SOFIA MED AD

ANNUAL MANAGEMENT REPORT AND
FINANCIAL STATEMENTS
For the year ended 31 December 2012

Content

General overview. Goals and prospects

Despite the adverse conditions that prevailed during 2012, namely slowing growth in Europe, SOFIA MED managed to increase its sales volume. The industrial production displayed trends of decline in Europe, with the exception of Germany. At the same time, construction activity remained weak, especially in southern Europe. In this challenging environment, the Company managed to increase its sales volume by maintaining or increasing market share in most markets where it operates.

Metal prices fell slightly in 2012 after three consecutive years of growth, driven mainly by the difficult macroeconomic environment, especially in developed markets and the liquidity in international financial markets. Thus, the average price of copper in 2012 was lower by 2.3% to EUR 6,181 per ton compared to EUR 6,327 per ton in 2011, while the average price of zinc was lower by 3.8% to EUR 1,513 per ton compared to EUR 1,573 per ton.

In 2012 SOFIA MED AD proceeded with implementation of its investment program in order to expand the production range and increase the competitiveness of the Company.

The total amount of non-current assets acquired during the year is BGN 12,370 thousand.

One of the main priorities in 2012 was optimization of working capital. Working capital decreased by 1.3 % while sales increased by 2.6 %.

In 2013 the Company will continue to focus its efforts on expanding the product range, including the development of industrial products of special alloys. The Company will continue its efforts to optimise costs of production. Main priority for 2013 will remain the optimisation of the working capital.

Current period results and financial position overview

Financial highlights

In thousand BGN	*2012*	*2011*
Sales revenue	**667,477**	**650,878**
Result from operating activities	**436**	**4,523**
EBITDA	**17,935**	**21,557**
EBITDA / Sales	*2.69 %*	*3.31 %*
EBIT	**436**	**4,523**
EBT	**(13,563)**	**(10,307)**
ROCE	**0.1 %**	**1.4 %**
Working capital	**67,401**	**68,272**
Working capital / Sales	*10.1 %*	*10.5 %*
Debt / Equity	**1.32**	**1.22**

The increase in volume of sold products led to 2.6% increase in revenue – BGN 667,477 thousand compared to BGN 650,878 thousand in 2011.

Operating profit was BGN 436 thousand, while in 2011 it was BGN 4 523 thousand. Particular reason for that was decrease in metal price.

Current period results and financial position overview (continued)

The financial expenses in 2012 are BGN 14,010 thousand, and in 2011 – BGN 14,851 thousand.

Efforts in optimisation of working capital were focused mainly on trade receivables and inventory. Days of sales have been decreased from 39 in 2011 to 25 days in 2012. The working capital as at the end of the year 2012 amounted to BGN 67,401 thousand (end of 2011: BGN 68,272 thousand).

Deferred income tax benefit recognised in the financial result for 2012 was BGN 1,361 thousand (2011: BGN 434 thousand). The increase in income tax benefits is mainly due to the change in the amount of deferred tax assets on tax losses.

Corporate responsibility and sustainable development

SOFIA MED is committed to sustainable development and corporate responsibility by a number of ongoing activities related to its employees, the local community, the environment, and its customers. Such activities include improving the health and safety standards, investments in improving working conditions and facilities, training of staff in a variety of topics and investments in technology that allow an increased usage of recycled material and further reduction of direct emissions.

People

People are our greatest value. The staff of SOFIA MED is involved in continuous know-how, training, awareness and qualification programs, which aim to transfer the 70-year long experience to people, as well as build and further develop their leadership and management skills.

Health and safety working conditions and their continuous improvement are main priority for SOFIA MED. A Health and Safety Management System is implemented, which is certified according to BS OHSAS 18001 Standard.

Annually, the company involves its employees and their families in a number of social events and campaigns such as: "May - the Month of Health, Safety and Environment", the Open Doors Day, the Annual Kids' summer camp, the Annual Kids' Christmas party.

Quality

SOFIA MED has an integrated Quality Management System that is applied systematically throughout its organization ensuring that the highest quality standards and customer's specific requirements are met. It is certified to ISO 9001:2008 standard and is able to meet the production requirements in compliance to either of the standards EN, BS, DIN, ASTM, AFNOR, and JIS, as well as other national standards and specific customer demands.

SOFIA MED has recently been approved by the Hellenic Copper Development Institute for the use of the brand "Antimicrobial copper Cu+" in its capacity of a producer of registered antimicrobial copper and copper alloys, as well as semi-finished products, suitable to cover or replace any product for multi-touchable surface items.

Environment

SOFIA MED has an Environmental Management System, certified according to the international standard ISO 14001:2004. In the recent years, a number of investments in various technologies, as well as the implementation of a waste management policy, have allowed the Company to increase further the use of recycled materials.

Strategic target of the management is the enhancing of eco-efficient behaviour in conformity to this international standard, the legal requirements and other contemporary international standards and criteria for the implementation of company tasks, considering at the same time the achievements and best practices of the leading industrialized countries.

Corporate responsibility and sustainable development (continued)

Local Community

SOFIA MED collaborates with various state institutions, technical high schools and universities. In-house training is available to students and university graduates.

Subsequent events

No events have occurred after the reporting date, which require additional adjustments and/or disclosures in the financial statements of the Company for the year ended 31 December 2012.

Research and development activities

The Company does not have any research and development activities.

Information under art. 187e and art. 247 of the Commercial Act

In 2012 the Company has not redeemed any treasury shares, and as at 31 December 2012 it does not hold any redeemed treasury shares. The members of the Board of Directors do not hold any share options or bonds of the Company. The members of the Board of Directors have not declared that they or any parties related to them have contracts concluded with the Company which fall beyond its ordinary course of business or significantly depart from the market conditions.

Financial instruments used by the Company

The Company holds derivative financial instruments such as forward contracts for purchases and sales of inventory, to hedge the risks related to fluctuations of raw materials prices. These derivative financial instruments are measured at fair value. The fair value of forward contracts for purchase and sale is calculated by reference to prices quoted at the commodities exchange for contracts with similar profiles.

The Company concludes forward contracts for purchase and sale of inventory to hedge its exposure to the fluctuations of cash flows (1) which is due to the price risk related to changes in prices of copper and zinc and (2) which may influence the profit or loss. This hedging relationship is designated as a cash flow hedge.

If the cash flow hedge related to commitments, meets the strict criteria for applying hedge accounting, the portion of the gain or loss of the hedging instrument that is determined to be an effective hedge is recognised in equity, and the ineffective portion is recognised in profit or loss. Gains or losses that have been recognised in equity are reclassified into profit or loss in the same period in which the hedged commitment affects profit or loss.

The Company also concludes forward contracts for purchase and sale of inventory to hedge its exposure to the fluctuations of the fair value of its permanent metal stock, (1) which is due to the price risk related to the changes in the prices of copper and zinc and (2) which may influence the profit or loss. This hedging relationship is designated as fair value hedge.

For derivatives which do not meet the strict criteria for hedge accounting, all gains or losses due to changes in fair value are taken directly to profit or loss.

As a result of the purchasing of raw materials at prices denominated in currencies other than the Bulgarian lev and EUR, the operating results of the Company may be affected by the volatility of the exchange rates against BGN. The Company hedges this risk.

Financial instruments used by the Company (continued)

The Company also has sales in currencies other than the Bulgarian lev and EUR, and therefore it is exposed to currency risk. For sales in EUR, there is no currency risk, as the exchange rate EUR/BGN is fixed as a result of the operation of the Currency Board in Bulgaria. Approximately 20% of the Company's sales are denominated in currencies other than the Bulgarian lev or the euro. The Company hedges the foreign currency risk through withdrawing loans in the same currency as the currency of the sales. Part of the sales denominated in currencies other than the Bulgarian lev and the euro are hedged by forward sales contracts at a fixed exchange rate for the respective amount of foreign currency for the date, the receivable is expected to be collected.
The Company's risk related to doubtful debt is immaterial. The Company's policy in respect of sales is to work with approved commercial intermediaries, including the parent company.
The Company has a policy to insure receivables from export sales to customers which are not related parties.
The Company is exposed to significant risk due to the volatility of prices of copper and zinc, which are the major raw materials for the production. The Company has a policy to hedge this risk. It negotiates the buy and sell prices based on the quotes at the London Metal Exchange (LME) on certain dates. The Company concludes a forward contract for sale at LME for each purchase order, as well as forward contract for purchase for each customer order accepted. Forward contracts are concluded for the same quantities as the purchase customer orders and are concluded at approximately the same dates, at which the buy and sell prices are fixed. The effect from the price difference realised by the Company in a certain sale as a result of the movement of prices of metals between the date of purchase of raw materials and the date in respect of which the sell price is fixed, are offset by the gain or loss on the respective buy and sell forward contracts.

