

# **SOFIA MED AD**

## **INDEPENDENT AUDITOR'S REPORT**

### **ANNUAL ACTIVITY REPORT**

### **ANNUAL FINANCIAL STATEMENTS**

**31 DECEMBER 2019**

This version of the financial statements is a translation from the original, which was prepared in Bulgarian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

INDEPENDENT AUDITOR’S REPORT

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## Independent Auditor's Report

To the Shareholders of "Sofia Med" AD

### Our opinion

[We have audited the financial statements of "Sofia Med" AD (the "Company") which comprise the statement of financial position as at 31 December 2019, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

### Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and the ethical requirements of the Independent Financial Audit Act that are relevant to our audit of the financial statements in Bulgaria. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Independent Financial Audit Act.

### Information other than the financial statements and auditor's report thereon

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

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

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

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Registered with the Sofia City Court under company file number 13424/1997.

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misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **Additional matters to be reported under the Accountancy Act**

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the Annual Activity Report, we have also performed the procedures added to those required under ISAs in accordance with the "Guidelines regarding the new and enhanced auditor reporting and communication by the auditor" of the professional organisation of registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion on whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act applicable in Bulgaria.

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

Based on the procedures performed, in our opinion:

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

#### **Responsibilities of management for the financial statements**

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

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

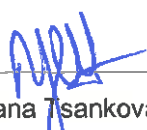
#### **Auditor's responsibilities for the audit of the financial statements**

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

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

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

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

  
Tsvetana Tsankova  
Registered Auditor  
30 July 2020  
Sofia, Bulgaria



  
Jock Nunan  
PricewaterhouseCoopers Audit OOD

## General overview

Throughout 2019 the copper industry witnessed weaker demand for rolled products, due to the slowdown of industrial output in Europe, which is the Company's main market. However, contrary to the negative business environment, volume of sales of core products stood at prior year levels. Sales revenue in 2019 amounted to BGN 956,688 thousand versus BGN 1,028,165 thousand in 2018 which represents a decrease of 7%, reflecting mainly the negative effect of the macroeconomic environment in the average prices of copper and zinc and decrease in sales of non-core products.

The average price of Copper reached Euro 5,364 per ton in 2019 versus Euro 5,521 per ton in 2018. The average price of zinc was Euro 2,264 per ton in 2019 versus 2,465 per ton in 2018.

During 2019 the ratio EBITDA/Sales was 3.42%, compared to 4.24% in 2018. The ratio a-EBITDA/Sales decreased to 3.86%, compared to 4.46% in 2018, reflecting the slowdown of the main market of Europe.

The operating profit for 2019 was BGN 15,947 thousand, compared to BGN 26,946 thousand in 2018.

The efforts for reduction in financial costs continued in 2019. The net financial costs in 2019 were BGN 8,470 thousand, and in 2018 – BGN 12,771 thousand, as a result of renegotiation of loans and reduction of interest rates.

The working capital excluding cash and cash equivalents (current assets less cash and cash equivalents, minus trade payables) as at the end of the year 2019 amounted to BGN 63,642 thousand (end of 2018: BGN 91,355 thousand).

In 2019 SOFIA MED AD continued the implementation of its investment program in order to expand the production range and increase the competitiveness of the Company. The total amount of property, plant and equipment acquired during the year was BGN 27,412 thousand.

## Current period results and financial position overview – Financial highlights

<i>In BGN thousand</i>	<b>2019</b>	<b>2018</b>
Sales revenue	956,688	1,028,165
Result from operating activities	15,947	26,946
EBITDA	32,753	43,592
EBITDA / Sales	3,4%	4,2%
EBT	7,477	14,175
Working capital excluding cash and cash equivalents	63,642	91,355
Working capital / Sales	6,7%	8,9%
Debt / Equity	0,69	0,69
Debt / EBITDA	4,83	3,55

**EBITDA:** It is the measure of profitability of the entity before net financial cost, income tax, depreciation and amortization and amortization of government grants. It is calculated by adjusting the depreciation and amortization to the operating profit as reported in the statement of profit and loss.

**Working capital excluding cash and cash equivalents:** It is calculated using the formula: *current assets minus cash and cash equivalents minus trade and other liabilities*.

**Debt to equity ratio:** Debt is calculated using the formula: *non-current interest-bearing loans plus current interest-bearing loans*.

**Current period results and financial position overview – Financial highlights (continued)**

**a-EBITDA:** adjusted EBITDA is a measure of the profitability of the entity after adjustments for:

- Metal result
- Restructuring costs
- Special idle costs assets
- Impairment of fixed assets
- Impairment of investments
- Profit / (Loss) of sales/disposals of non-current assets, investments if included in operational results
- Other impairment

<i>In BGN thousand</i>	<b>2019</b>	<b>2018</b>
<b>EBITDA</b>	<b>32,753</b>	<b>43,592</b>
Adjustments for:		
+ Loss / - Profit from Metal result	4,201	2,248
+ Loss / - Profit from disposals of non-current assets		63
<b>a-EBITDA</b>	<b>36,954</b>	<b>45,903</b>
<i>a-EBITDA/Sales</i>	<i>3,9%</i>	<i>4,5%</i>

The metal result stems from:

1. The time period between the invoicing of the purchase, holding time and metal processing versus the invoicing of sales.
2. The effect of the beginning inventory (which is affected by the metal prices of prior periods) in the cost of sales, coming from the valuation method which is weighted average.
3. Specific contracts with customers with closed prices that end in exposure to metal prices fluctuations between the period when the price was closed and the date the that the sale takes place.

SOFIA MED AD uses derivatives to hedge against the risk of fluctuation of metal prices. However, there will always be positive or negative effect in the result due to the safety stock that is held.

**Sustainable Development**

Sofia Med prioritises Sustainable Development issues, such as care for employees, environment protection, health and safety at work, as well as high customer satisfaction. The Company implements an integrated management system for quality, environmental management, and occupational health and safety, in accordance with the requirements of the international standards ISO 9001, ISO 14001, and OHSAS 18001. The wide production range meets the requirements of the European standards EN, and the standards BS, DIN, ASTM, JIS or any other specific customer requirements. During 2018, Sofia Med achieved new certification under the global industry standard IATF 16949:2016 for the automotive industry, in addition to recertification under the ISO 9001:2015 Quality Standard. Additionally, the company facilities have been recently certified according to ISO 50001:2011 for energy management. Furthermore, Sofia Med conforms to the ISO 26000:2010 guidelines on Social Responsibility.

The Company's core philosophy focuses on commitment to transparency in all its operations, protecting the health and safety of employees and minimising its own environmental footprint. Sofia Med implements a series of actions, such as:

- keeping customer satisfaction at high levels and quality management of products and services
- developing employees and providing equal opportunities at work
- investing in technology that allows higher use of recycled materials and further reduction in direct emissions.

The management of Sofia Med believes that a well-structured and sustained CSR culture supports significantly the company values and reputation, enhances the positive Company's image in front of stakeholders, raises atmosphere of trust, inspires stronger commitment and satisfaction on behalf of the employees, supports the strong relations with state institutions and local communities, as well as contributes to the global concept on Sustainable Development.

## **Sustainable Development (continued)**

### **Customer focus**

Sofia Med follows a customer-oriented approach, prioritising customer satisfaction. The commitment of the management in this area is described in the Quality Policy implemented. According to the company policy, its objectives are:

- the continuous improvement of customer satisfaction
- high quality of products to ensure they meet the customer requirements, as well as maintaining a high degree of effectiveness
- maintaining and improving the Company reputation in terms of quality, customer service and reliability
- its continuous adaptation to new market needs
- its close cooperation with customers to develop specialised bespoke products according to their needs.

### **Care for our people**

Sofia Med invests in people and offers continuous training, career path and personal development opportunities to everyone, adopting equal opportunity policies at all levels. The Company cultivates a rewarding working environment that respects human rights and one of its goals is to provide and maintain a safe working environment, which promotes responsible working practices.

On an annual basis, the Company organises social events and educational campaigns for the employees and their families, including:

- “May – the Month of Health, safety and environment”
- Summer children's camp
- Christmas children's party
- Christmas evening for the employees.

As part of its social policy, Sofia Med provides additional health insurance for its employees, a medical center with a doctor, which operates daily within the Company’s facilities, as well as a fitness hall.

### **Health and safety at work**

The Company commitment to protecting the health and safety of its people and associates is an absolute and non-negotiable priority. However, we recognize that we still have a long way to go before we achieve our goal of "zero accidents" hence we work methodically towards it.

### **Environmental protection and Energy efficiency**

Sofia Med is committed to protecting the environment and effective use of natural resources and has established and implements an integrated Environmental and Energy Policy under which it is committed to environmentally responsible business. The company works to continually improve its environmental footprint and energy performance and invests in environmental protection infrastructure and measures to improve its energy efficiency.

### **Supporting local communities**

Sofia Med implements sustainability practices and actions in order to contribute to the prosperity of local communities, such as: elevating in its selection criteria employment and suppliers from the local community, as well as, working with various government agencies, technical colleges and universities and provides professional training to students and university graduates.



### **Participation in networks and organisations**

As part of the sustainability strategy, Sofia Med actively participates in a series of networks, organisations, and associations to jointly identify and promote solutions of sectoral or business interest. Sofia Med is a member of the:

- European Copper Institute – ECI
- Hellenic Copper Development Institute – HCDI
- Bulgarian Association of Metallurgical Industry – BAMI
- Hellenic Business Council in Bulgaria - HBCB
- Bulgarian Association of Recycling – BAR
- Bureau of International Recycling – BIR

### **Subsequent events**

Late in 2019 news first emerged from China about the COVID-19 (Coronavirus). The situation at year end, was that a limited number of cases of an unknown virus had been reported to the World Health Organization. In the first few months of 2020 the virus had spread globally and its negative impact has gained momentum. Management considers this outbreak to be a non-adjusting post balance sheet event. While this is still an evolving situation at the time of issuing these financial statements, to date there has been limited impact on the Company's sales or supply chain, however the future effects cannot be predicted. Management will continue to monitor the potential impact and will take all steps possible to mitigate any effects.

