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

31 DECEMBER 2020

Unofficial translation from original separate financial statements in Bulgarian

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

CONTENTS

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 2020 compared to 31 December 2019 amounts to BGN 12,598 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 2020 compared to the respective amount as at 31 December 2019 is net decrease amounting to BGN 13,415 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 19,581 thousand in current assets, which at 31 December 2020 are at the carrying amount of BGN 208,705 thousand, is due to the decrease of all positions: inventory BGN 13,415 thousand and trade receivables BGN 9,985 thousand and increasing cash amounts BGN 3,819 thousand.

Equity and liabilities

The change in Company's equity is due to a loss realised in 2020 amounting to BGN 33,084 thousand and changes in other comprehensive income. In 2019 the Company realised profit amounting to BGN 33,784 thousand.

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

The deviation of BGN 28,633 thousand of current liabilities, which at 31 December 2020 are at a carrying amount of BGN 261,074 thousand is due to the increase of loans liabilities to banks and finance institutions as well as to increase of trade payables.

Sales

Revenue includes mainly sales of goods and finished production and in 2020 it amounts to BGN 576,684 thousand (2019: BGN 766,913 thousand), which represents a decrease with 25%.

Expenses

Expenses include:
- Cost of sales amounting to BGN 536,017 thousand in 2020 (2019: BGN 721,302 thousand);
- Selling and distribution expenses amounting to BGN 35,775 thousand in 2020 (2019: BGN 50,316 thousand);
- Administrative expenses amounting to BGN 11,119 thousand in 2020 (2019: BGN 10,335 thousand);
- Net finance costs amounting to BGN 16,124 thousand in 2020 (2019: BGN 17,819 thousand);
- Other (expenses) and income, net amounting to BGN (14,452) thousand in 2020 (2019: BGN (4,929) thousand).

Debt to equity ratio

The Company's debt to equity ratio amounts to 4,56 as at 31 December 2020 (2019: 3,42).

Current Ratio

The current ratio (correlation between current assets and current liabilities) amounts to 0,80 as at 31 December 2020 (2019: 0,98).

Personnel

As at 31 December 2020 the Company has 892employees (2019: 1,145).

In 2020 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 390 thousand.

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

SUBSEQUENT EVENTS

On an extraordinary shareholders' meeting of Stomana Industry AD, held on 10 December 2020 it has been decided the bonds issued by Viohalco S.A. in respect of the two bond loans with total number of 365,677 to be converted into 488,957 ordinary, registered shares with voting rights, each at par value of BGN 100 and issue value of BGN 130,825 each, and the Company's share capital has been increased in this respect from BGN 66,926,300 to BGN 115,822,000.

On 24 February 2021 the increased capital amounting to BGN 115,822,000 has been registered in the Bulgarian Commercial Register.

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 have led 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:

	2020 BGN'000	2019 BGN'000
Groups of financial assets – carrying amounts:		
Trade receivables	37,540	50,255
Cash and cash equivalents, excluding cash in hand	12,479	8,660
Carrying amount	**50,019**	**58,915**

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 risk and cash flow risk is included in Note 33 Financial instruments to the separate financial statements.

INVESTMENTS IN SUBSIDIARIES

As of December 31, 2020 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, 2020 Stomana Industry AD is a shareholder in Sidebalk Ltd., Belgrade and owns 100% of the shares of the company.

As of December 31, 2020 Stomana Industry AD 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	• **Stomana Engineering 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; • **Stomana Engineering 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	• **Etil S.A., Greece**
5. Elias Stassinopoulos	• **ElvalHalcor SA, Greece**
6. Nikolaos Mariou	• **Port Svishtov West AD**, UIC 200124174; • **Aeiforos Bulgaria EAD**, UIC 113564009; • **Stomana Engineering 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 2020.

STOMANA PERNIK 3 INDUSTRY S.A.

Nikolaos Mariou	Georgios Bourniotis	Sonia Mangeyna
Representative	Finance Director	Chief Accountant
26 March 2021	26 March 2021	26 March 2021

SEPARATE STATEMENT OF FINANCIAL POSITION

In thousands of BGN

	Note	As at 31 December 2020	2019
ASSETS			
Non-current assets			
Property, plant and equipment	*8*	321,165	333,847
Right-of-use assets	*9*	7,878	7,794
Intangible assets	*10*	844	1,104
Investments in subsidiaries	*11*	11,098	15,987
Deferred tax assets		2,332	-
		343,317	**358,732**
Current assets			
Inventories	*12*	147,931	161,346
Trade and other receivables	*13*	48,295	58,280
Cash and cash equivalents	*14*	12,479	8,660
		208,705	**228,286**
Total assets		**552,022**	**587,018**
Equity			
Share capital	*15*	66,926	66,926
Other reserves	*15*	13,330	13,330
Retained earnings		18,992	52,616
		99,248	**132,872**
LIABILITIES			
Non-current liabilities			
Bond loan from related parties	*16*	63,968	61,281
Trade payables to related parties	*21*	29,337	29,337
Non-current liabilities to related parties		**93,305**	**90,618**
Borrowings	*16*	89,430	120,185
Lease liabilities	*22*	4,781	5,686
Deferred tax liabilities	*17*	-	1,233
Government grants	*19*	497	642
Employee benefits	*18*	3,387	3,041
Provisions	*20*	300	300
Non-current liabilities to third parties		**98,395**	**131,087**
Total non-current liabilities		**191,700**	**221,705**
Current liabilities			
Lease liabilities	*22*	1,548	1,421
Trade and other payables	*21*	128,943	111,434
Borrowings	*16*	128,456	117,328
Contract liabilities	*23*	2,127	2,258
		261,074	**232,441**
Total liabilities		**452,774**	**454,146**
Total equity and liabilities		**552,022**	**587,018**

The notes on pages 5 to 71 are an integral part of these separate financial statements.