Responsibilities of the management

According to the Bulgarian legislation the management of the Company has to prepare an annual report for the activities of the Company and financial statements, presenting true and fair view of the Company's financial position, financial results and cash flows for the year, in accordance with the applicable financial reporting framework. For the purpose of reporting in accordance with the Bulgarian legislation the Company applies the International Financial Reporting Standards (IFRS) as adopted by the EU.

The responsibilities of the management include designing and implementing effectively an internal control system that will ensure preparation of financial statements that are free from material misstatements, due to fraud or error, selection and application of appropriate accounting policies and assessment of significant accounting estimates that are reasonable in the respective circumstances.

The management confirms that it has fulfilled its responsibilities and that the financial statements are prepared in compliance with IFRS as adopted by the EU.
The management also confirms that this management report presents true and fairly the activities of the Company and the developments in the business as well as the main risks for the Company.

The management approves for issue the management report and the financial statements of the Company for 2012.

SOFIA MED AD

Financial Statements

For the year ended 31 December 2012

With Independent Auditors' Report thereon

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INDEPENDENT AUDITORS' REPORT

To the shareholders of
Sofia Med AD

Report on the Financial Statements

We have audited the accompanying financial statements of Sofia Med AD ("the Company") as set out on pages 3 to 39, which comprise the statement of financial position as at 31 December 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Annual report of the activities of the Company prepared in accordance with the requirements of article 33 of the Accountancy Act

As required under the Accountancy Act, we report that the historical financial information disclosed in the annual report of the activities of the Company, prepared by Management as required under article 33 of the Accountancy Act, is consistent, in all material aspects, with the financial information disclosed in the audited financial statements of the Company as of and for the year ended 31 December 2012. Management is responsible for the preparation of the annual report of the activities of the Company which was approved by the Board of Directors of the Company on 28 January 2013.

Gilbert McCaul
Partner

Dobrina Kaloyanova
Registered Auditor

KPMG Bulgaria OOD

Sofia, 26 April 2013

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №045
"КПМГ - България" ООД

SOFIA MED AD

STATEMENT OF COMPREHESIVE INCOME

For the year ended 31 December 2012

In thousands of BGN	*Notes*	*2012*	*2011*
Revenue	3.1	667,477	650,878
Cost of sales	3.2	(657,041)	(635,124)
Gross profit		**10,436**	**15,754**
Selling and distribution expenses	3.2	(3,450)	(3,371)
Administrative expenses	3.2	(6,158)	(6,155)
Other expenses, net	3.3	(392)	(1,705)
Result from operating activities		**436**	**4,523**
Finance income	3.4	11	21
Finance expenses	3.4	(14,010)	(14,851)
Loss before income tax		**(13,563)**	**(10,307)**
Income tax benefit	4	1,361	434
Loss for the year		**(12,202)**	**(9,873)**
Other comprehensive income			
Revaluation of land and buildings	5	8,201	-
Effective portion of changes in fair value of cash flow hedge contracts	3.5	(11)	7,148
Income tax on other comprehensive income	4	(819)	(715)
Other comprehensive income for the period, net of income tax		**7,371**	**6,433**
Total comprehensive income for the period		**(4,831)**	**(3,440)**

СОФИЯ МЕД АД СОФИЯ БЪЛГАРИЯ

The financial statements are authorized for issue with a resolution of the Board of Directors on 28 January 2013.

The notes from page 8 to page 39 are integral part of these financial statements.

Claude Molinari
Executive Director

Andreas Deligiannis
Assistant Executive Director

Sergey Vlaykov
Chief Financial Officer

Petar Sabev
Preparer, Chief Accountant

In accordance with an Auditor's Report:

Gilbert McCaul
Partner
KPMG Bulgaria OOD

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ София Рег. №045 "КПМГ - България" ООД

Dobrina Kaloyanova
Registered Auditor

SOFIA MED AD

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

In thousands of BGN	*Notes*	*2012*	*2011*
ASSETS			
Non-current assets			
Property, plant and equipment	5	265,964	262,698
Intangible assets	6	1,586	1,811
Deferred tax assets	4	3,644	3,102
		271,194	**267,611**
Current assets			
Inventories	7	111,567	92,725
Trade and other receivables	8	45,755	70,219
Derivative financial instruments	9	682	844
Cash and cash equivalents	10	916	670
		158,920	**164,458**
TOTAL ASSETS		**430,114**	**432,069**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11	150,820	150,820
Share premium	11	15,154	15,154
Other reserves	12	83,885	76,521
Retained earnings		(103,839)	(91,644)
		146,020	**150,851**
LIABILITIES			
Non-current liabilities			
Interest-bearing loans	13	9,779	44,984
Retirement benefit liabilities	15	364	362
		10,143	**45,346**
Current liabilities			
Trade and other liabilities	16	91,519	96,186
Interest-bearing loans	13	182,432	139,686
		273,951	**235,872**
TOTAL LIABILITIES		**284,094**	**281,218**
TOTAL EQUITY AND LIABILITIES		**430,114**	**432,069**

СОФИЯ МЕД АД
СОФИЯ
БЪЛГАРИЯ

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СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
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SOFIA MED AD

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

In thousands of BGN	*Notes*	*Share capital*	*Share premium*	*Revaluation reserve*	*Hedging reserve*	*Retained earnings*	*Total equity*
Balance as at 1 January 2011		**150,820**	**15,154**	**75,760**	**(5,672)**	**(81,771)**	**154,291**
Comprehensive income for the period							
Loss for the period		-	-	-	-	(9,873)	**(9,873)**
Other comprehensive income							
Net gain from cash flow hedge, net of deferred tax	3.5	-	-	-	6,433	-	**6,433**
Total comprehensive income for the period		-	-	-	6,433	(9,873)	**(3,440)**
Transactions with owners, recognised directly in equity		-	-	-	-	-	-
Balance as at 31 December 2011		**150,820**	**15,154**	**75,760**	**761**	**(91,644)**	**150,851**

София Мед АД София България

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Claude Molinari	Andreas Deligiannis	Sergey Vlaykov	Petar Sabev
Executive Director	*Assistant Executive Director*	*Chief Financial Officer*	*Preparer, Chief Accountant*

In accordance with an Auditor's Report:

Специализирано одиторско предприятие София Рег. №045 "КПМГ - България" ООД

Gilbert McCaul	Dobrina Kaloyanova
Partner	*Registered Auditor*
KPMG Bulgaria OOD	

SOFIA MED AD

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2012

In thousands of BGN	*Notes*	*Share capital*	*Share premium*	*Revaluation reserve*	*Hedging reserve*	*Retained earnings*	*Total equity*
Balance as at 1 January 2012		**150,820**	**15,154**	**75,760**	**761**	**(91,644)**	**150,851**
Comprehensive income for the period							
Loss for the year		-	-	-	-	(12,202)	**(12,202)**
Other comprehensive income							
Net loss from cash flow hedge, net of deferred tax	3.5	-	-	-	(10)	-	**(10)**
Revaluation of land and buildings, net of deferred tax	12	-	-	7,381	-	-	**7,381**
Total comprehensive income for the period		-	-	7,381	(10)	(12,202)	**(4,831)**
Transfer to retained earnings of revaluation reserve of assets disposed	12	-	-	(7)	-	7	-
Balance as at 31 December 2012		**150,820**	**15,154**	**83,134**	**751**	**(103,839)**	**146,020**

СОФИЯ МЕД АД СОФИЯ БЪЛГАРИЯ

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СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ София Рег. №045 "КПМГ - България" ООД

SOFIA MED AD

STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

In thousands of BGN	*Notes*	*2012*	*2011*
Cash flows from operating activities			
Cash flows generated from operating activities	17	12,749	55,627
Interest paid		(11,831)	(12,621)
Interest received		7	5
Net cash flow from hedging activity and bank commissions		4,442	2,035
Net cash flows generated from operating activities		**5,367**	**45,046**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(12,213)	(14,469)
Proceeds from sale of property, plant and equipment		29	-
Receipt of government grants		-	376
Acquisition of intangible assets		(480)	(917)
Net cash used in investing activities		**(12,664)**	**(15,010)**
Cash flows from financing activities			
Proceeds from borrowings		12,127	5,867
Repayment of borrowings		(4,584)	(35,337)
Net cash flows from financing activities		**7,543**	**(29,470)**
Net change in cash and cash equivalents		**246**	**566**
Cash and cash equivalents as at 1 January		670	104
Cash and cash equivalents as at 31 December	10	**916**	**670**

СОФИЯ МЕД АД СОФИЯ БЪЛГАРИЯ

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In accordance with an Auditor's Report:

Gilbert McCaul
Partner
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СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ София Рег. №045 "КПМГ - България"

Dobrina Kaloyanova
Registered Auditor

1. Reporting entity

Incorporation

SOFIA MED AD (the Company) is a joint-stock company incorporated in 1999 in Bulgaria. The address of the Company's registered office is Gara Iskar, 4, 5003 Str., Sofia, Bulgaria.

