



**SEPARATE ANNUAL MANAGEMENT REPORT  
SEPARATE FINANCIAL STATEMENTS  
INDEPENDENT AUDITOR'S REPORT**

**31 DECEMBER 2018**

**Unofficial translation from original  
separate financial statements in Bulgarian**

**Stomana Industry S.A.  
1, VladaiskoVastanie Str.  
2304 Pernik, Bulgaria  
BULSTAT 113509219**

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**BUSINESS DESCRIPTION**

Stomana Industry AD (the 'Company') is a joint stock company, incorporated in Bulgaria. The Company is a subsidiary of VIOHALCO S.A., a company registered in Belgium. These financial statements have been audited by KPMG Audit OOD.

Sidenor Steel Industry SA, Greece holds one share of the Company's share capital.

The Company's main activity is production and trade with steel products.

**BUSINESS OVERVIEW**

The Company's main activity is production and trade with steel products from ferrous metals. Stomana Industry AD is located in Pernik at the place of the first steel factory in Bulgaria. The Company is a leading manufacturer of steel in Bulgaria with strong position on domestic and international markets. Flat and long products produced as semi-finished products in the electrosteel plant are for the use of rolling production and for sale. One of the strengths of the Company is the production of a great variety of special alloy steel. The Company produces a wide range of products, including hot rolled steel plates from regular and high quality dioxide brands steel and wide range of low ledged, constructional steel materials for the machinery industry, ship-building industry, transport, caldron building and other industries. The varieties of rolling include a big range of hot stretched circles, angles, shvelers, rims, rail connections, lemesh, steel spheres and other special elements as well as wide range of rebars with various diameters from 8 to 40 mm, small profiles, angles and special rounds – all these products are produced with new high-technological computerized automation and up-to-date mechanical equipment responding to the international competitive environment.

In the current period the Company continued its operations as a production company in ferrous metallurgy. The major revenue share is from sale of production and expenses are mainly for materials. Following its strategy for export orientation and improvement and expansion of the production range, in its future development the Company will focus on the production and sales of long products with circular cross-section of special quality used in industrial sectors such as automotive industry, which requires steel with higher quality.

Stomana Industry AD is the only producer of steel using electric furnaces in Bulgaria. The Company has a significant experience in the production of steel and invests continuously in new equipment and production technology development. It aims at becoming one of the leading suppliers of special steel rings in Central and Eastern Europe.

The Company continuously invests in the most modern technologies to ensure competitiveness in the production of high quality products and provision of high standard services to meet the specific requirements of the clients. It will continue to apply in the future its system of quality assurance, which is fully tailored to the needs of modern steel industry.

**ANALYSIS OF THE FINANCIAL AND NON-FINANCIAL INDICATORS OF RESULTS FROM OPERATIONS**

Total decrease in the carrying amount of property, plant and equipment as at 31 December 2018 compared to 31 December 2017 amounts to BGN 4,604 thousand. The change is due to the charge of depreciation. Machinery and vehicles have the major relative share from the total carrying amount of property, plant and equipment. The Company continuously invests in assets for production, technological and environmental use in order to increase the volume of production and sales, to improve the quality of production and to protect environment.

The Company's inventory includes mainly finished production and goods, spare parts and raw materials. The change in inventory as at 31 December 2018 is material and represents an increase as compared to the respective amount as at 31 December 2017. The net increase of BGN 43,446 thousand is a result mostly of the increase of finished products by BGN 43,698 thousand.

The change of BGN 12,624 thousand in current assets, which at 31 December 2018 are at the carrying amount of BGN 287,668 thousand, is mainly due the increase of inventory compensated by the decrease in receivables from related and third parties.

#### **Equity and liabilities**

The change in equity is a result from the total comprehensive income, representing profit amounting to BGN 15,500 thousand in 2018.

There is no significant change in the defined retirement benefit obligations of the Company.

The increase of BGN 16,241 thousand of current liabilities, which at 31 December 2018 are at a carrying amount of BGN 231,507 thousand is mainly due to the increase of current portion of loans and liabilities to banks and finance institutions.

#### **Sales**

Revenue includes mainly sales of goods and finished production and in 2018 amounts to BGN 871,336 thousand (2017: BGN 743,637 thousand), which represents an increase with 17%.

#### **Expenses**

Expenses include:

- Cost of sales amounting to BGN 768,921 thousand in 2018 (2017: BGN 642,176 thousand);
- Selling and distribution expenses amounting to BGN 58,222 thousand in 2018 (2017: BGN 56,467 thousand);
- Administrative expenses amounting to BGN 9,866 thousand in 2018 (2017: BGN 8,366 thousand);
- Net finance costs amounting to BGN 19,051 thousand in 2018 (2017: BGN 20,940 thousand);
- Other income and expenses (net) amounting to BGN 1,431 thousand in 2018 (2017: expense BGN 0 thousand)

#### **Debt to equity ratio**

The Company's debt to equity ratio amounts to 2,85 as at 31 December 2018 (2017: 3,18).

#### **Current Ratio**

The current ratio (correlation between current assets and current liabilities) amounts to 1,24 as at 31 December 2018 (2017: 1,27).

**Personnel**

As at 31 December 2018 the Company has 1,064 employees (2017: 1,022).

In 2018 the members of the Board of Directors do not participate nor hold more than 25% of other companies.

In the reporting period the Company has paid remuneration to the members of the Board of Directors at the amount of BGN 391 thousand.

In the reporting period the members of the boards have not transferred Company shares and bonds.

**SUBSEQUENT EVENTS**

With effective date 25 February 2019 the company acquired the control and 100% of the share capital of the company Prosal Tubes EAD, Bulgaria, from the company Sidenor Steel Industry SA, Greece. The cost acquisition will be settled by offsetting receivables from Sidenor Steel Industry SA, Greece.

No other subsequent events, that require disclosures in the separate annual management report.

**POSSIBLE FUTURE DEVELOPMENT**

In the following years the Company will continue its operations as a production company in the ferrous metallurgy. The main revenue share are from sale of production and the expenses are mainly for raw materials.

**RESEARCH AND DEVELOPMENT ACTIVITIES**

The Company does not perform research and development activities.

**INFORMATION ON ACQUISITION OF OWN SHARES**

The Company does not acquire own shares during the current period.

**BRANCH NETWORK**

The Company does not have a branch network.

**FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

The Company has exposure to different risks from its use of financial instruments. The major financial risks are market risk, credit risk and liquidity risk.

Risk management is conducted by the Company's headquarters administration in collaboration with the Board of Directors. The priority of management is to ensure short-term and mid-term cash flows by reducing its exposure to the financial markets. Long-term financial investments are managed in view of a long-term return.

The Company does not trade actively with financial assets for speculative purposes, nor does it issue options.

As a result of its use of financial instruments, the Company is exposed to a market risk, i.e. to currency risk, interest rate risk and price risk, related to the Company's operating and investing activities. Most of the Company's transactions are performed in BGN. Foreign currency transactions are denominated predominantly in EUR and do not expose the Company to a significant currency risk.

The Company's policy aims at mitigating the interest rate risk on long-term financing. Therefore, some of the loans are with fixed interest rates.

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its obligations to the Company. The Company is exposed to credit risk in relation to different financial instruments e.g. loans to customers, receivables from customers, etc. Exposure to credit risk is limited to the carrying amount of the financial assets, recognized at the reporting date as follows:

	<b>2018</b>	<b>2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Groups of financial assets – carrying amounts:		
Trade receivables	76,145	113,451
Cash and cash equivalents, excluding cash in hand	16,894	13,691
<b>Carrying amount</b>	<b>93,039</b>	<b>127,142</b>

The Company regularly reviews the non-performance of the payables of its customers and other counterparties, individually or in groups, and uses the information to control the credit risk. When the expenses are not too high, the Company uses credit rating data from external sources and/or the financial statements of its customers and other counterparties. The Company's policy is to perform transactions only with counterparties with a high credit rating. Management considers that all of the above mentioned financial assets, which have not been impaired or are maturing in the financial periods presented, are with a high credit rating.

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations. The Company ensures that it can meet its liquidity needs by carefully monitoring the repayment schedules of long-term financial liabilities, as well as the cash inflows and outflows from operating activities.

Detailed information on the Company's exposure to price, credit, liquidity, credit and cash flow risk is included in Note 31 (Financial instruments) to the separate financial statements.

## **INVESTMENTS IN SUBSIDIARIES**

As of December 31, 2018 Stomana Industry AD participates in the capital of the Joint Stock Company Port Svishtov West AD as an owner of 73.09% of the shares.

As of December 31, 2018 Stomana Industry AD SA is a shareholder in Sidebalk Ltd., Belgrade and owns 100% of the shares of the company.

As of December 31, 2018 Stomana Industry AD SA is a shareholder in Jostdex Ltd, Cyprus and owns 100% of the shares of the Company.



## MANAGEMENT

The management of the Company does not plan any changes in the development of its principal activity in a short-term period.

The Company is managed by the Board of Directors consisting of the following members:

- Athanasios Yoanis Athanassopoulos
- Anton Kirilov Petrov
- Vasilios Papantoniou
- Stavros Theodoropoulos
- Nikolaos Mariou
- Elias Stassinopoulos

The members of the Board of Directors participate in other companies as follows:

### **Member of the Board of Directors**

Athanasios Yoanis Athanassopoulos

### **Participating in the following companies**

Domi-BG OOD  
Energy Solutions AD  
Lesko OOD  
Sigma-IS AD  
Port Svishtov West AD  
Sofia Med AD

Anton Kirilov Petrov

Esid Elektrodi EOOD  
Lesko EOOD  
Aeiforos Bulgaria EAD  
Prosal Tubes EAD  
Metalko Bulgaria EAD  
Sidma Bulgaria AD  
Sigma IS AD  
Port Svishtov West AD  
Siticonstructions AD  
Sanra EOOD

Vasileios Papantoniou

Etil SA, Greece

Stavros Theodoropoulos

Metalko Bulgaria EAD  
Aeiforos Bulgaria SA

Nikolaos Mariou

Aeiforos Bulgaria EAD  
Port Svishtov West AD  
Prosal Tubes EAD  
Sigma IS AD  
Praxis BG EAD

Elias Stassinopoulos

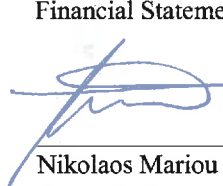
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## **MANAGEMENT RESPONSIBILITIES**

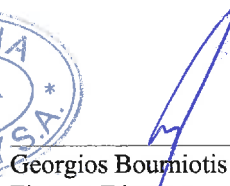
According to the Bulgarian Legislation the management shall prepare a Separate annual management report as well as financial statements for each financial year that shall give true and fair presentation of the financial position of the Company at the year end, for its financial results and cash flows according to the applicable accounting policy. The company is applying the International Financial Reporting Standards (IFRS) applicable in the European Union for the purposes of the Bulgarian accounting legislation. This responsibility includes: development, implementation and maintenance of internal control system related to the preparation and the true and fair presentation of the financial statements that are free from material misstatements whether due to error or fraud; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the given circumstances.