Nikolaos Mariou
Representative

Georgios Bourniotis
Finance Director

Sonia Mangeyna
Chief Accountant, Preparer

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

Ivan Andonov
Authorised representative

Dobrina Kaloyanova
Registered Auditor, responsible for the audit

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

STOMANA INDUSTRY S.A.

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In thousands of BGN	*Note*	For the year ended 31 December 2020	2019
Revenue	23	576,684	766,913
Cost of sales	24	(536,017)	(721,302)
Gross profit		**40,667**	**45,611**
Selling and distribution expenses	25	(35,775)	(50,316)
Administrative expenses	26	(11,119)	(10,335)
Movement in impairment of trade receivables		213	65
Other expenses	28	(17,505)	(5,390)
Other income	27	3,053	461
Operating profit		**(20,466)**	**(19,904)**
Finance income	30	156	1,214
Finance costs	30	(16,280)	(19,033)
Net finance costs		**(16,124)**	**(17,819)**
Profit (loss) before income tax		**(36,590)**	**(37,723)**
Income tax	31	3,506	3,939
Profit (loss) for the year		**(33,084)**	**(33,784)**
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Remeasurement of retirement benefit obligations	18	(600)	20
Related tax	31	60	(2)
Other comprehensive income for the year, net of tax		(540)	18
Total comprehensive income for the year		(33,624)	(33,766)

The notes on pages 5 to 47 are an integral part of these separate financial statements.

Nikolaos Mariou
Representative

STOMANA PERNIK 3 INDUSTRY S.A.

Georgios Bourniotis
Finance Director

Sonia Mangeyna
Chief Accountant, Preparer

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Ivan Andonov
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ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

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 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**
Balance at 1 January 2020	**66,926**	**13,330**	**52,616**	**132,872**
Comprehensive income				
Loss for the year	-	-	(33,084)	(33,084)
Other comprehensive income for the year	-	-	(540)	(540)
Total comprehensive income	-	-	(33,624)	(33,624)
Balance at 31 December 2020	**66,926**	**13,330**	**18,992**	**99,248**

The notes on pages 5 to 47 are an integral part of these separate financial statements.

STOMANA PERNIK 3 INDUSTRY S.A.

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STOMANA INDUSTRY S.A.

SEPARATE STATEMENT OF CASH FLOWS

In thousands of BGN	*Note*	For the year ended 31 December 2020	2019
Cash flows from operating activities			
Cash generated from operations	*32*	48,917	31,096
Interests paid		(11,266)	(11,319)
Net cash generated from operating activities		**37,651**	**19,777**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(15,503)	(11,079)
Payments for increase of capital share in subsidiaries		-	(215)
Dividend received		-	982
Payments received from the sale of machinery and equipment		2,391	-
Net cash used in investing activities		**(13,112)**	**(10,312)**
Cash flows from financing activities			
Proceeds from borrowings		696	10,360
Repayments of borrowings		(19,891)	(28,382)
Payment of lease liabilities		(1,525)	(727)
Net cash used in financing activities		**(20,720)**	**(18,749)**
Net increase/ (decrease) in cash and cash equivalents		**3,819**	**(9,284)**
Cash and cash equivalents at beginning of the year		8,660	17,944
Cash and cash equivalents at the end of the year	*14*	**12,479**	**8,660**

The notes on pages 5 to 47 are an integral part of these separate financial statements.

STOMANA PERNIK 3 INDUSTRY S.A.

Nikolaos Mariou
Representative

Georgios Bourniotis
Finance Director

Sonia Mangeyna
Chief Accountant, Preparer

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

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

Dobrina Kaloyanova
Registered Auditor, responsible for the audit

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 2020 were authorised for issue in accordance with a resolution of the Board of Directors on 26 March 2021.

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 2020 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 2020, 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 2020, the Company realized loss at the amount of BGN 33,084 thousand (2019: loss BGN 33,784 thousand) and revenues for 2020 decreased with 25% compared to 2019.

This decline in revenue and loss for 2020 was mainly due to the impact on the steel industry of the outbreak of the COVID-19 pandemic and the subsequent measures of governments in Europe and all around the world, including lock-down and closing of entire industries.

As at 31 December 2020 the current liabilities of the Company exceed the currents assets by BGN 14,231 thousand (2019: the current liabilities of the Company exceed the currents assets by BGN 4,155 thousand). A significant part of the short-term liabilities represents bank loans, including short-term bank loans and current portion of long-term bank loans.

On 23 December 2020, the Company obtained a waiver of the requirement to meet the covenants of the syndicated bank loan as at 31 December 2020, as management expected that the Company would not comply with the related covenants.

At the time of approval of these financial statements, the management of the Company is in the process of renegotiation of extension of the repayment of short-term loans for one more year and the repayment schedule of its long-term bank loans.

On 23 December 2020, the Company and the Agent to the syndicated loan signed Memorandum of Understanding, agreeing on changes to the main terms of the loan (including the new repayment plan, extending the term of the loan from 2023 to 2026 and the revised level of covenants). The Parties intend on or before 30 June 2021 to enter into an agreement for amendment of the credit facility agreement in accordance with the revised terms.

In addition, pursuant to the conditions stipulated in the Memorandum of Understanding, on 24 February 2021, the registered capital of the Company was increased by EUR 32,700 thousand via a conversion of the outstanding bond loan from Viohalco S.A., the Company's parent.

As at the date of authorization of these financial statements, the Company met all of its obligations under the Memorandum of Understanding and therefore management expects that by the end of June 2021, in accordance with the terms of Memorandum of Understanding, the Company and the banks will sign the syndicated loan with the above-described revised terms.

Furthermore, the market for steel and steel products has gradually recovered in the end of 2020 and 2021 while the initial effect of the restructuring measures taken by management in response to the worsened market conditions in 2019 and 2020, up to the date of approval of these financial statements, provide a positive outlook for the Company.