Shareholders

As at 31 December 2012 the share capital of the Company is held by Halcor S.A. Metal Works (Halcor S.A.), Greece – 99.99995% and Belantel Holdings Limited, Cyprus – 0.00005%. The latter is also part of the Group of Viohalco S.A., Greece which is the ultimate parent of SOFIA MED AD.

Operating activity

The operating activity of the Company is manufacturing of metal products, including rods, bars, wire and profiles, from alloys containing copper, zinc and lead. In 2000, the Company finished a thorough reconstruction of the processing lines in the extrusion workshop. The Company started its processing activity in late 2000. From 2001 to 2012 the Company has been engaged in a major reconstruction of the foundry and the rolling workshop for which considerable investments have been planned and made.

The Company operates only in Sofia. As at 31December 2012 the number of employees is 543 (2011: 516).

The financial statements are authorized for issue with a resolution of the Board of Directors on 28 January 2013.

2.1 Basis of preparation

Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments, which are measured at fair value;
- land and buildings which are measured at revalued amount; and
- retirement benefit liabilities recognised at the present value of the defined benefit obligation.

Functional and presentation currency

These financial statements are presented in Bulgarian lev (BGN), which is the Company's functional currency. All financial information presented in BGN has been rounded to the nearest thousand unless otherwise stated.

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Going concern

These financial statements have been prepared applying the assumption that the Company is a going concern and will continue to operate in the foreseeable future. The validity of the going concern assumption depends on the active financial support of the shareholders.

2.2 Changes in accounting policies and disclosures

The Company has applied consistently all accounting policies in the accounting periods presented in these financial statements.

2.3 New standards and interpretations, not yet adopted

A number of new standards, amendments to standards and interpretations, endorsed by the EC, are available for early adoption in the annual period ended 31 December 2012, although they are not yet mandatory until a later period. These changes to IFRS have not been applied in preparing these financial statements. The Company does not plan to adopt these standards early.

2.3 New standards and interpretations, not yet adopted (continued)

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

- Amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Company does not expect the Amendments to have any impact on the financial statements since the Company does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

- IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosures of Interests in Other Entities*, IAS 27 *Separate Financial Statements* (2011) which supersedes IAS 27 (2008) and IAS 28 *Investments in Associates and Joint Ventures* (2011) which supersedes IAS 28(2008) shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014.

  The Company does not expect these standards to have an impact on these financial statements since the Company does not have control over other entities and does not have any investments in associates or joint ventures and is not a party to any joint arrangements.

- IFRS 13 *Fair Value Measurement* provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs.

  The Company does not expect IFRS 13 to have material impact on the financial statements since management considers the methods and assumptions currently used to measure the fair value of assets to be consistent with IFRS 13

- Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 July 2012. The impact of the initial application of the amendments will depend on the specific items of other comprehensive income at the date of initial application.

  If the Company were to adopt the amendments from 1 January 2012, then the following items of the other comprehensive income would be presented as items that may be reclassified to profit or loss in the future: BGN 11 thousand recognised in the hedge reserve, and the related tax effects of BGN 1 thousand, respectively, recognised in other comprehensive income. The remaining amounts and items of other comprehensive income - BGN 8,201 thousand recognised in the revaluation reserve, and the related tax effects of BGN 820 thousand would never be reclassified to profit or loss.

- Amended IAS 19 *Employee Benefits* shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013.

  The amendments do not have significant impact on the Company's financial statements, since the Company does not have actuarial gains and losses.

- Amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets* is effective shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Company does not expect the amendments to have any impact on the financial statements, since they do not result in a change in the Company's accounting policy.
- Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Company does not expect the Amendments to have any impact on the financial statements since the Company does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.
- IFRIC Interpretation 20: *Stripping Costs in the Production Phase of a Surface Mine* shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Company does not expect the Interpretation to have any impact on the financial statements since the Company does not have any stripping activities.
- Amendments to IFRS 1 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Company does not expect the Amendments to have any impact on the financial statements.

2.3 New standards and interpretations, not yet adopted (continued)

(b) IASB/IFRIC documents not yet endorsed by 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 European Commission, and therefore are not taken into account in preparing these financial statements. The actual effective dates for them will depend on the endorsement decision by the EC.

- IFRS 9 *Financial Instruments (issued November 2009 and Additions to IFRS 9 issued October 2010)* has an effective date 1 January 2015 and could change the classification and measurement of financial instruments.
- Amendments to IFRS 1 *Government Loans* with an effective date of 1 January 2013.
- Improvements to IFRSs 2009-2011 with an effective date of 1 January 2013.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 *Transition Guidance* with an effective date of 1 January 2013.
- Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities* with an effective date of 1 January 2014.

2.4 Estimates and assumptions

The preparation of the financial statements requires management to apply accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosed contingent liabilities at the balance sheet date, as well as on the income and expenses for the period. Uncertainties related to these assumptions and estimates may lead to actual results that require material adjustments in the carrying amounts of the respective assets or liabilities in the forthcoming reporting periods.

The key assumptions concerning future and other key sources of uncertainty in estimates as at the balance sheet date, that have a significant risk of causing a material adjustments to the carrying amounts of assets and liabilities within the following reporting period, are discussed below:

Retirement benefit liabilities

The amount recognised as long-term retirement employee benefits is the present value of the obligation to repay such benefits as at the financial statements date. The major assumptions used in the computation of the liability are as follows: discount rate of 5.5%, expected salary increase rate of 6% and employee turnover rate of 11%. The retirement employee benefits liability is not based on actuarial valuation, but on a calculation model developed by the Company. The management believes that the amount of the obligation as at the financial statements date would not differ significantly from the actuarial valuation, as all requirements of IAS 19 *Employee Benefits* have been taken into consideration in developing the calculation model used by the Company. Due to the long-term nature of retirement employee benefits such assumptions are subject to significant uncertainty. As at 31 December 2012 the retirement employee benefits liability of the Company amounts to BGN 364 thousand (2011: BGN 362 thousand). Further details related to employee retirement benefits are provided in Note 15.

Useful life of property, plant and equipment and intangible assets

Financial reporting of property, plant and equipment and intangible assets involves using estimates as to their expected useful lives and residual values, based on management judgement. Further details as to the useful lives are presented in the Company's accounting policies (note 2.4).

Impairment of receivables

Management assesses the appropriateness of doubtful and bad debt allowance based on ageing analysis of the receivables, historical experience regarding the write-off rates of bad debts, as well as analysis of the solvency of the respective customer, changes in the contractual payment terms, etc. If the financial position and performance of the customers deteriorates (in excess of the expected) the amount of the receivables to be written off in the following reporting periods may be higher than the one estimated as at the financial statements date. As at 31 December 2012, the most appropriate estimate of the management concerning the allowance for doubtful debts amounts to BGN 544 thousand (2011: BGN 865 thousand). Further information is presented in note 8.

2.5 Summary of significant accounting policies

Impairment of non-financial assets

As at the end of each reporting period management reviews non-financial assets of the Company. If there are indications that the recoverable amount or the expected benefits of an asset are lower than its carrying amount, the Company impairs the asset.

Foreign currency translation

The financial statements are presented in Bulgarian leva, which is the functional and presentation currency of the Company. Foreign currency transactions are initially recorded in the functional currency using the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the end of each month by applying the exchange rate for the last working day published by the Bulgarian National Bank. All exchange rate differences are recognised in the other operating income and expenses. Non-monetary assets and liabilities that are measured in foreign currency historical cost are translated using the exchange rate as at the date of initial transaction (acquisition).

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes the acquisition cost, including all duties and non-recoverable taxes and other expenditures directly attributable to bring the asset to the working condition for its intended use by the management. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it meets the conditions for recognition of non-current asset. When major inspection costs are incurred for a machine and/or equipment, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

After initial recognition, land and buildings are carried at revalued amount which is the fair value of the asset on the revaluation date less accumulated depreciation and accumulated impairment losses. The fair value of land and buildings is based on market evidence through valuation performed by a qualified valuer. When buildings are revalued the total accumulated depreciation at the date of the revaluation is written off against the gross book value of the asset and the net value is adjusted based on the asset's revalued amount.

Depreciation is calculated on a straight line basis over the estimated useful life of the assets.

The useful lives of property, plant and equipment have been determined as follows:

Buildings	20 – 33.33 years
Fixture and fittings	25 years
Machines and equipment	3.33 – 20 years
Computers	2 years
Cars	4 years
Other vehicles	10 years
Other assets	6.67 years.

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.

2.5 Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds, if any, and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

At each financial year end the asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted prospectively if expectations differ from the previous estimates.

Borrowing costs

Borrowing costs are capitalised in the asset's value when they can be directly attributed to the acquisition or construction of a qualifying asset. This is an asset which requires a significant period of time to become ready for its intended use.

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on this asset had not been made. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised as an expense in the period in which they are incurred.

Intangible assets

Intangible assets are measured initially at acquisition cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets are amortised on a straight-line basis.

The useful lives of the intangible assets have been determined as follows:

Software	2-7 years;
Trademarks and rights	6.67 years.