No other significant 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 2019.

### **Research and development activities**

The Company does not perform any research and development activities as defined in accounting standards.

### **Branches**

The Company has no branches.

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

In 2018 the Company has not redeemed any treasury shares, and as at 31 December 2019 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. There is no decision of the General Meeting of shareholders granting to the members of the Board of Directors rights to acquire shares and bonds in 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.

The remuneration of the members of the Board of Directors for 2019 was BGN 246 thousand (2018: BGN 214 thousand).

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

Member of the Board of Directors	Participating in following companies
Angel Petrov Ganev	<ul style="list-style-type: none"> <li>• FIBRAN BULGARIA S.A.</li> </ul>
Lidia Atanasova Gerdjikova	<ul style="list-style-type: none"> <li>• BALANCE Ltd.</li> <li>• AMBEL Ltd.</li> <li>• EUROTERRA DEVELOPMENT S.A.</li> <li>• TWIN GRUP S.A.</li> <li>• PRIMROSEVIEW S.A</li> <li>• EAZY HOMES S.A.</li> <li>• PANSO S.A.</li> <li>• GERDA Ltd.</li> <li>• GTV Ltd.</li> </ul>

**Information under art. 187e and art. 247 of the Commercial Act (continued)**

Athanassios Athanassopoulos	<ul style="list-style-type: none"> <li>• DOMI BG Ltd.</li> <li>• LESKO Ltd.</li> <li>• PORT SVISHTOV WEST S.A.</li> <li>• SIGMA IS S.A.</li> </ul>
Stylianios Theodosiou	<ul style="list-style-type: none"> <li>• TECHOR S.A.</li> </ul>
Charalampos Vlachoutsikos	<ul style="list-style-type: none"> <li>• ANAMET S.A.</li> </ul>
Periklis Sapountzis	<ul style="list-style-type: none"> <li>• ELVALHALCOR HELLENIC COPPER AND ALUMINIUM INDUSTRY S.A</li> <li>• FITCO S.A</li> <li>• HALCOR RESEARCH AND DEVELOPMENT S.A.</li> </ul>
Dimitrios Dimitriadis	<ul style="list-style-type: none"> <li>• HELLAS GOLD S.A.</li> <li>• THRACE MINERALS S.A.</li> <li>• THRACIAN GOLD MINING S.A.</li> <li>• MACEDONIAN COPPER S.A.</li> </ul>
Ioannis Papadimitriou	<ul style="list-style-type: none"> <li>• METALCO BULGARIA S.A.</li> <li>• METALVALIUS Ltd.</li> </ul>

The other Directors of the Company do not participate in the management of other companies.  
The following Directors of the Company own more than 25% of the share capital of other companies:

Lidia Atanasova Gerdjikova	<ul style="list-style-type: none"> <li>• BALANCE Ltd.</li> <li>• AMBEL Ltd.</li> <li>• GERDA Ltd.</li> <li>• GTV Ltd.</li> </ul>
Athanassios Athanassopoulos	<ul style="list-style-type: none"> <li>• DOMI BG Ltd.</li> </ul>

The other Directors of the Company do not own more than 25% of the share capital of other companies.

**Financial instruments used by the Company and financial risks**

The Company uses financial instruments as disclosed in Note 21 to the financial statements. The Company has exposure to the following risks related to financial instruments: market risk (interest rate risk, foreign currency exchange rate risk and commodity price risk); credit risk and liquidity risk.

*Interest rate risk*

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

*Foreign currency risk*

As a result of purchases and sales at prices determined in currencies other than the Bulgarian lev, the operating results of the Company could be affected by movements in the exchange rates against BGN. The Company is hedging this risk. Since the EUR/BGN exchange rate is fixed as a result of the currency board system operating in Bulgaria, no currency risk arises as a result from the transactions in EUR. The Company hedges the foreign currency risk by borrowing money in the same currencies as the Company's sales and purchases. Part of sales and purchases denominated in currency different than BGN or EUR are hedged by entering into "sell" or "buy" forward contracts for sale/purchase at determined exchange rate of the respective quantity of foreign currency at the date at which the receivables/payables are expected to be settled.

*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.

**Financial instruments used by the Company and financial risks (continued)**

*Commodity price risk (continued)*

The Company concludes a futures sale contract on LME for each purchase order it places, and it concludes a futures purchase contract for each customer order it accepts. The futures contracts are for approximately 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 futures. This hedging relationship is designated as a cash flow hedge.

The Company holds derivative financial instruments such as futures 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 futures contracts for purchase and sale is calculated by reference to prices quoted at the commodities exchange for contracts with similar profiles.

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.

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.

*Credit risk*

The Company manages its exposure to credit risk through consistent application of the following policies. A part of its receivables is assigned to factoring companies under non-recourse factoring agreements. The Company follows a policy to insure all sales to customers that are not related parties.

*Liquidity risk*

The Company manages its liquidity risk through a maturity analysis of its current and non-current liabilities and regular forecasts of cash flows. The Company has agreed short-term credit facilities and overdraft credits to cover its current liquidity needs.

**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 2018.

**Important transactions with related parties**

Transactions with affiliated parties mainly concern purchases, sales and processing of copper products (finished and semi-finished), raw materials and services. Through such transactions, the companies take advantage of the Group's size and attain economies of scale.

Metal Agencies trades SOFIA MED's products in the market of Great Britain.

Steelmet Romania trades SOFIA MED's products in the Romanian market.

**Important transactions with related parties (continued)**

SOFIA MED sells to ElvalHalcor finished goods. ElvalHalcor provides SOFIA MED with raw materials, merchandise, fixed assets and technical, administrative and commercial support services.

MKC Metall Kunden Center trades SOFIA MED products in the German market.

Teprometal Germany trades SOFIA MED products in the German market and represent the latter in the German, Dutch, Belgian, Russian and partially Asian markets.

SOFIA MED sells to Fitco finished goods and raw materials. Fitco provides SOFIA MED with merchandise and tolling services.

SOFIA MED sells to Icme Ecab finished goods.

SOFIA MED sells to Hellenic Cables finished goods. Hellenic Cables provides SOFIA MED with materials.

Metalvalius sells to SOFIA MED cathodes.

CPW America Co. trades SOFIA MED products in the American market.

Reynolds Cuivre SAS trades SOFIA MED products in the French market.

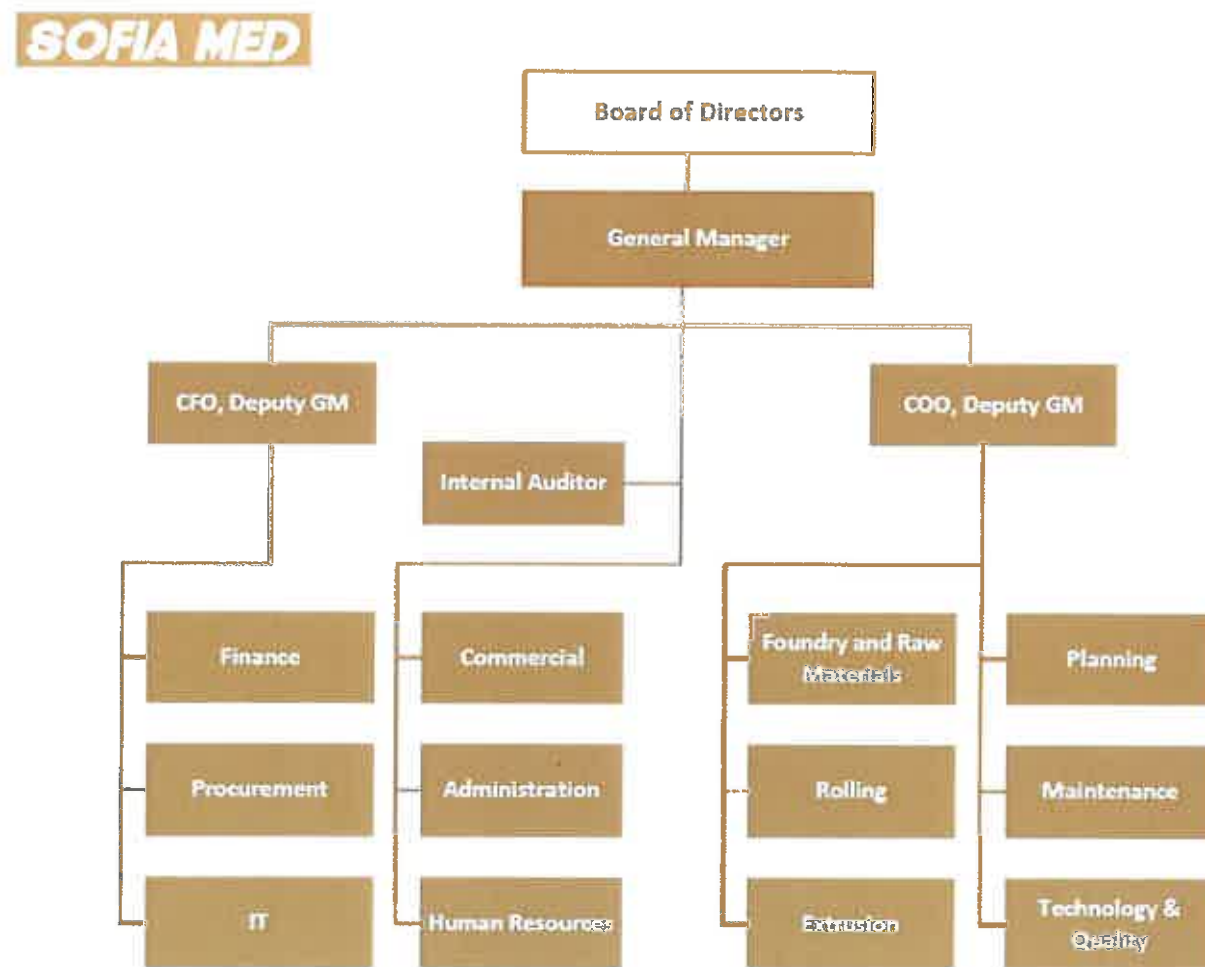
Alurame S.P.A. trades SOFIA MED products in the Italian market.

