

BULGARIAN ROSE PLC - KARLOVO

ACCOUNTING POLICY AND EXPLANATORY NOTES to the financial statement as of 30.09.2016

1. ESTABLISHMENT AND REGISTRATION

Bulgarian Rose Plc – Karlovo was registered in the Trade Register of the Plovdiv District Court on 20.08.1997 under company file No. 4115/1997. The company was registered with capital 267 549 BGN and tier system of management with a Board of Directors consisting of four members as follows:

1. STARA PLANINA HOLD PLC, Sofia – member of the Board of Directors, represented by Spas Borisov Videv – Executive Director
2. BIC HOLD LTD., Sofia – Chairman of the Board of Directors, represented by Evgenii Vasilev Uzunov
3. LEASING COMPANY AD, Sofia – member of the Board of Directors, represented by Vasil Georgiev Velev

Subject of activity of Bulgarian Rose Plc: production, purchasing, processing of essential oils and medicinal raw materials, production of natural and synthetic aromatic products, internal and foreign trade.

The Company has been formed for an indefinite period.

During the reporting period the company has realized 99,05% of its revenue from main activity - essential oil and perfume and cosmetic products.

The average number of the personnel for the third quarter of 2016 was 98 employees.

2. ACCOUNTING POLICY

2.1. Basis of preparation of financial statements

Bulgarian Rose Plc keeps its current accounts and prepares its financial statements in accordance with all international financial reporting standards (IFRS) as adopted by the International Financial Reporting Standards Board (IASB), which consists of: International Financial Reporting Standards, International Accounting Standards and Interpretations provided by the Interpretation Committee International Financial Reporting Standards (IFRIC). The Company has complied with all standards and interpretations that are applicable to its operations at the date of preparation of these financial statements.

Since the adoption of these standards and/or interpretations, effective for annual periods beginning on 01.01.2014 there were not any changes in accounting policies of the company.

For the current financial year, the Company has adopted all the new and/or revised standards, interpretations and improvements to International Financial Reporting Standards by the International Accounting Standards Board which are relevant to its operations.

The Company is obliged to report its ongoing activities and to prepare its annual financial statements in accordance with Bulgarian accounting legislation. Bulgarska rosa Plc is a public company and prepare its interim financial statements under IFRS 34, which submit to the FSC, BSE and the public.

The statement of financial position and statement of comprehensive income are prepared in accordance with the hypotheses on accrual basis and going concern.

This report is composed in thousand BGN.

Accounting is done with a software product Ajour L 5.

2.2. Changes in accounting policy and comparable data

During the reporting period, the accounting policy has not been changed.

Company presents comparative information in its financial statements for one prior year.

Where it is necessary, comparative data is reclassified (and re calculated) to achieve better comparability with the data for 2015.

2.3. Use of estimates and assumptions

The preparation of financial statements under International Financial Reporting Standards requires management to make certain accounting estimates and assumptions relating to the reported balance sheet assets and liabilities and recognized income and expense – as depreciation, impairment and other. The actual results may differ from accounting estimates presented in the report. Estimates and assumptions are reviewed annually on 31 December and results are recognized in the period to which they relate.

The Company presents comparative data in this report for the prior year.

2.4. Management of financial risks. Factors of financial risks.

The activity of the company is exposed to various financial risks, including the effects of currency fluctuations, interest rates on bank loans, liens against receivables and credit periods provided to clients.

2.4.1. Risk of exchange rate differences

The main sales are principally designed for export and payments are primarily in EUROS. The management strictly observes and takes measures to avoid negative effects of currency fluctuations.

2.4.2. Interest rates on trade and bank loans

For its current business, the Company uses its own funds.

2.4.3. Credit risks

The company is exposed to credit risk, which risk is associated with some of its partners may not be able to comply fully and in time with their obligations to it.

The company provides credit periods of its bigger clients from one week to 90 days. In turn the company uses credit periods within 30 days provided by its suppliers.

The Company's financial assets are concentrated in two groups: cash and receivables from customers.

The Company's cash and settlement operations are concentrated in INTERNATIONAL ASSET BANK. The management believes that there is no risk, as the servicing bank has sufficient liquidity.

2.4.4. Liquidity

The Company's management keeps sufficient available cash to provide constant liquidity.