Based on the above considerations management believes that the use of the going concern assumption used in the preparation of these financial statements is appropriate.

Management's assessment of the events or conditions

The management has a reasonable expectation that the available capital resources and sources of financing (cash flows from operating activities and loan contracts) will be adequate to meet its obligations in the course of 2021, and believes that there is no significant uncertainty related to events or conditions that may cast doubt over the ability of the Company to continue as a going concern.

4. Functional and presentation currency

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

5. Use of judgments and estimates

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

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

(a) Judgments

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

Note 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 17 – Recognition of deferred tax assets: availability of future taxable profits against which tax losses carried forward can be used;

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 33 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.

Changes in significant accounting policies

The changes in the standards from 1 January 2020 have no significant impact on the separate financial statements of the Company.

(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
Cost					
At 1 January 2019	169,214	565,535	4,840	21,465	761,054
Additions	180	2,022	39	14,638	16,879
Merger of companies under common control	3,018	6,795	29	73	9,915
Disposals	-	(7,487)	(284)	-	(7,771)
Transfers	57	21,588	8	(21,653)	-
31 December 2020	**172,469**	**588,453**	**4,632**	**14,523**	**780,077**
At 1 January 2020	**172,469**	**588,453**	**4,632**	**14,523**	**780,077**
Additions	5	2,515	32	12,476	15,028
Disposals	-	(3,680)	-	-	(3,680)
Transfers	265	19,582	438	-20,285	-
31 December 2020	**172,739**	**606,870**	**5,102**	**6,714**	**791,425**
Accumulated depreciation					
At 1 January 2019	(61,782)	(351,074)	(3,569)	-	(416,425)
Merger of companies under common control	(977)	(4,219)	(29)	-	(5,225)
Cost	(4,633)	(27,049)	(352)	-	(32,034)
Disposals	-	7,171	283	-	7,454
31 December 2019	**(67,392)**	**(375,171)**	**(3,667)**	**-**	**(446,230)**
At 1 January 2020	**(67,392)**	**(375,171)**	**(3,667)**	**-**	**(446,230)**
Cost	(5,056)	(20,042)	(262)	-	(25,360)
Disposals	-	1,330	-	-	1,330
31 December 2019	**(72,448)**	**(393,883)**	**(3,929)**	**-**	**(470,260)**
Balance at 31 December					
At 1 January 2019	107,432	214,461	1,271	21,465	344,629
31 December 2019	105,077	213,282	965	14,523	333,847
At 1 January 2020	**105,077**	**213,282**	**965**	**14,523**	**333,847**
31 December 2020	**100,291**	**212,987**	**1,173**	**6,714**	**321,165**

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 2020 property, plant and equipment at the amount of BGN 316,364 thousand (31 December 2019: BGN 328,325 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. A discount rate of 4.70% has been applied in calculations (2019: 6.25%).

As at 31 December 2020 the carrying amount of temporarily unused assets is BGN 7,314 thousand. For these assets the Company has applied an accelerated depreciation (see Note 28).

9. Right-of-use assets

Right-of-use assets comprise vehicles, equipment are presented below:

In thousands of BGN	**Vehicles**	**Production equipment**	**equipment**	**Total**
2019				
Balance at 1 January 2019	715	6,280	49	**7,044**
Depreciation charge for the year	(249)	(229)	(49)	**(527)**
Additions to right-of-use assets	64	1,213	-	**1,277**
Balance at 31 December	**530**	**7,264**	**-**	**7,794**
2020				
Balance at 1 January 2020	530	7,264	-	7,794
Depreciation charge for the year	(269)	(309)	(63)	**(641)**
Additions to right-of-use assets	491	-	271	**762**
Disposals	(37)	-	-	(37)
Balance at 31 December	**715**	**6,955**	**208**	**7,878**

(All amounts in thousands of BGN)

10. Intangible assets

	Software
Cost	
At 1 January 2019	**3,734**
Additions	906
Balance at 31 December 2019	**4,640**
At 1 January 2020	4,640
Additions	475
Balance at 31 December 2020	**5,115**
Accumulated amortisation	
At 1 January 2019	(3,107)
Cost	(429)
At 31 December 2019	**(3,536)**
At 1 January 2020	**(3,536)**
Cost	(735)
At 31 December 2020	**(4,271)**
Carrying amount	
At 1 January 2019	627
At 31 December 2019	1,104
At 1 January 2020	1,104
At 31 December 2020	844

11. Investment in subsidiaries

	31 December		31 December	
	2020	2019	2020	2019
	Carrying amount		% ownership	
Jostdex Ltd	4,520	9,409	100%	100%
Port Svishtov West AD	5,365	5,365	73.09%	73.09%
Sidebalk Ltd	1,213	1,213	100%	100%
	11,098	**15,987**		

As at 31 December 2020 the Company's management performed an impairment test of all investments in subsidiaries and as a result it has recognized an impairment of the investment in Jostdex Ltd at the amount of BGN 4,890 thousand. The accumulated impairment of this investment as at 31 December 2020 amounts to BGN 6,345 thousand, and BGN 1,435 thousand are recognized as at 31 December 2018.

