using the effective interest method. The depreciable value is calculated by taking into account all types of fees, commissions and other costs, incl. discount or premium associated with these loans. Gains and losses are recognized in the statement of comprehensive income (in profit or loss for the year) as financial expense (interest) or income over the amortization period, or when the liabilities are derecognized or reduced.

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

## 2.19 Capitalisation of borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (where applicable) are capitalized as part of the cost of that asset. A qualifying asset is an asset that necessarily requires at least a 12-month period to make it ready for its intended use or sale.

The amount of borrowing costs that can be capitalized in the value of a qualifying asset is determined by the coefficient / norm / of capitalization. The capitalization ratio is the weighted average of borrowing costs attributable to the Company's outstanding loans during the period, except for loans specifically made for the acquisition of a qualifying asset.

Capitalization of borrowing costs as part of the value of a qualifying asset begins when the following conditions are met: asset costs are incurred, borrowing costs are incurred, and activities are required to prepare the asset for its intended use or sale.

Borrowing costs are also reduced by any investment income from the temporary investment of the funds from these loans.

## 2.20 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.

## 2.21 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.

The premium reserve is formed by the positive difference between the issue price and the nominal value of the issued shares of a company.

## 2.23 Financial instruments

### Financial assets

According to the accounting policy adopted by the parent company Sirma Group Holding JSC, 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 2017 is 10 % (2016: 10%).*

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

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

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

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

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

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

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

As of 31.03.2018 the deferred taxes on the profit of the company are valued at a rate of 10% (31.03.2017: 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.

**The specifics of Ontotext - the funding from European research programs due to the specifics of the subject of activity are recognized as income from services in the statement of comprehensive income of the company.**

**Subsidies for research in income statements are not referred to as funding.**

## 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 Group 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 Group 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 Group 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 it 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 Group's accounting policies. Key estimates and assumptions of high uncertainty.

### Inventories

#### *Allowance for impairment*

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

### Actuarial calculations

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

### Impairment of investments in subsidiaries

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

### Operating lease

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

### Impairment of receivables

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

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

### 2.29 Deferred tax assets

All deferred tax assets are recognized.

### 2.30 Litigation provisions

The Group has no provisions for lawsuits.