2.5. A definition and assessment of the elements of the statement of financial position

2.5.1. The tangible fixed assets are reported in the statement of financial position at cost formed from the purchase value and additional costs incurred for the acquisition and reduced by an accumulated depreciation and any recognized impairment. The Company has adopted a threshold value of 500 BGN for determining an asset as fixed asset.

2.5.2. The fixed intangible assets are measured at their acquisition cost reduced by an accumulated depreciation and any recognized impairment. Intangible assets are mainly the company trademarks.

2.5.3. Impairment of tangible and intangible assets

As of 30.09.2016 an impairment of the aforementioned is not performed because there are no indications and permanent conditions for impairment.

2.5.4. Depreciation of fixed tangible and intangible assets

Depreciation shall be charged each month as per a linear method. For groups of assets have been applied rules corresponding to the tax deductible depreciation rates.

Tax depreciation plan has been composed in accordance with the Law for Corporate Income Tax.

In cases where of a non-current asset is made reconstruction or alternation, its individual depreciation schedule changes after the costs incurred are recorded as an increase in its balance sheet value.

In 2016 for accounting purposes were applied the following depreciation rates:

BULGARIAN ROSE PLC - KARLOVO

• Buildings	4 %
• Facilities	30 %
• Machinery and equipment	30 %
• Vehicles	10 %
• Computers	50%
• Intangible assets	15%
• Others	15%

2.5.5. Inventories

Inventories were reported at acquisition costs, determined from the purchase price plus all direct costs for delivery to the plant, which have resulted in a condition for use.

The cost of production shall be determined by the value of the materials employed, processing costs and other expenses related to the corresponding production. The cost of production output does not include any administrative, financial, exceptional costs and selling expenses. These costs are reported as current for the period they were made.

Unfinished production is reported under actual cost, to the extent of its completion.

During the reporting period the inventories when they have been written-off it was applied the recommended method – weighted average price after each delivery.

At the end of the reporting period it has not been carried out an impairment of inventories, because their book value is not higher than their net realizable value.

2.5.6. Commercial and other receivables

Receivables are classified as financial assets arising from direct provision of goods, services, cash or cash equivalents /commercial receivables or loans/.

Receivables with fixed maturity are measured at their depreciation value.

Receivables without fixed maturity are measured at their prime cost.

Prepaid expenses relating to subsequent periods are presented as amounts paid in advance to suppliers and are included in commercial receivables.

Receivables in BGN have been assessed in value of their occurrence, and those denominated in a foreign currency have been revalued at the closing rate of the BNB as of 30.09.2016 and the revaluation differences have been recorded as a current income or expense in the income statement. Devaluation has not been done, as the same are with current nature.

2.5.7. Cash and cash equivalents

Cash equivalents include cash and demand deposits, respectively in BGN and foreign currency.

Cash equivalents in BGN are measured at their nominal value. When acquiring foreign currency it is adopted to apply the exchange rates of the BNB as of the date of their receipt. Exchange rate differences which have occurred during the year and the year-end are recorded as current expenses/revenues. In the individual statement of financial position it shall be presented at the closing exchange rate of the BNB as of 30.09.2016.

2.5.8. Share capital is presented at a nominal value and corresponds to its current legal registration. As of 30.09.2016 fully paid-up share capital is 5 350 980 BGN and is divided into 5 350 980 registered shares with a par value 1.00 BGN. The main shareholders of the company are:

STARA PLANINA HOLD PLC, having	49,99% of the capital;
GARANT - 5 Ltd., having	32,94% of the capital

2.5.9. Revaluation reserve

The revaluation reserve in the individual statement of financial position of the company it has been presented the result of the previous year revaluations to fair value of the non-tangible assets owned by the company. A revaluation reserve is recognized in equity (undistributed profit or additional reserves) after release of the asset. In the company as of 30.09.2016 there has not been carried out an assessment of immovable properties – land and buildings.

2.5.10 Liabilities in BGN have been measured at value of their occurrence, while those denominated in foreign currency at the closing rate of BNB 30.09.2016.

2.6. Recognition of revenues and expenditures

Revenues for each transaction should be recognized simultaneously with costs made for them. Otherwise they are recorded as advance or as revenue for a future period until to the moment they can be reliably calculated.

Revenue is not recognized when the expenses cannot be reliably calculated. Under these circumstances, any received payments are recognized as a liability (customer's advance).

When there is uncertainty in the collection of an amount which has already been included in the revenue, the uncollectable amount is recognized as an expense rather than an adjustment to the amount of revenue originally recognized.