SOFIA MED sells to International Trade finished goods

Sigma IC SA sell to SOFIA MED subcontracted works and industrial services

SOFIA MED acquired subsidiary Metalvalius from Anamet S.A.

Quantitative information for the transactions with related parties in the meaning of IAS 24 are disclosed in Note 20 to the financial statements.

**Organisational structure**

**Composition of the Board of Directors**

The existing Board of Directors of the Company consists of 9 members of which:

- 6 are executive members (Chairman, Vice-Chairman & 3 Members);
- 3 are non-executive members (Other Members).

The current Board of Directors of SOFIA MED AD consists of the following:

- Efstratios Evangelos Stratigis, Chairman, executive member;
- Angel Petrov Ganey, Vice Chairman, executive member;
- Ioannis Papadimitriou, executive member;
- Stylianos Theodosiou, executive member;
- Charalampos Vlachoutsikos, executive member;
- Lidia Atanasova Gerdjikova, executive member
- Periklis Sapountzis, non-executive member;
- Athanassios Athanassopoulos, non-executive member;
- Dimitrios Dimitriadis, non-executive member.

**Curriculum vitae of the Board members****Efstratios Evangelos Stratigis, Chairman, executive member**

Mr. Stratigis' academic and professional education is obtained in Switzerland (Doctor of Laws, Basel University, December 1956) and the UK (Commercial and Admiralty Law at LSE and internships with insurance companies and law firms 1961 and 1962). Practices law since 1963 before the Courts of Athens and Piraeus specialising in company, commercial, maritime, insurance and banking law and international finance. He was until recently the Senior Partner of one of the leading law firms in Greece, established by his father the late Evangelos Stratigis in 1922, "Law Office E.Stratigis & Partners" involved in some of the biggest initial and secondary IPO's and privatisations in Greece, as well as in bond issues of the Hellenic Republic as advisers to international underwriters. He speaks English, German and French.

**Angel Petrov Ganey, Vice Chairman, executive member**

Mr. Ganey is a graduate of University of National and World Economy – Sofia and has specialization in the Foreign Trade Academy in Moscow, Russia. He has gained his professional experience as Managing Director of production and commercial companies, Senior officer in Ministry of foreign trade of Bulgaria, Commercial agent in Greece, Deputy Mayor of Sofia and Municipal councilor of Sofia. He speaks Russian, Greek and French.

**Ioannis Papadimitriou, executive member**

Dr. Ioannis Papadimitriou has graduated from the Technical University of Hanover, Electrical Engineering faculty. From 1986 to 1991 he was a research associate at the "Institute of Production Engineering and Machine Tools Technology" of the same University. In 1991 he acquired the title of Doctor of the Technical University in Hanover. He joined Halcor in 1992. From June 2006 to August 2013 he was Director of the Tube mill. As of September 2013 he is the General Manager of SOFIA MED.

**Stylianos Theodosiou, executive member**

Mr. Theodosiou is a Mechanical & Electrical Engineer, graduated from the Technical University of Athens in 1966. He commenced his career in 1968 as the Rolling Department Manager in Halcor's Piraeus Plant and in 1971 he became the Production Director for Casting -Rolling and Extrusion at the same plant. In 1981 he was promoted to Technical Director of all Halcor's Installations in Greece for Casting, Rolling and Extrusion of copper and copper alloys. From 2004 onwards he is the General Technical Director of Halcor S.A. and Fitco S.A. in Greece and SOFIA MED in Bulgaria.

**Charalampos Vlachoutsikos, executive member**

Mr. Vlachoutsikos has been a business manager and entrepreneur for many years. He has also been teaching, consulting and publishing extensively on managerial issues and on issues connected with self-management. He has received his B.A. in Economics and Sociology from Bowdoin College, his MBA from the Harvard Business School and his Ph.D. from the Aegean University.



**Curriculum vitae of the Board members (continued)****Charalampos Vlachoutsikos, executive member (continued)**

As Business Associate at Gemini Consulting he has consulted AT&T and Federal Express on establishing and operating investments in emerging markets as well as Coca Cola on Situational Leadership and on the COBRA management training and monitoring system. Since 2002 he is Adjunct Professor at the International MBA Program of Athens University of Economics and Business. He is a Special Advisor at the Hellenic Foundation for European and Foreign Policy and Senior Fellow at the International Center of Black Sea Studies. He has been a regular contributor to the Harvard Business Review for more than 25 years.

**Periklis Sapountzis, non-executive member**

Mr. Sapountzis is a chemical Engineer, graduate of the Technical University of Munich, holder of a doctor's degree (TUM). He has been working for the subsidiaries of Viohalco since 1995 when hired as a sales manager in Hellenic Cables SA. From 1997 to 2000 he was Commercial Director of Tepro Metall AG. In 2000 he became General Manager of ICME ECAB SA and in 2004 took the same position in the parent company Hellenic Cables SA. Between 2008 and currently holds the position of Executive Director and Board Member of ElvalHalcor SA.

**Lidia Atanasova Gerdjikova, non-executive member**

Ms. Gerdjikova is a graduate of University of National and World Economy – Sofia. She has occupied positions of senior expert in commercial companies, expert in an audit company, chief accountant and Investor Relations Director. She speaks English, Greek, and Russian.

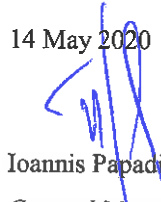
**Athanassios Athanassopoulos, non-executive member**


Mr. Athanassopoulos is a graduate of the Athens University of Economics and Business (former A.S.O.E.E. School of Economics & Commerce) and has specialized in Costing, in Marketing and Financial Management. He began his business career in Viohalco in 1964 in the financial department and has until this day served in several companies of the group in senior staff positions of General Manager, Member of the Board of Directors, Managing Director and President of the Board of Directors of many companies. He is a member of professional and social unions such as the Economic Chamber of Greece, Union of A.S.O.E.E. graduates, Tegean Association, founding member of the Greek Center of European Studies and Research.


**Dimitrios Dimitriadis, non-executive member**

Mr. Dimitriadis is a professional mining and metallurgical engineer graduated in 1979 from the NTUA. He has extensive experience in process development, process engineering and project development in mining and metallurgical industry. He was until 2002 Development Manager of TVX Gold. From 2002 until 2004 he was General Manager of ELMIN a bauxite producing mining company. In 2004 he joined as Business Development Manager of Hellas Gold S.A. In 2006 he has joined as VP Projects Development of European Goldfields, a Canadian Mining Company listed on TSX and AIM. From 2012 he joined as Senior Manager Engineering of Eldorado Gold.

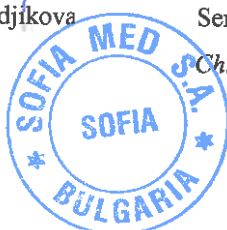
14 May 2020

  
Ioannis Papadimitriou  
General Manager

  
Lidia Gerdjikova  
Director

  
Sergey Vlaykov  
Chief Financial Officer

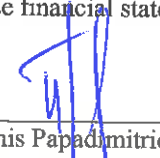
  
Nikolay Getov  
Preparer



(All amounts are in BGN thousands, unless otherwise stated)

In thousand BGN	Notes	For the year ended 31 December	
		2019	2018
Revenue	3.1	956,688	1 028,165
Cost of sales	3.2	(926,728)	(987,838)
<b>Gross profit</b>		<b>29,960</b>	<b>40,327</b>
Selling and distribution expenses	3.2	(4,126)	(4,025)
Administrative expenses	3.2	(10,531)	(8,830)
Impairment loss on trade receivables	8, 21	478	(492)
Other expenses and income, net	3.3	166	(34)
<b>Result from operating activities</b>		<b>15,947</b>	<b>26,946</b>
Finance income	3.4	109	
Finance expenses	3.4	(8,579)	(12,771)
<b>Net finance cost</b>		<b>(8,470)</b>	<b>(12,771)</b>
<b>Profit before income tax</b>		<b>7,477</b>	<b>14,175</b>
Income tax	4	(716)	(1,426)
<b>Profit for the year</b>		<b>6,761</b>	<b>12,749</b>
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurements of defined benefit liability	15	45	138
Related tax	4	(5)	(14)
		<b>40</b>	<b>124</b>
<i>Items that will be reclassified to profit or loss:</i>			
Effective portion of changes in fair value of cash flow	3.5	85	(2,095)
Related tax	4	(8)	209
		<b>77</b>	<b>(1,886)</b>
<b>Other comprehensive income for the period, net of tax</b>		<b>117</b>	<b>(1,762)</b>
<b>Total comprehensive income for the period</b>		<b>6,878</b>	<b>10,987</b>

These financial statements on pages 10-55 are approved on 14 May 2020 and signed as follows:


  
Ioannis Papadimitriou  
General Manager

  
Lidia Gerdjikova  
Director

  
Sergey Vlaykov  
Chief Financial Officer

  
Nikolay Getov  
Preparer

Initialled for identification purposes in reference to the auditor's report:

  
Tsvetana Tsankova  
Registered auditor

30-07-2020

  
Jock Nunan  
PricewaterhouseCoopers Audit OOD

30-07-2020

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

The notes set out on pages 14 to 55 are an integral part of these financial statements

