STOMANA
INDUSTRY S.A.

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

31 DECEMBER 2019

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 2019 compared to 31 December 2017 amounts to BGN 13,936 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 ant 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 2019 compared to the respective amount as at 31 December 2018 is net decrease amounting to BGN 25,009 thousand, and it is mainly due to the decrease of finished products. The inventory is constantly observed and analyzed in order production and sales to be secured at any time.

The decrease of BGN 68,144 thousand in current assets, which at 31 December 2019 are at the carrying amount of BGN 228,286 thousand, is due to the decrease of all positions: inventory, trade receivables and cash amounts.

Equity and liabilities

The change in Company's equity is due to a loss realised in 2019 amounting to BGN 33,784 thousand and changes in other comprehensive income. In 2018 the Company realised profit amounting to BGN 14,471 thousand.

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

The decrease of BGN 15,786 thousand of current liabilities, which at 31 December 2019 are at a carrying amount of BGN 232,441 thousand is due to the decrease of loans liabilities to banks and finance institutions as well as to significant decrease of trade payables.

Sales

Revenue includes mainly sales of goods and finished production and in 2019 amounts to BGN 766,913 thousand (2017: BGN 892,182 thousand), which represents a decrease with 14%.

Expenses

Expenses include:
- Cost of sales amounting to BGN 721,302 thousand in 2019 (2018: BGN 789,256 thousand);
- Selling and distribution expenses amounting to BGN 50,316 thousand in 2019 (2018: BGN 59,002 thousand);
- Administrative expenses amounting to BGN 10,335 thousand in 2019 (2018: BGN 10,028 thousand);
- Net finance costs amounting to BGN 17,819 thousand in 2019 (2018: BGN 19,672 thousand);
- Other (expenses) and income, net amounting to BGN 4,929 thousand in 2019 (2018: expense BGN 1,432 thousand)

Debt to equity ratio

The Company's debt to equity ratio amounts to 3,42 as at 31 December 2019 (2018: 3,01).

Current Ratio

The current ratio (correlation between current assets and current liabilities) amounts to 0,98 as at 31 December 2019 (2018: 1,19).

Personnel

As at 31 December 2019 the Company has 1,145 employees (2018: 1,064).

In 2019 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

The Company's management considers the development of the pandemic COVID-19 in Europe and in Bulgaria as a significant subsequent event, as well as the effects on the business of the respective measures taken in order to contain the outbreak. Further information regarding management estimation of current and expected effects on Company's operations are disclosed in Note 38 Subsequent events in the Separate financial statements.

POSSIBLE FUTURE DEVELOPMENT

In the following years the Company will continue its activities as a production entity in the steel industry. The main part of Company's revenue are from production sales, and the expenses are related mainly to expenses for raw materials.
The deteriorated environment in the sector across Europe and the results from the COVID-19 development may lead to decrease of revenue and temporarily deterioration of Company's financial result in 2020.

The Company has estimated the impact of COVID-19 on its financial data and operations, and will focus on increasing its profitability margins and strengthening its position on the regional market. In this regard, one of the measures is the restructuring plan announced on 19 March 2020, in order to adapt to the new challenging environment. This strategic plan for restructuring aims at optimizing the expenses and increasing the rentability.

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:

	2019 BGN'000	2018 BGN'000
Groups of financial assets – carrying amounts:		
Trade receivables	50,255	80,849
Cash and cash equivalents, excluding cash in hand	8,660	17,944
Carrying amount	**58,915**	**98,793**

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 33 Financial instruments to the separate financial statements.

INVESTMENTS IN SUBSIDIARIES

As of December 31, 2019 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, 2019 Stomana Industry AD SA is a shareholder in Sidebalk Ltd., Belgrade and owns 100% of the shares of the company.

As of December 31, 2019 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:

1. **Athanasios Yoanis Athanassopoulos;**
2. **Anton Kirilov Petrov;**
3. **Elias Stassinopoulos;**
4. **Vasilios Papantoniou;**
5. **Stavros Theodoropoulos;**
6. **Nikolaos Mariou;**
7. **Ioannis Papadimitriou;**

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

Member of the Board of Directors	Participating in the following companies
1. **Anton Kirilov Petrov**	• **Sigma IS AD,** UIC 130951245; • **Metalko Bulgaria EAD,** UIC 831126001; • **Sidma Bulgaria AD,** UIC 131467191; • **Aeiforos Bulgaria EAD,** UIC 113564009; • **Port Svishtov West AD,** UIC 200124174; • **Lesko EOOD,** UIC 101107878; • **Siticonstructions AD,** UIC 131399250; • **Esid Elektrodi EOOD,** UIC 202963851; • **Sanra EOOD,** UIC 175038293.
2. **Athanasios Yoanis Athanassopoulos**	• **Lesko EOOD,** UIC 101107878; • **Sigma-IS AD,** UIC 130951245; • **Port Svishtov West AD,** UIC 200124174; • **Sofia Med AD,** UIC 130144438; • **Mramor Granit AD,** UIC 831642441.
3. **Stavros Theodoropoulos**	• **Metalko Bulgaria EAD,** UIC 831126001; • **Aeiforos Bulgaria SA,** UIC 113564009.
4. **Vasileios Papantoniou**	• **No participation in other companies**
5. **Elias Stassinopoulos**	• **No participation in other companies**
6. **Nikolaos Mariou**	• **Port Svishtov West AD,** UIC 200124174; • **Aeiforos Bulgaria EAD,** UIC 113564009; • **Sigma IS AD,** UIC 130951245; • **Praxis BG EAD,** UIC 204127569.
7. **Ioannis Papadimitriou**	• **Metalko Bulgaria EAD,** UIC 831126001; • **Sofia Med AD,** UIC 130144438.

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 2019.

Nikolaos Mariou	Georgios Bourniotis	Sonia Mangeyna
General Manager	Finance Director	Chief Accountant
1 July 2020	1 July 2020	1 July 2020

STOMANA PERNIK 3 INDUSTRY S.A.

Separate Financial Statements

STOMANA INDUSTRY S.A.

SEPARATE STATEMENT OF FINANCIAL POSITION

In thousands of BGN

	Note	As at 31 December 2019	2018*
ASSETS			
Non-current assets			
Property, plant and equipment	*8*	333,847	355,577
Right-of-use assets	*9*	7,794	-
Intangible assets	*10*	1,104	627
Investments in subsidiaries	*11*	15,987	15,772
		358,732	**371,976**
Current assets			
Inventories	*12*	161,346	186,355
Trade and other receivables	*13*	58,280	92,131
Cash and cash equivalents	*14*	8,660	17,944
		228,286	**296,430**
Total assets		**587,018**	**668,406**
Equity			
Share capital	*15*	66,926	66,926
Other reserves	*15*	13,330	13,182
Retained earnings		52,616	86,530
		132,872	**166,638**
LIABILITIES			
Non-current liabilities			
Bond loan from related parties	*16*	61,281	58,714
Trade payables to related parties	*21*	29,337	29,337
Non-current liabilities to related parties		**90,618**	**88,051**
Borrowings	*16*	120,185	156,346
Lease liabilities	*22*	5,686	-
Deferred tax liabilities	*17*	1,233	5,170
Government grants	*19*	642	788
Employee benefits	*18*	3,041	2,929
Provisions	*20*	300	257
Non-current liabilities to third parties		**131,087**	**165,490**
Total non-current liabilities		**221,705**	**253,541**
Current liabilities			
Lease liabilities	*22*	1,421	-
Trade and other payables	*21*	111,434	145,118
Borrowings	*16*	117,328	98,240
Contract liabilities	*23*	2,258	4,869
		232,441	**248,227**
Total liabilities		**454,146**	**501,768**
Total equity and liabilities		**587,018**	**668,406**

* Note 37

The notes on pages 5 to 54 are an integral part of these separate financial statements.

