

STARA PLANINA HOLD PLC

ACCOUNTING POLICY AND EXPLANATORY NOTES

TO THE 4Q 2014 FINANCIAL STATEMENTS

DESCRIPTION OF BUSINESS

STARA PLANINA HOLD PLC is a successor of Central Privatization Fund AD. The company was formed in Bulgaria on 27.09.1996 for an unlimited duration. On 19.12.1997 Central Privatization Fund AD was renamed to Central Fund Hold AD, and since 30.01.1999 the company has been existed under its current name.

Stara Planina Hold Plc is registered in the Commercial Register at the Registry Agency. UI Code 121227995.

The company is not registered under the VAT Act.

The seat and the registered address are in the city of Sofia, Izgrev district, 20 Frederic Joliot-Curie, 9th floor; telephone/fax: 02/9634159; 9630577; 9633754; e-mail: office@sphold.com, website: www.sphold.com

The capital of Stara Planina Hold Plc is 21,000,000 (twenty-one million) leva divided into 21,000,000 (twenty-one million) common registered shares of one lev face value each.

The management body of the company is the Board of Directors with the following composition:

- Evgeniy Vasilev Uzunov – Chairman of the Board of Directors and representative of the company;

- Vasil Georgiev Velev – executive member of the Board of Directors and representative of the company;

- Finance Invest OOD, town of Plovdiv, UIC 115016144, represented for the purpose of performing its obligations as a member of the Board of Directors by the legal representative Spas Borisov Videv;

- Stefan Atanasov Nikolov – member of the Board of Directors.

The scope of business activity of the holding shall be as follows: acquisition, management, evaluation and sale of share participations in Bulgarian and foreign companies; acquisition, management and sale of bonds, evaluation and sale of patents, transfer of licenses for use of patents, belonging to companies, in which the holding public limited company has participation; financing of companies, in which the holding public limited company has participation; other commercial transactions, except those prohibited by law.

ACCOUNTING POLICY

Under Bulgarian effective accounting regulations, since the beginning of 2003, Stara Planina Hold Plc has been applying the International Financial Reporting Standards. These annual financial statements are prepared in accordance with the International Financial Reporting Standards, as they are approved by the European Union. The company applied the accounting policy, which it applied for the preparation of the financial statements for 2013 too.

At the time of presentation of these financial statements, the company has not prepared consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) for the company and its subsidiaries (collectively referred to as the "Group") as it is required by IFRS 10: Consolidated Financial Statements.

To be able to gain a complete picture of the financial position, the results of the activity and changes in the financial position of the group as a whole, the users of these unconsolidated financial statements need to read it together with the consolidated financial statements of the group as soon as it is presented.

When organizing the accounting for business transactions, the company has complied with the fundamental principles laid down in Art 4 of the Accountancy Act and the requirements of the International Accounting Standards in the individual chart of accounts and the individual accounting policy of the enterprise. An individual chart of accounts is created for the organization of accounting. The finalization of accounts is made only at the end of the financial year, coinciding with the calendar year, in accordance with the Accounting Act. The annual financial statements are drawn up after the preparation of the annual tax return and the assessment of taxes due for the reported period. Then the final financial results of the company are found.

The accounting is carried out using specialized accounting software called Business Navigator.

NOTES ON THE STATEMENT OF FINANCIAL POSITION

Note 1

The tangible fixed assets must meet the criteria for tangible fixed assets under IAS 16. They are initially measured at acquisition cost, which includes the purchase price (including tariffs and non-refundable taxes and VAT without the right to tax credit) and all direct costs incurred to bring the asset ready for use (working) condition in accordance with its purpose. The company has set a threshold of significance for 2014 in the amount of BGN 700.

After initial recognition, each tangible fixed asset acquired by the enterprise is evaluated by applying the recommended approach, regulated by IAS 16, i.e. at acquisition cost less the accrued depreciation and the accumulated impairment losses. At the date of the report, the company has not found any indication of impairment of tangible fixed assets and this is not done.