## SOFIA MED AD

## STATEMENT OF FINANCIAL POSITION


31 DECEMBER 2019

SOFIA MED


(All amounts are in BGN thousands, unless otherwise stated)

<i>In thousand BGN</i>	<i>Notes</i>	<b>2019</b>	<b>As at 31 December 2018</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	277,914	266,800
Right of use assets	5	1,159	-
Intangible assets	6	175	229
Investments	24	-	17,610
Deferred tax assets	4	1,946	2,618
		<b>281,194</b>	<b>287,257</b>
<b>Current assets</b>			
Inventories	7	143,735	153,929
Trade and other receivables	8	44,706	48,352
Derivative financial instruments	9	167	850
Cash and cash equivalents	10	45,290	4,924
Assets held for sale	23	8,792	8,792
		<b>242,690</b>	<b>216,847</b>
<b>TOTAL ASSETS</b>		<b>523,884</b>	<b>504,104</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	11	110,297	110,297
Share premium		10,820	10,820
Reserves	12	111,986	114,181
Accumulated losses		(5,230)	(10,788)
		<b>227,873</b>	<b>224,510</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Loans and borrowings	13	137,031	124,195
Lease liabilities	14	712	-
Retirement benefit liabilities	15	1,421	1,332
Government grants	16	2,728	2,837
		<b>141,892</b>	<b>128,364</b>
<b>Current liabilities</b>			
Loans and borrowings	13	19,881	30,624
Lease liabilities	14	478	-
Trade and other payables	17	122,814	109,643
Contract liabilities	3.1	10,946	10,925
Derivative financial instruments	9	-	38
		<b>154,119</b>	<b>151,230</b>
<b>TOTAL LIABILITIES</b>		<b>296,011</b>	<b>279,594</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>523,884</b>	<b>504,104</b>

These financial statements on pages 10-55 are approved on 14 May 2020 and signed as follows:

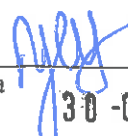
  
Ioannis Papadimitriou  
General Manager

  
Lidia Gerdjikova  
Director

  
Sergey Vlaykov  
Chief Financial Officer

  
Nikolay Getov  
Preparer

Initialled for identification purposes in reference to the auditor's report:

  
Tsvetana Tsankova  
Registered auditor

30-07-2020

  
Jock Nunan

PricewaterhouseCoopers Audit GOD

30-07-2020

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

The notes set out on 14 to 55 are an integral part of these financial statements




**SOFIA MED AD**  
**STATEMENT OF CHANGES IN EQUITY**  
**31 DECEMBER 2019**

**SOFIA MED**

(All amounts are in BGN thousands, unless otherwise stated)

	Notes	Share capital	Share premium	Reserves	Retained earnings	Total equity
<i>In thousands of BGN</i>						
<b>Balance as at 1 January 2018, as previously reported</b>		103,515	-	114,486	(21,879)	196,122
Adjustment on initial application of IFRS 9, net of tax	2.2	-	-	-	(201)	(201)
<b>Adjusted balance at 1 January 2018</b>		103,515	-	114,486	(22,080)	195,921
<b>Comprehensive income for the period</b>						
Profit for the year		-	-	-	12,749	12,749
<b>Other comprehensive income</b>						
Loss from cash flow hedge, net of tax	3.5, 12	-	-	(1,886)	-	(1,886)
Remeasurements of defined benefit liability, net of tax	15	-	-	-	124	124
<b>Total comprehensive income for the period</b>		-	-	(1,886)	12,873	10,987
<b>Transactions with owners recognised directly in equity</b>						
Increase of share capital	11	6,782	10,820	-	-	17,602
Other movements in equity	12	-	-	1,581	(1,581)	-
<b>Balance as at 31 December 2018</b>		110,297	10,820	114,181	(10,788)	224,510
<b>Balance as at 1 January 2019, as previously reported</b>		110,297	10,820	114,181	(10,788)	224,510
<b>Comprehensive income for the period</b>						
Profit for the year		-	-	-	6,761	6,761
<b>Other comprehensive income</b>						
Loss from cash flow hedge, net of tax	3.5, 12	-	-	77	-	77
Remeasurements of defined benefit liability, net of tax	15	-	-	-	40	40
<b>Total comprehensive income for the period</b>		-	-	77	6,801	6,878
Merger of entities under common control	26	-	-	(3,515)	-	(3,515)
Other movements in equity	12	-	-	1,243	(1,243)	-
<b>Balance as at 31 December 2019</b>		110,297	10,820	111,986	(5,230)	227,873


These financial statements on pages 10-55 are approved on 14 May 2020 and signed as follows:

  
 Ioannis Papadimitriou  
 General Manager

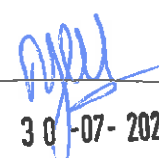
  
 Lidia Gerdjikova  
 Director



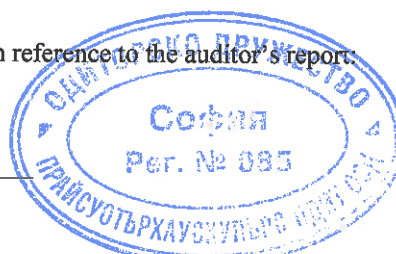
  
 Sergey Vlaykov  
 Chief Financial Officer

  
 Nikolay Getov  
 Preparer

Initialled for identification purposes in reference to the auditor's report:

  
 Tsvetana Tsankova  
 Registered auditor

30-07-2020



  
 Jock Nunan

PricewaterhouseCoopers Audit 30-07-2020

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

The notes set out on 14 to 55 are an integral part of these financial statements

**SOFIA MED AD**  
**STATEMENT OF CASH FLOWS**  
**31 DECEMBER 2019**

**SOFIA MED**

(All amounts are in BGN thousands, unless otherwise stated)

<i>In thousands of BGN</i>	<i>Notes</i>	<b>For the year ended 31 December</b>	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>				
Profit after tax			6,761	12,749
Adjustments for:				
Tax			716	1,426
Depreciation of property, plant and equipment	5		16,330	16,399
Depreciation of right of use assets	5		495	-
Amortization of intangible assets	6		91	568
Income from government grants	16		(109)	(109)
Finance Income			(109)	-
Net finance costs	3.4		8,579	12,771
(Gain) / loss from sale of non-current assets			5	108
(Gain) / loss from revaluation of derivatives through profit or loss	9		729	716
(Gains)/ losses from foreign exchange differences			(1,125)	-
Change in devaluation of inventories to net realisable value	7		(3,660)	5,498
Impairment and write-off of receivables	8		(478)	492
			<b>28,225</b>	<b>50,618</b>
Decrease / (increase) in inventories	7		14,980	(34,104)
Decrease / (increase) in trade and other receivables			18,043	(4,042)
(Decrease) / increase in trade and other payables and contract liabilities			8,775	20 921
Interest charges & related expenses paid			(9,681)	(12,819)
Income tax paid			(7)	(105)
<b>Net cash flows from operating activities</b>			<b>60,335</b>	<b>20,469</b>
<b>Cash flows from investing activities</b>				
Purchase of tangible assets			(21,149)	(18,868)
Cash acquired from business combinations			175	-
Investment in subsidiaries			-	(17,610)
<b>Net cash flows used in investing activities</b>			<b>(20,974)</b>	<b>(36,478)</b>
<b>Cash flows from financing activities</b>				
Loans received			28,360	6,586
Loans repaid			(26,662)	(6,844)
Payments of lease liabilities			(693)	-
Proceeds from increase of share capital	11		-	17,602
<b>Net cash flows from financing activities</b>			<b>1,005</b>	<b>17,344</b>
<b>Net change in cash and cash equivalents</b>			<b>40,366</b>	<b>1,335</b>
Cash and cash equivalents at the beginning of period			4,924	3,589
<b>Cash and cash equivalents at the end of period</b>	10		<b>45,290</b>	<b>4,924</b>

These financial statements on pages 10-55 are approved on 14 May 2020 and signed as follows:

Ioannis Papadimitriou  
General Manager

Lidia Gerdjikova  
Director

Sergey Vlaykov  
Chief Financial Officer

Nikolay Getov  
Preparer

Initialled for identification purposes in reference to the auditor's report

Tsvetana Tsankova  
Registered auditor

Jock Nunan  
PricewaterhouseCoopers Audit OOD

30 -07- 2020

30 -07- 2020

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

The notes set out on 14 to 55 are an integral part of these financial statements

## 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: 4 Dimitar Peshev Str., Gara Iskar, Sofia, Bulgaria. The Company is registered in the Bulgarian Trade Register at the Registry Agency with ID No. 130144438.

### Shareholders

As at 31 December 2019 the share capital of the Company is held by ElvalHalcor Hellenic Copper and Aluminium Industry S.A. Greece (ElvalHalcor, the parent company) – 89.56%, Viohalco SA/NV – 10.44% and Fitco S.A. Metal Works (Fitco S.A.), Greece – 0.00004%. ElvalHalcor S.A. and Fitco S.A. are also part of the Company of Viohalco SA/NV, (traded on the EURONEXT stock exchange in Belgium) which is the ultimate parent of SOFIA MED AD.

### Operating activities

Sofia Med is a producer of a wide range of rolled and extruded copper and copper alloy products such as sheets, strips, plates, circles, disks, bare and plated copper bus bars, rods, profiles, components, and wire that are used in a wide variety of building and industrial applications. The Company started its processing activity in the late 2000. The Company operates only in Sofia. As at 31 December 2019 the number of employees is 624 (2018: 616).

The financial statements are authorized for issue on 14 May 2020 with a resolution of the Board of Directors.

## 2. Basis of preparation and accounting policies

### 2.1 Basis of preparation

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union (EU). IFRSs as adopted by the EU is the commonly accepted name of the general purpose framework – the basis of accounting equivalent to the framework definition introduced by § 1, p. 8 of the Additional Provisions of the Accountancy Act "International Accounting Standards" (IASs).