Nikolaos Mariou
General Manager

Georgios Bourniotis
Finance Director

Sonia Mangeyna
Chief Accountant, Preparer

STOMANA PERNIK INDUSTRY S.A.

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

Ivan Andonov
Authorised representative

Dobrina Kaloyanova
Registered Auditor, responsible for the audit

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In thousands of BGN	*Note*	For the year ended 31 December 2019	2018*
Revenue	*23*	766,913	892,182
Cost of sales	*24*	(721,302)	(789,256)
Gross profit		**45,611**	**102,926**
Selling and distribution expenses	*25*	(50,316)	(59,002)
Administrative expenses	*26*	(10,335)	(10,028)
Movement in impairment of trade receivables		65	(230)
Other expenses	*28*	(5,390)	(4,849)
Other income	*27*	461	6 281
Operating profit		**(19,904)**	**35,098**
Finance income	*30*	1,214	181
Finance costs	*30*	(19,033)	(19,853)
Net finance costs		**(17,819)**	**(19,672)**
Profit before income tax		**(37,723)**	**15,426**
Income tax	*31*	3,939	(955)
Profit (loss) for the year		**(33,784)**	**14,471**
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Remeasurement of retirement benefit obligations		20	(77)
Related tax	*18*	(2)	8
Other comprehensive income for the year, net of tax	*31*	18	(69)
Total comprehensive income for the year		**(33,766)**	**14,402**

* Note 37

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General Manager

Georgios Bourniotis
Finance Director

Sonia Mangeyna
Chief Accountant, Preparer

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

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Dobrina Kaloyanova
Registered Auditor, responsible for the audit

STOMANA INDUSTRY S.A.

SEPARATE STATEMENT OF CHANGES IN EQUITY

In thousands of BGN

	Share capital	Other reserves	Retained earnings	Total equity
Balance at 1 January 2018	**66,926**	**13,182**	**72,128**	**152,236**
Comprehensive income				
Profit for the year	-	-	14,471	**14,471**
Other comprehensive income for the year	-	-	(69)	**(69)**
Total comprehensive income	-	-	14,402	**14,402**
Balance at 31 December 2018*	**66,926**	**13,182**	**86,530**	**166,638**
Balance at 1 January 2019	**66,926**	**13,182**	**86,530**	**166,638**
Comprehensive income				
Loss for the year	-	-	(33,784)	**(33,784)**
Other comprehensive income for the year	-	-	18	**18**
Total comprehensive income	-	-	(33,766)	**(33,766)**
Transactions with owners of the Company				
Distribution of reserves	-	148	(148)	-
Total transactions with owners of the Company	-	148	(148)	-
Balance at 31 December 2019	**66,926**	**13,330**	**52,616**	**132,872**

* Note 37

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Nikolaos Mariou
General Manager

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Finance Director

Sonia Mangeyna
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STOMANA INDUSTRY S.A.

SEPARATE STATEMENT OF CASH FLOWS

In thousands of BGN	*Note*	For the year ended 31 December 2019	2018*
Cash flows from operating activities			
Cash generated from operations	*32*	31,096	53,528
Interests paid		(11,319)	(17,593)
Net cash generated from operating activities		**19,777**	**35,935**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(11,079)	(23,390)
Investments in subsidiaries		(215)	(3,119)
Dividend received		982	-
Net cash used in investing activities		**(10,312)**	**(26,509)**
Cash flows from financing activities			
Proceeds from borrowings		10,360	5,405
Repayments of borrowings		(28,382)	(10,751)
Payment of lease liabilities		(727)	-
Net cash used in financing activities		**(18,749)**	**(5,346)**
Net increase/ (decrease) in cash and cash equivalents		**(9,284)**	**4,080**
Cash and cash equivalents at beginning of the year		17,944	13,864
Cash and cash equivalents at the end of the year	*14*	**8,660**	**17,944**

* Note 37

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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

STOMANA PERNIK 3 INDUSTRY S.A.

Ivan Andonov
Authorised representative

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Registered Auditor, responsible for the audit

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

Translation from the original Bulgarian version, in case of divergence the Bulgarian original shall prevail

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 Executive Member of Board of Directors – 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 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 1 July 2020. 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 2019 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 of the Company (comprising the Company and the subsidiaries) in accordance with requirements of IFRS.

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 and will be translated and published in the commercial register within the terms determined by Art. 38 para 10 of the Accounting Act.

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 2019, in order to obtain information on the financial position, financial result and cash flow of the VIOHALCO S.A. group as a whole.

3. Going concern principle

These separate financial statements have been prepared under the assumption that the Company is a going concern and will continue to operate in the foreseeable future.

For the year ended 31 December 2019, the Company realized loss at the amount of BGN 33,784 thousand (2018: profit BGN 14,471 thousand) and revenues for 2019 decreased with 14 % compared to 2018. As at 31 December 2019 the current liabilities of the Company exceed the currents assets with BGN 4,155 thousand (2018: the current assets of the Company exceed the currents liabilities with BGN 48,203 thousand). Significant part of the short-term liabilities represents bank loans provided by third parties.

In 2019, Stomana Industry S.A. maintained its position as a leading steel manufacturer with presence in Balkans and Europe producing and selling its high value added products and services and investing in the most up-to-date steel technology. However, protectionism and slow-down of German industrial production caused severe economic crisis to European Steel industry that started on the last quarter of 2018 and continued with increasing intensity throughout 2019. Significant reduction of international spreads in combination with increase of materials and energy prices squeezed down demand & prices for SBQs and Plates, which represent the high-value added products of the company.

In management's view, as also disclosed in Note 38 Subsequent events, the Company will have sufficient resources to continue for a period of at least 12 months from the reporting date.

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 13 and Note 33 – Measurement of ECL (expected credit loss) allowance for trade receivables;

Note 12 – Inventories: key assumptions underlying recoverable amounts;

Note 22 - identifying lease contracts in the scope of IFRS 16; lease term

(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 11 – Investments in subsidiaries - impairment test: key assumptions underlying recoverable amounts;

Note 19 – Defined benefit liability: measurement of defined benefit obligations; key actuarial assumptions;

Note 20 – Provisions: key assumptions about the likelihood and magnitude of an outflow of resources;

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 initially applied IFRS 16 *Leases* from 1 January 2019. A number of other new standards are also effective from 1 January 2019, but they do not have a material effect on the Company's financial statements.

The Company applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The Company applied for all lease contracts the option of the modified retrospective approach as per IFRS 16.C8 (b)(ii), under which the right-of-use assets at 1 January 2019 are recognized at amount equal to the respective lease liability. As a result, there is no impact on retained earnings on the date of the initial application of the standard. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

A. Definition of a lease
Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 39.

7. Changes in significant accounting policies (continued)

A. Definition of a lease (continued)

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered or changed on or after 1 January 2019.

B. As a lessee

As a lessee, the Company leases equipment, fuel storage sites and motor vehicles. Previously, the Company determined classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

i. Leases classified as operating leases under IAS 17

Previously, the Company classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Company applied this approach to all leases.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:

— did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application and which have no purchase option;

— did not recognise right-of-use assets and liabilities for leases of low value assets;

— excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and

— used hindsight when determining the lease term.

ii. Leases classified as finance leases under IAS 17

The Company leases a number of motor vehicles. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

7. Changes in significant accounting policies (continued)

C. As a lessor

The Company has no significant lease contracts as a lessor.