(All amounts in thousands of BGN)

12. Inventories

	31 December 2020	2019
Finished goods	50,551	74,069
Semi-finished goods	40,661	36,370
Raw materials and spare parts	51,134	45,831
Goods	3,241	2,683
Stock in transit	-	-
Other	2,344	2,393
	147,931	**161,346**

13. Trade and other receivables

	31 December 2020	2019
Trade receivables	24,277	23,787
Less: impairment of trade receivables	(3,078)	(3,291)
Trade receivables, net	**21,199**	**20,496**
Receivables from related parties (Note 34)	16,341	29,759
Tax receivables	2,369	1,553
Advances for procurement of stocks	3,993	2,100
Other receivables	4,393	4,372
	48,295	**58,280**

14. Cash and cash equivalents

	31 December 2020	2019
Cash at bank	12,479	8,660
	12,479	**8,660**

15. Share capital

	Number of shares	In BGN thousand
At 31 December 2019	669,263	66,926
At 31 December 2020	**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 2020 other reserves amounting to BGN 6,692 thousand (2019: BGN 6,692 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 2020	31 December 2019
Non-current liabilities		
Secured bank loans	89,430	120,185
Bond loan from related parties	63,968	61,281
	153,398	181,466
Current liabilities		
Current portion of long term secured bank loans	46,971	36,162
Secured bank loans	81,002	80,700
Interest liabilities	483	466
	128,456	117,328
	281,854	**298,794**

Terms and conditions of outstanding loans were as follows:

				31 December 2020		31 December 2019	
	Currency	**Nominal interest**	**Year of maturity**	**Nominal value (principal)**	**Carrying amount**	**Nominal value (principal)**	**Carrying amount**
Long term secured bank loans	EUR	floating	2019-23	139,885	136,884	157,861	156,813
Short term secured bank loans	EUR	floating	2019	81,485	81,002	80,700	80,700
Bond loan	EUR		2023	63,968	63,968	61,281	61,281
				285,338	**281,854**	**299,842**	**298,794**

The bank loans are secured by pledge over property, plant and equipment with a carrying amount of BGN 316,264 thousand (see Note 8 Property, plant and equipment).

According to the terms of the long-term bank loans, the Company is required to maintain certain financial indicators. As at 31 December 2020 the Company is not in compliance with the requirements for these financial indicators and in this respect it has requested and received agreements from the banks dated 18 December 2020 and 23 December 2020 respectively, that these indicators will not be subject to tests for the calculating period ending 31 December 2020.

Reconciliation of movements of liabilities to cash flows arising from financing activities – loans

	2020	2019
As at 1 January	298,794	313,300
Proceeds from borrowings	696	10,360
Repayments of borrowings	(19,891)	(28,382)
Capitalized borrowing costs	-	447
Interest expense	13,265	14,388
Interest paid	(11,010)	(11,319)
As at 31 December	**281,854**	**298,794**

(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**	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Property, plant and equipment	-	-	(2,524)	(4,147)	(2,524)	(4,147)
Employee benefits	538	505	-	-	538	505
Trade and other receivables	308	329	-	-	308	329
Provisions	30	30	-	-	30	30
Interests	3,345	1,904	-	-	3,345	1,904
Investments in subsidiaries	635	146	-	-	635	146
Tax assets/(liabilities)	4,856	2,914	(2,524)	(4,147)	2,332	(1,233)
Set off of tax	(4,846)	(2,914)	4,846	2,914	-	-
Net tax assets /(liabilities)	-	-	2,332	(1,233)	2,332	(1,233)

Assets/(liabilities)	**Balance 1 January 2019**	**Recognized in profit or loss**	**Recognized in other comprehen-sive income**	**Balance 31 December 2019**	**Recognized in profit or loss**	**Recognized in other comprehen-sive income**	**Balance 31 December 2020**
Property, plant and equipment	(6,201)	2,054	-	(4,147)	1,623	-	(2,524)
Employee benefits	523	(16)	(2)	505	(27)	60	538
Trade and other receivables	336	(7)	-	329	(21)	-	308
Provisions	26	4	-	30		-	30
Interests	-	1,904	-	1,904	1,441	-	3,345
Investments in subsidiaries	146	-	-	146	489	-	635
	(5,170)	3,939	(2)	(1,233)	3,505	60	2,332

(All amounts in thousands of BGN)

18. Employee benefits

	31 December 2020	2019
Obligations for defined benefit retirement compensations at 31 December	**3,387**	**3,041**

	2020	2019
Expenses recognized in profit or loss	975	406
Actuarial (gains)/ losses, recognized in other comprehensive income	600	(20)

The principal actuarial assumptions at the reporting date are:

	2020	2019
Discount rate per year	0,19%	0,54%
Future salary increases	1,20%	1,20%

Movements in defined benefit obligations	2020	2019
Defined benefit obligations at 1 January	3,041	2,929
Expenses recognized in profit or loss	975	406
Actuarial (gains) losses, recognized in other comprehensive income	600	(20)
Benefits paid by the plan	(1,229)	(274)
Defined benefit obligations at 31 December	**3,387**	**3,041**

19. Government grants

Grants for property, plant and equipment

	31 December 2020	2019
Beginning of the year	642	788
Income for the period	(145)	(146)
End of the year	**497**	**642**

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 2020 and 2019 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:

	2020	2019
	1,437	**6,893**

In 2020 Stomana was entitled to BGN 1,437 thousand (2019: BGN 6,893 thousand) of government grants for reduction of the burden related to the cost for energy from renewable sources and changed the mechanism of state aid from receiving money to directly deducting amounts payable. (See Note 24)

(All amounts in thousands of BGN)

20. Provisions

The major part of the recognised provisions of BGN 300 thousand (2019: BGN 300 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 2020	2019
At beginning of the year	300	257
Provisions charged during the year	247	43
Utilization of provision	(247)	-
At the end of the year	**300**	**300**

21. Trade and other payables

	31 December 2020	2019
Trade payables	55,523	65,417
Payables to related parties (Note 34)	93,865	65,914
Employee benefits and social security payables	1,830	2,201
Other taxes payable	506	622
Other payables	6,556	6,617
	158,280	**140,771**
Including		
Current	128,943	111,434
Non-current	29,337	29,337
	158,280	**140,771**

22. Lease liabilities

(a) Leases as lessee

(i) Lease liabilities

	31 December 2020	2019
Non-current liabilities		
Lease liabilities	**4,781**	5,686
	4,781	**5,686**
Current liabilities		
Current portion lease liabilities	**1,548**	1,421
	1,548	**1,421**