### Basis of measurement

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

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

### Subsidiaries and consolidated financial statements

As at 31 December 2019 Sofia Med AD owns 100% of the registered capital of Metalvalius LTD, a company registered in Bulgaria. In these financial statements the Company's investment in Metalvalius LTD is accounted at cost. In accordance with IFRS 10 *Consolidated Financial Statements*, Sofia Med AD is not required to prepare consolidated financial statements as its direct parent and ultimate parent company Viohalco S.A. (www.viohalco.com), Belgium prepares and publishes consolidated financial statements in accordance with IFRS as adopted by the EU. The consolidated financial statements of Viohalco S.A. will be published in the Bulgarian Commercial Register in accordance with the requirements of the Accountancy Act.

### 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.

### Going concern

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

The bank loans of the Company, which matured in the end of 2019, are refinanced with new loans with extended repayment terms and for higher amounts.

The management considers that the existing capital resources and sources of funding will be adequate for its liquidity needs.

**2. Basis of preparation and accounting policies (continued)****2.2 Changes in accounting policies and disclosures****(a) New and amended standards adopted by the Company**

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing on 1 January 2019:

- **IFRS 16 "Leases"** (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019)
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019)
- **Prepayment Features with Negative Compensation - Amendments to IFRS 9** (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019)
- **Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28** (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019)
- **Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23** (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019)
- **Plan Amendment, Curtailment or Settlement - Amendments to IAS 19** (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019)

The Company has adopted IFRS 16 Leases from 1 January 2019, which has resulted in changes in the accounting policies and adjustments to the amounts recognised in the financial statements.

IFRS 16 Leases was issued in January 2016. It resulted in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

In accordance with the transitional provisions in IFRS 16 the new rules have been adopted retrospectively with the cumulative effect of initially applying the new standard recognized on 1 January 2019. Comparatives for the 2018 financial year have not been restated.

**The effect of IFRS 16 on the Financial Statements of the Company**

The Company decided to apply the Simplified Transitional Approach as at 1 January 2019 and has not recalculated the comparative figures for a year prior to the initial recognition. All rights of use will be measured at the amount of lease receivables (adjusted for any prepaid or accrued lease expenses). This means that 2018 and 2019 amounts are not comparable as they are based on the different accounting policies described in the notes. The adoption of IFRS 16 did not have an effect on equity (retained earnings) as at 1 January 2019.

As at 1 January 2019, the Company recognized assets with a right of use amounting to BGN 1,168 thousand and lease liabilities amounting to BGN 1,168 thousand. The Company's activity as a lessor is not significant.

On adoption of IFRS 16, the company recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate of the Company applied to the lease liabilities on 1 January 2019 was 3.95%.

	<b>1 January 2019</b>
	<i>In thousands of BGN</i>
Operating lease commitments disclosed as at 31 December 2018	1,323
Discounted using the company's incremental borrowing rate of 3.95%	(155)
<b>Lease liability recognized as at 1 January 2019</b>	<b>1,168</b>
<b>Of which are:</b>	
<b>Current lease liabilities</b>	<b>532</b>
<b>Non-current lease liabilities</b>	<b>636</b>

## 2. Basis of preparation and accounting policies (continued)

### 2.2 Changes in accounting policies and disclosures (continued)

#### (a) New and amended standards adopted by the Company (continued)

##### The effect of IFRS 16 on the Financial Statements of the Company

Right-of use assets were measured at the amount equal to the lease liability. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The initial value of the right-of-use assets is determined as follows:

	<b>1 January 2019</b>
	<i>In thousands of BGN</i>
Amount equal to lease liability as at 1 January 2019 under IFRS 16	1,168
<b>Right-of-use asset as at 1 January 2019</b>	<b>1,168</b>

The first-time application of IFRS 16 affected the following balance sheet items as at 1 January 2019:

- Right of use assets – increase by BGN 1,168 thousand
- Lease liabilities – increase by BGN 1,168 thousand

Practical expedients applied:

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

All other changes of the adopted standards listed above have no impact on the amounts recognized in previous periods and it is not expected to have a significant effect on current or future periods.

### 2.3. New standards and interpretations, not yet adopted

Certain new accounting standards and interpretations that are not mandatory for the reporting period at 31 December 2019 and have not been previously adopted by the Company have been published. The Company's assessment of the impact of these new standards and interpretations is set out below.

- **Amendments to the Conceptual Framework for Financial Reporting** (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020)
- **Definition of materiality – Amendments to IAS 1 and IAS 8** (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020)
- **Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7** (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020)

There are no other standards that are not yet adopted, and which are expected to have a significant impact on the Company during the current or future reporting period as well as in the foreseeable future transactions.



**2. Basis of preparation and accounting policies (continued)****2.3. New standards and interpretations, not yet adopted (continued)***New standards, interpretations and amendments not yet adopted by the EU*

- **IFRS 14, Regulatory Deferral Accounts** (issued on 30 January 2014 and effective for annual periods beginning on or after 1 January 2016)
- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28** (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB)
- **IFRS 17 "Insurance Contracts"** (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021)
- **Definition of a business – Amendments to IFRS 3** (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020)
- **Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current** (issued on 23 January 2020).

**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 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. Due to the long-term nature of retirement employee benefits such assumptions are subject to significant uncertainty. Further details related to employee retirement benefits are provided in Note 15.

***Valuation of property, plant and equipment***

The Company's land, buildings and machinery and technical installations are carried at revalued amounts. The determination of the assets' fair values involves estimates. The Company had used assumptions and estimates in the valuation of property plant and equipment at 31.12.2017. The Management of the Company has assessed that the revalued amounts as at 31.12.2017 have not changed significantly as at 31.12.2019 and 31.12.2018 and the valuation carried out in 2017 is still valid and applicable as at 31.12.2019 and 31.12.2018. Further details for the applied methods and assumptions are presented in Note 5.

***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 2.5).

***Impairment of receivables***

The Management assesses the appropriateness of expected credit loss (ECL) allowance for its financial assets 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.

Information about the measurement of ECL allowance for trade receivables and the weighted-average loss rates is included in note 21.

**2. Basis of preparation and accounting policies (continued)****2.4 Estimates and assumptions (continued)*****Net realisable value of inventories***

The net realisable value of inventories is based on the best estimate of the management for the value at which it is expected the inventories to be realised (actually agreed sales price or quotations of metal prices at a commodity exchange).

***Measurement of fair values***

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

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

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

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

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

Further information about the assumptions made in measuring fair values is included in the following notes:

Note 5 – Property, plant and equipment and Note 22 – Fair value of financial instruments.

***Extension and termination options and critical judgements in determining the lease term***

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

**2.5 Summary of significant accounting policies****a) 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).

**b) Property, plant and equipment*****Initial recognition***

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.

## 2. Basis of preparation and accounting policies (continued)

### 2.5 Summary of significant accounting policies (continued)

#### b) Property, plant and equipment (continued)

##### Initial recognition (continued)

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 as part of 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.

##### Subsequent measurement

After initial recognition, land and buildings and machinery and technical installations 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, machinery and technical installations 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
Machinery and technical installations	6.67 – 35 years
Supporting machinery and equipment	2 – 25 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.

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.

#### c) 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.



## 2. Basis of preparation and accounting policies (continued)

### 2.5 Summary of significant accounting policies (continued)

#### d) 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.

#### e) Financial instruments

##### *(i) Recognition and initial measurement*

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

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

##### *(ii) Classification and subsequent measurement*

#### Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or fair value through profit or loss (FVTPL).

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

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

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

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

## 2. Basis of preparation and accounting policies (continued)

### 2.5 Summary of significant accounting policies (continued)

#### e) Financial instruments (continued)

##### *(ii) Classification and subsequent measurement (continued)*

###### **Financial assets (continued)**

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

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

###### **Financial assets – Business model assessment**

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

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

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

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

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

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

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

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

## 2. Basis of preparation and accounting policies (continued)

### 2.5 Summary of significant accounting policies (continued)

#### e) Financial instruments (continued)

##### (ii) Classification and subsequent measurement (continued)

#### Financial assets – Subsequent measurement and gains and losses

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

#### Financial liabilities – Classification, subsequent measurement and gains and losses

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

##### (iii) Derecognition

#### Financial assets

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

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

#### Financial liabilities

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

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

## **2. Basis of preparation and accounting policies (continued)**

### **2.5 Summary of significant accounting policies (continued)**

#### **e) Financial instruments (continued)**

##### ***(iv) Offsetting***

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

##### ***(v) Derivative financial instruments and hedge accounting***

The Company holds derivative financial instruments to hedge its foreign currency and commodity price risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Derivatives are recognized initially at fair value. Any directly attributable transaction costs are recognized in profit or loss as they are incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized either in profit or loss, or in other comprehensive income, depending on the type of the hedging relation – fair value hedge or cash flow hedge.

##### ***Cash flow hedges***

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in OCI and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

The amount accumulated in equity is retained in OCI and reclassified to profit and loss in the same period or periods during which the hedged item affects profit or loss. If the forecast transaction is no longer expected to occur, the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

The Company holds derivative financial instruments such as futures purchase and sale contracts for metals 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 futures contracts for purchase and sale is calculated by reference to prices quoted on the commodities exchange for contracts with similar profiles.

The Company holds futures 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.

##### ***Fair value hedges***

The Company holds derivative financial instruments such as foreign exchange rate forward purchase and sale contracts to hedge its risks associated with fluctuations in the exchange rates of foreign currencies against the BGN. These hedging contracts are designated as fair value hedges.

##### ***Hedge accounting***

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

##### ***Hedge accounting – cash flow hedges***

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 through 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.



## 2. Basis of preparation and accounting policies (continued)

### 2.5 Summary of significant accounting policies (continued)

#### e) Financial instruments (continued)

##### *(v) Derivative financial instruments and hedge accounting (continued)*

###### *Hedge accounting – cash flow hedges (continued)*

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 profit or loss.