D. Impact on financial statements

i. Impact on transition*

On transition to IFRS 16, the Company recognised additional right-of-use assets (in addition to the right-of use assets under finance leases transferred from plant and equipment amounting to BGN 6,280 thousand as disclosed in Note 8), with no effect on retained earnings. The impact on transition is summarized below.

In thousands of BGN	*Note*	**1 January 2019**
Right-of-use assets – property, plant and equipment	9	764
Lease liabilities		764
Retained earnings		-

* For the impact of IFRS 16 on profit or loss for the period, see Notes 9 and 22. For the details of accounting policies under IFRS 16 and IAS 17, see Note 39.

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 3%.

In thousands of BGN	**1 January 2019**
Operating lease commitments at 31 December 2018	806
Discounted using the incremental borrowing rate at 1 January 2019	764
Lease liabilities recognised at 1 January 2019	764

(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
At 1 January 2018					
Cost	172,182	571,020	4,690	5,724	753,616
Accumulated depreciation	(59,429)	(330,596)	(3,234)	-	(393,259)
Carrying amount	**112,753**	**240,424**	**1,456**	**5,724**	**360,357**
Additions	210	4 399	177	18 030	22 816
Transfers from inventory	-	1 568	-	-	1 568
Disposals	(9)	(72)	-	-	(81)
Transfers	31	2,205	-	(2,236)	-
Depreciation charge	(3,513)	(25,208)	(362)	-	(29,083)
31 December 2018					
Cost	172,414	579,120	4 867	21,518	777,919
Accumulated depreciation	(62,942)	(355,804)	(3,596)	-	(422,342)
Carrying amount	**109,472**	**223,316**	**1,271**	**21,518**	**355,577**
At 1 January 2019					
Transfer to right-of-use assets on initial application of IFRS 16	-	-	-	(6,280)	(6,280)
Additions	180	3,235	39	13,446	16,900
Disposals	-	(316)	-	-	(316)
Transfers	57	15,308	8	(15,373)	-
Depreciation charge	(4,633)	(27,049)	(352)	-	(32,034)
31 December 2019					
Cost	172,651	597,347	4,914	13,311	788,223
Accumulated depreciation	(67,575)	(382,853)	(3,948)	-	(454,376)
Carrying amount	**105,076**	**214,494**	**966**	**13,311**	**333,847**

The amount of borrowing costs that are capitalized in the cost of property, plant and equipment is presented in Note 16.

As at 31 December 2019 property, plant and equipment at the amount of BGN 202,057 thousand (31 December 2018: 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 16).

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 6.25% (2018: 7.23%).

9. Right-of-use assets

The Company leases vehicles, machines and computer equipment.
The leased machines represent production equipment and are acquired under several lease contracts, classified as finance lease, in accordance with IAS 17.

Information regarding leases, in which the Company is a lessee, is presented below:

(i) Right-of-use assets

Right-of-use assets related to equipment and leased properties that do not meet the definition of investment property are presented below:

In thousands of BGN	Vehicles	Production equipment	Computers	Total
2019				
Balance at 1 January 2019	715	-	49	**764**
Depreciation charge for the year	(249)	(229)	(49)	**(527)**
Additions to right-of-use assets	64	7,493	-	**7,557**
Balance at 31 December	**530**	**7,264**	-	**7,794**

10. Intangible assets

	Software
At 1 January 2018	
Cost	3,159
Accumulated amortisation	(2,664)
Carrying amount	**495**
Additions	575
Amortisation charge	(443)
Carrying amount	**627**
At 31 December 2018	
Cost	3,734
Accumulated amortisation	(3,107)
Carrying amount	**627**
Additions	906
Amortisation charge	(429)
Carrying amount	**1,104**
At 31 December 2019	
Cost	4,640
Accumulated amortisation	(3,536)
Carrying amount	**1,104**

(All amounts in thousands of BGN)

11. Investment in subsidiaries

	31 December 2019	2018	31 December 2019	2018
	Carrying amount		% ownership	
Jostdex Ltd	9,409	9,194	100%	100%
Port Svishtov West AD	5,365	5,365	73.09%	73.09%
Sidebalk Ltd	1,213	1,213	100%	100%
	15,987	**15,772**		

Acquisitions of subsidiary and its merger

On 1 January 2019 the Company obtained control of Prosal Tubes EAD, a manufacturer and distributor of cold bending steel pipes, by a sale/purchase contract for acquiring 100% of the shares with voting rights in the company. As a result, Stomana Industry AD becomes sole owner of Prosal Tubes EAD.

Subsequently, by Resolution of the Board of Directors of Stomana Industry AD, was decided for transformation through merger, in accordance with Article 262e from the Commercial Law. As a result, Prosal Tubes EAD has been dissolved without going into liquidation under the conditions of universal succession, and all the assets, liabilities, and all property and non-property rights and liabilities will be transferred to Stomana Industry AD (Note 37).

In 2019 the Company increased its investment in Jostdex Ltd with the amount of BGN 215 thousand.

(All amounts in thousands of BGN)

12. Inventories

	31 December 2019	2018
Finished goods	74,069	99,410
Semi-finished goods	36,370	43,322
Raw materials and spare parts	45,831	32,754
Goods	2,683	4,971
Stock in transit	-	3,775
Other	2,393	2,123
	161,346	**186,355**

13. Trade and other receivables

	31 December 2019	2018
Trade receivables	23,787	37,977
Less: impairment of trade receivables	(3,291)	(3,363)
Trade receivables, net	**20,496**	**34,614**
Receivables from related parties (Note 34)	29,759	46,235
Tax receivables	1,553	4,344
Advances for procurement of stocks	2,100	3,380
Other receivables	4,372	3,558
	58,280	**92,131**

14. Cash and cash equivalents

	31 December 2019	2018
Cash at bank	8,660	17,944
	8,660	**17,944**

15. Share capital

	Number of shares	In BGN thousand
At 31 December 2019	669,263	66,926
At 31 December 2018	**669,263**	**66,926**

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 2019 other reserves amounting to BGN 6,692 thousand (2018: BGN 6,544 thousand) represent 10% of the profit for 2001, 2004, 2005, 2006, 2007 and 2018 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 mergers taken place in 2015 and in 2019 amounting to BGN 6,638 thousand.

(All amounts in thousands of BGN)

16. 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 33 *Financial instruments.*

	31 December 2019	2018
Non-current liabilities		
Secured bank loans	120,185	156,346
Bond loan from related parties	61,281	58,714
	181,466	215,060
Current liabilities		
Current portion of long term secured bank loans	36,162	25,025
Secured bank loans	80,700	72,728
Interest liabilities	466	487
	117,328	98,240
	298,794	**313,300**

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest	Year of maturity	31 December 2019 Nominal value (principal)	31 December 2019 Carrying amount	31 December 2018 Nominal value (principal)	31 December 2018 Carrying amount
Long term secured bank loans	EUR	4,56% floating	2019-23	157,861	156,813	183,421	181,858
Short term secured bank loans	EUR	3%-5% floating	2019	80,700	80,700	72,728	72,728
Bond loan	EUR	4,23%	2023	61,281	61,281	58,714	58,714
				299,842	**298,794**	**314,863**	**313,300**

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

	2019	2018
As at 1 January	313,300	316,236
Proceeds from borrowings	10,360	5,405
Repayments of borrowings	(28,382)	(10,751)
Capitalized borrowing costs	447	282
Interest expense	14,388	16,197
Interest paid	(11,319)	(14,069)
As at 31 December	**298,794**	**313,300**