Upon the sale of goods, revenue is recognized when all significant risks and rewards of ownership of goods undergo to the buyer.

When providing services, revenue is recognized by the stage of completion of the transaction at the date of the statement of financial position (balance sheet) if at this stage can be measured reliably as well as costs incurred in the transaction and costs for their completion.

Revenues in a foreign currency are recorded at the BNB exchange rate at the date of their accrual.

An entity reports operating **expenses** by economic elements and then applies by function to form the amount of costs for activities and directions.

Expenditures are recognized when they occur and on the basis of the accrual and matching concepts.

Expenditures for future periods are deferred for recognition as current expenses in the period in which the contracts to which they relate shall be performed. Till then they are presented as advances paid to suppliers in the category of current assets.

Financial revenues and expenses are included in the income statement on a net basis and consist of interest income and expenses, exchange differences arising from foreign exchange transactions, fees and commissions paid to banks.

2.7. Taxation

Income tax was charged in accordance with the Bulgarian legislation. The Company accrues an advance of income tax, which for 2016 is 10% calculated on the basis of taxable profit for 2016. The advance tax is defined and calculated in accordance with the provisions of the Law on Corporate Income Tax.

3. Non-current assets

3.1 Tangible assets

Tangible assets at cost, accumulated depreciation and net book value of assets to similar groups are:

BGN'000

Text	Lands	Buildings	Machinery, equipment	Facilities	Vehicles	Other	Total
Accounting value							
As of 01.01.2016	1018	2138	2206	631	422	324	6739
Acquired	-	31	-	-	1	37	69
Subsequent evaluation	-	-	-	-	-	-	-
Written off	-	-	-	-	63	38	101
As of 30.09.2016	1018	2169	2206	631	360	323	6707
Accumulated depreciation							
As of 01.01.2016	10	982	1975	489	341	62	3859
Charged	-	112	119	15	14	10	270
Subsequent evaluation	-	-	-	-	-	-	-
Written off	-	-	-	-	61	-	61

As of 30.09.2016	10	1094	2094	504	294	72	4068
Balance sheet value 30.09.2016	1008	1075	112	127	66	251	2639

As of 30.09.2016 in Bulgarian Rose Plc were made expenses for acquiring fixed assets – 185 thousand BGN. Progressively are being entered into operation fixed assets in accordance with the adopted investment program for 2016

3.2 Intangible assets

As of 30.09.2016 the company owns intangible assets amounting to 88 thousand BGN, which the majority is primarily trademarks.

4. Current assets

	<u>30.09.2016</u>	<u>BGN'000</u> <u>30.09.2015</u>
4.1 Trade and other receivables		
- Receivables from customers in Bulgaria	735	1210
- Receivables from customers abroad	523	350
- TOTAL	1258	1560

Receivables from customers shall be extinguished on a time frame defined with contracts to supply of products.

	<u>30.06.2016</u>	<u>BGN'000</u> <u>30.09.2015</u>
4.2 Other receivables		
They are current and have the following nature		
- Tax credit for VAT recovery	1	1
- Other /current/	136	139
- TOTAL	137	140

	<u>30.09.2016</u>	<u>BGN'000</u> <u>30.09.2015</u>
4.3 Cash and cash equivalents		
- Cash	642	348
- Cash at banks in national and foreign currency	1220	502
- TOTAL	1862	850

5. Current liabilities

	<u>30.09.2016</u>	<u>BGN'000</u> <u>30.09.2015</u>
5.1 Trade payables		
- Suppliers	866	490
- Advances to customers	38	44
- Related parties	71	267
- Other liabilities	2	2
- TOTAL	977	803

	<u>30.09.2016</u>	<u>BGN'000</u> <u>30.09.2015</u>
5.2 Liabilities related to remuneration		
- Liabilities to the personnel	15	2

- Social security liabilities	21	29
- TOTAL	36	31

	BGN'000	
	<u>30.09.2016</u>	<u>30.09.2015</u>
5.3 Tax liabilities		
- Liabilities to the budget	3	38
- TOTAL	3	38

	BGN'000	
	<u>30.09.2016</u>	<u>30.09.2015</u>
5.4 Other liabilities		
- Deductions from wages (DDF)	4	1
- Other	192	274
- TOTAL	196	275

These obligations shall be redeemed according to contracts and legal terms.