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.

###### *Hedge accounting – fair value hedges*

As at each reporting date the Company measures its open positions used as fair value hedging instruments at fair value. The resulting gain or loss is recognised directly in profit or loss. The hedging gain or loss on the hedged item adjust the carrying amount of the hedged item (if applicable) and is recognised in profit or loss.

#### *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.

#### f) Impairment

##### *(i) Non-derivative financial assets*

###### *Financial instruments and contract assets*

The Company recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- contract assets.

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

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

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 60 days past due.

The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held);

The above criteria are applicable only to third party receivables. In assessing related party receivables' expected credit losses, the Company uses historical information based on the collectability of the receivables from related parties.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

## 2. Basis of preparation and accounting policies (continued)

### 2.5 Summary of significant accounting policies (continued)

#### f) Impairment (continued)

##### *(i) Non-derivative financial assets (continued)*

###### *Measurement of ECLs*

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

###### *Credit-impaired financial assets*

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 180 days past due;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

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

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

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

###### *Write-off*

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For third party customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For very large customers with long lasting history of business relations, the Company makes an individual assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

##### *(ii) Non-financial assets*

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

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

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**2. Basis of preparation and accounting policies (continued)****2.5 Summary of significant accounting policies (continued)****g) Inventory**

Inventories are valued at the lower of costs and net realisable value. Inventories that are hedged in a fair value hedge 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 work in progress - the cost of direct materials, labour and variable and fixed overheads are 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 the purpose of assessing the net realisable value, inventories that contain metal are grouped under several categories according to the type of metal (alloy) included. The effect of any write-down to net realisable value or reversed write-down of inventories are presented in cost of sales.

**h) 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.

**i) 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.

## 2. Basis of preparation and accounting policies (continued)

### 2.5 Summary of significant accounting policies (continued)

#### i) Employee benefits (continued)

##### *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 recognizes 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.

#### j) Leases

Until the 2018 financial year payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The right-of-use asset is presented separately on the statement of financial position.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Each lease payment is allocated between the liability and finance cost. Lease liabilities are subsequently measured using the effective interest method. The carrying amount of liability is remeasured to reflect any reassessment, lease modification or revised in-substance fixed payments.

The lease term is a non-cancellable period of a lease; periods covered by options to extend and terminate the lease are only included in the lease term if it is reasonably certain that the lease will be extended or not terminated.

Right-of-use assets are measured initially at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Subsequently, the right-of-use assets are measured at cost less accumulated depreciation and any accumulated impairment losses and adjusted for remeasurement of the lease liability due to reassessment or lease modifications.

The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The amortisation periods for the right-of-use assets are as follows:

- right of use for the vehicles                      3-5 years



## **2. Basis of preparation and accounting policies (continued)**

### **2.5 Summary of significant accounting policies (continued)**

#### **j) Leases (continued)**

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. The Company applies the exemption for low-value assets on a lease-by-lease basis i.e. for the leases where the asset is sub-leased, a right-of-use asset is recognised with corresponding lease liability; for all other leases of low value asset, the lease payments associated with those leases will be recognised as an expense on a straight-line basis over the lease term.

Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

#### ***Accounting policy applied up to 1 January 2019***

##### ***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.

#### **k) Revenue**

##### **Performance obligations and revenue recognition policies – nature and timing of satisfaction of performance obligations**

Below is provided information on the nature and timing of settlement of performance obligations in customer contracts, including material payment terms and related revenue recognition policies.

##### **Sales of finished products and goods**

The Company sells copper and copper alloy products and other products based on contracts with customers. Agreed prices include a conversion component and a metal component, which is based on forward market quotations for the respective metals on the London Metal Exchange (LME). Sales invoices are usually payable upon delivery or up to 90 days. Any agreed discounts are assessed and granted to customers in the period of sales.

Revenue is recognized at a point in time, when the control over goods is transferred to the customer, which is when the goods are delivered to the place and conditions specified in the contract under the delivery term and have been accepted by customers. If the contract provides more than one performance obligation, the Company distributes the transaction price for each performance obligation specified in the contract based on the separate sale price of each individual obligation. Revenue is measured at the amount that the Company expects to be entitled to receive, which is based on the forward metal price at the date of transfer of the control.

## **2. Basis of preparation and accounting policies (continued)**

### **2.5 Summary of significant accounting policies (continued)**

#### **k) Revenue (continued)**

##### ***Provisional pricing***

According to the established business practice of the Company for a part of the sales agreements, prices at which sales invoices are issued are provisional and are determined on the basis of the forward LME quotations for the respective metal, for a specified quotation period at the date of delivery and transfer of control over goods to the customer. At this point in time revenue recognition criteria of IFRS 15 are met and the Company recognizes sales revenue and trade receivables at the prices specified in the invoices. However, according to these sales agreements the metal component of the final sales price and respectively the final consideration payable may be determined by the customer on a future date (sold-not-booked positions), on the basis of the spot market quotations on LME at this date. This is a provisional pricing feature under which the transaction price is based on the spot rate of the metal at the date the payable of the customer is finally confirmed. This provisional pricing feature does not depend on assessment of quantity or quality of the goods delivered, subsequent to the delivery date but only on changes in the market prices of metals. The sold-not-booked positions represent embedded derivatives, as the gains or losses do not depend on the performance obligation and execution of Sofia Med AD but on an external factor (the metal price) that is not closely related to the contract with the customer. The host contracts of the embedded derivatives are the respective trade receivables, recognized upon recognition of revenue. Under IFRS 9 the embedded derivatives with a host financial asset should not be separated but the entire instrument should be measured as a whole according to the general requirements of the standard (i.e. in this case at fair value). Gains on remeasurement of these trade receivables to fair value are not considered revenue in the scope of IFRS 15.

The Company does not provide sales-related services.

##### ***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).

#### **l) 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.

#### **m) Government grants**

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

Government grants relating to property, plant and equipment are included in non-current liabilities and are credited to the statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

Grants that compensate the Company for expenses incurred are recognized in profit or loss on a systematic basis in the same periods in which the expenses are recognized.

#### **n) 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.

## 2. Basis of preparation and accounting policies (continued)

### 2.5 Summary of significant accounting policies (continued)

#### n) Taxes (continued)

##### *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 Revenue

The effect of the initial application of IFRS 15 on revenue from contracts with customers of the Company is disclosed in Note 2.2. Due to the Company's approach to transition to IFRS 15, comparative information has not been restated to reflect new requirements.

Revenue of the Company is realized from sales of products as follows:

#### A. Revenue streams

<i>In thousands of BGN</i>	<b>2019</b>	<b>2018</b>
Revenue from contracts with customers	957,540	1,030,405
Gain/(loss) from changes in the fair values of the receivables to which provisional pricing applies	(852)	(2,240)
	<u>956,688</u>	<u>1,028,165</u>

Gains and losses from changes in the fair value of the receivables to which provisional pricing applies are a result of the change in market prices of the respective metals on the London Metals Exchange after the transfer of control of the goods to the client within the quotation periods agreed in the contracts with clients.

**3. Revenue and expenses (continued)****3.1 Revenue(continued)****B. Breakdown of revenue from contracts with customers**

<i>In thousands of BGN</i>	<b>2019</b>	<b>2018</b>
Revenue from sales of production	940,948	997,732
Revenue from sales of goods	2,062	2,695
Revenue from sales of scrap	14,530	29,978
	<u>957,540</u>	<u>1,030,405</u>

**Geographic markets**

<i>In thousands of BGN</i>	<b>2019</b>	<b>2018</b>
European Union	709,624	750,235
Other European countries	58,563	57,200
Asia	89,144	88,721
Africa	32,414	45,283
America	47,722	52,511
Other	20,073	36,455
	<u>957,540</u>	<u>1,030,405</u>

**Products/ metal groups**

	<b>2019</b>	<b>2018</b>
<i>In thousands of BGN</i>		
Rolled industrial products	532,151	567,287
Rolled architectural products	62,203	63,456
Extruded products	300,450	308,831
Non-core sales	62,736	90,831
	<u>957,540</u>	<u>1,030,405</u>

**C. Contract balances**

<i>In thousands of BGN</i>	<b>31.12.2019</b>	<b>31.12.2018</b>
Receivables included in "Trade and other receivables"	38,363	34,870
Contract liabilities	(10,946)	(10,925)

Contract liabilities include advance payments received from customers for the purchase of metal and non-metal products. They will be recognized as income during the following year, when the control over the inventories subject to the contracts is transferred to the respective clients.

## 3. Revenue and expenses (continued)

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

	Year ended 31 December 2019			
	Cost of sales	Selling and distribution expenses	Administrative expenses	Total
<i>In thousands of BGN</i>				
Employee remuneration	15,041	2,117	2,870	20,028
Compulsory social security contributions	4,464	286	520	5 270
Materials	867,126	226	420	867,772
Merchandise	1,770	-	-	1,770
Change in stock of finished goods and work in progress	17,113	-	-	17,113
Hired services	9,617	988	4,395	15,000
Depreciation of property, plant and equipment	14,387	167	972	15,526
Amortisation of intangible assets	16	-	75	91
Net loss from cash flow hedge	(3,419)	-	-	(3,419)
Other	613	342	1,279	2,234
<b>Total</b>	<b>926,728</b>	<b>4,126</b>	<b>10,531</b>	<b>941,385</b>

Depreciation and amortization absorbed included in *Change in stock of finished goods and work in progress* in 2019 is BGN 227 thousand.