The Management confirms that it has acted according to their responsibilities and that the financial statements are prepared in compliance with International Financial Reporting Standards applicable in the European Union.

The Management also confirms that during the preparation of this report have presented in a true and fair way the development and the results of the company for the reporting year, as well as its status and main risk that the Company is facing. The management has authorized for issuing the Separate Activity report and the Separate Financial Statements for 2018.



Nikolaos Mariou  
General Manager  
26 March 2019



Georgios Boumiotis  
Finance Director  
26 March 2019



Sonia Mangeyna  
Chief Accountant  
26 March 2019





*In thousands of BGN*

		<u>As at 31 December</u>	
	<i>Note</i>	2018	2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	350,908	355,512
Intangible assets	9	626	491
Investments in subsidiaries	10	15,772	14,108
		<u>367,306</u>	<u>370,111</u>
<b>Current assets</b>			
Inventories	11	183,640	140,194
Trade and other receivables	12	87,134	121,157
Cash and cash equivalents	13	16,894	13,693
		<u>287,668</u>	<u>275,044</u>
<b>Total assets</b>		<u><b>654,974</b></u>	<u><b>645,155</b></u>
<b>Equity</b>			
Share capital	14	66,926	66,926
Other reserves	14	12,766	12,766
Retained earnings		90,282	74,782
		<u>169,974</u>	<u>154,474</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Bond loan from related parties	15	58,714	56,395
Trade payables to related parties	20	29,337	29,337
<i>Non-current liabilities to related parties</i>		<u>88,051</u>	<u>85,732</u>
Borrowings	15	156,346	181,374
Deferred tax liabilities	16	5,168	4,269
Government grants	18	788	921
Employee benefits	17	2,883	2,598
Provisions	19	257	521
<i>Non-current liabilities to third parties</i>		<u>165,442</u>	<u>189,683</u>
<b>Total non-current liabilities</b>		<u><b>253,493</b></u>	<u><b>275,415</b></u>
<b>Current liabilities</b>			
Trade and other payables	20	140,162	147,357
Borrowings	15	86,505	67,909
Contract liabilities	21	4,840	-
		<u>231,507</u>	<u>215,266</u>
<b>Total liabilities</b>		<u><b>485,000</b></u>	<u><b>490,681</b></u>
<b>Total equity and liabilities</b>		<u><b>654,974</b></u>	<u><b>645,155</b></u>


The notes on pages 5 to 49 are an integral part of these separate financial statements.

  
Nikolaos Mariou  
General Manager


  
Georgios Bourmatis  
Finance Director

  
Sonia Mangeyna  
Chief Accountant, Preparer

In accordance with an Independent Auditors' Report:  
KPMG Audit OOD

  
Ivan Andonov  
Authorised representative




  
Dobrina Kaloyanova  
Registered Auditor,  
responsible for the audit

*In thousands of BGN*

	Note	For the year ended 31 December	
		2018	2017
Revenue	21	871,336	743,637
Cost of sales	22	(768,921)	(642,176)
<b>Gross profit</b>		<b>102,415</b>	<b>101,461</b>
Selling and distribution expenses	23	(58,222)	(56,467)
Administrative expenses	24	(9,866)	(8,366)
Impairment loss on trade receivables		(225)	(11)
Other expenses	26	(4,849)	(3,881)
Other income	25	6,280	3,881
<b>Operating profit</b>		<b>35,533</b>	<b>36,617</b>
Finance income	28	181	27
Finance costs	28	(19,232)	(20,967)
<b>Net finance costs</b>		<b>(19,051)</b>	<b>(20,940)</b>
<b>Profit before income tax</b>		<b>16,482</b>	<b>15,677</b>
Income tax	29	(907)	(907)
<b>Profit for the year</b>		<b>15,575</b>	<b>14,770</b>
<b>Other comprehensive income</b>			
<i>Items that will never be reclassified to profit or loss:</i>			
Remeasurement of retirement benefit obligations	17	(83)	(244)
Related tax	29	8	24
<b>Other comprehensive income for the year, net of tax</b>		<b>(75)</b>	<b>(220)</b>
<b>Total comprehensive income for the year</b>		<b>15,500</b>	<b>14,550</b>


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Nikolaos Mariou  
General Manager




Georgios Bourniotis  
Finance Director

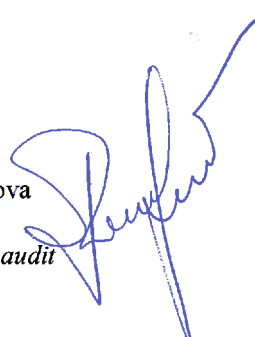


Sonia Mangeyna  
Chief Accountant, Preparer

In accordance with an Independent Auditors' Report:  
KPMG Audit OOD



Ivan Andonov  
Authorised representative


Dobrina Kaloyanova  
Registered Auditor,  
responsible for the audit



*In thousands of BGN*


	Share capital	Other reserves	Retained earnings	Total equity
<b>Balance at 1 January 2017</b>	66,926	12,766	60,232	139,924
<b>Comprehensive income</b>				
Profit for the year	-	-	14,770	14,770
<b>Other comprehensive income</b>				
Remeasurement of retirement benefit obligations	-	-	(220)	(220)
<b>Total comprehensive income</b>	-	-	14,550	14,550
<b>Balance at 31 December 2017</b>	66,926	12,766	74,782	154,474
<b>Balance at 1 January 2018</b>	66,926	12,766	74,782	154,474
<b>Comprehensive income</b>				
Profit for the year	-	-	15,575	15,575
<b>Other comprehensive income</b>				
Remeasurement of retirement benefit obligations	-	-	(75)	(75)
<b>Total comprehensive income</b>	-	-	15,500	15,500
<b>Balance at 31 December 2018</b>	66,926	12,766	90,282	169,974

The notes on pages 5 to 49 are an integral part of these separate financial statements.

  
Nikolaos Mariou  
General Manager



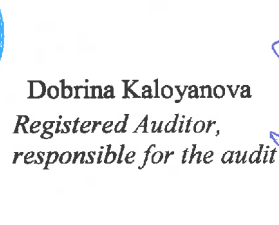
  
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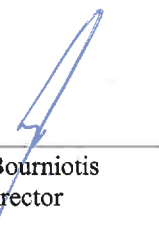
  
Dobrina Kaloyanova  
Registered Auditor,  
responsible for the audit


*In thousands of BGN*


	Note	For the year ended 31 December	
		2018	2017
<b>Cash flows from operating activities</b>			
Cash generated from operations	30	52,864	31,975
Interest and finance cost paid		(16,990)	(18,660)
<b>Net cash generated from operating activities</b>		<b>35,874</b>	<b>13,315</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets		(23,032)	(7,676)
Proceeds from sale of property, plant and equipment		-	65
Interest received		1	2
Investments in subsidiaries		(3,119)	(1,155)
<b>Net cash used in investing activities</b>		<b>(26,150)</b>	<b>(8,764)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		4,228	37,444
Repayments of borrowings		(10,751)	(50,760)
<b>Net cash used in financing activities</b>		<b>(6,523)</b>	<b>(13,316)</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>		<b>3,201</b>	<b>(8,765)</b>
Cash and cash equivalents at beginning of the year		13,693	22,458
<b>Cash and cash equivalents at the end of the year</b>	13	<b>16,894</b>	<b>13,693</b>

The notes on pages 5 to 49 are an integral part of these separate financial statements.


  
 Nikolaos Mariou  
 General Manager


  
 Georgios Bourmiotis  
 Finance Director

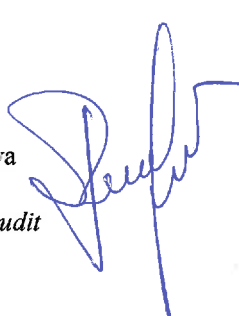


  
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In accordance with an Independent Auditors' Report:  
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 Ivan Andonov  
 Authorised representative



  
 Dobrina Kaloyanova  
 Registered Auditor,  
 responsible for the audit

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

**1. Reporting entity**

Stomana Industry AD (the "Company") is a joint stock company, incorporated in Bulgaria. The Company is a subsidiary of Viohalco SA, a company incorporated in Belgium which holds 99.9998% of the share capital of the Company and whose shares are traded on the Athens Stock Exchange and the Euronext Stock Exchange in Brussels. The ultimate parent as well as the ultimate controlling party of Stomana Industry AD is Viohalco SA.

Sidenor Steel Industry SA, with registered office in Greece, Athens 11527, Mesogion Str. 2-4 is a shareholder of Stomana Industry AD and holds one share (0,0002%) of the Company's share capital.

The Company's registered office is: 1 VladaiskoVastanie Str., Pernik. The company is represented by the General Manager – Mr. Nikolaos Mariou. The Company is registered with the Commercial Register at the Bulgarian Registry Agency with ID code 113509219.

The Company's main activity is production and trade with steel products.

The financial statements of Stomana Industry AD for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 26 March 2019. These financial statements are subject to the approval of the Company's Annual Shareholder's Meeting with respect to the appropriation of profits.

**2. Basis of accounting**

This separate financial statements of the Company (the „financial statements“) have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

As at 31 December 2018 Stomana Industry AD owns shares in the following entities: Port Svishtov West AD, Bulgaria (73.09%), Sidebalk Ltd, Serbia (100%) and Jostdex Ltd, Cyprus (100%).

At the time of approval of these separate financial statements the Company has not prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the "Group") as required by IFRS. The Company meets the requirements for the exemption of preparing consolidated financial statement that are defined in paragraph 4 (a) of IFRS 10 Consolidated Financial Statements.

The financial statement of Stomana Industry AD as at 31 December 2018 and for the year ended December 31, 2018 is consolidated by the parent company VIOHALCO SA

VIOHALCO S.A., a company incorporated in Belgium which holds 99.9998% of the share capital of the Company prepares consolidated financial statements for VIOHALCO S.A. and its subsidiaries in accordance with IFRS as adopted by the EU.

The consolidated financial statements of VIOHALCO S.A. can be found at [www.viohalco.com](http://www.viohalco.com).

Users of the financial statements of Stomana Industry AD should read them together with the consolidated financial statements prepared by VIOHALCO S.A. as at and for the year ended 31 December 2018, in order to obtain information on the financial position, financial result and cash flow of the VIOHALCO S.A. group as a whole. The consolidated financial statements of VIOHALCO S.A. will be published in Bulgarian language within the terms stipulated in Article 38, Paragraph 1, Point 1, in accordance with Article 38, Paragraph 10 of the Accounting Law.

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

**3. Going concern principle**

These separate financial statements have been prepared on a going concern basis, which assumes that the Company will continue its business in the foreseeable future.