(All amounts in thousands of BGN)

17. 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	
	2019	2018	2019	2018	2019	2018
Property, plant and equipment	-	-	(4,147)	(6,201)	(4,147)	(6,201)
Employee benefits	505	523	-	-	505	523
Trade and other receivables	329	336	-	-	329	336
Provisions	30	26	-	-	30	26
Interests	1,904				1,904	-
Investments in subsidiaries	146	146	-	-	146	146
Tax assets/(liabilities)	2,914	1,031	(4,147)	(6,201)	(1,233)	(5,170)
Set off of tax	(2,914)	(1,031)	2,914	1,031	-	-
Net tax assets /(liabilities)	-	-	(1,233)	(5,170)	(1,233)	(5,170)

Assets/(liabilities)	Balance 1 January 2018	Recognized in profit or loss	Recognized in other comprehen-sive income	Balance 31 December 2018	Recognized in profit or loss	Recognized in other comprehen-sive income	Balance 31 December 2019
Property, plant and equipment	(5,046)	(1,155)	-	(6,201)	2,054	-	(4,147)
Employee benefits	458	57	8	523	(16)	(2)	505
Trade and other receivables	313	23	-	336	(7)	-	329
Provisions	52	-26	-	26	4	-	30
Interests	-	-	-	-	1,904	-	1,904
Investments in subsidiaries	-	146	-	146	-	-	146
	(4,223)	(955)	8	(5,170)	3,939	(2)	(1,233)

(All amounts in thousands of BGN)

18. Employee benefits

	31 December 2019	2018
Obligations for defined benefit retirement compensations at 31 December	**3,041**	**2,929**

	2019	2018
Charge in statement of comprehensive income	406	474
Actuarial (gains) losses, recognized in other comprehensive income	(20)	77

The principal actuarial assumptions at the reporting date are:

	2019	2018
Discount rate per year	0,54%	1,34%
Future salary increases	1,20%	1,75%

Movements in defined benefit obligations	2019	2018
Defined benefit obligations at 1 January	2,929	2,644
Charge in statement of comprehensive income	406	474
Actuarial (gains) losses, recognized in other comprehensive income	(20)	77
Benefits paid by the plan	(274)	(266)
Defined benefit obligations at 31 December	**3,041**	**2,929**

18. Government grants

Grants for property, plant and equipment

	31 December 2019	2018
Beginning of the year	788	921
Income for the period	(146)	(133)
End of the year	**642**	**788**

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 2019 and 2018 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:

	2019	2018
	6,893	**12,006**

In 2019 Stomana was entitled of BGN 6,893 thousand of grant for reduction of the burden related to the cost for energy from renewable sources and changed the mechanism of state aid instead of receiving money to directly deducting amounts payable.

(All amounts in thousands of BGN)

19. Provisions

The major part of the recognised provisions of BGN 300 thousand (2018: BGN 257 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.

	31 December 2019	2018
At beginning of the year	257	521
Provisions charged during the year	43	-
Utilization of provision	-	(264)
At the end of the year	**300**	**257**

21. Trade and other payables

	31 December 2019	2018
Trade payables	65,417	75,734
Payables to related parties (Note 34)	65,914	89,043
Employee benefits and social security payables	2,201	1,738
Other taxes payable	622	445
Other payables	6,617	7,495
	140,771	**174,455**

22. Lease liabilities

(a) Leases as lessee (IFRS 16)

(i) Lease liabilities

	31 December 2019	2018
Non-current liabilities		
Lease liabilities	5,686	-
		-
Current liabilities		
Current portion lease liabilities	1,421	-
	1,421	-

Maturity analysis – contractual undiscounted cash flows	
Less than one year	1,611
One to five years	5,440
More than five years	581
Total undiscounted lease liabilities at 31 December	**7,632**
Lease liabilities included in the statement of financial position at 31 December	**7,107**

(All amounts in thousands of BGN)

22. Lease liabilities (continued)

(a) Leases as lessee (IFRS 16) (continued)

(ii) Amounts recognised in profit or loss

2019 – Leases under IFRS 16	**2019**
Interest on lease liabilities	114

2018 – Operating leases under IAS 17	**2018**
Rents	25

(iii) Amounts recognised in statement of cash flows

	2019
Total cash outflow for leases	727

23. Sales revenue

Revenue streams	**2019**	**2018**
Sales of finished and semi-finished goods	640,197	766,820
Sales of goods	97,724	97,233
Sales of materials	6,735	9,684
Sales of services	22,257	17,085
Commission income	-	1,360
	766,913	**892,182**

The revenue is generated mainly on the European market, at the total amount of BGN 764,399 thousand (2018: BGN 883,569 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 152 thousand (2018: BGN 6,397 thousand) and BGN 2,363 thousand (2018: BGN 2,216 thousand).

(All amounts in thousands of BGN)

23. Sales revenue (continued)

Contract balances

	31 December 2019	1 January 2019
Receivables from third parties	20,496	34,614
Receivables from related parties	29,759	46,235
Contract liabilities	(2,258)	(4,869)

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 and the related revenue recognition policies for main revenue realized by the Company.

Type of product/ service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Standard steel products and goods	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.

24. Cost of sales

	2019	2018
Materials	(550,821)	(620,220)
Energy	(96,188)	(95,591)
Depreciation and amortisation	(28,083)	(26,749)
Salaries and social security expenses	(24,664)	(23,355)
Hired services	(13,588)	(14,057)
Transportation expenses	(1,650)	(2,093)
Insurances	(510)	(478)
Rents	(116)	(292)
Other expenses	(5,682)	(6,421)
	(721,302)	**(789,256)**

(All amounts in thousands of BGN)

25. Selling and distribution expenses

	2019	2018
Transportation expenses	(35,935)	(43,233)
Hired services	(7,983)	(8,573)
Salaries and social security expenses	(2,493)	(2,446)
Insurances	(1,442)	(1,961)
Depreciation and amortisation	(447)	(389)
Energy	(57)	(60)
Materials	(395)	(327)
Other expenses	(1,564)	(2,013)
	(50,316)	**(59,002)**

26. Administrative expenses

	2019	2018
Hired services	(5,064)	(5,414)
Salaries and social security expenses	(2,831)	(2,600)
Depreciation and amortisation	(889)	(816)
Insurance	(194)	(145)
Energy	(129)	(109)
Materials	(56)	(55)
Transportation expenses	(9)	(12)
Other expenses	(1,163)	(877)
	(10,335)	**(10,028)**

27. Other income

	2019	2018
Sales of CO_2 emissions	-	5,662
Amortisation of government grants	146	134
Other	315	484
	461	**6,280**

(All amounts in thousands of BGN)

28. Other expenses

	2019	2018
Depreciation of temporarily unused tangible assets	(3,571)	(1,572)
Expenses related to temporarily unused assets	(1,445)	(1,808)
Other	(374)	(1,469)
	(5,390)	(4,849)

29. Expenses by nature

	2019	2018
Materials	(551,272)	(620,602)
Energy	(96,374)	(95,760)
Transportation expenses	(37,594)	(45,338)
Depreciation and amortisation	(32,990)	(29,526)
Salaries and social security expenses	(29,988)	(28,401)
Hired services	(26,635)	(28,044)
Insurances	(2,146)	(2,592)
Movement in impairment of trade receivables	65	(230)
Rents	(116)	(284)
Other expenses	(10,228)	(12,588)
Total expenses by nature	**(787,278)**	**(863,365)**