	Year ended 31 December 2018			
	Cost of sales	Selling and distribution expenses	Administrative expenses	Total
<i>In thousands of BGN</i>				
Employee remuneration	13,420	1,826	2,881	18,127
Compulsory social security contributions	3,929	421	440	4,790
Materials	955,897	233	373	956,503
Merchandise	3,352	-	-	3,352
Change in stock of finished goods and work in progress	(27,433)	-	-	(27,433)
Hired services	27,832	1,168	3,068	32,068
Depreciation of property, plant and equipment	14,112	33	931	15,076
Amortisation of intangible assets	307	-	261	568
Net loss from cash flow hedge	(4,766)	-	-	(4,766)
Other	1,188	344	876	2,408
<b>Total</b>	<b>987,838</b>	<b>4,025</b>	<b>8,830</b>	<b>1,000,693</b>

Depreciation and amortization absorbed included in *Change in stock of finished goods and work in progress* in 2018 is BGN 212 thousand.

### 3. Revenue and expenses (continued)

#### 3.3 Other expenses and income, net

	2019	2018
<i>In thousands of BGN</i>		
Foreign exchange gains	-	34
Depreciation	(1,298)	(1,111)
Other income and (expenses), net	1,464	1,043
	<u>166</u>	<u>(34)</u>

#### 3.4 Finance income and finance cost

	2019	2018
<i>Recognised in profit and loss</i>		
<i>In thousands of BGN</i>		
<b>Finance income</b>		
Interest income	109	-
	<u>109</u>	<u>-</u>
<b>Finance expenses</b>		
Interest expense on loans at amortised cost	(7,694)	(11,896)
Interest expense on lease liabilities	(50)	-
Bank commissions	(835)	(875)
	<u>(8,579)</u>	<u>(12,771)</u>

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

	2019	2018
<i>In thousands of BGN</i>		
<b>Net gain/(loss) from cash flow hedge</b>		
Effective portion of changes in fair value of derivatives for cash flow hedges	85	(2,095)
Tax effect	(8)	209
Net effect in other comprehensive income	<u>77</u>	<u>(1,886)</u>

#### 3.6 Personnel expenses

	2019	2018
<i>In thousands of BGN</i>		
Employee remuneration	20,028	17,957
Social security expenses	5,270	4,790
Current period costs for defined benefit obligations (Note 15)	205	170
<b>Total</b>	<u>25,503</u>	<u>22,917</u>

#### 4. Corporate income tax

The main components of the corporate income tax benefit for the years ended 31 December 2019 and 2018 are:

	2019	2018
<i>In thousands of BGN</i>		
<b>Tax recognised in profit and loss</b>		
Current tax	(50)	(61)
Change in deferred taxes in the period	(666)	(1,365)
<b>Tax recognised in profit or loss</b>	<b>(716)</b>	<b>(1,426)</b>
<b>Tax recognised in other comprehensive income</b>	<b>(13)</b>	<b>195</b>

The tax rate for 2019 is 10% (2018: 10%). The applicable tax rate in 2020 will be 10%.

The reconciliation between the nominal corporate income tax benefit based on the accounting profit and the applicable tax rate and the effective income tax for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
<i>In thousands of BGN</i>		
<b>Profit/ (loss) before income tax</b>	<b>7,477</b>	<b>14,175</b>
Income tax at applicable tax rate of 10%	(748)	(1,417)
Income/(Expenses) non-deductible for tax purposes	32	(9)
<b>Income tax benefit/(expense) at effective tax rate 10.06% (2018: 10.06%)</b>	<b>(716)</b>	<b>(1,426)</b>

#### 4. Corporate income tax

Deferred taxes as at 31 December relate to the following:

	Statement of financial position		Statement of comprehensive income	
	2019	2018	2019	2018
<i>In thousands of BGN</i>				
<b>Deferred tax liabilities:</b>				
Derivative financial instruments	(17)	(82)	65	280
	<u>(17)</u>	<u>(82)</u>	<u>65</u>	<u>280</u>
<b>Deferred tax assets:</b>				
Property, plant and equipment	1,438	1,718	(280)	(2,052)
Inventories	194	560	(366)	550
Employee benefits	261	242	19	-
Other	70	180	(110)	52
	<u>1,963</u>	<u>2,700</u>	<u>(737)</u>	<u>(1,450)</u>
Deferred income tax, recognised in profit or loss			(666)	(1,365)
Deferred taxes recognised in other comprehensive income			(13)	195
Effect of merger			7	-
<b>Total change in deferred taxes</b>			<b>(672)</b>	<b>(1,170)</b>
<b>Deferred tax assets, net</b>	<u><b>1,946</b></u>	<u><b>2,618</b></u>		

As at 31 December 2019 there are no unrecognised deferred tax assets or liabilities.



**5. Property, plant and equipment**

Movements in property, plant and equipment is presented below:

<i>In thousands of BGN</i>	Land	Buildings	Machinery and technical installations	Vehicles	Other	Assets under construction	Total
<b>Cost:</b>							
At 1 January 2018	61,967	32,468	166,223	1,087	5,556	11,689	278,990
Additions	-	-	-	-	-	19,253	19,253
Transfers	-	117	10,989	35	159	(11,500)	(200)
Disposed assets	(142)	(55)	(85)	-	(22)	(11)	(315)
<b>At 31 December 2018</b>	<b>61,825</b>	<b>32,530</b>	<b>177,127</b>	<b>1,122</b>	<b>5,693</b>	<b>19,431</b>	<b>297,728</b>
Additions	-	-	-	-	-	27,412	27,412
Transfers	-	104	16,501	954	148	(17,707)	-
Effect of merger	-	-	48	-	204	-	252
Disposed assets	-	-	(234)	(26)	(84)	-	(344)
<b>At 31 December 2019</b>	<b>61,825</b>	<b>32,634</b>	<b>193,442</b>	<b>2,050</b>	<b>5,961</b>	<b>29,136</b>	<b>325,048</b>
<b>Accumulated depreciation:</b>							
At 1 January 2018	-	1,346	7 103	715	4,687	791	14,642
Depreciation for the year	-	3,411	12,663	50	275	-	16,399
Depreciation of disposals	-	(9)	(83)	-	(21)	-	(113)
<b>At 31 December 2018</b>	<b>-</b>	<b>4,748</b>	<b>19,683</b>	<b>765</b>	<b>4,941</b>	<b>791</b>	<b>30,928</b>
Depreciation for the year	-	3,413	12,628	36	253	-	16,330
Effect of merger	-	-	43	-	175	-	218
Depreciation of disposals	-	-	(231)	(26)	(85)	-	(342)
<b>At 31 December 2019</b>	<b>-</b>	<b>8,161</b>	<b>32,123</b>	<b>775</b>	<b>5,284</b>	<b>791</b>	<b>47,134</b>
<b>Carrying amount:</b>							
At 1 January 2018	61,967	31,122	159,120	372	869	10,898	264,348
At 31 December 2018	61,825	27,782	157,444	357	752	18,640	266,800
At 31 December 2019	61,825	24,473	161,319	1,275	677	28,345	277,914

**Impairment of property, plant and equipment**

Management considers that as at 31 December 2019 there are no indications for impairment of property, plant and equipment of the Company.

**Assets under construction**

As at 31 December 2019 assets under construction include advances paid, amounting to BGN 5,738 thousand (2018: BGN 9,943 thousand), in accordance with agreements for purchase of machinery and equipment. These items of machinery and equipment are intended primarily for the reconstruction of the rolling workshop.

**Pledge of property, plant and equipment**

As at 31 December 2019 property, plant and equipment with carrying amount of BGN 216,114 thousand (2018: BGN 247,051 thousand) are pledged as collateral for bank loans received by the Company (Note 13).

**Revaluation of land and buildings**

Management determined that the revalued land and buildings constitute one class of asset in accordance with IAS 16, based on the nature, characteristics and risks of the properties. If land and buildings were carried at the cost model, their net carrying amount as at 31 December 2019 would be BGN 5,786 thousand of land and BGN 4,019 thousand of buildings.

**(i) Fair value hierarchy**

The fair value of land and buildings as determined by external, independent property values as at 31 December 2017. The assessment of management is that as at 31 December 2019 the fair values of land and buildings do not differ significantly from their carrying amount as presented below. The fair value measurement for land and buildings has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.



**5. Property, plant and equipment (continued)****(ii) Level 3 fair value**

The following table shows reconciliation from the opening balances to the closing balances for Level 3 fair values.

	<i>Land</i>		<i>Buildings</i>	
	2019	2018	2019	2018
<i>In thousands of BGN</i>				
Balance at 1 January 2019	61,825	61,967	27,782	31,122
Additions	-	-	104	117
Depreciation for the year	-	-	(3,413)	(3,411)
Disposed assets	-	(142)	-	(46)
<b>Balance at 31 December 2019</b>	<b>61,825</b>	<b>61,825</b>	<b>24,473</b>	<b>27,782</b>

**(iii) Valuation technique and significant unobservable inputs**

The following table shows the valuation technique used in the measuring the fair value of land and buildings at the last valuation date, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
<i>Land plots:</i> Market approach is used for valuation.	<ul style="list-style-type: none"> <li>Price of land plots per square meter (Range EUR 110 - 180).</li> </ul>	Significant increases (decreases) in market price per square meter would result in significantly higher (lower) fair value of land plots. Significant increases (decreases) in estimated rent per square meter would result in significantly higher (lower) fair value of land plots.
<i>Buildings:</i> Two approaches are used to value every building: amortized replacement cost method and market approach.	<ul style="list-style-type: none"> <li>Price of buildings per square meter (Range EUR 120 - 1,182).</li> </ul>	

**Revaluation of machinery and technical installations**

Management determined that the revalued plant and equipment constitute one class of asset in accordance with IAS 16, based on the nature, characteristics and risks of the assets. If machinery and technical installations were carried at the cost model, their net carrying amount as at 31 December 2019 would be BGN 147,197 thousand.

**(i) Fair value hierarchy**

The fair value of machinery and technical installations was determined by external, independent property values as at 31 December 2017. The assessment of management is that as at 31 December 2019 the fair values of machinery and technical installations do not differ significantly from their carrying amount as presented bellow. The fair value measurement for machinery and technical installations has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

**(ii) Level 3 fair value**

The following table shows reconciliation from the opening balances to the closing balances for Level 3 fair values.