The Company's statement of comprehensive income as at 31 December 2018 shows that the Company achieved profit for the year amounting to BGN 15,500 thousand (2017: a profit of BGN 14,550 thousand). The cash flow from operating activities in 2018 is positive at the amount of BGN 35,874 thousand (2017: positive BGN 13,315 thousand).

Net assets as at 31 December 2018 amount to BGN 169,974 thousand (2017: BGN 154,474 thousand).

The management considers that the existing capital resources and financing source (cash flows from operating activities and access to bank loans) will be adequate to the liquidity needs during the next year 2019 and there are no uncertainties regarding events or conditions that may put in doubt the Company's ability to continue as a going concern.

**4. Functional and presentation currency**

These financial statements are presented in BGN, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

**5. Use of judgments and estimates**

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. The actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

**(a) Judgments**

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

Note 12 and Note 31 – Measurement of ECL (expected credit loss) allowance for trade receivables;

Note 11 – Inventories: key assumptions underlying recoverable amounts;

**(b) Assumptions and estimation uncertainties**

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year is included in the following notes:

Note 8 – Property plant and equipment - impairment test: key assumptions used in estimation of the recoverable amount, as well as for determination of cash-generating units (CGU);

Note 10 – Investments in subsidiaries - impairment test: key assumptions underlying recoverable amounts;

Note 17 – Defined benefit liability: measurement of defined benefit obligations; key actuarial assumptions;

Note 19 – Provisions: key assumptions about the likelihood and magnitude of an outflow of resources;

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

**5. Use of judgments and estimates (continued)**

**Measurement of fair values**

A number of the Company's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Company uses market observable data as far as possible. Fair values are categorised into different level in a fair value hierarchy based on the inputs in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at end of the reporting period during which the change has occurred.

The Company does not hold financial instruments measured at fair value.

Further information about financial instruments not measured at fair value is included in Note 31 Financial instruments.

**6. Basis of measurement**

This financial statements have been prepared on the historical cost basis except for the defined benefit liability which is measured at the present value of the obligation.

**7. Changes in significant accounting policies**

The Company has initially applied IFRS 15 and IFRS 9 from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Company's financial statements.

Due to the transition methods chosen by the Company in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

**A. IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time requires judgement.

The Company has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised directly in equity at the date of initial application (i.e. 1 January 2018). The Company analyses the quantitative impact of the transition to IFRS 15 on retained earnings at 1 January 2018 and assesses it is not significant. Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

The Company does not report effects of transition to IFRS 15 on retained earnings and NCI at 1 January 2018.

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**
**7. Changes in significant accounting policies (continued)**
**A. IFRS 15 Revenue from Contracts with Customers(continued)**

The following tables summarise the impacts of adopting IFRS 15 on the Company's statement of financial position as at 31 December 2018 for each of the line items affected. There was no material impact on the Company's statement of profit or loss and OCI and statement of cash flows for the year ended 31 December 2018.

**Impact on the separate statement of financial position**  
**31 December 2018**

	As reported	Adjustment	Amounts without adoption of IFRS 15
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	350,908	-	350,908
Intangible assets	626	-	626
Investments in subsidiaries	15,772	-	15,772
	<b>367,306</b>	<b>-</b>	<b>367,306</b>
<b>Current assets</b>			
Inventories	183,640	-	183,640
Trade and other receivables	87,134	-	87,134
Cash and cash equivalents	16,894	-	16,894
	<b>287,668</b>	<b>-</b>	<b>287,668</b>
<b>Total assets</b>	<b>654,974</b>	<b>-</b>	<b>654,974</b>
<b>Equity</b>			
Share capital	66,926	-	66,926
Other reserves	12,766	-	12,766
Retained earnings	90,282	-	90,282
	<b>169,974</b>	<b>-</b>	<b>169,974</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Bond loan from related parties	58,714	-	58,714
Trade payables to related parties	29,337	-	29,337
<i>Non-current liabilities to related parties</i>	<b>88,051</b>	<b>-</b>	<b>88,051</b>
Borrowings	156,346	-	156,346
Deferred tax liabilities	5,168	-	5,168
Government grants	788	-	788
Employee benefits	2,883	-	2,883
Provisions for litigations	257	-	257
<i>Non-current liabilities to third parties</i>	<b>165,442</b>	<b>-</b>	<b>165,442</b>
<b>Total non-current liabilities</b>	<b>253,493</b>	<b>-</b>	<b>253,493</b>
<b>Current liabilities</b>			
Trade and other payables	140,162	4,840	145,002
Borrowings	86,505	-	86,505
Contract liabilities	4,840	(4,840)	-
	<b>231,507</b>	<b>-</b>	<b>231,507</b>
<b>Total liabilities</b>	<b>485,000</b>	<b>-</b>	<b>485,000</b>
<b>Total equity and liabilities</b>	<b>654,974</b>	<b>-</b>	<b>654,974</b>



**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

**7. Changes in significant accounting policies (continued)**

**B. IFRS 9 Financial Instruments**

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

As a result of the adoption of IFRS 9, the Company has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Company's approach was to include the impairment of trade receivables in selling expenses. Consequently, the Company reclassified impairment losses amounting to BGN 11 thousand, recognised under IAS 39, from 'other expenses' to 'impairment loss on trade receivables in the statement of profit or loss and OCI for the year ended 31 December 2017. Impairment losses on other financial assets are presented under 'finance costs', similar to the presentation under IAS 39, and not presented separately in the statement of profit or loss and OCI due to materiality considerations. Additionally, the Company has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but have not been generally applied to comparative information.

***i. Classification and measurement of financial assets and financial liabilities***

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities and financial instruments.

The following table below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 January 2018.

	<b>Original classification under IAS 39</b>	<b>New classification under IFRS 9</b>	<b>Original carrying amount under IAS 39</b>	<b>New carrying amount under IFRS 9</b>
<b>Financial assets</b>				
Trade and other receivables	Loans and receivables	Amortised cost	113,451	113,451
Cash and cash equivalents	Loans and receivables	Amortised cost	13,691	13,691
<b>Total financial assets</b>			<b>127,142</b>	<b>127,142</b>
<b>Financial liabilities</b>				
Trade payables	Other financial liabilities	Other financial liabilities	248,600	248,600
Obligation loan	Other financial liabilities	Other financial liabilities	56,395	56,395
Secured bank loans	Other financial liabilities	Other financial liabilities	166,872	166,872
<b>Total financial liabilities</b>			<b>471,867</b>	<b>471,867</b>

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**
**7. Changes in significant accounting policies (continued)**
**B. IFRS 9 Financial Instruments (continued)**
**ii. Impairment of financial assets**

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of IFRS 9’s impairment requirements at 1 January 2018 results in an additional allowance for impairment as follows.

<b>Loss allowance at 31 December 2017 under IAS 39</b>	3,131
Change in impairment recognised at 1 January 2018 on:	-
<b>Loss allowance at 1 January 2018 under IFRS 9</b>	<b>3,131</b>

Additional information about how the Company measures the allowance for impairment is described in Note 31.

The Company performs analysis over the ‘incurred loss’ model in IAS 39 and the ‘expected credit loss’ (ECL) model in IFRS 9 and assesses that the quantitative impact on retained earnings at 1 January 2018 is not significant.

**iii. Transition**

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

— The Company has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

— The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.

Notes to the separate financial statements  
(All amounts in thousands of BGN)

**8. Property, plant and equipment**

	Land and buildings	Vehicles and machinery	Office and computer equipment	Assets under construction	Total
<b>At 1 January 2017</b>					
Cost	169,009	550,966	4,337	9,469	733,781
Accumulated depreciation	(55,128)	(302,928)	(2,932)	-	(360,988)
<b>Carrying amount</b>	<b>113,881</b>	<b>248,038</b>	<b>1,405</b>	<b>9,469</b>	<b>372,793</b>
Additions	156	3,094	278	3,908	7,436
Transfers from inventory	-	3,151	-	-	3,151
Disposals	-	(121)	-	-	(121)
Transfers	-	7,630	47	(7,677)	-
Depreciation charge	(3,414)	(24,059)	(274)	-	(27,747)
<b>31 December 2017</b>					
Cost	169,165	564,533	4,662	5,700	744,060
Accumulated depreciation	(58,542)	(326,800)	(3,206)	-	(388,548)
<b>Carrying amount</b>	<b>110,623</b>	<b>237,733</b>	<b>1,456</b>	<b>5,700</b>	<b>355,512</b>
<b>At 1 January 2018</b>					
Opening net book amount	110,623	237,733	1,456	5,700	355,512
Additions	210	4,069	177	18,001	22,457
Transfers from inventory	-	1,568	-	-	1,568
Disposals	(9)	(72)	-	-	(81)
Transfers	31	2,205	-	(2,236)	-
Depreciation charge	(3,423)	(24,763)	(362)	-	(28,548)
<b>31 December 2018</b>					
Cost	169,397	572,303	4,839	21,465	768,004
Accumulated depreciation	(61,965)	(351,563)	(3,568)	-	(417,096)
<b>Carrying amount</b>	<b>107,432</b>	<b>220,740</b>	<b>1,271</b>	<b>21,465</b>	<b>350,908</b>

Depreciation expenses have been charged to cost of goods sold BGN 26,202 thousand (2017: BGN 24,741 thousand), BGN 352 thousand (2017: BGN 321 thousand) has been charged to distribution costs, BGN 422 thousand (2017: BGN 351 thousand) has been charged to administrative and BGN 1,572 thousand (2017: BGN 2,334 thousand) to other expenses.

The amount of borrowing costs that are capitalized in the cost of property, plant and equipment is presented in Note 15.

As at 31 December 2018 property, plant and equipment at the amount of BGN 202,057 thousand (31 December 2017: BGN 202,057 thousand) are pledged as collateral of bank loans by mortgages on land and buildings and pledges of equipment and machinery (see also Note 15).

*Impairment of property, plant and equipment*

A cash-generating unit (CGU) is the smallest group of assets that independently generates cash flow and whose cash flow is largely independent of the cash flows generated by other assets. The Company's management has identified one CGU comprising the whole production process and all used assets. The recoverable amount of the CGU is estimated based on its value in use, determined on the basis of discounted future cash flows. Based on the impairment test performed, the management has concluded that expected recoverable amount of the CGU exceeds its carrying amount, for all related assets. An average discount rate of 7.23% has been applied in calculations. The prior year average discount rate applied was 7.58%.

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**
**9. Intangible assets**

	<b>Software</b>
<b>At 1 January 2017</b>	
Cost	2,912
Accumulated amortisation	(2,106)
<b>Carrying amount</b>	<b>806</b>
Additions	240
Amortisation charge	(555)
<b>Carrying amount</b>	<b>491</b>
<b>At 31 December 2017</b>	
Cost	3,152
Accumulated amortisation	(2,661)
<b>Carrying amount</b>	<b>491</b>
Additions	575
Amortisation charge	(440)
<b>Carrying amount</b>	<b>626</b>
<b>At 31 December 2018</b>	
Cost	3,727
Accumulated amortisation	(3,101)
<b>Carrying amount</b>	<b>626</b>

Amortization expenses have been charged to cost of goods sold BGN 62 thousand (2017: BGN 104 thousand), an amount of BGN 378 thousand (2017: BGN 451 thousand) has been charged to administrative expenses.