Expenses by function

	2019	2018
Cost of sales	(721,302)	(789,256)
Selling and distribution expenses	(50,316)	(59,002)
Administrative expenses	(10,335)	(10,028)
Movement in impairment of trade receivables	65	(230)
Other expenses	(5,390)	(4,849)
Total expenses by function	**(787,278)**	**(863,365)**

Expenses for personnel

	2019	2018
Wages and salaries	(23,740)	(22,660)
Social security expenses	(5,842)	(5,267)
Retirement benefit expenses	(406)	(474)
Total expenses for personnel	**(29,988)**	**(28,401)**

30. Net finance costs

	2019	2018
Interest income	1	1
Foreign exchange transactions gains	190	157
Other financial income	41	23
Income from dividends	982	-
Finance income	**1,214**	**181**
Interest expense on loans and leases	(11,935)	(13,878)
Interest expense on bond loan	(2,567)	(2,319)
Factoring expenses	(932)	(987)
Bank guarantee expenses	(365)	(294)
Other financial expenses	(3,234)	(2,375)
Finance costs	**(19,033)**	**(19,853)**

(All amounts in thousands of BGN)

30. Finance costs, net (continued)

In 2019 the Company has capitalised borrowing costs under financing of assets building amounting to BGN 447 thousand (2018: BGN 282 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 2019, the Company uses a capitalisation rate of 5,29% (an average interest rate for non-current and current loans for 2019).

31. Income taxes

	2019	2018
Current tax expense	-	-
Deferred tax		
Deferred income tax in comprehensive income (Note 17)	3,939	(955)
Deferred income tax in other comprehensive income (Note 17)	(2)	8
Income tax	3,937	(947)

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:

	2019	2018
Profit before tax	(37,723)	15,426
Tax due at a tax rate applicable to profits 10% (2018: 10%)	3,772	(1,543)
Expenses not deductible for tax purposes	(34)	(35)
Effect from unrecognised deferred tax assets	199	631
Income tax in profit or loss	3,939	(955)

32. Cash flows from operating activities
Reconciliation of profit before tax to cash generated from operations:

	2019	2018
Profit for the year	(33,784)	14,471
Adjustments for:		
Income tax (Note 31)	(3,939)	955
Depreciation and amortisation (Note 29)	32,990	29,526
Impairment of investments in subsidiaries	-	1,455
Movement in impairment of trade receivables	(65)	230
Net finance costs (Note 30)	17,819	19,672
Book value of assets written off	316	81
Amortisation of government grants	(146)	(133)
Changes in working capital:		
– Inventories	25,009	(44,332)
– Trade and other receivables	33,916	31,674
– Trade and other payables	(38,584)	(4,967)
– Contract liabilities	(2,611)	4,828
– Provisions and defined benefit obligation	175	68
Cash generated from operating activities	31,096	53,528

(All amounts in thousands of BGN)

33. 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:

	Note	**Carrying amount 31 December**	
		2019	**2018**
Trade receivables from third parties	*13*	20,496	34,614
Trade receivables from related parties	*13*	29,759	46,235
Cash and cash equivalents, excluding cash in hand	*14*	8,660	17,944
		58,915	**98,793**

(All amounts in thousands of BGN)

33. Financial instruments (continued)
Credit risk (continued)

The concentration of credit risk as at reporting date is in the following 5 customers which represent 56% of all trade receivables:

Clients	31 December 2019
SIDMA BULGARIA EAD	8,290
Siderom Steel	7,833
SIDENOR STEEL INDUSTRY SA	4,894
SIDMA S.A.	4,030
MILANOV AND SON OOD	3,067
	28,114

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 Company has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, when available, and in some cases bank references. Sale limits are established for each customer, which represents the maximum open amount without requiring approval; these limits are reviewed quarterly. Customers that 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 their aging, is as follows:

	2019	
	Not credit impaired	**Credit impaired**
Related Parties	29,759	-
Third Parties Not Due	9,032	-
Third Parties 0-30, third parties	9,086	-
Third Parties 30-365, third parties	2,490	-
Third Parties >365, third parties	-	3,179
Total gross carrying amount	50,367	3,179
Impairment	(112)	(3,179)
	50,255	-

	2018	
	Not credit impaired	**Credit impaired**
Related Parties	46,235	-
Third Parties Not Due	16,289	-
Third Parties 0-30, third parties	15,582	-
Third Parties 30-365, third parties	3,024	-
Third Parties >365, third parties	-	3,082
Total gross carrying amount	81,130	3,082
Impairment	(281)	(3,082)
	80,849	-

(All amounts in thousands of BGN)

33. 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 tables provides information about the exposure to credit risk and ECLs for trade receivables:

31 December 2019	**Weighted average loss rate**	**Gross carrying amount**	**Impairment loss allowance**	**Credit impaired**
Related Parties	-	29,759	-	No
Third Parties Not Due	0.86%	9,032	(78)	No
Third Parties 0-30	0.30%	9,086	(26)	No
Third Parties 30-365	0.32%	2,490	(8)	No
Third Parties >365	100.00%	3,179	(3,179)	Yes
		53,546	**(3,291)**	

31 December 2018	**Weighted average loss rate**	**Gross carrying amount**	**Impairment loss allowance**	**Credit impaired**
Related Parties		46,235	-	No
Third Parties Not Due	0.81%	16,289	(130)	No
Third Parties 0-30	0.81%	15,582	(126)	No
Third Parties 30-365	0.83%	3,024	(25)	No
Third Parties >365	100.00%	3,082	(3,082)	Yes
		84,212	**(3,363)**	

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 2018 represent the impairment allowance under IAS 39.

	Allowance for impairment
Balance at 1 January 2018 under IFRS 9	**3,133**
Impairment loss recognized	230
Amounts written off	-
Balance at 31 December 2018	**3,363**
Balance at 1 January 2019 under IFRS 9	**3,363**
Impairment loss recognized	-
Amounts written off	(65)
Balance at 31 December 2019	**3,291**

(All amounts in thousands of BGN)

33. 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.

		Contractual cash flows				
As at 31 December 2019	**Carrying amount**	**Total contractual cash flows**	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**
Borrowings	237,513	(255,188)	(124,712)	(49,391)	(81,085)	-
Bond loan	61,281	(71,380)	-	-	(71,380)	-
Trade and other payables	133,532	(133,532)	(104,195)	-	(29,337)	-
Interests on trade payables	-	(2,956)	(739)	(739)	(1,478)	-
Lease liabilities	7,107	(7,632)	(1,611)	(1,586)	(3,854)	(581)
	439,433	**(470,688)**	**(231,257)**	**(51,716)**	**(187,134)**	**(581)**

		Contractual cash flows				
As at 31 December 2018	**Carrying amount**	**Total contractual cash flows**	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**
Borrowings	254,586	(282,875)	(109,778)	(43,791)	(129,306)	-
Bond loan	58,714	(71,521)	-	-	(71,521)	-
Trade and other payables	166,515	(166,515)	(137,178)	-	(29,337)	-
Interests on trade payables	-	(3,695)	(739)	(739)	(2,217)	-
	479,815	**(524,606)**	**(247,695)**	**(44,530)**	**(232,381)**	**-**

(All amounts in thousands of BGN)

33. 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:

Denominated in:	**USD**	**GBP**	**USD**	**GBP**
	31 December 2019		**31 December 2018**	
Trade receivables	91	-	6,632	-
Cash and cash equivalents	1,162	-	52	-
Trade payables	(1,465)	-	(2,561)	-
Net exposure	(212)	-	4,123	-

The following significant exchange rates applied during the year:

	Reporting date spot rate	
BGN	**2019**	**2018**
USD	1.74099	1.7082
GBP	2.29881	2.1864

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 21 thousand.