The depreciation of tangible fixed assets is accrued by consistently applying the straight-line method. The following rules are applied for groups of assets which the company owns: Fixtures and fittings: 15% Computers: 50%.

Note 2

Participation of Stara Planina Hold PLC in subsidiaries and associates is reported in compliance with the provisions and requirements of IFRS 10: Consolidated Financial Statements and IAS 28: Investments in Associates and Joint Ventures.

Subsidiaries are all entities which are under the control of the Company. Control over the Company's subsidiaries comprises Company's ability to manage and define the financial and operative policy of the subsidiaries so as to derive benefit from their operation. In the individual financial statement of the Company investments in subsidiaries are accounted for at their original cost.

The Company recognizes dividend from a subsidiary in the profit or loss in its individual financial statements upon establishing the right of that subsidiary to receive the dividend.

Associates are the entities over which the Company has significant influence but which are neither subsidiaries, nor jointly controlled entities. Investments in associates are accounted for under the original cost method. The Company recognizes dividend from an associate in the profit or loss in its individual financial statements upon establishing the right of that associate to receive the dividend.

Data on subsidiaries and associates as of the current period with respect to name, seat, size of investment, fair value of tradable shares and the percentage participation are described in a separate summary to the financial statement.

Note 3

The book entry Investments in other companies includes long-term contribution to the capital of enterprises reported under IAS 39: Financial instruments: Recognition and measurement. Participations are initially recorded at their acquisition cost and are classified as financial assets available for sale. Currently, there are 4 such companies: ZAD Asset Insurance Jsc , Leasing Company Jsc, whose shares are not traded on the stock exchange and no revaluation has been carried out due to the lack of credible price information; Ptitsi i ptichi produkti Jsc and Forsan Bulgaria Jsc – entities which do not conduct commercial operations.

The data at the end of the current period in terms of name, registered office and investment amount and percentage share are presented in a separate statement to the financial statements.

Note 4

The book entry Long-term receivables include additional cash contributions paid to Forsan Bulgaria Ltd – BGN 24,000

The receivables are recorded in the nominal value at the time of occurrence. At the end of the reporting period, there is no evidence of impairment of receivables and such is not done.

Note 5

The book entry Receivables from related parties lists all outstanding balances with related persons. The receivables are recorded in the nominal value at the time of occurrence. At the end of the reporting period, there is no evidence of impairment of receivables and such is not done.

Scope and nature of estimates:

The amount of the outstanding estimated to 31.12.2014 is formed by loan granted to Fazan Plc in the amount of BGN 760 thousand And interest on loans in the amount of BGN 72,000.

Note 6

The sum of BGN 1,475,000 in the book entry Receivables from granted trade loans is formed by short-term loans granted to the Leasing Company Jsc – BGN 1,100,000 and Fazan-I Ltd – BGN 375,000.

Note 7

The book entry 'Other' receivables lists receivables from interest on granted commercial loans in the amount of BGN 202,000 and accrued interest on bank deposit– BGN 31,000.

Note 8

The financial assets are purchased shares of a mutual fund – Raiffeisen Asset Management Fund Liquidity-BGN 505,000. They were classified as assets held for trading and were revalued as of 31.12.2014.

Note 9

Cash in BGN is valued at its nominal value. Foreign currency transactions are recorded in BGN and foreign currency in its initial accounting coverage. The central exchange rate applicable at the date of the transaction is recorded to the amount in foreign currency. Cash in foreign currency is revaluated according to the adopted accounting policy on a quarterly basis at the exchange rate of the Bulgarian National Bank. Cash in foreign currency for current use is measured at the central rate on the day of transaction. Exchange rate differences arising on payment are recorded as financial expense or income in the period they incurred.

As of 31.12.2014 the available cash in the treasury of the company is 2 thousand BGN. In bank accounts, the company has the following amounts: a current account in BGN – 226 thousand BGN and deposit accounts – 5 964 thousand BGN.