**10. Investment in subsidiaries**

	<b>31 December</b>		<b>31 December</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>Carrying amount</b>		<b>% ownership</b>	
Jostdex Ltd	9,194	7,530	100%	100%
Port Svishtov West AD	5,365	5,365	73.09%	73.09%
Sidebalk Ltd	1,213	1,213	100%	100%
	<b>15,772</b>	<b>14,108</b>		

In 2018 the Company increased its investment in Jostdex Ltd with the amount of BGN 3,119 thousand.

The Company's management performed impairment test as at 31 December 2018 of all investments in subsidiaries and as a result it decreased the cost of the investment in Jostdex Ltd by amount of BGN 1,455 thousand.

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

**11. Inventories**

	<b>31 December 2018</b>	<b>2017</b>
Finished goods	97,448	53,750
Semi-finished goods	43,322	35,652
Raw materials and spare parts	32,003	40,064
Goods	4,969	5,915
Stock in transit	3,775	3,537
Other	2,123	1,276
	<b>183,640</b>	<b>140,194</b>

**12. Trade and other receivables**

	<b>31 December 2018</b>	<b>2017</b>
Trade receivables	37,763	56,305
Less: impairment of trade receivables	(3,356)	(3,131)
<b>Trade receivables, net</b>	<b>34,407</b>	<b>53,174</b>
Receivables from related parties (Note 32)	41,738	60,277
Tax receivables	4,106	2,005
Advances for procurement of stocks	3,380	3,048
Other receivables	3,503	2,653
	<b>87,134</b>	<b>121,157</b>

**13. Cash and cash equivalents**

	<b>31 December 2018</b>	<b>2017</b>
Cash in hand	-	2
Cash at bank	16,894	13,691
	<b>16,894</b>	<b>13,693</b>

**14. Share capital**

	<b>Number of shares</b>	<b>In BGN thousand</b>
At 31 December 2018	669,263	66,926
<b>At 31 December 2017</b>	<b>669,263</b>	<b>66,926</b>

The total authorised number of ordinary shares is 669,263 with a par value of BGN 100. All issued shares are fully paid.

As at 31 December 2018 other reserves amounting to BGN 6,544 thousand (2017: BGN 6,544 thousand) represent 10% of the profit for 2001, 2004, 2005, 2006 and 2007 allocated in accordance with the Commercial Law and follow up decisions of the Board of Directors in the respective years, as well as reserve as a result of the merger in 2015 amounting to BGN 6,222 thousand.

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**
**15. Borrowings**

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, refer to note 31 Financial instruments

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
<b>Non-current liabilities</b>		
Secured bank loans	156,346	181,374
Bond loan from related parties	58,714	56,395
	<b>215,060</b>	<b>237,769</b>
<b>Current liabilities</b>		
Current portion of Long term secured bank loans	25,025	10,493
Secured bank loans	60,993	56,733
Interest liabilities	487	683
	<b>86,505</b>	<b>67,909</b>
	<b>301,565</b>	<b>305,678</b>

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest	Year of maturity	<b>31 December 2018</b>		<b>31 December 2017</b>	
				Nominal value (principal)	Carrying amount	Nominal value (principal)	Carrying amount
Long term secured bank loans	EUR	4,56% floating	2019-23	183,421	181,858	194,172	192,550
Short term secured bank loans	EUR	4%-5% floating	2019	60,993	60,993	56,733	56,733
Bond loan	EUR	4,23%	2023	58,714	58,714	56,395	56,395
				<b>303,128</b>	<b>301,565</b>	<b>307,300</b>	<b>305,678</b>

The bank loans are secured over land and buildings with a carrying amount of BGN 202,057 thousand.

**Reconciliation of movements of liabilities to cash flows arising from financing activities**

	<b>2018</b>	<b>2017</b>
As at 1 January	305,678	316,688
Proceeds from borrowings	4,228	37,444
Repayments of borrowings	(10,751)	(50,760)
Capitalized borrowing costs	282	274
Interest expense	15,594	15,896
Interest paid	(13,466)	(13,864)
The effect of changes in foreign exchange rates	-	-
As at 31 December	<b>301,565</b>	<b>305,678</b>

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

**16. Deferred tax assets and liabilities**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

**Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

Assets/(liabilities)	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
Property, plant and equipment	-	-	(6,189)	(5,085)	(6,189)	(5,085)
Employee benefits	513	451	-	-	513	451
Trade and other receivables	336	313	-	-	336	313
Provisions	26	52	-	-	26	52
Investments in subsidiaries	146	-	-	-	146	-
<b>Tax assets/(liabilities)</b>	<b>1,021</b>	<b>816</b>	<b>(6,189)</b>	<b>(5,085)</b>	<b>(5,168)</b>	<b>(4,269)</b>
Set off of tax	(1,021)	(816)	1,021	816	-	-
<b>Net tax assets /(liabilities)</b>	<b>-</b>	<b>-</b>	<b>(5,168)</b>	<b>(4,269)</b>	<b>(5,168)</b>	<b>(4,269)</b>

Assets/(liabilities)	Balance 1 January 2017	Recognize d in profit or loss	Recognize d in other comprehensive income	Balance 31 December 2017	Recognize d in profit or loss	Recognized in other comprehensive income	Balance 31 December 2018
Property, plant and equipment	(6,662)	1,577	-	(5,085)	(1,104)	-	(6,189)
Employee benefits	338	89	24	451	54	8	513
Trade and other receivables	314	(1)	-	313	23	-	336
Provisions	14	38	-	52	(26)	-	26
Tax loss carry-forwards	2,610	(2,610)	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	146	-	146
	<b>(3,386)</b>	<b>(907)</b>	<b>24</b>	<b>(4,269)</b>	<b>(907)</b>	<b>8</b>	<b>(5,168)</b>

**Unrecognised deferred tax assets**

As at 31 December 2018 the Company has not recognized deferred tax assets at the amount of BGN 333 thousand (2017: BGN 1,107 thousand) on interest expenses, non-deductible for tax purposes in relation to the thin capitalization rules. The management does not consider probable that the Company will be able to utilise this temporary difference within the period provided, therefore no deferred tax asset is recognized in respect of this item.

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**
**17. Employee benefits**

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
Obligations for defined benefit retirement compensations at 31 December	<u>2,883</u>	<u>2,598</u>
	<b>2018</b>	<b>2017</b>
Charge in statement of comprehensive income	466	300
Actuarial (gains) losses, recognized in other comprehensive income	83	244
The principal actuarial assumptions at the reporting date are:		
	<b>2018</b>	<b>2017</b>
Discount rate per year	1,34%	1,15%
Future salary increases	1,75%	2,75%
Movements in defined benefit obligations		
	<b>2018</b>	<b>2017</b>
Defined benefit obligations at 1 January	2,598	2,267
Charge in statement of comprehensive income	466	300
Actuarial (gains) losses, recognized in other comprehensive income	83	244
Benefits paid by the plan	(264)	(213)
Defined benefit obligations at 31 December	<u>2,883</u>	<u>2,598</u>

**18. Government grants**
**Grants for property, plant and equipment**

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
Beginning of the year	921	1,078
Income for the period	<u>(133)</u>	<u>(157)</u>
End of the year	<u>788</u>	<u>921</u>

The grants have been received from the Government of Republic of Greece for the acquisition of machine for shredding of scrap.

**Government grants for operating activities**
***Government grants for reduction of the burden related to the cost for energy from renewable sources***

In 2018 and 2017 the Company applied for receiving government grants for reduction of the burden related to the cost for energy from renewable sources in accordance with Ordinance № E-RD-04-06/28.09.2016 for reduction of the burden related to the cost for energy from renewable sources.

The amount of the government grant is recognized as deduction of costs of sales as follows:

	<b>2018</b>	<b>2017</b>
	<u>12,006</u>	<u>11,885</u>

In 2018 Stomana was entitled of BGN 12,006 thousand of grant for Green Energy Fees and changed the mechanism of state aid instead of receiving money to directly deducting amounts payable.

Under Decrees of the Minister of Energy, the Company received a government grant amounting to BGN 5,502 thousand for pricing period July 2016 – December 2016 and BGN 11,885 thousand for pricing period January 2017 December 2017. The grants in prior periods were BGN 8,859 thousand for the first pricing period from August 2015 to June 2016.



**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

**19. Provisions**

The major part of the recognised provisions of BGN 257 thousand (2017: BGN 521 thousand) represents a provision for certain legal claims brought against the Company by former employees. The provision charge is recognised in statement of comprehensive income within administrative expenses. According to the management's opinion, after taking appropriate legal advices, the outcome of these legal claims will not give rise to any significant loss beyond the amounts recognised at 31 December of the respective year.

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
At beginning of the year	521	141
Provisions charged during the year	-	498
Utilization of provision	(264)	(118)
<b>At the end of the year</b>	<b>257</b>	<b>521</b>

**20. Trade and other payables**

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
Trade payables	73,673	55,042
Payables to related parties (Note 32)	86,306	110,152
Advances from clients	-	3,460
Employee benefits and social security payables	1,641	1,678
Other taxes payable	426	479
Other payables	7,453	5,883
	<b>169,499</b>	<b>176,694</b>

**21. Sales revenue**

The effect of initially applying IFRS 15 on the Company's revenue from contracts with customers is described in Note 7. Due to the transition method chosen in applying IFRS 15, comparative information has not been restated to reflect the new requirements.

<b>Revenue streams</b>	<b>2018</b>	<b>2017</b>
Sales of finished and semi-finished goods	746,408	596,102
Sales of goods	97,146	125,628
Sales of materials	9,338	10,442
Sales of services	17,084	10,159
Commission income	1,360	1,306
	<b>871,336</b>	<b>743,637</b>

The revenue is generated mainly on the european market, at the total amount of BGN 862,723 thousand, which represents 99 % of the total revenue. The remaining amount of sales is realized at United States of America and United Arab Emirates at the respective amount of BGN 6,397 thousand and BGN 2,216 thousand.

**Notes to the separate financial statements**  
 (All amounts in thousands of BGN)

**21. Sales revenue (continued)**
**Contract balances**

	31 December 2018	1 January 2018
Receivables from third parties	34,407	53,174
Receivables from related parties	41,738	60,277
Contract liabilities	(4,840)	(3,460)

The contract liabilities primarily relate to the advance consideration received from customers.