A 10% increase/ decrease of the exchange rate of Bulgarian Lev (BGN) against the US Dollar (USD) as at 31 December 2018, would have caused a loss/profit for the Company amounting to BGN 412 thousand.

(All amounts in thousands of BGN)

33. 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:

	Nominal amount 31 December	
	2019	**2018**
Fixed rate instruments		
Financial assets	8,660	17,944
Financial liabilities	(61,281)	(58,714)
	(52,621)	**(40,770)**
Variable rate instruments		
Financial liabilities	(244,620)	(254,586)
	(244,620)	**(254,586)**

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 2,446 thousand (2018 – a loss amounting to BGN 2,545 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.

(All amounts in thousands of BGN)

33. 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 2019 and 31 December 2018 were as follows:

	31 December 2019	2018
Total borrowings and lease liabilities	244,620	254,586
Zero-coupon bond loan	61,281	58,714
Less:		
Cash and cash equivalents	(8,660)	(17,944)
Net debt	**297,241**	**295,356**
Total equity	132,872	166,638
Total capital employed	**430,113**	**461,994**
Gearing ratio	**69.10%**	**63.93%**

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 16) 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.

(All amounts in thousands of BGN)

34. 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

Related party	Type of sales	2019	2018
Sidenor Steel Industry SA	Inventory	24,271	16,236
Sidenor Steel Industry SA	Services	-	16
Sovel SA	Inventory	2,573	28,026
Sovel SA	Services	1	1
Ethil SA	Inventory	339	718
Sigma IS AD	Inventory	360	175
Sigma IS AD	Services	214	225
Erlikon SA	Services	1	2
Erlikon SA	Inventory	-	16,298
Metalign	Services	1	-
Corinth Pipeowrks, USA	Inventory	-	6,397
Dojran Steel DOO	Inventory	6,050	3,310
Aeiforos Bulgaria EAD	Inventory	456	320
Aeiforos Bulgaria EAD	Services	132	149
Aeiforos Bulgaria EAD	Other	3	
Prosal Tubes EAD	Services	-	345
Siderom	Inventory	24,859	31,080
Sideral Shph	Inventory	2,436	2,764
TeproMetal AG	Inventory	-	1,524
Metal Agencies Ltd	Inventory	5,588	8,049
TeProMKC	Services	38	-
Genecos SA	Inventory	-	-
Metalco Bulgaria	Services	1	1
International Trade	Inventory	100,849	74,753
International Trade	Services	68	68
Inos Balkan	Services	1	1
Praksis	Services	2	2
		168,243	**190,460**
Sales of inventory, fixed assets and services to its own subsidiaries			
Port Svishtov West AD	Services	22	24
Sidebalk Steel DOO	Inventory	2,866	2,876
Sidebalk Steel DOO	Services	47	-
		2,935	**2,900**
Sales of inventory, fixed assets and services to other related parties			
Sidma SA, Greece	Inventory	14,388	13,951
Sidma Bulgaria AD	Inventory	25,107	24,099
		39,495	**38,050**
Total sales to related parties		**210,673**	**231,410**

(All amounts in thousands of BGN)

34. 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

Sidenor Steel Industry SA	Inventory	32,064	52,559
Sidenor Steel Industry SA	Services	1,756	1,889
Sidenor Steel Industry SA	Fixed assets	-	113
Sovel SA	Inventory	78,713	110,312
Sovel SA	Services	-	31
Sovel SA	Fixed assets	-	136
Ethil SA	Inventory	487	197
Sigma IS AD	Inventory	2,065	2,093
Sigma IS AD	Services	6,066	8,290
Sigma IS AD	Fixed assets	8,560	771
Erlikon SA	Inventory	20	29
Corinth Pipeworks, Greece	Services	123	83
Dojran Steel DOO	Inventory	11,487	15,713
Dojran Steel DOO	Services	-	,205
Aeiforos Bulgaria EAD	Inventory	1,742	1,570
Aeiforos Bulgaria EAD	Services	49	158
Praksys BG SA	Inventory	(108)	-
Thermolith SA	Inventory	1,626	1,951
Viexal SA	Services	108	178
Teka Greece SA	Inventory	4	605
Teka Greece SA	Services	302	23
Teka Greece SA	Fixed assets	917	811
Steelmet Cyprus SA	Services	148	185
Etem Bulgaria EAD	Services	3	3
TeproMetal AG	Services	966	1,786
TeProMKC	Services	1,010	
Metalco Bulgaria EAD	Inventory	2,182	-
Metalco Bulgaria EAD	Services	273	439
Metalvalious EOOD	Inventory	-	-
Sofia Med	Inventory	566	420
Sofia Med	Services	9	66
International Trade	Services	2	2
Base Metals	Services	625	605
Genecos	Services	-	-
El.Ke.Me SA	Services	235	210
Inos Balkan	Inventory	24,474	18,979
Metalign EAD	Services	516	570
Siderom	Services	143	89
Lesko	Inventory	78	23
		177,211	**221,094**

(All amounts in thousands of BGN)

34. 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	99	286
		99	**286**
Purchases of inventory, fixed assets and services from other related parties			
Sidma Bulgaria AD	Inventory	4	1
Sidma Bulgaria AD	Services	1,223	1,191
Sidma Bulgaria AD	Fixed assets	-	4
		1,227	**1,196**
Total purchases form related parties		**178,537**	**222,576**

iii) Receivables from related parties

	31 December 2019	2018
Receivables from related parties under common control		
Aeiforos Bulgaria	188	45
Corinth Pipeworks, USA	-	6,347
Dojran DOO	313	-
Erlikon SA	1,254	7,901
Ethil SA	241	921
International Trade	1,283	2,429
Metal Agensies Ltd	310	894
Metalco Bulgaria EAD	1	8
Praksys BG	1	1
Praksys SA	-	108
Sidenor Steel SA	4,894	-
Sideral Shpk	480	623
Siderom Srl	7,833	10,874
Sovel SA	308	-
SIGMA IC. S.A.	-	109
TeproMetal AG	-	5,424
TeProMKC	38	-
	17,144	**35,684**
Receivables from its own subsidiaries		
Sidebalk Steel DOO	295	560
	295	**560**
Receivables from other related parties		
Sidma Bulgaria AD	8,290	5,424
Sidma SA Greece	4,030	4,567
	12,320	**9,991**
Total receivables from related parties	**29,759**	**46,235**

(All amounts in thousands of BGN)

32. Related party transactions (continued)

iv) Payables to related parties

	31 December 2019	2018
Payables to related parties under common control		
Aeiforos Bulgaria AD	687	478
Base Metals	341	158
Corinth Pipeworks, Greece	4,115	4,310
Dojran DOO	733	6,170
El.Ke.Me	252	141
Erlikon	12	22
Etem Bulgaria EAD	34	31
Ethil SA	684	197
Genecos	-	1
Inos Balkan	615	1,381
International Trade	-	2
Lesko	55	28
Metalco Bulgaria EAD	4,370	1,908
Metalign EAD	155	108
Sidenor	37,041	43,491
Siderom Srl	42	89
Sigma IS AD	2,488	6,648
Sofia Med	6	118
Sovel SA	10,113	15,631
Steelmet Cyprus SA	7	42
Teka Greece SA	799	429
TeProMKC	822	-
TeproMetal AG	-	5,478
Termolith SA	480	387
Viexal	23	21
	63,874	**87,269**
Payables to its own subsidiaries		
Port Svishtov West AD	1,761	1,745
	1,761	**1,745**
Payables to other related parties		
AWM	6	6
Sidma Bulgaria	250	-
Sidma Romania Srl	23	23
	279	**29**
Total payables to related parties	**65,914**	**89,043**

(All amounts in thousands of BGN)

34. Related party transactions (continued)

v) Remuneration of key management personnel

	2019	2018
Gross salaries and social benefits	4,986	4,929
	4,986	**4,929**

vi) Bond loan

As at 31.12.2019 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.