The book entry Prepaid expenses lists prepaid subscriptions to publications and medical care for 2015 in the total amount of 5 thousand BGN.

Note 11

According to the data obtained from the Central Depository Stara Planina Hold Plc has 80 shareholders legal entities (60.5%) and 22844 individuals (39.5%).

Note 12

Stara Planina Hold Plc has 221,265 own shares, representing 1.05% of the capital of the holding.

Note 13

The book entry Reserves presents general reserves, resulting from a distribution of profits in periods and derecognition of liabilities for payment of dividend barred as follows:

Reserve	Amount (BGN'000s)
Reserve fund from unredeemed dividends	795
Reserve fund from the profit	8 707
Reductions from repurchase of own shares	-215
Total:	9 287

Note 14

Part of the profit for 2013 amounted to BGN 1,018 thousand was distributed as a dividend and the remainder is allocated to retained earnings of the Company, pursuant to a decision of the General Meeting.

The net financial result for the period was a profit of BGN 2 622 thousand.

Note 15

The book entry Liabilities for dividends presents liabilities to shareholders - physical and legal persons - for payment of dividends for the period 2009 - 2013, a total of BGN 640 thousand.

Note 16

The book entry Payables to employees presents accrued unused annual leave of staff – BGN 1,000 and social security contributions –BGN 4, 000.

Note 17

The book entry Tax presents income tax a total of BGN 9,000 and tax on expenses – BGN 2,000.

NOTES ON THE STATEMENT OF COMPREHENSIVE INCOME

Note 18

The income from dividends is from accrued dividends:

M+S Hydraulic Plc – 2,213,000

Hydraulic Elements & Systems Plc – BGN 685,000

Elhim-Iskra Plc – 258,000

Leasing Company Jsc – 10,000

Note 19

The income from investment operations is from revaluation and sales of shares in:

- Mutual fund - Concord Asset Management Fund-6 Money – sales – BGN 2, 000 and revaluation BGN 3, 000.

- Raiffeisen Asset Management Fund Liquidity – sales – BGN 2, 000 and revaluation BGN 9,000.

Expenses in the amount of 18,000 BGN are formed by the sale of the shares in our subsidiary Patstroy Engineering Jsc.

Note 20

Interest income and expense is allocated as follows:

- Interest income on loans BGN 184,000

- Interest income on deposits BGN 68,000

Note 21

The costs for materials in the amount of 16 thousand BGN with VAT are for the purchase of stationery, office equipment supplies, sanitary materials and specialized literature.

Services: subscriptions to periodicals, network support and Internet access, technical services related to maintenance of equipment, publications in mass media, charges of government institutions, commissions, payment of dividends, rent, other services related to the maintenance of the office. For the current period, they are worth BGN 121,000 with VAT.

The costs for salaries of management and employees appointed under employment contracts in the reporting period are in the amount of BGN 571,000, of which BGN 408,000 for the managerial bodies and BGN 163,000 for the employees appointed under employment contracts. On the paid sums, Stara Planina Hold Plc accrued charges for contributions to public social security funds, health insurance, additional pensions and Fund securing receivables of employees in the amount of BGN 28,000.

The book entry Others from the operating expenses reports a total of BGN 57,000 including: social and entertainment expenses for the business – BGN 16,000; medical costs – BGN 4,000, seminars – BGN 11,000, membership fees in NGOs – BGN 7,000, donation in amount of BGN 9,000 as follows: for organizing prom to the administration of President – BGN 1,000, The Serbian Embassy in Bulgaria in favor of flood victims in Serbia –BGN 2,000, BCAF - in favor of flood victims in Varna –BGN 2,000, Forum Bulgaria-Russia - BGN 2,000, Union of inventors – BGN 1, 000, Bulgarian Christmas – BGN 1,000 and other expenses in the amount of BGN 10, 000.

Chief Accountant: Kremena Dulgerova

Executive Director: Vasil Velev