**Performance obligations and revenue recognition policies**

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a good or service to a customer, which is at the point of time.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of product/ service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 January 2018)	Revenue recognition under IAS 18 (applicable before 1 January 2018)
<b>Standard steel products and goods</b>	Customers obtain control of standard steel products when the goods leave the production premises and have been accepted by the transportation company. Invoices are generated at that point in time. Invoices are usually payable within 30 days.	Revenue is recognised when the control over goods is transferred to customers, which is when the goods leave the production premises and have been accepted by the transportation company.	Revenue was recognised when the goods were transferred to the transportation company, which was taken to be the point in time at which the customer accepted the goods and the related risks and rewards of ownership transferred.
<b>Services</b>	Invoices for services are issued on a monthly basis and are usually payable within 30 days.	Revenue is recognised over time as the services are provided. The stage of completion for determining the amount of revenue to recognise is assessed based on surveys of work performed. If the services under a single arrangement are rendered in different reporting periods, then the consideration is allocated based on their relative stand-alone selling prices. The stand-alone selling price is determined based on the list prices at which the Company sells the services in separate transactions.	Revenue was recognised in proportion to the stage of completion of the transaction at the reporting date. The stage of completion was assessed based on surveys of work performed. If the services under a single arrangement were rendered in different reporting periods, then the consideration was allocated on a relative fair value basis between the different services.

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

<b>22. Cost of sales</b>	<b>2018</b>	<b>2017</b>
Materials	(601,295)	(494,022)
Energy	(95,405)	(79,625)
Depreciation and amortisation	(26,264)	(24,845)
Salaries and social security expenses	(22,876)	(21,815)
Hired services	(14,057)	(13,708)
Transportation expenses	(2,092)	(2,170)
Insurances	(478)	(317)
Rents	(284)	(109)
Other expenses	(6,170)	(5,565)
	<b>(768,921)</b>	<b>(642,176)</b>
<b>23. Selling and distribution expenses</b>	<b>2018</b>	<b>2017</b>
Transportation expenses	(42,646)	(41,868)
Hired services	(8,573)	(7,219)
Salaries and social security expenses	(2,352)	(2,124)
Insurances	(1,937)	(1,952)
Depreciation and amortisation	(352)	(321)
Energy	(60)	(50)
Materials	(305)	(1,063)
Other expenses	(1,997)	(1,870)
	<b>(58,222)</b>	<b>(56,467)</b>
<b>24. Administrative expenses</b>	<b>2018</b>	<b>2017</b>
Hired services	(5,398)	(3,922)
Salaries and social security expenses	(2,496)	(2,405)
Depreciation and amortisation	(800)	(802)
Insurance	(145)	(116)
Energy	(109)	(100)
Materials	(55)	(54)
Transportation expenses	(12)	(9)
Other expenses	(851)	(958)
	<b>(9,866)</b>	<b>(8,366)</b>
<b>25. Other income</b>	<b>2018</b>	<b>2017</b>
Sales of CO <sub>2</sub> emissions (*)	5,662	-
Compensation for damages	-	1,956
Amortisation of government grants	133	157
Gain on sale of property, plant and equipment	-	27
Other	485	1,741
	<b>6,280</b>	<b>3,881</b>

(\*) In 2018 the Company generates income from sale transactions of CO<sub>2</sub> emission quotas. The accumulated balance is a result of the available allowances that exceed the ones that shall be transferred to the State.

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

<b>26. Other expenses</b>	<b>2018</b>	<b>2017</b>
Depreciation of temporarily unused tangible assets	(1,572)	(2,334)
Expenses related to temporarily unused assets	(1,808)	(637)
Foreign exchange transactions losses	-	(99)
Other	(1,469)	(811)
	<b>(4,849)</b>	<b>(3,881)</b>
<b>27. Expenses by nature</b>	<b>2018</b>	<b>2017</b>
Materials	(601,655)	(495,139)
Energy	(95,574)	(79,775)
Transportation expenses	(44,750)	(44,047)
Depreciation and amortisation	(28,988)	(28,302)
Salaries and social security expenses	(27,724)	(26,344)
Hired services	(28,028)	(24,849)
Insurances	(2,560)	(2,385)
Impairment of receivables	(225)	(11)
Rents	(284)	(109)
Other expenses	(12,295)	(9,940)
<b>Total expenses by nature</b>	<b>(842,083)</b>	<b>(710,901)</b>
<b>Expenses by function</b>		
Cost of sales	(768,921)	(642,176)
Selling and distribution expenses	(58,222)	(56,467)
Administrative expenses	(9,866)	(8,366)
Impairment loss on trade receivables	(225)	(11)
Other expenses	(4,849)	(3,881)
<b>Total expenses by function</b>	<b>(842,083)</b>	<b>(710,901)</b>
<b>Expenses for personnel</b>		
Wages and salaries	(21,991)	(21,008)
Social security expenses	(5,267)	(5,082)
Retirement benefit expenses	(466)	(300)
	<b>(27,724)</b>	<b>(26,390)</b>
<b>28. Net finance costs</b>	<b>2018</b>	<b>2017</b>
Interest income	1	2
Foreign exchange transactions gains	157	-
Other financial income	23	25
<b>Finance income</b>	<b>181</b>	<b>27</b>
Interest expense	(13,275)	(13,258)
Interest expense on bond loan	(2,319)	(2,638)
Foreign exchange transactions losses	-	(973)
Factoring expenses	(987)	(1,277)
Bank guarantee expenses	(294)	(317)
Other financial expenses	(2,357)	(2,504)
<b>Finance costs</b>	<b>(19,232)</b>	<b>(20,967)</b>

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**
**28. Finance costs, net (continued)**

In 2018 the Company has capitalised borrowing costs under financing of assets building amounting to BGN 282 thousand (2017: BGN 274 thousand) and has included them in the amount of acquisitions of “property, plant and equipment” (Note 8).

In order to determine the borrowing costs to be capitalized in 2018, the Company uses a capitalisation rate of 5,46% .

<b>29. Income taxes</b>	<b>2018</b>	<b>2017</b>
<b>Current tax expense</b>	-	-
Deferred income tax in comprehensive income (Note 16)	(907)	(907)
Deferred income tax in other comprehensive income (Note 16)	8	24
<b>Income tax</b>	<b>(899)</b>	<b>(883)</b>

The respective tax periods of the Company may be subject to inspection by the tax authorities until the expiration of 5 years from the end of the year in which a declaration was submitted, or should have been submitted, and additional taxes or penalties may be imposed in accordance with the interpretation of the tax legislation. The Company’s management is not aware of any circumstances which may give rise to a contingent additional liability in this respect.

The tax on the Company’s profit before tax differs from the theoretical amount that would arise using the basic tax rate of the Company as follows:

	<b>2018</b>	<b>2017</b>
Profit before tax	16,482	15,677
Tax due at a tax rate applicable to profits 10% (2017: 10%)	(1,648)	(1,567)
Expenses not deductible for tax purposes	(33)	(33)
Effect from unrecognised deferred tax assets (Note 16)	774	693
<b>Income tax in profit or loss</b>	<b>(907)</b>	<b>(907)</b>

**30. Cash flows from operating activities**

Reconciliation of profit before tax to cash generated from operations:

	<b>2018</b>	<b>2017</b>
Profit for the year	15,575	14,770
<b>Adjustments for:</b>		
– Income tax (Note 29)	907	907
– Depreciation and amortisation (Note 27)	28,988	28,302
– Impairment of investments in subsidiaries	1,455	-
– Impairment loss on trade receivables	(225)	(11)
– Net finance costs (Note 28)	19,051	20,940
– Gain from sale of property, plant and equipment	-	(27)
– Book value of assets written off	80	38
– Amortisation of government grants	(133)	(157)
<b>Changes in working capital:</b>		
– Inventories	(45,014)	(8,740)
– Trade and other receivables	34,473	(36,726)
– Trade and other payables	(7,195)	11,968
– Contract liabilities	4,840	-
– Provisions and defined benefit obligation	62	711
<b>Cash generated from operating activities</b>	<b>52,864</b>	<b>31,975</b>

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**
**31. Financial instruments**

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

***Risk management framework***

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Management is unable to predict all developments which could have an impact on the sector and wider economy, and consequently what effect, if any, they could have on the future financial position of the Company.

The Company's financial performance is largely dependent upon the global price of and demand for commodities used by the Company. The prices of the commodities are influenced by many factors, including demand, worldwide production capacity, capacity utilisation rates, raw material costs, exchange rates, trade barriers and improvements in production processes.

The Bulgarian economy is also vulnerable to market downturns and economic slowdowns elsewhere in the world. Management is unable to determine reliably the effects on the Company's future financial position of any further changes in the economic environment in which the Company operates. Management believes it is taking all necessary measures to support the sustainability and development of the Company's business in the current circumstances.

***Credit risk***

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and it arises principally from the Company's receivables from customers.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	<i>Note</i>	<b>Carrying amount</b>	
		<b>31 December</b>	
		<b>2018</b>	<b>2017</b>
Trade receivables from third parties	12	34,407	53,174
Trade receivables from related parties	12	41,738	60,277
Cash and cash equivalents, excluding cash in hand	13	16,894	13,691
		<b>93,039</b>	<b>127,142</b>

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

**31. Financial instruments (continued)**  
**Credit risk (continued)**

The concentration of credit risk as at reporting date is in the following 5 customers which represent 43% of all trade receivables:

Clients	31 December 2018
Siderom Steel, related party	10,874
CPW America Co, related party	6,397
Tepro Metall AG, related party	5,424
Sidma Bulgaria, related party	5,424
Sidma S.A. , related party	4,567
	<b>32,686</b>

**Trade and other receivables**

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors have an influence on credit risk.

The credit policy determines that each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external rates and analysis of the customer's financial statements. The limits represents the maximum credit exposure and are reviewed quarterly. Customers who fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.

A summary of the Company's exposure to credit risk for trade receivables, based on an ageing structure, is as follows:

	2018	
	Not credit impaired	Credit impaired
Related Parties	41,738	-
Third Parties Not Due	16,089	-
Third Parties 0-30	15,575	-
Third Parties 30-365	3,024	-
Third Parties >365	-	3,075
<b>Total gross carrying amount</b>	<b>76,426</b>	<b>3,075</b>
<b>Impairment</b>	<b>(281)</b>	<b>(3,075)</b>
	<b>76,145</b>	<b>-</b>

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**
**31. Financial instruments (continued)**  
**Credit risk (continued)**
***Expected credit loss assessment***

The Company allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. Exposures within each credit risk grade are segmented by geographic region, including country risk grade and industry classification and an ECL rate is calculated for each segment based on delinquency status and actual credit loss experience over the past years.

The Company performed analyses for the ECL for the trade receivables from related parties and considers them as not significant.

The following table provides information about the exposure to credit risk and ECLs for trade receivables and other receivables as at 31 December 2018.