	31 December	
	2019	2018
Beginning of the year	58,714	56,395
Interest charged	2,567	2,319
End of year	**61,281**	**58,714**

vii) Dividends paid

In 2019 Sidebalk Steel D.O.O. has paid dividends to Stomana Industry AD in the net amount of BGN 983 thousand.

35. Commitments

As at 31 December 2019 the company has commitments from commercial contract for the purchase of equipment and machinery of total amount BGN 7,369 thousand.

36. Contingent assets and liabilities

	31 December	
	2019	2018
Contingent assets		
Letters of credit from customers in favour of the Company	5,953	598
Contingent liabilities		
Bank guaranties in favour of suppliers	1,720	2,848

37. Merger of entity under common control

On 21 May 2019 an agreement for transformation (merger) of Stomana Industry AD and Prosal Tubes EAD is signed, where Stomana Industry AD is the acquiring company, and Prosal Tubes EAD ceases to exist.

The transformation of Stomana Industry AD and Prosal Tubes EAD is registered with the Commercial Register at the Bulgarian Registry Agency on 18 July 2019. The transformation is effectively reported on 1 July 2019. The transformation is presented using the predecessor value method, as disclosed in Note 39 (o). As a result of the method applied, the reporting of comparative information in the separate statement of financial position and separate statement of profit or loss and other comprehensive income is presented below. The adjustments represent transactions between Stomana Industry AD and Prosal Tubes EAD during the year ended 31 December 2018:

37. Acquisition of entity under common control (continued)

In thousands of BGN

	Stomana Industry AD	Prosal Tubes EAD	Adjustments	Comparative information
ASSETS				
Non-current assets				
Property, plant and equipment	350,908	4,669	-	355,577
Intangible assets	626	1	-	627
Investments in subsidiaries	15,772	-	-	15,772
	367,306	**4,670**	-	**371,976**
Current assets				
Inventories	183,640	2,715	-	186,355
Trade and other receivables	87,134	8,680	(3,683)	92,131
Cash and cash equivalents	16,894	1,050	-	17,944
	287,668	**12,445**	**(3,683)**	**296,430**
Total assets	**654,974**	**17,115**	**(3,683)**	**668,406**
Equity				
Share capital	66,926	3,350	(3,350)	66,926
Other reserves	12,766	-	416	13,182
Retained earnings	90,282	(3,775)	23	86,530
	169,974	**(425)**	**(2,911)**	**166,638**
LIABILITIES				
Non-current liabilities				
Bond loan from related parties	58,714	-	-	58,714
Trade payables to related parties	29,337	-	-	29,337
Non-current liabilities to related parties	**88,051**	-	-	**88,051**
Borrowings	156,346	-	-	156,346
Deferred tax liabilities	5,168	2	-	5,170
Government grants	788	-	-	788
Employee benefits	2,883	46	-	2,929
Provisions	257	-	-	257
Non-current liabilities to third parties	**165,442**	**48**	-	**165,490**
Total non-current liabilities	**253,493**	**48**	-	**253,541**
Current liabilities				
Trade and other payables	140,162	5,728	(772)	145,118
Borrowings	86,505	11,735	-	98,240
Contract liabilities	4,840	29	-	4,869
	231,507	**17,492**	**(772)**	**248,227**
Total liabilities	**485,000**	**17,540**	**(772)**	**501,768**
Total equity and liabilities	**654,974**	**17,115**	**(3,683)**	**668,406**

(All amounts in thousands of BGN)

37. Acquisition of entity under common control (continued)

	Stomana Industry AD	Prosal Tubes EAD	Adjustments	Comparative information
Revenue	871,336	21,453	(607)	892,182
Cost of sales	(768,921)	(20,897)	562	(789,256)
Gross profit	102,415	556	(45)	102,926
Selling and distribution expenses	(58,222)	(801)	21	(59,002)
Administrative expenses	(9,866)	(186)	24	(10,028)
Movement in impairment of trade receivables	(225)	(5)	-	(230)
Other expenses	(4,849)	-	-	(4,849)
Other income	6 280	1	-	6,281
Operating profit	35,533	(435)	-	35,098
Finance income	181	-		181
Finance costs	(19,232)	(621)	-	(19,853)
Net finance costs	(19,051)	(621)	-	(19,672)
Profit before income tax	16,482	(1,056)	-	15,426
Income tax	(907)	(48)	-	(955)
Profit for the year	15,575	(1,104)	-	14,471
Other comprehensive income				
Items that will never be reclassified to profit or loss:				
Remeasurement of retirement benefit obligations	(83)	6	-	(77)
Related tax	8	-	-	8
Other comprehensive income for the year, net of tax	(75)	6	-	(69)
Total comprehensive income for the year	15,500	(1,098)	-	14,402

38. Subsequent events

On 11 March 2020 the World Health Organization declared the coronavirus outbreak a pandemic, and the Bulgarian government declared a state of emergency on 13 March 2020 for one month subsequently prolonged with one month till 13 May 2020. On 13 May 2020 the state of emergency was cancelled and the government introduced emergency epidemic situation on 14 May 2020 till 14 June 2020 subsequently prolonged till 30 June 2020 and the restrictions are being relieved in stages. Responding to the potentially serious threat the COVID – 19 presents to public health, the Bulgarian government authorities have taken measures to contain the outbreak, including introducing restrictions on the cross-border movement of people, measures regarding foreign visitors from affected regions and the 'lock-down' of certain industry activities, pending further developments. Many of the countries in Europe and worldwide introduced similar actions.

Management considered that the major operating risks that may adversely affect the Company are the industry slowdown, including the effects of the COVID-19 crisis, the resulting decrease in the demand for the Company's products and the compliance with the financial covenants in respect to the long-term loans. Based on the publicly available information at the date these separate financial statements were authorized for issue, management considered a number of severe but plausible scenarios with respect to the potential development of the outbreak and its expected impact on the Company and economic environment in which the Company operates including the measures already taken by the Bulgarian government and governments in other countries where the Company's major business partners and customers are located. In a severe but plausible scenario management expects a drop in sales of 30% for 2020 compared to 2019 but still a positive EBITDA. In response to these possible scenarios, management has already initiated actions aimed at mitigating the risks as discussed below.

In 2020, the outbreak of COVID-19 pandemic continues to evolve rapidly mainly in Europe and USA. The worldwide prediction of its business and economic impact remains uncertain and it is highly correlated with the duration of government restrictions. In this context, Stomana has immediately activated protection mechanisms for the personnel, in compliance with the Bulgarian health authorities' guidelines, while closely monitoring the developments and assessing the implications on its operations.

With reference to mitigation factors of the COVID-19 crisis, Stomana Industry has undertaken various measures to protect its workforce in order to ensure continuity of production and up to date of approval of the separate financial statements there have been no diagnosed cases in any production unit affecting the Company's operational capacity. The Company has implemented a reduced staffing policy at critical product lines, where and when possible, in order to reduce the potential risk of virus transmission among employees, and has established a standby shift policy to ensure that their operations continue, covering any potential labor shortages due to illness or quarantine. Finally, a "work from home" policy has been extensively implemented at the Company's headquarters, with no operational issues up to date.