Maturity analysis – contractual undiscounted cash flows	**2020**	**2019**
Less than one year	1,654	1,611
One to five years	6,115	5,440
More than five years	-	581
Total undiscounted lease liabilities at 31 December	**7,769**	**7,632**
Lease liabilities included in the statement of financial position at 31 December	**6,329**	**7,107**

(All amounts in thousands of BGN)

22. Lease liabilities (continued)
(a) Leases as lessee (continued)

Reconciliation of movements of liabilities to cash flows arising from financing activities – leases:

	2020	2019
At 1 January	7,107	-
New leases	762	7,270
Payment of lease liabilities	(1,525)	(727)
Interest expense	241	114
Interest paid	(256)	(450)
At 31 December	**6,329**	**7,107**

(ii) Amounts recognised in profit or loss

2020 – Leases under IFRS 16	**2020**
Interest on lease liabilities	241

2019 – Operating leases under IAS 17	**2019**
Interest on lease liabilities	114

(iii) Amounts recognised in statement of cash flows

	2020
Total cash outflow for leases	1,525
	2019
Total cash outflow for leases	727

23. Sales revenue

Revenue streams	**2020**	**2019**
Sales of finished and semi-finished goods	483,983	640,197
Sales of goods	78,510	97,724
Sales of materials	3,796	6,735
Sales of services	10,395	22,257
	576,684	**766,913**

The revenue is generated mainly on the European market, at the total amount of BGN 564,408 thousand (2019: BGN 764,399 thousand), which represents 98 % 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 278 thousand (2019: BGN 152 thousand) and BGN 462 thousand (2019: BGN 2,363 thousand) and Africa BGN 11,536 thousand (2019: BGN 0 thousand).

(All amounts in thousands of BGN)

23. Sales revenue (continued)

Contract balances

	31 December 2020	1 January 2019
Receivables from third parties	21,199	20,496
Receivables from related parties	16,341	29,759
Contract liabilities	(2,127)	(2,258)

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

	2020	2019
Materials	(413,958)	(550,821)
Energy	(66,614)	(96,188)
Depreciation and amortisation	(15,823)	(28,083)
Salaries and social security expenses	(23,421)	(24,664)
Hired services	(10,484)	(13,588)
Transportation expenses	(3,199)	(1,650)
Insurances	(737)	(510)
Rents	(127)	(116)
Other expenses	(1,654)	(5,682)
	(536,017)	**(721,302)**

The energy cost is decreased by the amount of the government grants received for or reduction of the burden related to the cost for energy from renewable sources and changes in the mechanism of the government grants from receiving the amounts to directly decreasing the amounts due at the amount of BGN 1,437 thousand (2019: BGN 6,983 thousand).

(All amounts in thousands of BGN)

25. Selling and distribution expenses

	2020	2019
Transportation expenses	(24,321)	(35,935)
Hired services	(7,501)	(7,983)
Salaries and social security expenses	(1,892)	(2,493)
Insurances	(1,118)	(1,442)
Depreciation and amortisation	(264)	(447)
Energy	(40)	(57)
Materials	(308)	(395)
Rents	(49)	-
Other expenses	(282)	(1,564)
	(35,775)	**(50,316)**

26. Administrative expenses

	2020	2019
Hired services	(5,970)	(5,064)
Salaries and social security expenses	(2,688)	(2,831)
Depreciation and amortisation	(1,099)	(889)
Insurance	(147)	(194)
Energy	(112)	(129)
Materials	(78)	(56)
Transportation expenses	(3)	(9)
Rents	(87)	
Other expenses	(935)	(1,163)
	(11,119)	**(10,335)**

27. Other income

		2020	2019
Sales of CO_2 emissions			-
Amortisation of government grants		145	146
Other	27.A	2,908	315
		3,053	**461**

27.A Other

Repayments from previous periods	1,339	-
Rental income from land	1,441	199
Income from rental of buildings	7	3
Other	121	113
	2,908	**315**

(All amounts in thousands of BGN)

28. Other expenses

	2020	2019
Depreciation of temporarily unused tangible assets	(9,550)	(3,571)
Expenses related to temporarily unused assets	(2,956)	(1,445)
Impairment of investments in subsidiaries	(4,890)	-
Other	(109)	(374)
	(17,505)	**(5,390)**

29. Expenses by nature

	2020	2019
Materials	(414,344)	(551,272)
Energy	(66,766)	(96,374)
Transportation expenses	(27,523)	(37,594)
Depreciation and amortisation	(26,736)	(32,990)
Salaries and social security expenses	(28,001)	(29,988)
Hired services	(23,955)	(26,635)
Insurances	(2,002)	(2,146)
Movement in impairment of trade receivables	213	65
Rents	(263)	(116)
Other expenses	(10,826)	(10,228)
Total expenses by nature	**(600,203)**	**(787,278)**

Expenses by function

Cost of sales	(536,017)	(721,302)
Selling and distribution expenses	(35,775)	(50,316)
Administrative expenses	(11,119)	(10,335)
Movement in impairment of trade receivables	213	65
Other expenses	(17,505)	(5,390)
Total expenses by function	**(600,203)**	**(787,278)**

Expenses for personnel

Wages and salaries	(23,225)	(23,740)
Social security expenses	(5,467)	(5,842)
Retirement benefit expenses	(976)	(406)
Total expenses for personnel	**(29,668)**	**(29,988)**

30. Net finance costs

	2020	2019
Interest income	-	1
Foreign exchange transactions gains	94	190
Other financial income	62	41
Income from dividends	-	982
Finance income	**156**	**1,214**
Interest expense on loans and leases	(10,955)	(11,935)
Interest expense on bond loan	(2,687)	(2,567)
Factoring expenses	(768)	(932)
Bank guarantee expenses	(249)	(365)
Other financial expenses	(1,621)	(3,234)
Finance costs	**(16,280)**	**(19,033)**

(All amounts in thousands of BGN)

30. Finance costs, net (continued)

In 2020 the Company has capitalised borrowing costs under financing of assets building amounting to BGN 30 thousand (2019: BGN 225 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 2020, the Company uses a capitalisation rate of 4,70% (an average interest rate for non-current and current loans for 2020) .