The useful life of all intangible assets is assessed to be finite.

Intangible assets with finite useful life are amortised over their useful life and tested for impairment in case there is an indication that the asset may be impaired. At least at each reporting period end the useful life and the amortisation method for an intangible asset with a finite useful life are reviewed. Changes in the expected useful life or in the consumption of the future economic benefits embodied in the asset are accounted through changing the amortisation period or method and are regarded as change in estimates. The amortisation charge related to intangible assets with finite useful life is recognised in profit or loss in consistency with the function (purpose) of the intangible asset.

Any gain or loss arising on derecognition of an intangible asset is calculated as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and is included in profit and loss for the period when the asset is derecognised.

Impairment of long term non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists or if an annual impairment test is required then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the greater of its fair value and value in use. 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 groups of assets. If the carrying amount of an asset exceeds its recoverable amount, the carrying amount of the asset is impaired to its recoverable amount.

2.5 Summary of significant accounting policies (continued)

Impairment of long term non-financial assets (continued)

In assessing value in use, the estimated future cash flows are 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.

Fair value less cost to sell is determined by using an appropriate valuation model. Calculations performed are confirmed by using other valuation models or indicators for the fair value of an asset or a cash generating unit.

Losses from impairment of non-current tangible assets are presented as part of net other expenses.

Financial instruments

As at each reporting date an assessment is made as to whether there are indications that previously recognised impairment losses may no longer exist or may have decreased. If such indications exist, the Company makes an estimate of the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. In this case the carrying amount of the asset is increased to its recoverable amount.

The increased amount as a result of reversal of impairment cannot exceed the carrying amount that would have been determined (net of depreciation) in case no impairment loss had been recognised in prior years for the respective asset. Such reversal of impairment loss is recognised in profit and loss.

Non-derivative financial assets

The Company initially recognises loans and receivables and deposits on the date that they have originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

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

The Company has the following non-derivative financial assets: receivables and cash and cash equivalents.

Receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Non-derivative financial liabilities

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Company has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

2.5 Summary of significant accounting policies (continued)

Share capital

Share capital is presented at the nominal amount of the shares issued and paid-in. Proceeds from issued shares in excess of their nominal amount are presented as share premium.

Derivative financial instruments, including hedge accounting

The Company holds derivative financial instruments such as forward purchase and sale contracts for inventories to hedge its risks associated with fluctuations in the price of main raw materials. These derivative financial instruments are measured at fair value. The fair value of forward contracts for purchase and sale is calculated by reference to prices quoted on the commodities exchange for contracts with similar profiles.

The Company concludes forward contracts for purchases and sales of inventories to hedge its exposure to the fluctuations of cash flows (1) which is due to the price risk related to the changes in the prices of copper and zinc and (2) which may influence the profit or loss. These hedging contracts are designated as cash flow hedge.

The Company also concludes forward contracts for purchases and sales of inventories to hedge its exposure to the fluctuations of fair value of its permanent metal stock (1) which is due to the price risk related to the changes in the prices of copper and zinc and (2) which may influence the profit or loss. These hedging contracts are designated as fair value hedge.

The Company applies hedge accounting for the designated cash flow and fair value hedging relations.

When a derivative is designated as the hedging instrument in a hedge of the changes in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. The amount recognised in other comprehensive income is recycled trough profit or loss in the same period as the hedged cash flows affect profit or loss under the same item in the statement of comprehensive income as the hedged item.

Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognised. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss. In other cases the amount recognised in other comprehensive income is transferred to profit or loss in the same period when the hedged item affects profit or loss.

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised directly in the statement of comprehensive income.

Hedge accounting is discontinued when: the hedging instrument expires or is sold, terminated or exercised, or no more meets the criteria for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognized in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss in equity is transferred to the profit or loss for the period.

As at 31 December 2012 and as at 31 December 2011 the Company measures its open futures contracts (open positions) at fair value. The resulting net unrealised gain/loss is recognised directly in other comprehensive income, net of the respective deferred tax.

2.5 Summary of significant accounting policies (continued)

Impairment of financial assets

The carrying amounts of the Company's financial assets are reviewed at each reporting date to determine whether there is any indication of impairment.

Financial assets, carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in statement of comprehensive income.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence for impairment exist for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that collectively assessed them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been recognised at the date the impairment is reversed.

Trade receivables are impaired when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. Impaired debts are derecognised when they are assessed as uncollectible.

Inventory

Inventories are valued at the lower of costs and the net realisable value. Inventories that are hedged under fair value terms are measured at cost adjusted for the changes in the fair values of the hedging instruments.

Costs incurred to bring a product to its present condition and location are included in the inventory cost, as follows:

Raw materials and materials	- purchase cost defined on weighted average basis;
Finished goods and in progress	- the cost of direct materials, labour and variable and fixed work overheads allocated on normal capacity basis, excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

For impairment testing purposes inventories that contain metal are grouped under several categories according to the type of metal (alloy) included. The effect of any impairment losses and reversed write-down of inventories are presented in Cost of sales.

2.5 Summary of significant accounting policies (continued)

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects a part or the entire provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the unwinding of the discount is recognised as a finance cost.

Contingent liabilities are not recognised in the financial statements but are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the financial statements but are disclosed when an inflow of economic benefits is highly probable.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The Government of Bulgaria is responsible for providing pensions in Bulgaria under a defined contribution pension plan. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. The Company recognises all actuarial gains and losses arising from defined benefit plans in other comprehensive income and all expenses related to defined benefit plans in employee benefit expenses in profit or loss.

Termination benefits

Termination benefits are recognised as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid for salaries and additional remunerations 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.

The Company recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

2.5 Summary of significant accounting policies (continued)

Leases

The Company as a lessee

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

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

Determining whether an arrangement contains a lease

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- the fulfilment of the arrangement is dependent on the use of that specified asset or assets; and
- the arrangement conveys a right to use of the asset(s).

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

Operating lease payments are recognised in profit or loss on a straight line basis over the lease term.

Revenue recognition

Revenue is recognised to the extent that the probable economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other taxes on sales or duties. The following recognition criteria must be met for recognition of a revenue:

Sales of finished products and goods

Revenue from sale of goods is recognised when significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. This usually happens on dispatch of the goods.

Rendering of services

Revenue from services rendered is recognised in proportion to the stage of completion of transaction at the reporting date. The stage of completion of transaction is assessed on the basis of man-hours worked out to the date as percentage of the total man-hours to be worked on each contract. When the outcome of the transaction (contract) cannot be estimated reliably, revenue is recognised only to the amount of costs incurred that are to be recoverable.

Interest income

Interest income is recognised as interest accrues (using effective interest method, i.e. the interest rate that discounts exactly the estimated future cash flow over the expected useful life of the financial instrument to the carrying amount of the financial asset).

2.5 Summary of significant accounting policies (continued)

Finance income and finance costs

Finance income comprises interest income on funds invested and gains on hedging instruments that are recognised in other comprehensive income. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance cost comprised interest expense on borrowings, bank commissions and losses on hedging instruments that are recognised in other comprehensive income. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Government grants

Government grants related to depreciable assets are recognised as income over the life of the asset by a way of a reduced depreciation charge.

Taxes

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income.

Current income tax

Current tax assets and liabilities for the current and prior periods are recognised based on the amount expected to be recovered from or paid to taxation authorities. When calculating the current tax, the tax rates and tax laws applied are those that are enacted or substantively enacted by the reporting date.

Deferred income tax

Deferred income tax is recognised using the liability method on all temporary difference at the reporting date between tax bases of assets and liabilities and their carrying amounts.

Deferred tax liabilities are recognised for all taxable temporary differences, to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss.

A deferred tax asset is recognised for unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be utilised.

The Company reviews the carrying amount of the deferred tax assets at each reporting date and reduce it to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent it has become probable that future taxable profit will be realised, which would allow recovery to the deferred tax asset.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities or the tax assets and liabilities will be realised simultaneously.

Value Added Tax ("VAT")

Revenue, expenses and assets are recognised net of VAT, except:

- VAT incurred on a purchase of assets or services is not recoverable from the taxation authorities, in which case VAT is recognised as part of the acquisition cost of the assets or as part of the relevant expense item as applicable; and
- receivables and payables that are reported with VAT included amount.

The net amount of VAT recoverable from or payable to the tax authorities is included in the value of receivables or payables in the statement of financial position.