6. Non-current liabilities

As of 30.09.2016, the company has leasing obligations amounting to 20 thousand BGN

7. Equity

	BGN'000	
	<u>30.09.2016</u>	<u>30.09.2015</u>
7.1 Equity and reserves		
- Issued capital	5351	5351
- Reserve from revaluation	137	139
- General reserves	1242	1242
- Other reserves	26	18
- TOTAL	67576	6750

	BGN'000	
	<u>30.09.2016</u>	<u>30.09.2015</u>
7.2 Undistributed profit		
	179	22

	BGN'000	
	<u>30.09.2016</u>	<u>30.09.2015</u>
7.3 Financial result		
- Profit/Loss	576	442

8. Revenues from operating activities

	BGN'000	
	<u>30.09.2016</u>	<u>30.09.2015</u>
8.1. Operating revenues		
- Production	5225	4087
- Services	178	93
- Other	44	59
- TOTAL	5447	4239

	<u>30.09.2016</u>	<u>BGN'000</u> <u>30.09.2015</u>
8.2. Financial revenues		
- Positive exchange rate differences	---	12
- Revenues from financing	59	67
- TOTAL	59	79

9. Expenses

	<u>30.09.2016</u>	<u>BGN'000</u> <u>30.09.2015</u>
9.1. Operating expenses		
- Expenses for materials	3773	2655
- Expenses for external services	474	419
- Depreciation and amortization	286	242
- Expenses for wages	872	734
- Social security expenses	124	108
- Other expenses	72	90
- TOTAL	5601	4248

	<u>30.09.2016</u>	<u>BGN'000</u> <u>30.09.2015</u>
9.2. Amounts of corrective nature		
- Balance sheet value of sold assets excluding production	20	19
- Changes in availabilities of finished goods and unfinished production	-708	-408
- TOTAL	-688	389

	<u>30.09.2016</u>	<u>BGN'000</u> <u>30.09.2015</u>
9.3 Financial expenses		
- Expenses for interests	3	4
- Negative exchange differences	1	---
- Other financial expenses	13	12
- TOTAL	17	16

10. Income taxes

On the accounting financial result as of 30.09.2016, has not been accrued any taxes.

Main indicators

	30.09.2014	30.09.2015	30.09.2016
1. INDICATORS FOR PROFITABILITY			
1.1 PROFITABILITY OF THE SALES REVENUES	0.128	0.104	0.103
1.2 PROFITABILITY OF EQUITY	0.102	0.061	0.077
1.3 PROFITABILITY OF THE ATTRACTED CAPITAL	0.38	0.386	0.475
1.4 CAPITALIZATION OF THE ASSETS	0.075	0.051	0.065
2. INDICATORS FOR EFFECTIVENESS			
2.1 COST EFFECTIVENESS	1.145	1.114	1.117
2.2 EFFCETIVENESS OF REVENUES	0.873	0.898	0.895
3. INDICATORS FOR LIQUIDITY			
3.1 TOTAL LIQUIDITY	3.57	4.761	4.958
3.2 QUICK LIQUIDITY	1.661	2.224	2.686
3.3 IMMEDIATE LIQUIDITY	0.508	0.741	1.535
3.4 ABSOLUTE LIQUIDITY	0.508	0.741	1.535
4. FINANCIAL INDEPENDENCE			
4.1 SOLVENCY	3.717	6.29	6.192
4.2 INDEBTEDNESS	0.269	0.159	0.161
5. TURNOVER OF INVENTORIES			

5.1 TURNOVER IN DAYS	206.258	259.098	156.557
5.2 NUMBER OF TURNOVERS	1.745	1.389	2.299
5.3 EMPLOYMENT OF INVENTORIES	0.573	0.728	0.435

11. Related parties disclosures

In accordance with IAS 28 we disclose a significant impact in making decisions related to the financial and operating policies of the entity, as follows: STARA PLANINA HOLD PLC owns 49.99% of the company's capital and GARANT - 5 Ltd. holds 32.94% of the company's capital.

During the reported period transactions were not carried out at prices different from market.

12. Reporting of investments

As of 30.09.2016 the company does not possess any long-term investments.

13. Consolidated financial statements and reporting of investments in subsidiaries

The Company does not possess shares in the capital of another company more than 50% and does not in any other way control another company and therefore shall not prepare consolidated reports.

14. Events after the year end 12. Consolidated financial statements and reporting of investments in subsidiaries

There were no significant events after the preparation of the annual financial statement.

Chief Accountant: Stoyanka Nedelcheva

Executive Director: Spas Videv