31. Income taxes

	2020	2019
Current tax expense	-	-
Deferred tax		
Deferred income tax in comprehensive income (Note 17)	3,506	3,939
Deferred income tax in other comprehensive income (Note 17)	60	(2)
Income tax	**3,566**	**3,937**

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:

	2020	2019
Profit before tax	(36,590)	(37,723)
Tax due at a tax rate applicable to profits 10% (2019: 10%)	3,659	3,772
Expenses not deductible for tax purposes	(53)	(34)
Effect from unrecognised deferred tax assets	(40)	199
Income tax in profit or loss	**3,566**	**3,939**

32. Cash flows from operating activities

Reconciliation of profit before tax to cash generated from operations:

	2020	2019
Profit for the year	(33,084)	(33,784)
Adjustments for:		
Income tax (Note 31)	(3,506)	(3,939)
Depreciation and amortisation (Note 29)	26,736	32,990
Impairment of investments in subsidiaries	4,890	-
Movement in impairment of trade receivables	(213)	(65)
Net finance costs (Note 30)	16,124	17,819
Book value of assets written off	(3)	316
Amortisation of government grants	(146)	(146)
Changes in working capital:		
– Inventories	13,414	25,009
– Trade and other receivables	10,198	33,916
– Trade and other payables	14,891	(38,584)
– Contract liabilities	(131)	(2,611)
– Provisions and defined benefit obligation	(253)	175
Cash generated from operating activities	**48,917**	**31,096**

(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**	
		2020	**2019**
Trade receivables from third parties	*13*	21,199	20,496
Trade receivables from related parties	*13*	16,341	29,759
Cash and cash equivalents, excluding cash in hand	*14*	12,479	8,660
		50,019	**58,915**

(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:

Clients	31 December 2020	31 December 2019
SIDMA BULGARIA EAD	7,945	8,290
DUFERCO SA	4,436	-
SIDENOR STEEL INDUSTRY S.A.	-	4,894
MILANOV AND SON OOD	2,738	3,067
Siderom Steel	2,018	7,833
SIDMA S.A.	1,925	4,030
	19,062	**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:

	2020	
	Not credit impaired	**Credit impaired**
Related Parties	16,341	-
Third Parties Not Due	12,887	-
Third Parties 0-30, third parties	4,843	-
Third Parties 30-365, third parties	3,531	-
Third Parties >365, third parties	-	3,016
Total gross carrying amount	37,602	3,016
Impairment	(62)	(3,016)
	37,540	-

	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	-

(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 2020	**Weighted average loss rate**	**Gross carrying amount**	**Impairment loss allowance**	**Credit impaired**
Related Parties	-	16,341	-	No
Third Parties Not Due	0.29%	12,887	(38)	No
Third Parties 0-30	0.28%	4,843	(14)	No
Third Parties 30-365	0.28%	3,531	(10)	No
Third Parties >365	100.00%	3,016	(3,016)	Yes
		40,618	**(3,078)**	

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)**	

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 2019 represent the impairment allowance under IAS 39.

	Allowance for impairment
Balance at 1 January 2019 under IFRS 9	**3,363**
Impairment loss recognized	-
Amounts written off	(65)
Balance at 31 December 2019	**3,291**
Balance at 1 January 2020 under IFRS 9	3,291
Amounts written off	(213)
Balance at 31 December 2020	**3,078**

(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 2020	**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	217,886	(221,370)	(128,893)	(51,316)	(41,161)	-
Bond loan	63,968	(71,380)			(71,380)	-
Trade and other payables	151,218	(151,218)	(121,881)	-	(29,337)	-
Interests on trade payables	-	-	-	-	-	-
Lease liabilities	6,329	(6,427)	(1,401)	(1,639)	(3,387)	-
	439,400	(450,395)	(252,175)	(52,955)	(145,265)	-

			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)

(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 2020		**31 December 2019**	
Trade receivables	1,061	-	91	-
Cash and cash equivalents	2,792	-	1,162	-
Trade payables	(2,060)	-	(1,465)	-
Net exposure	1,793	-	(212)	-

The following significant exchange rates applied during the year:

	Reporting date spot rate	
BGN	**2020**	**2019**
USD	1.59386	1.74099
GBP	2.17549	2.29881

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 106 thousand.

A 10% increase/ decrease of the exchange rate of Bulgarian Lev (BGN) against the US Dollar (USD) as at 31 December 2019, would have caused a loss/profit for the Company amounting to BGN 21 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 2020	2019
Fixed rate instruments		
Financial assets	12,479	8,660
Financial liabilities	(63,968)	(61,281)
	(51,489)	**(52,621)**
Variable rate instruments		
Financial liabilities	(217,886)	(237,513)
	(217,886)	**(237,513)**

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 2,242 thousand (2019 – a loss amounting to BGN 2,446 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 2020 and 31 December 2019 were as follows:

	31 December 2020	2019
Total borrowings and lease liabilities	224,215	244,620
Zero-coupon bond loan	63,968	61,281
Less:		
Cash and cash equivalents	(12,479)	(8,660)
Net debt	**275,704**	**297,241**
Total equity	99,248	132,872
Total capital employed	**374,952**	**430,113**
Gearing ratio	**73,53%**	**69.10%**