3. Revenue and expenses

3.1 Sales revenue

In thousands of BGN	*2012*	*2011*
Finished products and goods	667,477	650,878
	667,477	**650,878**

3.2 Cost of sales, selling and distribution expenses and administrative expenses allocated by nature

	Year ended 31 December 2012			
In thousands of BGN	*Cost of sales*	*Selling and distribution expenses*	*Administrative expenses*	*Total*
Employee remuneration	8,865	1,104	2,107	12,076
Compulsory social security contributions	2,496	230	390	3,116
Materials	636,850	145	362	637,357
Cost of goods sold	5,535	-	-	5,535
Change in stock of finished goods and work in progress	(33,233)	-	-	(33,233)
Hired services	17,917	1,745	1,582	21,244
Depreciation of property, plant and equipment	16,077	14	1,090	17,181
Losses from cash flow hedge	1,484	-	-	1,484
Inventory write down, net (Note 7)	407	-	-	407
Amortisation of intangible assets	223	-	95	318
Other	420	212	532	1,164
Total	**657,041**	**3,450**	**6,158**	**666,649**

3.2 Cost of sales, selling and distribution expenses and administrative expenses allocated by nature (continued)

	Year ended 31 December 2011			
In thousands of BGN	*Cost of sales*	*Selling and distribution expenses*	*Administrative expenses*	*Total*
Employee remuneration	8,099	1,072	2,051	11,222
Compulsory social security contributions	2,186	193	334	2,713
Materials	580,003	99	352	580,454
Cost of goods sold	7,403	-	-	7,403
Change in stock of finished goods and work in progress	(1,438)	-	-	(1,438)
Hired services	15,955	1,799	1,702	19,456
Depreciation of property, plant and equipment	15,762	13	1,105	16,880
Losses from cash flow hedge	4,806	-	-	4,806
Inventory write down, net (Note 7)	1,743	-	-	1,743
Amortisation of intangible assets	109	-	45	154
Other	496	195	566	1,257
Total	**635,124**	**3,371**	**6,155**	**644,650**

3.3 Other expenses, net

In thousands of BGN	*2012*	*2011*
Foreign exchange losses	(4,201)	(5,093)
Foreign exchange gains	4,148	4,443
Other	(339)	(1,055)
	(392)	**(1,705)**

3.4 Finance income and finance cost

Recognised in profit and loss *In thousands of BGN*	*2012*	*2011*
Finance income		
Interest income	11	21
	11	**21**
Finance expenses		
Interest expense on loans carried at amortised cost	(13,520)	(14,414)
Bank commissions	(490)	(437)
	(14,010)	**(14,851)**

3.5 Change in fair value of derivatives recognised in other comprehensive income

In thousands of BGN	*2012*	*2011*
Net gain/(loss) from cash flow hedge		
Effective portion of changes in fair value of cash flow hedges	(11)	7,148
Tax effect	1	(715)
Net effect in other comprehensive income	**(10)**	**6,433**

3.6 Personnel expenses

In thousands of BGN	*2012*	*2011*
Employee remuneration	12,051	11,128
Social security expenses	3,116	2,713
Expenses for retirement employee benefits (Note 15)	25	94
Total	**15,192**	**13,935**

4. Corporate income tax

The main components of the corporate income tax benefit for the years ended 31 December 2012 and 2011 are:

In thousands of BGN	*2012*	*2011*
Tax recognised in profit and loss		
Deferred tax benefit	1,361	434
Tax benefit, recognised in profit or loss	**1,361**	**434**
Tax recognised in other comprehensive income		
Deferred tax, related to revaluation of land and buildings	(820)	-
Deferred tax, related to cash flow hedge	1	(715)
Income tax recognised in other comprehensive income	**(819)**	**(715)**

The tax rate for 2012 is 10% (2011: 10%). The applicable tax rate in 2013 will be 10%.

The reconciliation between the nominal corporate income tax benefit based on the accounting (loss)/profit and the applicable tax rate and the effective income tax for the years ended 31 December 2012 and 2011 is as follows:

In thousands of BGN	*2012*	*2011*
Accounting loss before income tax	**(13,563)**	**(10,307)**
Income tax benefit at applicable tax rate of 10%	1,356	1,031
Derecognised deferred tax assets	-	(593)
Tax exempt income	16	-
Expenses non-deductible for tax purposes	(11)	(4)
Income tax benefit at effective tax rate -10.03% (2011: -4.2%)	**1,361**	**434**

4. Corporate income tax (continued)

Deferred taxes as at 31 December relate to the following:

	Statement of financial position		Statement of comprehensive income	
In thousands of BGN	*2012*	*2011*	*2012*	*2011*
Deferred tax liabilities:				
Non –current assets	(199)	(1,095)	896	1,650
Unrealized gain on cash flow hedge	(84)	(84)	-	(84)
Other	-	-	-	4
	(283)	**(1,179)**	**896**	**1,570**
Deferred tax assets:				
Unrealised loss from cash flow hedge	-	-	-	(631)
Unrealised loss from fair value hedge	15	-	15	-
Non-deductible interest expense (thin capitalisation)	-	-	-	(593)
Write-down of inventories	41	174	(133)	174
Tax losses	3,616	3,855	(239)	(835)
Other	255	252	3	34
	3,927	**4,281**	**(354)**	**(1,851)**
Deferred income tax benefit, recognised in profit or loss			**1,361**	**434**
Deferred taxes recognised in other comprehensive income			**(819)**	**(715)**
Total change in deferred taxes			**542**	**(281)**
Deferred tax assets, net	**3,644**	**3,102**		

As at 31 December 2012 there are no unrecognised deferred tax assets or liabilities.

As at 31 December 2011 the Company did not recognised deferred tax assets at the amount BGN 593 thousand, related to non-deductible interest expense because it was close to expiring.

5. Property, plant and equipment

Movements in property, plant and equipment (non-current tangible assets, NCA) is presented below:

In thousands of BGN	*Land*	*Buildings*	*Plant and equipment*	*Vehicles*	*Other*	*Assets under construction*	*Total*
Cost:							
At 1 January 2011	45,499	52,096	245,901	1,046	3,872	5,998	354,412
Additions	395	127	1,247	-	196	6,944	8,909
Disposals	-	-	(241)	(157)	(6)	-	(404)
Government grants	-	-	(376)	-	-	-	(376)
Transfer to intangible assets	-	-	-	-	-	(1,898)	(1,898)
Impaired assets under construction put into operation	-	-	-	-	-	(660)	(660)
Transfers	-	-	4,043	-	99	(4,142)	-
At 31December 2011	45,894	52,223	250,574	889	4,161	6,242	359,983
Additions	-	-	1,290	27	325	10,706	12,348
Disposals	-	(8)	(257)	(112)	-	-	(377)
Revaluation	7,787	(11,620)	-	-	-	-	(3,833)
Transfer to intangible assets	-	-	-	-	-	(71)	(71)
Transfers	-	-	8,195	-	42	(8,237)	-
At 31 December 2012	**53,681**	**40,595**	**259,802**	**804**	**4,528**	**8,640**	**368,050**
Accumulated depreciation and impairment:							
At 1 January 2011	-	6,076	71,150	756	2,002	1,451	81,435
Depreciation for the year	-	3,007	13,247	77	549	-	16,880
Impaired assets under construction put into operation	-	-	-	-	-	(660)	(660)
Disposals	-	-	(238)	(127)	(5)	-	(370)
At 31 December 2011	-	9,083	84,159	706	2,546	791	97,285
Depreciation for the year	-	3,016	13,658	50	457	-	17,181
Revaluation	-	(12,034)	-	-	-	-	(12,034)
Disposals	-	(2)	(254)	(90)	-	-	(346)
At 31 December 2012	-	**63**	**97,563**	**666**	**3,003**	**791**	**102,086**
Carrying amount:							
At 1 January 2011	**45,499**	**46,020**	**174,751**	**290**	**1,870**	**4,547**	**272,977**
At 31 December 2011	**45,894**	**43,140**	**166,415**	**183**	**1,615**	**5,451**	**262,698**
At 31 December 2012	**53,681**	**40,532**	**162,239**	**138**	**1,525**	**7,849**	**265,964**

Impairment of property, plant and equipment

Based on the review of the property, plant and equipment the management of the Company has not identified any indications that the carrying amount of the assets may exceed their recoverable amount.

As at 31 December 2012 assets under construction include advances paid, amounting to BGN 704 thousand (2011: BGN 612 thousand), in accordance with agreements for purchase of machinery and equipment. The machinery and equipment are acquired primarily for the reconstruction of the foundry and the rolling workshop.

5. Property, plant and equipment (continued)

As at 31 December 2012 there are no property, plant and equipment pledged as collateral for bank loans received by the Company. As at 31 December 2011 land and buildings at a carrying amount of BGN 81,485 thousand have been pledged as collateral for a bank loan received by the Company.

If land and buildings were carried at cost model, their carrying amount as at 31 December 2012 would be BGN 5,775 thousand land and BGN 6,258 thousand buildings.

Government grants

In 2012 the Company has not been awarded government grants (2011: BGN 376 thousand).