<b>31 December 2018</b>	<b>Weighted average loss rate</b>	<b>Gross carrying amount</b>	<b>Impairment loss allowance</b>	<b>Credit impaired</b>
Related Parties		41,738	-	No
Third Parties Not Due	0.81%	16,089	(130)	No
Third Parties 0-30	0.81%	15,575	(126)	No
Third Parties 30-365	0.83%	3,024	(25)	No
Third Parties >365	100.00%	3,075	(3,075)	Yes
		<b>79,501</b>	<b>(3,356)</b>	

***Impairment***

The movement in the allowance for impairment in respect of trade receivables and contract assets during the year was as follows. Comparative amounts for 2017 represent the impairment allowance under IAS 39.

	<b>Allowance for impairment</b>
Balance at 1 January 2017	3,136
Impairment loss recognized	11
Amounts written off	(16)
<b>Balance at 31 December 2017 under IAS 39</b>	<b>3,131</b>
Adjustment on initial application of IFRS 9	-
<b>Balance at 1 January 2018 under IFRS 9</b>	<b>3,131</b>
Impairment loss recognized	225
Amounts written off	-
<b>Balance at 31 December 2018</b>	<b>3,356</b>



**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

**31. Financial instruments (continued)**

*Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a 60 day period, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted.

To ensure effective management of liquidity risk, the Company maintains bank credit lines.

Management monitors rolling forecasts of the Company's liquidity reserve (comprising cash and cash equivalents) on the basis of expected cash flows. The table below analyses the Company's financial liabilities which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	<b>Contractual cash flows</b>					
	<b>Carrying amount</b>	<b>Total contractual cash flows</b>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>More than 5 years</b>
<b>As at 31 December 2017</b>						
Borrowings	248,600	(299,197)	(89,339)	(35,065)	(147,750)	(27,043)
Bond loan	56,395	(71,521)	-	-	-	(71,521)
Trade and other payables	166,872	(166,872)	(137,535)	-	-	(29,337)
Interests on trade payables	-	(4,434)	(739)	(739)	(2,217)	(739)
	<b>471,867</b>	<b>(524,024)</b>	<b>(227,613)</b>	<b>(35,804)</b>	<b>(149,967)</b>	<b>(128,640)</b>
	<b>Contractual cash flows</b>					
	<b>Carrying amount</b>	<b>Total contractual cash flows</b>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>More than 5 years</b>
<b>As at 31 December 2018</b>						
Borrowings	242,851	(271,140)	(98,043)	(43,791)	(129,306)	-
Bond loan	58,714	(71,521)	-	-	(71,521)	-
Trade and other payables	161,620	(161,620)	(132,283)	-	(29,337)	-
Interests on trade payables	-	(3,695)	(739)	(739)	(2,217)	-
	<b>463,185</b>	<b>(507,976)</b>	<b>(231,065)</b>	<b>(44,530)</b>	<b>(232,381)</b>	<b>-</b>

**Notes to the separate financial statements  
(All amounts in thousands of BGN)**
**31. Financial instruments (continued)  
Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its assets. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company does not use derivative financial instruments for hedging market risks.

*(i) Currency risk*

The Company operates on Bulgarian as well as on external markets and is exposed to risk from changes in exchange rates for sales and purchases transactions denominated in currency different from Euro and Bulgarian levs. Currency risk arise also from future transactions and recognized assets and liabilities.

Effective 1 January 1999, the Bulgarian Lev (BGN) rate is fixed to the Euro (EUR). The applicable exchange rate is BGN 1.95583 / EUR 1.0. Therefore, the management considers there is no currency risk regarding transactions denominated in Euro.

*Exposure to currency risk*

The Company's exposure to foreign currency risk was as follows:

<i>Denominated in:</i>	<b>USD</b>		<b>GBP</b>	
	<b>31 December 2018</b>		<b>31 December 2017</b>	
Trade receivables	6,632	-	3,558	-
Cash and cash equivalents	52	-	1,829	-
Trade payables	(2,561)	-	(845)	-
<b>Net exposure</b>	<b>4,123</b>	<b>-</b>	<b>4,542</b>	<b>-</b>

The following significant exchange rates applied during the year:

	<b>Reporting date spot rate</b>	
	<b>2018</b>	<b>2017</b>
BGN		
USD	1.7082	1.6308
GBP	2.1864	2.2044

*Sensitivity analysis*

A 10% increase/ decrease of the exchange rate of Bulgarian Lev (BGN) against the US Dollar (USD) as at reporting date, would have caused a loss/profit for the Company amounting to BGN 412 thousand.

A 10% increase/ decrease of the exchange rate of Bulgarian Lev (BGN) against the US Dollar (USD) as at 31 December 2017, would have caused a loss/profit for the Company amounting to BGN 454 thousand.

**Notes to the separate financial statements**  
 (All amounts in thousands of BGN)

**31. Financial instruments (continued)**  
*Market risk (continued)*
*(ii) Interest rate risk*
***Exposure to interest rate risk***

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	<b>Nominal amount</b>	
	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
<b>Fixed rate instruments</b>		
Financial assets	16,894	13,691
Financial liabilities	(88,051)	(85,732)
	<u>(71,157)</u>	<u>(72,041)</u>
<b>Variable rate instruments</b>		
Financial liabilities	242,851	(250,905)
	<u>242,851</u>	<u>(250,905)</u>

***Fair value sensitivity analysis for fixed rate instruments***

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

***Cash flow sensitivity analysis for variable rate instruments***

An increase of 100 basis points (1%) in interest rates at the reporting date would have caused a loss for the Company amounting to BGN 2,428 thousand (2017 – a loss amounting to BGN 2,506 thousand).

*(iii) Price risk*

The commodity price change risk is monitored by the Company's management. The sales are managed locally using competitive prices. Main factors influencing sale prices are: change in competitor's prices and change in the price of raw materials for the production process.

**Notes to the separate financial statements  
(All amounts in thousands of BGN)**
**31. Financial instruments (continued)**
*(iv) Capital risk management*

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may issue new shares or sell assets to reduce debt. Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital.

Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' plus net debt.

The gearing ratios at 31 December 2018 and 31 December 2017 were as follows:

	<b>31 December 2018</b>	<b>2017</b>
Total borrowings (Note 15)	242,851	249,283
Zero-coupon bond loan	58,714	56,395
Less:		
Cash and cash equivalents	<u>(16,894)</u>	<u>(13,693)</u>
<b>Net debt</b>	<b><u>284,671</u></b>	<b><u>291,985</u></b>
Total equity	<u>169,974</u>	<u>154,474</u>
<b>Total capital employed</b>	<b><u>454,645</u></b>	<b><u>446,459</u></b>
<b>Gearing ratio</b>	<b><u>62.60%</u></b>	<b><u>65.40%</u></b>

**Fair values versus carrying amounts**

Management considers that the carrying values of the following financial instruments are reasonable approximations of their fair values:

- Trade receivables
- Related party receivables
- Cash and cash equivalents
- Trade payables
- Loans and borrowings

Management considers that loans and borrowings (note 15) meet the criteria for classification in the third level of the fair value hierarchy.

In the analysis for determining the fair values management has concluded that there is no observable market data available, which can be used without significant adjustments in determining the fair value of these financial instruments.

Management considers that determining the fair values of financial instruments has a significant number of risks and circumstances that influence the determination - the amount of the financial instrument, maturity, type of interest rate, collateral, economic environment where the parties to the financial instrument operate, own risk of default, and others. Based on the analysis management believes that the carrying amount of loans and borrowings may be considered reasonable approximation of their fair value.

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

**32. Related party transactions**

The Company is controlled by Viohalco S.A. (incorporated in Belgium) which owns 99.9998% of the Company's shares. The remaining 0.0002% is owned by Sidenor Steel Industry S.A. Greece.

**i) Sale of inventory, fixed assets and services**

**Sale of inventory, fixed assets and services to related parties under common control**

		<b>2018</b>	<b>2017</b>
Sidenor Steel Industry SA	Inventory	16,236	17,685
Sidenor Steel Industry SA	Services	16	210
Sovel SA	Inventory	28,026	2,597
Sovel SA	Services	1	4
Ethil SA	Inventory	718	316
Sigma IS AD	Inventory	175	165
Sigma IS AD	Services	225	187
Erlikon SA	Services	2	1
Corinth Pipeowrks Pipe Industry, Greece	Inventory	-	1
Corinth Pipeowrks, USA	Inventory	6,397	-
Dojran Steel DOO	Inventory	3,310	6,898
Aeiforos Bulgaria EAD	Inventory	319	139
Aeiforos Bulgaria EAD	Services	149	109
Prosal Tubes EAD	Services	345	314
Siderom	Inventory	31,080	27,389
Sideral Shph	Inventory	2,764	1,917
TeproMetal AG	Inventory	1,524	7,986
Metal Agencies Ltd	Inventory	8,049	4,717
Metalvalius EOOD	Inventory	-	18
Genecos SA	Inventory	-	99
Metalco Bulgaria	Services	1	1
International Trade	Inventory	74,753	255
International Trade	Services	68	-
Inos Balkan	Services	1	-
Praksis	Services	2	-
		<b>174,161</b>	<b>71,008</b>
<b>Sales of inventory, fixed assets and services to its own subsidiaries</b>			
Port Svishtov West AD	Services	24	24
Sidebalk Steel DOO	Inventory	2,876	487
		<b>2,900</b>	<b>511</b>
<b>Sales of inventory, fixed assets and services to other related parties</b>			
Sidma SA, Greece	Services	13,951	-
Sidma Srl, Romania	Inventory	-	14,415
Sidma Bulgaria AD	Inventory	24,071	19,150
		<b>38,022</b>	<b>33,565</b>
<b>Total sales to related parties</b>		<b>215,083</b>	<b>105,084</b>

**Notes to the separate financial statements**

(All amounts in thousands of BGN)

**32. Related party transactions (continued)**  
**ii) Purchases of inventory, fixed assets and services**
**Purchases of inventory, fixed assets and services from related parties under common control**

		<b>2018</b>	<b>2017</b>
Sidenor Steel Industry SA	Inventory	52,559	17,351
Sidenor Steel Industry SA	Services	1,889	1,851
Sidenor Steel Industry SA	Fixed assets	113	-
Sovel SA	Inventory	110,312	96,398
Sovel SA	Services	31	60
Sovel SA	Fixed assets	136	90
Ethil SA	Inventory	197	338
Sigma IS AD	Inventory	2,063	1,913
Sigma IS AD	Services	8,243	4,542
Sigma IS AD	Fixed assets	771	-
Erlikon SA	Inventory	29	23
Corinth Pipeworks, Greece	Fixed assets	-	-
Dojran Steel DOO	Inventory	15,713	9,322
Dojran Steel DOO	Services	205	-
Aeiforos Bulgaria EAD	Inventory	1,570	1,373
Aeiforos Bulgaria EAD	Services	150	205
Prosal Tubes EAD	Inventory	262	284
Prosal Tubes EAD	Services	-	-
Praksys BG SA	Inventory	-	-
Thermolith SA	Inventory	1,951	1,473
Viexal SA	Services	175	179
Teka Greece SA	Inventory	605	-
Teka Greece SA	Services	18	292
Teka Greece SA	Fixed assets	811	-
Steelmet Cyprus SA	Services	185	-
Etem Bulgaria EAD	Services	3	25
TeproMetal AG	Services	1,786	2,128
Metalco Bulgaria EAD	Services	439	394
Metalvalious EOOD	Inventory	-	4,202
Sofia Med	Inventory	420	-
Sofia Med	Fixed assets	66	-
International Trade	Services	2	-
Base Metals	Services	605	118
Genecos	Services	-	-
El.Ke.Me SA	Services	210	176
Inos Balkan	Inventory	18,979	23,331
Metalign EAD	Services	570	310
Siderom	Services	89	-
Lesko	Inventory	23	-
		<b>221,180</b>	<b>166,378</b>