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**	**2020**	**2019**
Sidenor Steel Industry SA	Inventory	20,512	24,271
Sidenor Steel Industry SA	Services	162	-
Sovel SA	Inventory	205	2,573
Sovel SA	Services	68	1
Sovel SA	Fixed assets	2,391	-
Ethil SA	Inventory	186	339
Stomana engineering AD	Inventory	191	360
Stomana engineering AD	Services	163	214
Erlikon SA	Services	-	1
Erlikon SA	Service	1	-
Metalign	Services	-	1
Corinth Pipeowrks, USA	Inventory	-	-
Dojran Steel DOO	Inventory	3,184	6,050
Aeiforos Bulgaria EAD	Inventory	312	456
Aeiforos Bulgaria EAD	Services	128	132
Aeiforos Bulgaria EAD	Other	-	3
Prosal Tubes EAD	Services	-	-
Siderom	Inventory	20,491	24,859
Sideral Shph	Inventory	2,365	2,436
TeproMetal AG	Inventory		-
Metal Agencies Ltd	Inventory	882	5,588
TeProMKC	Inventory	867	38
TeProMKC	Services	7	-
Genecos SA	Inventory	-	-
Metalco Bulgaria	Services	-	1
International Trade	Inventory	70,953	100,849
International Trade	Services	48	68
Sofia med	Services	136	-
DIO Pernik EOOD	Services	1,356	-
Inos Balkan	Services	-	1
Praksis	Services	2	2
		124,610	**168,243**
Sales of inventory, fixed assets and services to its own subsidiaries			
Port Svishtov West AD	Services	22	22
Sidebalk Steel DOO	Inventory	6,040	2,866
Sidebalk Steel DOO	Services	47	47
		6,109	**2,935**
Sales of inventory, fixed assets and services to other related parties			
Sidma SA, Greece	Inventory	8,697	14,388
Sidma Bulgaria AD	Inventory	23,350	25,107
		32,047	**39,495**

(All amounts in thousands of BGN)

Total sales to related parties	**162,766**	**210,673**

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	28,474	32,064
Sidenor Steel Industry SA	Services	3,260	1,756
Sidenor Steel Industry SA	Fixed assets	-	-
Sovel SA	Inventory	49,750	78,713
Sovel SA	Fixed assets	26	-
Ethil SA	Inventory	623	487
Ethil SA	Fixed assets	68	-
Stomana engineering AD	Inventory	2,093	2,065
Stomana engineering AD	Services	2,788	6,066
Stomana engineering AD	Fixed assets	6,623	8,560
Erlikon SA	Inventory	21	20
Corinth Pipeworks, Greece	Services	41	123
Dojran Steel DOO	Inventory	10,606	11,487
Dojran Steel DOO	Services		-
Aeiforos Bulgaria EAD	Inventory	1,864	1,742
Aeiforos Bulgaria EAD	Services	36	49
Praksys BG SA	Inventory	-	(108)
Thermolith SA	Inventory	-	1,626
Viexal SA	Services	83	108
Vitrovit	Inventory	1,512	-
Teka Greece SA	Inventory	1	4
Teka Greece SA	Services	344	302
Teka Greece SA	Fixed assets	334	917
Steelmet Cyprus SA	Services	161	148
Etem Bulgaria EAD	Services	-	3
TeproMetal AG	Services	-	966
TeProMKC	Services	1,385	1,010
Metalco Bulgaria EAD	Inventory	433	2,182
Metalco Bulgaria EAD	Services	253	273
Sofia Med	Inventory	239	566
Sofia Med	Services	144	9
International Trade	Services	2	2
Base Metals	Services	377	625
El.Ke.Me SA	Services	235	235
Inos Balkan	Inventory	34,856	24,474
Metalign EAD	Services	555	516
DIO	Services	428	-
Siderom	Services	290	143
Lesko	Inventory	99	78
		148,004	**177,211**

(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	100	99
		100	**99**
Purchases of inventory, fixed assets and services from other related parties			
Sidma Bulgaria AD	Inventory	525	4
Sidma Bulgaria AD	Services	1,182	1,223
Sidma Bulgaria AD	Fixed assets		-
		1,707	**1,227**
Total purchases form related parties		**149,811**	**178,537**

Receivables from related parties	**31 December 2020**	**31 December 2019**
Receivables from related parties under common control		
Aeiforos Bulgaria	261	188
Corinth Pipeworks, USA	1	-
DIO Pernik	228	-
Dojran DOO	-	313
Erlikon SA	1	1,254
Ethil SA	144	241
International Trade	1,675	1,283
Metal Agensies Ltd	-	310
Metalco Bulgaria EAD	1	1
Praksys BG	1	1
Praksys SA	-	-
Sidenor Steel SA	-	4,894
Sideral Shpk	-	480
Siderom Srl	2,018	7,833
Sofia med	38	-
Sovel SA	170	308
TeProMKC	874	38
	5,412	**17,144**
Receivables from its own subsidiaries		
Sidebalk Steel DOO	1,059	295
	1,059	**295**
Receivables from other related parties		
Sidma Bulgaria AD	7,945	8,290
Sidma SA Greece	1,925	4,030
	9,870	**12,320**
Total receivables from related parties	**16,341**	**29,759**

(All amounts in thousands of BGN)