Having assessed the impact of COVID-19 on its financial figures and operations, the Company will draw emphasis in the following years on increasing its profitability margins and strengthening its position in the regional market. One of the steps in this respect is the announced restructuring plan on 19 March 2020 in order to adapt to the new challenging environment. This strategic restructuring plan targets cost optimization and increasing profitability.

As at 31 December 2019 the current liabilities are at the amount of BGN 232,441 thousand. Significant part of which represents bank loans amounting BGN 117,328 thousand. The Management's intention, which is based on the historical experience, is to reschedule repayment of all short term secured bank loans from local and foreign banks (totaling BGN 80,796 thousand as at 31 December 2019). As at the date of approval of these separate financial statements, management agreed extension of the maturity date to 2021 for bank loans at the total amount of BGN 79,196 thousand. The loan of BGN 1,600 thousand is expected to be renegotiated once it becomes due in November 2020. As at 31 December 2019 the short term part of the long term bank loans is at the amount of BGN 36,532 thousand, which is due in June 2020 and in December 2020. As at the date these separate financial statements were authorized for issue, management agreed to postpone short term installments at the total amount of BGN 13,690 thousand until December 2023 and the amount of BGN 3,616 thousand are agreed to be postponed by December 2020.

38. Subsequent events (continued)

The first signs of the COVID-19 crisis in the Company's financial results appeared in the first trimester of 2020. The steel industry downturn and the unexpected conditions in the market due to COVID-19 outbreak resulted in Stomana's financial ratios not being in accordance with the set limits of its loan covenants as at 31 March 2020 and as at 30 June 2020. As result Stomana Industry S.A.' Management obtained temporary waivers from the lenders. Management developed various scenarios for the remainder of the year and based on these scenarios the Company will not be able to meet the bank covenants as at 30 September 2020 and 31 December 2020. However, management expects to obtain further waivers from its lenders for the expected non-compliance with the financial covenants in following quarters, which is supported by the fact that the Company has historically obtained such waivers and also, as described above, by the fact, that the lenders have already agreed to postpone the repayment of the short-term portion of their long term loans.

Based on the above, in management's view, the expected level of sales in 2020, the expected collectability of trade receivables, ability to obtain additional waivers from banks for expected non-compliance with covenants as well as the assumed effectiveness of the restructuring plan being implemented support the assertion that the Company will have sufficient resources to continue to trade as a going concern for a period of at least 12 months from the reporting date. Management concluded that the range of possible outcomes considered at arriving at this judgment does not give rise to material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Management cannot however preclude the possibility that extended lock down periods, an escalation in the severity of such measures, or a consequential adverse impact of such measures on the economic environment the Company operates in will have an adverse effect on the Company, and its financial position and operating results, in the medium and longer term. Management continue to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur.

In the period after 1 January 2020 until the date of approval of these separate financial statements by the Board of Directors, no other events have occurred that require disclosure or adjustment of the financial statements as of 31 December 2019, apart from those mentioned above.

39. 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.

39. Significant accounting policies (continued)

c) Financial instruments (continued)

(ii) Classification and subsequent measurement

Financial assets

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.

A debt investment is measured at FVOCI 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 achieved by both collecting contractual cash flows and selling financial assets; 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.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment

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.

39. Significant accounting policies (continued)

c) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest:

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.

Financial assets at FVTPL	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.
Financial assets at amortised cost	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.
Debt investments at FVOCI	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.
Equity investments at FVOCI	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.

39. 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.

39. 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 licenses 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

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.

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.

39. Significant accounting policies (continued)
f) Impairment (continued)

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.

39. 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.

39. Significant accounting policies (continued)
h) Income tax (continued)

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 though 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.

39. 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 2019 and 2018 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

Information about the Company's accounting policies relating to contracts with customers is provided in Note 23. The effect of initially applying IFRS 15 is described in Note 23.

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.

39. Significant accounting policies (continued)

m) Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

39. Significant accounting policies (continued)

m) Leases (continued)

(i) As a lessee (continued)

Lease payments included in the measurement of the lease liability comprise the following:
— fixed payments, including in-substance fixed payments;
— variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
— amounts expected to be payable under a residual value guarantee; and
— the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property and lease liabilities as a separate line item in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.
To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

39. Significant accounting policies (continued)

m) Leases (continued)

(ii) As a lessor (continued)

If an arrangement contains lease and non-lease components, then the Company applies IFRS 15 to allocate the consideration in the contract.
The Company applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.
The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

Generally, the accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:
— fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
— the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(i) As a lessee

In the comparative period, as a lessee the Company classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(ii) As a lessor

When the Company acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.
To classify each lease, the Company made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Company considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

39. Significant accounting policies (continued)

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.

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.

39. Significant accounting policies (continued)

q) New standards and interpretations not yet adopted

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 2019, and have not been applied in preparing these separate 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

(a) Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

The amendments are effective for annual periods beginning on or after 1 January 2020 and are required to be applied prospectively. Early application is permitted. They clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

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

(b) Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*

The amendments are effective for annual periods beginning on or after 1 January 2020 and are mandatory and apply to all hedging relationships directly affected by uncertainties related to the IBOR reform. The amendments provide temporary relief from applying specific hedge accounting requirements to the hedging relationships with the effect that IBOR reform should not generally cause hedge accounting to terminate. The key reliefs provided by the amendments relate to:

- 'Highly probable' requirement.
- Risk components
- Prospective assessments
- Retrospective effectiveness test (for IAS 39)
- Recycling of the cash flow hedging reserve.

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

(c) Amendments to References to the Conceptual Framework in IFRS Standards

The amendments are effective for annual periods beginning on or after 1 January 2020.

(d) Amendments to IFRS 3 Business Combinations

The amendments are effective for annual periods beginning on or after 1 January 2020.

Standards and interpretations not yet endorsed by the EC

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 separate financial statements. The actual effective dates for them will depend on the endorsement decision by the EC.

39. Significant accounting policies (continued)

q) New standards and interpretations not yet adopted

(a) IFRS 17 *Insurance Contracts*

The standard is effective for annual periods beginning on or after 1 January 2021 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 separate 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.

(b) Other amendments

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

- Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current

- Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements.

- Amendment to IFRS 16 Leases Covid 19-Related Rent Concessions.

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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 54, which comprise the separate statement of financial position as at 31 December 2019, 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, including a summary of significant accounting policies.

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 2019, 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' International Code of Ethics for Professional Accountants (including International Independence Standards) (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.

Emphasis of a Matter

We draw attention to Note 38 *Subsequent events* of the separate financial statements, which describes a significant non-adjusting event after the reporting date, related to the outbreak of the COVID-19 pandemic and the government of Bulgaria's response to mitigate the outbreak's effects on the economy and the country's population. As also discussed in that Note, the Company's going concern assessment was based on cash flow forecasts which in management's view support the assertion that the Company will have sufficient resources to continue for a period of at least 12 months from the reporting date. Management concluded that the range of possible outcomes considered in arriving at this judgment does not give rise to a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Note 38 further explains how the judgment was formed by the management. Our opinion is not modified in respect of this matter.

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 presentation of the separate financial statements that give a true and fair view 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

Dobrina Kaloyanova
Registered auditor, responsible for the audit

45/A Bulgaria Boulevard
Sofia 1404, Bulgaria

21 August 2020

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 045
КПМГ ОДИТ ООД