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

**32. Related party transactions (continued)**

**ii) Purchases of inventory, fixed assets and services (continued)**

**Purchases of inventory, fixed assets and services from its own subsidiaries**

Port Svishtov West AD	Services	286	373
Sidebalk Steel DOO	Services	-	34
		<b>286</b>	<b>407</b>

**Purchases of inventory, fixed assets and services from other related parties**

Sidma Bulgaria AD	Inventory	1	6
Sidma Bulgaria AD	Services	1,191	1,119
Sidma Bulgaria AD	Fixed assets	4	-
		<b>1,196</b>	<b>1,125</b>
<b>Total purchases from related parties</b>		<b>222,662</b>	<b>167,910</b>

**iii) Receivables from related parties**

**31 December**

**2018                      2017**

**Receivables from related parties under common control**

Aeiforos Bulgaria	45	282
Corinth Pipeworks, Greece	-	1,107
Corinth Pipeworks, USA	6,347	-
Dojran DOO	-	5,620
Ergosteel SA	-	4
Erlikon SA	4	2
Etem BG	-	3
Ethil SA	921	203
International Trade	2,429	255
Metal Agencies Ltd	894	641
Metalco Bulgaria EAD	8	7
Praksys BG	1	8
Praksys SA	108	162
Prosal Tubes EAD	3,400	1,812
Sidenor Steel SA	-	8,098
Sideral Shpk	623	1,244
Siderom Srl	10,874	19,088
Sovel SA	-	3,859
SIGMA IC. S.A.	109	11
TeproMetal AG	5,424	6,232
	<b>31,187</b>	<b>48,638</b>

**Receivables from its own subsidiaries**

Sidebalk Steel DOO	560	454
Port Svishtov West AD	-	1
	<b>560</b>	<b>455</b>

**Receivables from other related parties**

Sidma Bulgaria AD	5,424	6,793
Sidma Romania SA	-	84
Sidma SA Greece	4,567	4,307
	<b>9,991</b>	<b>11,184</b>
<b>Total receivables from related parties</b>	<b>41,738</b>	<b>60,277</b>

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

**32. Related party transactions (continued)**  
**iv) Payables to related parties**

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
<b>Payables to the parent company</b>		
Viohalco SA	-	7,178
 <b>Payables to related parties under common control</b>		
Aeiforos Bulgaria AD	470	1,672
Base Metals	158	32
Corinth Pipeworks, Greece	4,297	5,333
Dojran DOO	6,170	
El.Ke.Me	141	132
Erlikon	22	2
Etem Bulgaria EAD	31	30
Ethil SA	197	-
Genecos	1	1
Inos Balkan	1,381	1,431
International Trade	2	-
Lesko	28	-
Metalco Bulgaria EAD	1,908	2,996
Metalign EAD	108	38
Metalvalius EOOD	-	102
Praksys BG S.A.	-	-
Prosal Tubes EAD	306	162
Sidenor	40,554	31,954
Siderom	89	
Sigma IS AD	6,563	5,622
Sofia Med	118	-
Sovel SA	15,631	46,096
Steelmet Cyprus SA	42	43
Teka Greece SA	429	550
TeproMetal AG	5,478	4,867
Termolith SA	387	296
Viexal	21	5
	<b>84,532</b>	<b>101,364</b>
 <b>Payables to its own subsidiaries</b>		
Port Svishtov West AD	1,745	1,562
Jostdex Ltd	-	10
Sidebalk Steel DOO	-	9
	<b>1,745</b>	<b>1,581</b>
 <b>Payables to other related parties</b>		
AWM	6	6
Sidma Romania Srl	23	23
	<b>29</b>	<b>29</b>
 <b>Total payables to related parties</b>	<b>86,306</b>	<b>110,152</b>



**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**
**32. Related party transactions (continued)**

<b>v) Remuneration of management</b>	<b>2018</b>	<b>2017</b>
Gross salaries and social benefits	4,929	3,580
	<b>4,929</b>	<b>3,580</b>

**vi) Bond loan**

As at 31.12.2018 there are zero coupon bond loans with issuing value of EUR 25,000 thousand and nominal amount of EUR 36,568 thousand. The lender is Viohalco Belgium. The bond is not traded on financial markets and is payable 7 years after issuing date.

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
Beginning of the year	56,395	54,038
Interest charged	2,319	2,357
<b>End of year</b>	<b>58,714</b>	<b>56,395</b>

**33. Commitments**

As at 31 December 2018 the company has commitments from commercial contract for the purchase of equipment and machinery of total amount BGN 2,377 thousand.

<b>34. Contingent assets and liabilities</b>	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
<i>Contingent assets</i>		
Letters of credit from customers in favour of the Company	598	3,012
<i>Contingent liabilities</i>		
Bank guaranties in favour of suppliers	2,848	2,284

*Other contingent liabilities*

The Bulgarian tax legislation is subject to different interpretations and on-going changes. In that respect the interpretation of the tax legislation by the tax authorities for the purposes of the deals and activities of the Company may not be the same as that of the management.

As a result of that the tax authorities may express uncertainty regarding the way in which tax losses are calculated the as well as may impose additional taxes and fees.

The last inspections conducted by the tax authorities are as follows:

- Corporate Income Tax Act – last period audited up to 31.12.2009
- Value Added Tax Act - last period audited up to 31.10.2010
- Personal Income Taxation Act – last period audited up to 31.12.2009
- Social Insurance Code - last period audited up to 31.07.2011

Tax authorities may inspect the the financial reports and records for the five successive tax years of the current tax period and impose additional penalties. Management of the Company is not aware of any circumstances that could lead to substantial obligations in this area.

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

**35. Subsequent events**

With effective date 25 February 2019 the company acquired the control and 100% of the share capital of the company Prosal Tubes EAD, Bulgaria, from the company Sidenor Steel Industry SA, Greece. The cost acquisition will be settled by offsetting receivables from Sidenor Steel Industry SA, Greece.

No other subsequent events, that require adjustments or disclosures in the financial statements, have occurred during the period from the reporting date to the date the financial statements were authorized for issue by the Board of Directors 26 March 2019.

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

**36. Significant accounting policies**

**a) Investments in subsidiaries**

Subsidiaries are entities controlled by the Company.

The investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Therefore, an investor must possess all of the following elements to be deemed to control an investee:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- ability to exert power over the investee to affect the amount of the investor's returns.

Investments in subsidiaries are recognized in the separate financial statements at the cost method.

**b) Foreign currency translation**

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are not retranslated.

Effective 1999, the Bulgarian Lev (BGN) rate is fixed to the Euro (EUR). The applicable exchange rate is BGN 1.95583 / EUR 1.0.

**c) Financial instruments**

**(i) Recognition and initial measurement**

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price

**(ii) Classification and subsequent measurement**

**Financial assets – Policy applicable from 1 January 2018**

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

**36. Significant accounting policies (continued)**

**c) Financial instruments (continued)**

**Financial assets – Business model assessment: Policy applicable from 1 January 2018**

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management’s strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company’s management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company’s continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

**Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018**

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Company’s claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Notes to the separate financial statements  
 (All amounts in thousands of BGN)

36. Significant accounting policies (continued)

c) Financial instruments (continued)

**Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 January 2018**

<b>Financial assets at FVTPL</b>	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss, except for derivatives designated as hedging instruments for which hedge accounting is applied.
<b>Financial assets at amortised cost</b>	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
<b>Debt investments at FVOCI</b>	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
<b>Equity investments at FVOCI</b>	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

**Financial assets – Policy applicable before 1 January 2018**

The Company classified its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available for sale; and
- at FVTPL, and within this category as:
  - held for trading;
  - derivative hedging instruments; or
  - designated as at FVTPL.

**Financial assets – Subsequent measurement and gains and losses: Policy applicable before 1 January 2018**

<b>Financial assets at FVTPL</b>	Measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss, except for derivatives designated as hedging instruments for which hedge accounting was applied.
<b>Held-to-maturity financial assets</b>	Measured at amortised cost using the effective interest method.
<b>Loans and receivables</b>	Measured at amortised cost using the effective interest method.
<b>Available-for-sale financial assets</b>	Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss.

**Notes to the separate financial statements  
(All amounts in thousands of BGN)****36. Significant accounting policies (continued)****c) Financial instruments (continued)****Financial liabilities – Classification, subsequent measurement and gains and losses**

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

**(iii) Derecognition****Financial assets**

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

**Financial liabilities**

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

**(iv) Offsetting**

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

**d) Property, plant and equipment**

All items of property, plant and equipment are stated at historical cost less accumulated depreciation and possible impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the period in which they are incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

**Notes to the separate financial statements**  
 (All amounts in thousands of BGN)

**36. Significant accounting policies (continued)**  
**d) Property, plant and equipment (continued)**

Land and expenses for acquisition of property, plant and equipment are not depreciated. Depreciation on other assets is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	10-33 years
Vehicles	6-10 years
Machinery and equipment	5-20 years
Office equipment	3-8 years
Computer equipment	2-5 years
Other	3-8 years

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the received price with the carrying amount and are recognised within other gains/ (losses) in the statement of comprehensive income.

**e) Intangible assets**
*Computer software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 to 5 years).

**f) Impairment**
**(i) Non-derivative financial assets**
**Policy applicable from 1 January 2018**
***Financial instruments and contract assets***

The Company recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- contract assets.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

**Notes to the separate financial statements**

**(All amounts in thousands of BGN)**

**36. Significant accounting policies (continued)**

**f) Impairment (continued)**

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held);

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

***Measurement of ECLs***

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company up expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

***Credit-impaired financial assets***

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 360 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation;
- low credit risk of client based on the country risk where it performs its main activities.

***Presentation of allowance for ECL in the statement of financial position***

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

***Write-off***

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 5 years past due based on historical experience of recoveries of similar assets. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.





**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

**36. Significant accounting policies (continued)**  
**f) Impairment (continued)**

**Policy applicable before 1 January 2018**

*Non-derivative financial assets*

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- indications that a debtor or issuer would enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows

from a group of financial assets.