6. Intangible assets

In thousands of BGN	*Trademarks and patents*	*Software*	*Total*
Cost:			
At 1 January 2011	3	165	168
Additions	-	43	43
Transfer from assets under constructions	-	1,898	1,898
At 31 December 2011	3	2,106	2,109
Additions	-	22	22
Disposals	-	(4)	(4)
Transfer from assets under constructions	-	71	71
At 31 December 2012	**3**	**2,195**	**2,198**
Accumulated depreciation:			
At 1 January 2011	3	141	144
Depreciation charge	-	154	154
At 31 December 2011	3	295	298
Depreciation charge	-	318	318
Disposals	-	(4)	(4)
At 31 December 2012	**3**	**609**	**612**
Carrying amount:			
At 1 January 2011	-	**24**	**24**
At 31 December 2011	-	**1,811**	**1,811**
At 31 December 2012	-	**1,586**	**1,586**

Impairment of intangible assets

The Company has reviewed its intangible assets for impairment as at 31 December 2012. No indications were found that the carrying amount of the assets may exceed their recoverable amounts and therefore no impairment loss was recognised in the financial statements.

7. Inventory

In thousands of BGN	*2012*	*2011*
Materials	25,605	39,907
Work in progress	45,178	27,663
Finished goods	34,245	25,437
Merchandise	864	1,381
Advances for acquisition of materials	6,082	80
	111,974	**94,468**
Less: Inventories write-down:		
Materials	(60)	(627)
Work in progress	(202)	(585)
Finished goods	(143)	(512)
Merchandise	(2)	(19)
	(407)	(1,743)
Total inventories at the lower of cost and net realisable value	**111,567**	**92,725**

The write-down of inventories is based on the best estimate of the management for the value at which it is expected the inventories to be realised (actual agreed sales price or fair value according to quotations of metal prices at a commodity exchange).

8. Trade and other receivables

In thousands of BGN	*2012*	*2011*
Trade receivables	25,077	39,324
Related parties receivables (Note 20)	14,781	16,995
VAT receivable	3,750	13,644
Other receivables	2,691	1,121
	46,299	71,084
Less: Impairment of trade and other receivables	(544)	(865)
	45,755	**70,219**

Receivables with minimum notional amount EUR 5,000 thousand are pledged as at 31.12.2012 (2011: none).

The movement in the accumulated impairment of doubtful and bad debt is as follows:

In thousands of BGN	Impairment of bad and doubtful debts
At 1 January 2011	**(377)**
Charged	(488)
At 31 December 2011	**(865)**
Reversed	321
At 31 December 2012	**(544)**

8. Trade and other receivables (continued)

As at 31 December the aging analysis of gross trade receivables is presented in the table below:

			Overdue				
In thousands of BGN	Total	Not overdue	< 30 days	30-60 days	60-90 days	90-120 days	>120 days
2012	25,077	19,947	3,009	1,313	100	12	696
2011	39,324	32,611	4,437	377	750	10	1,139

9. Derivative financial instruments

	2012		*2011*	
In thousands of BGN	Assets	Liabilities	Assets	Liabilities
Forward contracts designated as cash flow hedging instruments	882	(48)	900	(55)
Forward contracts designated as fair value hedging instruments	14	(166)	57	(58)
	896	**(214)**	**957**	**(113)**
Net assets / (liabilities)	**682**		**844**	

The fair value of the derivative financial instruments as of the balance sheet date is based on "buy" prices quoted on the London Metal Exchange. Additional information as to the type of hedge and the risks associated with the hedging relationship is presented in Note 21

10. Cash and cash equivalents

In thousands of BGN	*2012*	*2011*
Cash at bank	907	656
Cash in hand	9	14
Total cash in hand and at banks	**916**	**670**

Cash at banks earns interest at floating interest rates based on daily bank deposit rates.

The amount of cash at bank at 31.12.2012 pledged as collateral for bank loans received by the Company is BGN 443 thousand (2011: none) (Note 13).

11. Share capital

	Number of shares	*Ordinary shares in thousands of BGN*	*Share premium in thousands of BGN*	*Total in thousands of BGN*
As at 1 January 2011	1,839,266	150,820	15,154	165,974
As at 31 December 2011	1,839,266	150,820	15,154	165,974
As at 31 December 2012	1,839,266	150,820	15,154	165,974

As at 31 December 2012 the registered share capital of the Company is comprised of 1,839,266 ordinary shares at a par value of BGN 82 each.

11. Share capital (continued)

Based on a resolution of the Board of Directors dated 7 November 2000 the Company issued 58 thousand ordinary shares at a par value of BGN 100 each and issue price of BGN 117. The difference between the selling price and the par value of these shares is recognized in the share premium reserve.

Based on a decision of the General Assembly of the shareholders held on 16 April 2008 the Company made a decision to cover the prior year losses against equity (through a decrease of the nominal amount of the shares from BG 100 to BGN 82) and a decrease in the existing share premium. By virtue of the same decision the share capital is increased through the issue of 223,736 ordinary shares with a par value of BGN 82 each and issue price of BGN 148.60 per share. The difference between the issue price and the nominal value forms share premium reserve.

Based on a decision of the General Assembly of the shareholders held on 5 November 2010 the Company issued 596,290 ordinary shares at a par value of BGN 82 each and an issue price equal to the par value. All shares are written by the name of the Halcor S. A. shareholder. The shares have been paid by a non receivables contribution in kind.

12. Other reserves

In thousands of BGN	Revaluation reserve	Derivatives reserve
At 1 January 2011	**75,760**	**(5,672)**
Net gain from cash flow hedge	-	7,148
Deferred tax effect	-	(715)
At 31 December 2011	**75,760**	**761**
At 1 January 2012	**75,760**	**761**
Net loss from cash flow hedge	-	(11)
Transfer to retained earnings of revaluation reserve of assets disposed	(7)	-
Revaluation of land and buildings	8,201	-
Deferred tax effect	(820)	1
At 31 December 2012	**83,134**	**751**

Other reserves occur due to cash flow hedging and revaluation of land and buildings to fair value. The Company qualifies for cash flow hedge accounting in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, chapter Hedge Accounting. At the reporting date the Company recognises the portion of gains or losses, measured as effective hedge and related to open hedging positions in other comprehensive income and in *Hedge reserves*. The respective deferred tax is recognised also in other comprehensive income. It is expected that the cash flows related to cash flow hedge will be realised and will affect profit or loss in the first quarter of 2013. Respectively, the effect of the cash flow hedge recognised in *Other reserves* in Equity, as at 31 December 2011 was realised in profit or loss in 2012.

13. Interest-bearing loans received

In thousands of BGN	*2012*	*2011*
Long term borrowings received		
Bank loans	9,779	44,984
Total long term borrowings received	**9,779**	**44,984**
Short term borrowings received		
Bank loans	134,514	122,389
Short term portion of long term borrowings	47,918	17,297
Total short term borrowings received	**182,432**	**139,686**
Total borrowings received	**192,211**	**184,670**

13. Interest-bearing loans received (continued)

The maturity of interest-bearing loans at agreed, non-discounted payments is presented in Note 21.

The weighted-average interest rates as at the reporting date are as follows:

	2012	*2011*
Bank overdrafts	6.07%	5.08%
Short term bank loans	5.68%	6.20%
Long term bank loans	5.49%	5.52%

As of 31 December 2012 long-term loans received by the Company are as follows:

- EFG Private Bank (Luxembourg) S.A. The loan is secured by a Letter of Guarantee issued by Eurobank Ergasias.

- Alpha Bank Bulgaria. The loan is secured by a Letter of Support issued by the parent company.

As of 31 December 2012 short-term debt represents short-term loans and short-term portion of long-term loans received as follows:

- Short-term loans from Piraeus Bank, Alpha Bank – Sofia Branch, UBB, Societe Generale Expressbank, EFG Private Bank (Luxembourg) S.A.

- Short-term portion of the long-term loans amounting to BGN 47,918 thousand.

The short-term bank loans are secured by Letters of Support issued by the parent company, bank guarantees, pledge of cash at bank, and pledge of trade receivables.

The Company has not capitalised any interest on loans in 2012 (2011: none).

14. Operating leases

Contracted operating lease rentals are payable as follows:

In thousands of BGN	*2012*	*2011*
Less than one year	512	416
Between one and five years	955	680
More than five years	-	-
Total	**1,467**	**1,096**

During the year an amount of BGN 570 thousand was recognised as an expense in profit or loss in respect of operating leases (2011: BGN 476 thousand).