32. Related party transactions (continued)

iv) Payables to related parties

	31 December 2020	2019
Payables to related parties under common control		
Aeiforos Bulgaria AD	506	687
Base Metals	84	341
Corinth Pipeworks, Greece	2.893	4,115
DIO Pernik	219	-
Dojran DOO	4,344	733
El.Ke.Me	157	252
Erlikon	-	12
Etem Bulgaria EAD	-	34
Ethil SA	366	684
Genecos	-	-
Inos Balkan	123	615
International Trade	2	-
Lesko	45	55
Metal Agencies Ltd	41	-
Metalco Bulgaria EAD	4,496	4,370
Metalign EAD	55	155
Sidenor	53,845	37,041
Sideral Shph	70	-
Siderom Srl	72	42
Stomana engineering AD	2,865	2,488
Sofia Med	168	6
Sovel SA	20,754	10,113
Steelmet Cyprus SA	12	7
Teka Greece SA	161	799
TeProMKC	303	822
TeproMetal AG	-	-
Termolith SA	-	480
Viexal	1	23
Vitrovit	270	-
	91,852	**63,874**
Payables to its own subsidiaries		
Port Svishtov West AD	1,855	1,761
	1,855	**1,761**
Payables to other related parties		
AWM	6	6
Sidma Bulgaria	152	250
Sidma Romania Srl	-	23
	158	**279**
Total payables to related parties	**93,865**	**65,914**

(All amounts in thousands of BGN)

34. Related party transactions (continued)

v) Remuneration of key management personnel

	2020	2019
Gross salaries and social benefits	5,555	4,986
	5,555	**4,986**

vi) Bond loan

As at 31.12.2020 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 2020	2019
Beginning of the year	61,281	58,714
Interest charged	2,687	2,567
End of year	**63,968**	**61,281**

35. Commitments

As at 31 December 2020 the Company has commitments from commercial contract for the purchase of equipment and machinery at the total amount of BGN 6,298 thousand (2019: BGN 7,369 thousand)

36. Contingent assets and liabilities

	31 December 2020	2019
Contingent assets		
Letters of credit from customers in favour of the Company	**22,637**	**5,953**
Contingent liabilities		
Bank guaranties in favour of suppliers	**2,310**	**1,720**

37. Subsequent events

On an extraordinary shareholders' meeting of Stomana Industry AD, held on 10 December 2020, it has been decided the bonds issued by Viohalco S.A. in respect of the two bond loans with total number of 365,677 to be converted into 488,957 ordinary, registered shares with voting rights, each at par value of BGN 100 and issue value of BGN 130,825 each, and the Company's share capital has been increased in this respect from BGN 66,926,300 to BGN 115,822,000.

On 24 February 2021 the increased capital amounting to BGN 115,822,000 has been registered with the Bulgarian Commercial Register.

There are no other subsequent events, that require adjustments or disclosures in the separate financial statements.

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.

(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.

39. Significant accounting policies (continued)

c) Financial instruments (continued)

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.
For some of its clients, the Company signed factoring agreements without recourse for their trade receivables. The Company classifies these receivables before they are transferred to the factoring as receivables with subsequent measurement at FVTPL.

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.

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.

39. Significant accounting policies (continued)

c) Financial instruments (continued)

(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	10-40 years
Vehicles	4-15 years
Machinery and equipment	2-35 years
Fixtures and fittings	2-8 years
Computers & IT equipment	2-5 years
Intangible Assets	2-5 years
Other	2-8 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 ECL.

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.

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).

39. Significant accounting policies (continued)

f) Impairment (continued)

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 reorganization.

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.

(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. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for 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. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

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

(ii) Non-financial assets (continued)

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. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, 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.

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 2020 and 2019 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.

39. Significant accounting policies (continued)

m) Leases

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.

(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.

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.

39. Significant accounting policies (continued)
m) Leases (continued)

(i) As a lessee (continued)

The liability 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.

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.

(ii) As a lessee (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.

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 2020, 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 *IFRS 4 Insurance Contracts* – deferral of *IFRS 9* (issued on 25 June 2020)

The main changes resulting from *Amendments to IFRS 17* and Extension of the Temporary Exemption from Applying *IFRS 9 (Amendments to IFRS 4)* are deferral of the date of initial application of *IFRS 17* by two years to annual periods beginning on or after 1 January 2023 and change the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying *IFRS 9 Financial Instruments*, so that entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.

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, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2* (issued on 27 August 2020)

The amendments are effective for annual periods beginning on or after 1 January 2021 and are to be applied retrospectively. Early adoption is permitted. The amendments complement those issued in 2019 and focus on the effects on financial statements when an entity replaces the old interest rate benchmark with an alternative benchmark rate as a result of the reform. The amendments in this final phase relate to:

- changes to contractual cash flows - an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate;
- hedge accounting - an entity will not have to discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge meets other hedge accounting criteria; and
- disclosures - an entity will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates.

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

(c) Amendment to IFRS 16 *Leases COVID-19-Related Rent Concessions*

The amendment is effective for annual periods beginning on or after 1 June 2020. Early application is permitted. The amendment permits lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The amendment does not affect lessors.

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

39. Significant accounting policies (continued)

q) New standards and interpretations not yet adopted (continued)

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.

(a) IFRS 17 *Insurance Contracts*

The standard is effective for annual periods beginning on or after 1 January 2023 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 IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current, effective for annual periods beginning on or after 1 January 2023;*
- *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 2018-2020, effective for annual periods beginning on or after 1 January 2023;*
- *Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021), effective for annual periods beginning on or after 1 January 2023;*
- *Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021), effective for annual periods beginning on or after 1 January 2023.*

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

Independent Auditors' Report

To the shareholders of Stomana Industry AD

Opinion

We have audited the accompanying separate financial statements of Stomana Industry AD (the Company) as set out on pages 1 to 47, which comprise the separate statement of financial position as at 31 December 2020 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 period 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 2020, and of its unconsolidated financial performance and its unconsolidated cash flows for the period 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.

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, except to the extent otherwise explicitly stated in our report we do not express any form of assurance conclusion thereon.

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:

- 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.
- The separate management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Responsibility of Management for the Separate Financial Statements

Management is responsible for the preparation of 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.

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 management 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

45/A Bulgaria Boulevard
Sofia 1404, Bulgaria

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

Ivan Andonov
Authorised representative

Dobrina Kaloyanova
Registered auditor, responsible for the audit

Sofia, 21 May 2021