For an investment in an equity instrument, objective evidence of impairment included a significant or prolonged decline in its fair value below its cost. The Company considered a decline of 20% to be significant and a period of nine months to be prolonged.

Financial assets not classified as at fair value through profit or loss, including interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

**Policy applicable before 1 January 2018**

<b>Financial assets measured at amortised cost</b>	The Company considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.
	In assessing collective impairment, the Company used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.
	An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account. When the Company considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

**36. Significant accounting policies (continued)**

**f) Impairment (continued)**

*(ii) Non-financial assets*

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment.

For impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**g) Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling costs.

**h) Income tax**

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

Interest and penalties related to income taxes, including uncertain tax treatments, are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

*(i) Current tax*

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

*(ii) Deferred tax*

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

**36. Significant accounting policies (continued)**  
**h) Income tax**

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is possible that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of the taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversal of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Company has not rebutted this presumption.

**i) Government grants**

The Company recognizes government grants when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant.

Government grants relating to property, plant and equipment presented in non-current liabilities as deferred income and are credited to the statement of comprehensive income on a straight-line basis over the expected lives of the related assets. Grants that compensate the Company for expenses incurred are recognized in profit or loss on a systematic basis in the same periods in which the expenses are recognized.

**j) Provisions**

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

**Notes to the separate financial statements  
(All amounts in thousands of BGN)****36. Significant accounting policies (continued)****j) Provisions (continued)**

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

**k) Employee benefits*****Defined contribution plans***

Obligations for contributions to defined contribution plans comprise contributions to state-owned institutions and to obligatory pension funds managed by privately owned management companies, in accordance with legal requirements or individual choice. Obligations for contributions to defined contribution plans are expensed as the related service is provided.

***Defined benefit plans***

The Company's obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods and that amount is discounted. According to the Article 222 of the Labor Code in Bulgaria, when a labor contract of an employee, who has acquired a pension right, is ended for any reason and the employee's length of service in the company equals to or is greater than 10 or more years, as at retirement date, the employer is obliged to pay to the employee compensations in the amount of six gross monthly salaries.

The calculation is performed annually by a qualified actuary using the projected unit credit method. The Company determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. The company's contributions are charged to the statement of the comprehensive income in the year to which they relate. The long-term payables to employees comprise of present value of Company's liability for compensations due on the date of financial statements, determined by actuarial calculations.

***Short-term employee benefits***

Short-term employee benefit obligations are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

***Share-based payment transactions***

As at 31 December 2018 and 2017 key management personnel and Company's employees do not participate in share-based payment transactions. The Company usually does not apply share-based payment plans.

**l) Revenue from contracts with customers**

The Company has initially applied IFRS 15 from 1 January 2018. Information about the Company's accounting policies relating to contracts with customers is provided in Note 21. The effect of initially applying IFRS 15 is described in Note 7 and Note 21.

In respect of commissions management considers that the Company neither takes title nor is exposed to inventory risk related to the goods, and has no significant responsibility in respect of the goods sold.

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

**36. Significant accounting policies (continued)**  
**m) Leases**

***Determining whether an arrangement contains a lease***

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease.

At inception or upon reassessment of an arrangement that contains a lease, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset; subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Company's incremental borrowing rate.

***Leased assets***

Assets held by the Company under leases which transfer to the Company substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the Company's statement of financial position.

***Lease payments***

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

**n) Borrowing costs**

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

**o) Accounting of merger of entities under common control**

Business combinations under common control are accounted for using predecessor accounting method. Under this method, the Company incorporates the assets and liabilities of the acquired entity using the acquired entity's values from the consolidated financial statements of the parent entity ('predecessor value method'); these amounts include any goodwill recognised in the consolidated financial statements of the parent related to the acquired entity. The acquired entity's results are included in the Company's financial statements retrospectively: the financial statements reflect both entities' full year's results, even though the business combination occurred part of the way through the year. In addition, the corresponding amounts for the previous year reflect the combined results of both entities, even though the transaction did not occur until the current year. Intercompany balances and unrealized gains and losses on transactions with the acquired entity are eliminated. The share capital comprise the capital of the acquiring entity for all reported periods.

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

**36. Significant accounting policies (continued)**

**p) Free emission quotas granted**

*Accounting for free emission quotas granted in relation to the third period of the European Emission Trading Scheme for greenhouse gas emissions in the period 2013-2020*

The free quotas for greenhouse gas emissions represent grants provided by the State in compliance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

The free quotas granted represent an intangible asset recorded in compliance with IAS 38 *Intangible Assets*. Quotas are not amortized.

Upon initial recognition, the intangible asset and the government grant are not recognized in the statement of financial position as its acquisition cost is nil, as it was obtained as a grant.

In terms of the analysis of the necessity to accumulate a liability as at the reporting date for the obligation of the Company to transfer quotas to the State, equal to the total quantity of emissions released by the respective installation throughout the year, the following three scenarios may arise:

- the available emission allowances are equal to the ones, which the company has to surrender to the State. In this case the Company recognizes neither an expense nor liability since the carrying amount of the available emission allowances is equal to nil (they are not recognized as an asset). Since the liability can be settled only with allowances (other assets cannot be used) its carrying amount is also nil.
- The available allowances at the end of the period exceed the ones that shall be transferred to the State. In this case, the Company also recognizes neither an expense nor a liability;
- The available allowances at the end of the period are less than the ones that shall be transferred to the State. In this case the Company has to secure additional allowances to settle its obligation. The Company recognizes an expense and liability only for the excess of quotas that shall be transferred to the state above the granted free quotas since the carrying amount of the granted quotas is equal to nil (the quotas are not recognized as an asset). In case the Company intends to purchase additional quotas, the expense and the liability are measured at the amount necessary for their purchase (their fair value). In case the Company intends to use the quotas that shall be granted by the State for the next period as additional quotas to settle its obligation and there is no change in the accounting policy with respect to quotas recognition (they are recognized at nil value), the Company recognizes neither an expense nor a liability.

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

**36. Significant accounting policies (continued)**  
**q) Standards issued but not yet effective**

The following new Standards, amendments to Standards and Interpretations, endorsed by the EC, are not yet mandatorily effective for annual periods beginning on or after 1 January 2018, and have not been applied in preparing these financial statements. The Company plans to adopt these pronouncements when they become effective.

***Standards, Interpretations and amendments to published Standards that have not been early adopted – endorsed by the EC***

Of those standards that are not yet effective, IFRS 16 is not expected to have a significant impact on the Company's financial statements in the period of initial application.

**(a) IFRS 16 Leases**

The Company is required to adopt IFRS 16 Leases from 1 January 2019. The Company has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because:

- the Company has not finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

**(i) Leases in which the Company is a lessee**

The Company will recognise new assets and liabilities for its operating leases. The nature of expenses related to those leases will now change because the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

Based on the information currently available, the Company estimates that it will recognise additional lease liabilities of BGN 762 thousand as at 1 January 2019

**(ii) Transition**

The Company plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

**36. Significant accounting policies (continued)**

**q) Standards issued but not yet effective**

**(b) IFRIC 23 Uncertainty over Income Tax Treatments**

IFRIC 23 is effective for annual periods beginning on or after 1 January 2019 and early application is permitted. IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the entity's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. An entity must assume the tax authority will examine the position and will have full knowledge of all the relevant information.

The Company does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Company does not have material uncertain tax positions.

**(c) Amendments to IFRS 9: Prepayment Features with Negative Compensation**

The amendments are effective for annual periods beginning on or after 1 January 2019. These amendments address concerns raised about accounting for financial assets that include particular contractual prepayment options. In particular, the concern was related to how a company would classify and measure a debt instrument if the borrower was permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Such a prepayment amount is often described as including 'negative compensation'. Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss.

The amendments enable entities to measure at amortized cost some prepayable financial assets with so-called negative compensation.

**(d) Amendments to IAS 28 Long-term Interests and Joint Ventures**

The amendments are effective for annual periods beginning on or after 1 January 2019. The Amendments clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The Company does not expect the Amendments to have a material impact on its financial statements when initially applied.

The Company does not expect that the amendments will have a material impact on the financial statements because the Company does not have prepayable financial assets with negative compensation.

**Standards and interpretations not yet endorsed by the EU**

Management believes that it is appropriate to disclose that the following new or revised standards, new interpretations and amendments to current standards, which are already issued by the International Accounting Standards Board (IASB), are not yet endorsed for adoption by the EC, and therefore are not taken into account in preparing these financial statements. The actual effective dates for them will depend on the endorsement decision by the EC.



**Notes to the separate financial statements**  
**(All amounts in thousands of BGN)**

**36. Significant accounting policies (continued)**  
**q) Standards issued but not yet effective**

**(e) IFRS 17 Insurance Contracts**

The standard is effective for annual periods beginning on or after 1 January 2021 and is to be applied retrospectively, and early application is permitted. The Company expects that the standard, when initially applied, will not have a material impact on the presentation of the financial statements of the Company because the Company does not issue insurance or reinsurance contracts, does not hold reinsurance contracts and does not issue investment contracts with discretionary participation features.

**(f) Other amendments**

The following amendments and improvements to standards are not expected to have a material impact on the financial statements of the Company.

- Annual Improvements to IFRS 2015-2017 Cycle
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture
- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)
- Amendments to IFRS 3 Business Combinations
- Amendments to IAS 1 and IAS 8: Definition of Material



KPMG Audit OOD  
45/A Bulgaria Boulevard  
Sofia 1404, Bulgaria  
+359 (2) 9697 300  
bg-office@kpmg.com  
kpmg.com/bg

## **INDEPENDENT AUDITORS' REPORT**

To the shareholders of  
Stomana Industry AD

### **Opinion**

We have audited the separate financial statements of Stomana Industry AD (the Company) as set out on pages 1 to 49, which comprise the separate statement of financial position as at 31 December 2018, and the separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2018, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 'Auditors' Responsibilities for the Audit of the Separate Financial Statements' section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the separate financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Information Other than the Separate Financial Statements and Auditors' Report Thereon**

Management is responsible for the other information. The other information comprises the separate management report, prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate financial statements and our auditors' report thereon.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### ***Additional Matters to be Reported under the Accountancy Act***

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the separate management report, we have also performed the procedures added to those required under ISAs in accordance with the New and enhanced auditor's reports and auditor's communication Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act applicable in Bulgaria.

#### *Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act*

Based on the procedures performed, our opinion is that:

- a) The information included in the separate management report for the financial year for which the separate financial statements have been prepared is consistent with those separate financial statements.
- b) The separate management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

### **Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements**

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRS as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Separate Financial Statements**

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Audit OOD

Ivan Andonov  
Authorised representative

45/A Bulgaria Boulevard  
Sofia 1404, Bulgaria

19 April 2019



Dobrina Kaloyanova  
Registered auditor, responsible  
for the audit