15. Retirement employee benefits

a) Expenses for retirement employee benefits

In thousands of BGN	*2012*	*2011*
Current service cost	24	93
Net actuarial (gain)/loss recognised during the year	-	-
Interest cost on retirement employee benefit	1	1
Expenses on retirement benefits recognised in profit and loss (Note 3.6)	**25**	**94**

b) Retirement benefits liability

In thousands of BGN	*2012*	*2011*
Present value of retirement benefit obligation	364	362
Retirement benefits liabilities, recognised in the statement of financial position	**364**	**362**

Changes in the present value of the retirement benefit obligation are as follows:

In thousands of BGN	
Retirement benefit obligation at **1 January 2011**	**306**
Current service cost	93
Interest cost	1
Benefits paid	(38)
Retirement benefit obligation at **31 December 2011**	**362**
Current service cost	24
Interest cost	1
Benefits paid	(23)
Retirement benefit obligation at **31 December 2012**	**364**

Main actuarial assumptions used for accounting purposes are shown below:

	2012	*2011*
Discount rate	5.50%	5.50%
Future salary increase	6.00%	6.00%
Employee turnover rate	11.00%	11.00%

Amounts for the current and previous four years are as follows:

In thousands of BGN	*2012*	*2011*	*2010*	*2009*	*2008*
Retirement employee benefit liability	364	362	306	274	252
Actuarial (gains) and losses	-	-	(3)	(3)	(3)

16. Trade and other payables

In thousands of BGN	*2012*	*2011*
Trade payables	3,786	3,043
Related parties payables (Note 20)	83,727	89,332
Social security and insurance institutions liabilities	334	470
Payables to employees	940	785
Taxes	147	156
Other payables	2,585	2,400
	91,519	**96,186**

The terms and conditions relating to the above financial liabilities are as follows:

- Trade payables are non-interest bearing and are normally settled on 30-day terms;
- Tax and social security payables are non-interest bearing and are settled within the terms defined by law;
- Payables to employees are non-interest bearing and are normally settled on 10-day terms;
- Other payables are non-interest bearing and are normally settled on 30-day terms.

17. Cash flows generated from/(used in) operating activity

In thousands of BGN	*2012*	*2011*
Loss for the year	(12,202)	(9,873)
Adjustments for:		
Income tax	(1,361)	(434)
Depreciation of property, plant and equipment	17,181	16,880
Amortisation of intangible assets	318	154
Increase/(Decrease) in impairment	(1,657)	2,231
Non-current assets scrapped	3	32
Gain on sale of property, plant and equipment	(2)	-
Change in retirement benefit liability	2	56
Interest income	(11)	(21)
Net realised losses from cash flow hedge	1,484	4,806
Finance costs	14,010	14,851
	17,765	28,682
Changes in:		
- inventories	(17,506)	(5,195)
- trade and other receivables	24,785	12,842
- trade and other payables	(12,295)	19,298
	(5,016)	26,945
Cash flows generated from operating activity	**12,749**	**55,627**

18. Commitments

In thousands of BGN	*2012*	*2011*
Property, plant and equipment	1,923	5,603

Investment program

In 2013 the Company plans completion of the reconstruction of assets in foundry and rolling workshops. The contracted expenditure amounts to BGN 1,923 thousand.

19. Contingencies

Bank guarantees

Bank guarantees issued by other companies in behalf of SOFIA MED AD amount to BGN 2,330 thousand (2011: BGN 3,617 thousand) as at the reporting period date.

Bank guarantees issued by SOFIA MED AD in behalf of other companies amount to BGN 1,499 thousand (2011: BGN 1,346 thousand) as at the reporting period date.

Receivables with minimum notional amount EUR 5,000 thousand are pledged as at 31.12.2012 (2011: none). The amount of cash at bank at 31.12.2012 pledged as collateral for bank loans received by the Company is BGN 443 thousand (2011: none).

20. Related parties

a) Identification of related parties

The ultimate parent company

The ultimate parent of the Company is Viohalko S.A., Greece.

Entities with controlling interest in the Company

99.99995 % of the shares of SOFIA MED AD are owned by Halcor S.A. The rest 0.00005 % of the shares are owned by Belantel Holdings Limited.

Other related parties

Anamet Greece, Copperprom, Corint pipeworks, CPW America Co., Elval, Elval Colour, Etem Bulgaria, Fitco, Fulgor, Genecos, Halcor, Hellenic Cables, Icme Ecab, Lesco, Metal Agencies, Metal globe, Metalvalius, MKC Metall Kunden Center, Sidenor, Sidma Bulgaria, Sigma-Is, Steelmet Romania, Steelmet Cyprus, Stomana Industry, Teka Systems Bulgaria, Teka Systems Greece, Teprometal Bulgaria, Teprometal Germany, Viexal, and SOFIA MED AD are related parties under common control of Viohalko S.A., Greece (the ultimate parent company).

b) Sale of goods and services

In thousands of BGN	*2012*	*2011*
Sales of goods	183,039	193,213
Sales of services	238	253
	183,277	**193,466**

20. Related parties (continued)

c) Purchases of goods and services

In thousands of BGN	*2012*	*2011*
Purchases of goods	444,966	342,704
Purchases of services	6,281	3,995
	451,247	**346,699**

d) Key management remuneration

In thousands of BGN	*2012*	*2011*
Salaries and other short term employee benefits	1,417	1,257
	1,417	**1,257**

e) Year-end balances arising from sales / purchases of goods / services

In thousands of BGN	*2012*	*2011*
Related party receivables	14,781	16,995
Related party payables	83,727	89,332

Receivables	*2012* *BGN'000*	*2011* *BGN'000*
Etem Bulgaria	942	719
Metal Agencies	1,503	2,713
Elval	2	-
Steelmet Romania	39	65
Fulgor	-	177
Teprometal Germany	534	-
MKC Metall Kunden Center	9,366	8,901
Sidenor	9	9
Elval Colour	-	15
Genecos	1,566	2,736
Icme Ecab	-	27
Anamet Greece	-	107
Hellenic Cables	150	289
CPW America Co.	608	747
Metalvalius	-	441
Stomana Industry	62	49
	14,781	**16,995**

Payables	*2012* *BGN'000*	*2011* *BGN'000*
Steelmet Romania	17	2
Teprometal Germany	108	201
Metal Agencies	7	-
Stomana Industry	1	-
Fitco	-	1
Teka Systems Greece	203	365
Hellenic Cables	-	19
Halcor	82,708	87,258
Teprometal Bulgaria	25	114
Sigma-Is	195	48
Lesco	16	25
MKC Metall Kunden Center	5	3
Steelmet Cyprus	196	310
Genecos	227	193
Etem Bulgaria	6	6
Elval Colour	1	717
Viexal	12	21
Elval	-	49
	83,727	**89,332**

20. Related parties (continued)

As at 31.12.2012 there are advances paid to Metalvalius for acquisition of materials amounting to BGN 5,980 thousand and paid to Stomana Industry for acquisition of fixed assets at the amount of BGN 59 thousand. These advances are presented in the Statement of financial position in Inventory and Non-current assets, respectively.

Sales	***2012***	***2011***
	BGN'000	*BGN'000*
Etem Bulgaria	4,414	5,081
Metal Agencies	42,362	41,354
Stomana Industry	210	177
Steelmet Romania	7,804	9,370
Halcor	654	4,104
MKC Metall Kunden Center	73,063	77,919
Teprometal Germany	6,935	745
Teka Systems Bulgaria	2	17
Elval	39	-
Sigma-Is	1	10
Fitco	12,566	15,962
Genecos	5,264	10,896
Corint pipeworks	35	68
Icme Ecab	255	815
Hellenic Cables	1,293	1,665
Metalvalius	26,913	24,205
Copperprom	-	7
Fulgor	117	277
Elval Colour	-	15
CPW America Co.	1,350	779
	183,277	**193,466**

Purchases	***2012***	***2011***
	BGN'000	*BGN'000*
Etem Bulgaria	8	6
Teprometal Germany	652	422
Metal Agencies	7	-
Stomana Industry	32	141
Fitco	2,093	3,313
Teka Systems Greece	1,566	767
Sidma Bulgaria	16	12
Halcor	140,042	150,332
Teprometal Bulgaria	144	129
Sigma-Is	974	258
Lesco	393	392
MKC Metall Kunden Center	5	56
Steelmet, Cyprus	1,505	1,416
Elval	7	128
Genecos	762	687
Elval Colour	90	976
Steelmet Romania	35	11
Metalvalius	302,045	187,161
Metal globe	-	9
Teka Systems Bulgaria	-	79
Hellenic Cables	-	131
Viexal	309	273
Fulgor	550	-
Icme Ecab	12	-
	451,247	**346,699**

20. Related parties (continued)

Related parties	**Type of transaction**
Etem Bulgaria	Finished goods, merchandise, materials, services
Metal Agencies	Finished goods, services
Stomana Industry	Services, materials
Steelmet Romania	Finished goods, services
Halcor	*
Hellenic Cables	Finished goods, services, materials
MKC Metall Kunden Center	Finished goods, services
Sidma Bulgaria	Materials
Teprometal Germany	Finished goods, services
Teka Systems Bulgaria	Services
Metal globe	Materials
Icme Ecab	Finished goods, materials
Sigma-Is	Finished goods, services, materials
Copperprom	Services
Metalvalius	Services, materials
CPW America Co.	Finished goods
Corint pipeworks	Finished goods
Teprometal Bulgaria	Services
Lesco	Materials
Steelmet, Cyprus	Services
Genecos	Finished goods, services
Fulgor	Finished goods, materials
Fitco	Finished goods, materials, merchandise, services
Elval	Materials, services
Elval Colour	Finished goods, materials, services, fixed assets
Teka Systems Greece	Fixed assets, services, materials
Viexal	Services

(*)The types of transactions between the Company and its parent, Halcor S.A., include purchases of materials, equipment and services related to technical and management assistance, commission costs related to sales of finished products; sales of products, goods and materials.

The Company has a significant volume of transactions with entities that are related parties by virtue of being members of the same group of companies –Viohalco S.A. Group of companies.

Sales to and purchases from related parties are made at normal market prices. Outstanding balances at year end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. Assessment for impairment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

21. Objectives and policies for management of financial risk and capital

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

- credit risk
- liquidity risk
- market risk (interest rate risk, foreign currency exchange rate risk and commodity price risk).

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

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.

Market risks

Interest rate risk

The risk from changes in interest rates relates primarily to the Company's long-term and short-term debt obligations.

The table below presents sensitivity analysis to the potential movements in the interest rates and their effect on profit before tax (through the effect on loans and borrowings with floating interest rates). All other variables are assumed to be constant. There is no effect on the other elements on Company's equity.

	Increase/ (decrease) in the interest rates %	*Effect on profit before tax* *In thousands of BGN*
2012		
In EUR	0.25%	(455)
In USD	0.25%	(37)
In EUR	-0.25%	455
In USD	-0.25%	37
2011		
In EUR	0.25%	(523)
In USD	0.25%	(27)
In EUR	-0.25%	523
In USD	-0.25%	27

Foreign currency risk

As a result of purchases of raw materials at prices determined in currencies other than the Bulgarian lev and EUR, the operating results of the Company could be affected by movements in the exchange rates against BGN. The Company is hedging this risk. The Company also has sales in currencies other than the Bulgarian lev and EUR and therefore it is exposed to currency risk. Since the EUR/BGN exchange rate is fixed as a result of the currency boards system operating in Bulgaria, no currency risk arises as a result from the transactions in EUR. Approximately 20% of the Company's sales are denominated in currencies other than the BGN or the Euro. The Company hedges the foreign currency risk by borrowing money in the same currencies as the Company's sales. Part of sales denominated in currency different than BGN or EUR are hedged by entering into forward contracts for sale at determined exchange rate of the respective quantity of foreign currency at the date at which the receivable is expected to be collected.

21. Objectives and policies for management of financial risk and capital (continued)

The Company's exposure to foreign currency risk is as follows based on notional amounts:

2012

In thousands of BGN	EUR	BGN	USD	GBP	CHF
Trade and other receivables	30,912	3,077	5,959	1,707	95
Interest-bearing loans received	(177,325)	-	(10,510)	(4,377)	-
Trade and other payables	(86,134)	(3,133)	(78)	(65)	(85)
Cash and cash equivalents	547	258	2	1	108
	(232,000)	202	(4,627)	(2,734)	118
Derivatives (nominal value)	834	-	4,772	2,667	(128)
	(231,166)	**202**	**145**	**(67)**	**(10)**

2011

In thousands of BGN	EUR	BGN	USD	GBP	CHF
Trade and other receivables	43,887	3,045	6,960	2,737	(155)
Interest-bearing loans received	(164,188)	-	(14,712)	(5,138)	(632)
Trade and other payables	(91,685)	(2,251)	(130)	(2)	(43)
Cash and cash equivalents	545	12	2	2	1
	(211,441)	806	(7,880)	(2,401)	(829)
Derivatives (nominal value)	845	-	(13)	-	-
	(210,596)	**806**	**(7,893)**	**(2,401)**	**(829)**

The following significant exchange rates applied during the year:

	Average FX rate		**FX rate at the reporting period-end date**	
	2012	***2011***	***2012***	***2011***
USD 1	1.523	1.406	1.484	1.512
GBP 1	2.413	2.254	2.394	2.341
CHF 1	1.623	1.591	1.619	1.609

21. Objectives and policies for management of financial risk and capital (continued)

The following table demonstrates the sensitivity to a reasonably possible movement in the foreign currency exchange rates of the Bulgarian lev to foreign currencies and the effect on the Company's profit before tax and equity (due to changes in the carrying amount of monetary assets and liabilities). All other variables remain constant.

	Increase/ decrease in the exchange rate BGN / USD	Effect on profit before tax	Effect on equity
	%	*In thousands of BGN*	*In thousands of BGN*
2012	10%	15	-
	-10%	(15)	-
2011	10%	(789)	-
	-10%	789	-

	Increase/ decrease in the exchange rate BGN / GBP	Effect on profit before tax	Effect on equity
	%	*In thousands of BGN*	*In thousands of BGN*
2012	10%	(7)	-
	-10%	7	-
2011	10%	(240)	-
	-10%	240	-

	Increase/ decrease in the exchange rate BGN / CHF	Effect on profit before tax	Effect on equity
	%	*In thousands of BGN*	*In thousands of BGN*
2012	10%	(1)	-
	-10%	1	-
2011	10%	(83)	-
	-10%	83	-

Commodity price risk

The Company is exposed to significant risk as a result of the changes in the prices of copper and zinc as they are its main raw materials used in production. The Company is following its policy of hedging this risk. The Company agrees both purchase and selling prices with reference to the prices quoted on the London Metal Exchange (LME) at specified dates. The Company concludes a forward sale contract on LME for each purchase order it places, and it concludes a forward purchase contract for each customer order it accepts. The forward contracts are for the same quantities as the purchase and sales orders and they are concluded for approximately the same dates with reference to which the purchase and selling prices are determined. The effect from the price difference realised by the Company in a certain sale as a result of the movement of prices of metals between the date of purchase of raw materials and the date in respect of which the sell price is fixed, are offset by the gain or loss on the respective buy and sell forwards.

21. Objectives and policies for management of financial risk and capital (continued)

Credit risk

The Company's exposure to risk of bad debts is not significant. Its sales policy is to operate through the agency of recognized trade intermediaries and the parent company.

It is a policy of the Company to make export credit insurances for the sales to customers that are not related parties.

The maximum credit exposure of the Company arising from the financial assets it has recognised equals to their carrying amount as per the statement of financial position – BGN 43,348 thousand as of 31 December 2012 (31 December 2011: BGN 57,988 thousand).

Liquidity risk

As at 31 December the maturity structure of the Company's financial liabilities based on the agreed undiscounted payments is as follows:

The year ended 31 December 2012

	< 1 year	*1-2 years*	*2-5 years*	*> 5 years*	*Total*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Interest bearing loans and borrowings	182,432	9,779	-	-	192,211
Trade and other payables	89,495	-	-	-	89,495
	271,927	9,779	-	-	281,706

The year ended 31 December 2011

	< 1 year	*1-2 years*	*2-5 years*	*> 5 years*	*Total*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Interest bearing loans and borrowings	139,686	35,205	9,779	-	184,670
Trade and other payables	94,111	-	-	-	94,111
	233,797	35,205	9,779	-	278,781

Equity management

The main objective of equity management of the Company is to ensure stable credit rating and equity ratios in view of the continuation of its business and maximizing of its value to the shareholders.

The Company manages its equity structure and adjusts it, where necessary, depending on the changes in the economic environment. In view of maintaining or changing its capital structure the Company may adjust the payment of dividends to the shareholders, may redeem its treasury shares, reduce or increase its share capital by virtue of decision of the shareholders. In 2012 and in 2011 there have been no changes in the objectives, policies or processes related to the Company's equity management.

21. Objectives and policies for management of financial risk and capital (continued)

The Company monitors its equity through the financial results achieved in the reporting period as follows:

	2012 BGN'000	*2011* BGN'000
Loss for the year	(12,202)	(9,873)

The structure and management of borrowed capital is performed by the parent company.

22. Fair values of financial instruments

The fair value is the amount at which a financial instrument may be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, which is the best indication of the instrument's market value in an active market

The Company determines the fair value of its financial instruments based on available market information. The fair value of financial instruments traded actively at organised financial markets is determined based on the "buy" prices on the last business day of the reporting period.

The management of the Company believes that the fair values of financial instruments comprising cash and short-term deposits, trade and other receivables, interest bearing loans, trade and other payables do not differ materially from their carrying amounts, especially if they have a short-term nature or the applicable interest rates vary in accordance with the market conditions.

Comparison of the carrying amounts and fair values of the Company's financial instruments (at statement of financial position item level) as they are reported in the financial statements is presented below.

	Carrying amount		Fair value	
In thousands of BGN	**2012**	**2011**	**2012**	**2011**
Financial assets				
Trade and other receivables	41,750	56,474	41,750	56,474
Derivative financial instruments	682	844	682	844
Cash and cash equivalents	916	670	916	670

	Carrying amount		Fair value	
In thousands of BGN	**2012**	**2011**	**2012**	**2011**
Financial liabilities				
Interest bearing loans and borrowings	192,211	184,670	192,211	184,670
Derivative financial instruments	-	-	-	-
Trade and other payables	89,495	94,111	89,495	94,111

23. Subsequent events

There are no significant events after the date of the reporting period that require disclosure in or adjustment of these financial statements.