<i>In thousands of BGN</i>	<i>Machinery and technical installations</i>	
	2019	2018
Balance at 1 January	157,444	159,120
Additions	16,501	10,989
Disposed assets	(3)	(2)
Depreciation for the year	(12,628)	(12,663)
Effect of merger	5	-
<b>Balance at 31 December</b>	<b>161,319</b>	<b>157,444</b>

**5. Property, plant and equipment (continued)****Revaluation of machinery and technical installations (continued)****(iii) Valuation technique and significant unobservable inputs**

The following table shows the valuation technique used in the measuring the fair value of land and buildings at the last valuation date, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
<i>Machinery and technical installations: Cost approach</i>	<ul style="list-style-type: none"> <li>• Depreciated replacement cost</li> <li>• Physical wear</li> <li>• Residual life</li> <li>• Functional and economic impairment</li> </ul>	<p>Significant increases (decreases) in new replacement cost and residual life would result in significantly higher (lower) fair value of machinery and technical installations.</p> <p>Significant increases (decreases) in physical wear and functional and economic impairment would result in significantly lower (higher) fair value of machinery and technical installations.</p>

The Company used the depreciated replacement cost (DRC) approach for determining the fair values of machinery and technical installations. The management performed impairment test of the cash-generating unit including the machinery and technical installations to confirm the appropriateness of the valuation. No need for reduction of the determined fair values was identified. The Company's operations and all assets involved are considered as one cash-generating unit.

**Right of use assets**

	<i>Vehicles</i>
<b>Cost</b>	
At 31 December 2018	-
Adjustment for change in accounting policy (IFRS 16)	1,168
At 1 January 2019	<b>1,168</b>
Additions	486
At 31 December 2019	<b>1,654</b>
<b>Accumulated depreciation</b>	
At 1 January 2019	-
Depreciation charge for the period	495
At 31 December 2019	<b>495</b>
<b>Net book value:</b>	
At 1 January 2019	1,168
At 31 December 2019	<b>1,159</b>

The following amounts were recognised in profit and loss:

<i>In thousands of BGN</i>	<b>2019</b>	<b>2018</b>
Depreciation charge	495	-
Interest expense	50	-
Operating lease expense (IAS17) (included in administrative and distribution expenses)	-	1,030
<b>Total expenses related to leases</b>	<b>545</b>	<b>1,030</b>

In 2019 the Company recognised payments for lease liabilities of BGN 693 thousand in financing activities in accordance with IFRS 16. In 2018 the Company recognised payments for operating leasing of BGN 1,030 thousand in operating activity.

## 6. Intangible assets

	Trademarks and patents	Software	Total
<i>In thousands of BGN</i>			
<b>Cost:</b>			
At 1 January 2018	3	4,287	4,290
Additions	200	200	200
<b>At 31 December 2018</b>	<b>3</b>	<b>4,487</b>	<b>4,490</b>
Transfer from PPE	35	35	35
Mergers and absorption	88	88	88
<b>At 31 December 2019</b>	<b>3</b>	<b>4,610</b>	<b>4,613</b>
<b>Accumulated amortisation:</b>			
At 1 January 2018	(3)	(3,690)	(3,693)
Amortisation charge	(568)	(568)	(568)
<b>At 31 December 2018</b>	<b>(3)</b>	<b>(4,258)</b>	<b>(4,261)</b>
Mergers and absorption	(86)	(86)	(86)
Amortisation charge	-	(91)	(91)
<b>At 31 December 2019</b>	<b>(3)</b>	<b>(4,435)</b>	<b>(4,438)</b>
<b>Carrying amount:</b>			
At 1 January 2018	597	597	597
<b>At 31 December 2018</b>	<b>229</b>	<b>229</b>	<b>229</b>
<b>At 31 December 2019</b>	<b>175</b>	<b>175</b>	<b>175</b>

## 7. Inventory

	As at 31 December	
	2019	2018
<i>In thousands of BGN</i>		
Materials	55,532	52,521
Work in progress	51,690	70,038
Finished goods	37,919	36,684
Merchandise	530	282
	<b>145,671</b>	<b>159,525</b>
Less: Inventories write-down:		
Materials	(1,936)	(5,596)
<b>Total inventories at the lower of cost and net realisable value</b>	<b>143,735</b>	<b>153,929</b>

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 (actually agreed sales price or quotations of metal prices at a commodity exchange). As at 31 December 2019, there are no inventory pledged as collateral for bank loans received by the Company (2018: BGN 127,672 thousand) (Note 13).

## 8. Trade and other receivables

	As at 31 December	
	2019	2018
<i>In thousands of BGN</i>		
Trade receivables (Note 22)	21,599	21,222
Impairment loss	(293)	(830)
Related parties receivables (Note 20, 22)	17,057	14,478
VAT receivable	4,389	9,844
Down payments for delivery of inventory	817	1,930
Other receivables	1,137	1,708
	<u>44,706</u>	<u>48,352</u>

There are no pledged receivables as of 31.12.2019. (2018: EUR 5,500 thousand) (Note 13).

As at 31 December 2019 the aging analysis of gross trade receivables from third parties only (less receivables from related parties) is presented below. The table provides information about the exposure to credit risk and ECLs for trade receivables from customers:

### 31 December 2019 *In thousands of BGN*

	Weighted- average loss rate	Gross carrying amount	Impairment loss allowance	Credit- impaired
Current (not past due)	0,86%	14,958	(128)	No
Less than 30 days past due	0,88%	5,401	(48)	No
31-60 days past due	0,51%	1,129	(6)	No
61-90 days past due	100,00%	-	-	-
91-120 days past due	100,00%	-	-	-
More than 120 days past due	100,00%	111	(111)	Yes
		<u>21,599</u>	<u>(293)</u>	

### 31 December 2018 *In thousands of BGN*

	Weighted- average loss rate	Gross carrying amount	Impairment loss allowance	Credit- impaired
Current (not past due)	1,05%	13,475	(141)	No
Less than 30 days past due	1,88%	6,545	(123)	No
31-60 days past due	44,84%	1,153	(517)	No
61-90 days past due	100,00%	28	(28)	Yes
91-120 days past due	100,00%	-	-	-
More than 120 days past due	100,00%	21	(21)	Yes
		<u>21,222</u>	<u>(830)</u>	

## 8. Trade and other receivables (continued)

As at 31 December the aging analysis of gross trade receivables from related parties is provided in the table below:

			Overdue				
	Total	Not overdue	< 30 days	30-60 days	60-90 days	90-120 days	>120 days
<i>In thousands of BGN</i>							
<b>2019</b>	<b>17,057</b>	16,566	312	39	25		115
<b>2018</b>	<b>14,478</b>	8,014	3,556	990	1,350	503	65

In assessing related party receivables' impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred is based on the historical trends of the receivables.

The weighted - average loss rates used in the calculation of the impairment loss allowance are applicable to third party receivables only. The Company's policy is to consider for impairment related party receivables that are more than 1 year past due. Based on the historical recoverability trends and the criteria applied by the Company, there have been no incurred losses from uncollected related party receivables so far.

## 9. Derivative financial instruments

<i>In thousands of BGN</i>	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Futures contracts designated as cash flow hedging instruments				(38)
Forward contracts designated as fair value hedging instruments	167		850	-
	<u>167</u>		<u>850</u>	<u>(38)</u>
<b>Net assets</b>	<u>167</u>		<u>812</u>	

The fair value of the derivative financial instruments as of the reporting date is based on forward prices quoted on the London Metal Exchange. The futures contracts designated as cash flow hedging instruments are these used to hedge the risks related to fluctuations of raw materials prices. The forward contracts designated as fair value hedging instruments are these used to hedge the risks related to fluctuations of foreign currencies rates. 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

<i>In thousands of BGN</i>	31 December	
	2019	2018
Cash at bank	45,285	4,922
Cash in hand	5	2
<b>Total cash in hand and at banks</b>	<u>45,290</u>	<u>4,924</u>

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

The amount of cash at bank as at 31.12.2019 pledged as collateral for short-term bank loans received by the Company is BGN 0.00 (2018: BGN 2,134 thousand) (Note 13). As at 31.12.2019 outstanding amount of loans secured (including interest payable) with pledge of cash at bank is BGN 8,144 thousand (2018: BGN 5,480 thousand).

## 11. Share capital

	<i>Number of shares</i>	<i>Ordinary shares in thousands of BGN</i>	<i>Share premium in thousands of BGN</i>	<i>Total in thousands of BGN</i>
As at 1 January 2018	2,464,635	103,515	-	103,515
Issued shares	161,491	6,782	10,820	17,602
As at 31 December 2018	2,626,126	110,297	10,820	121,117
As at 31 December 2019	2,626,126	110,297	10,820	121,117

As at 31 December 2019 the registered share capital of the Company is comprised of 2,626,126 ordinary shares at a par value of BGN 42 each. Shares are fully paid.

Ordinary shares of SOFIA MED AD held by the parent company are used as collateral for a loan granted by the European Bank for Reconstruction and Development (EBRD).

## 12. Reserves

<i>In thousands of BGN</i>	<i>Revaluatio reserv</i>	<i>Hedging reserve</i>	<i>Other reserves</i>	<i>Statutory reserves</i>	<i>Total Reserves</i>
At 1 January 2018	112,636	1,850	-	-	114,486
Net gain from cash flow hedge	-	(2,095)	-	-	(2,095)
Deferred tax effect	-	209	-	-	209
Transfer of reserves	(211)	-	-	1,792	1,581
<b>Total change for the period</b>	<b>(211)</b>	<b>(1,886)</b>	<b>-</b>	<b>1,792</b>	<b>(305)</b>
At 31 December 2018	112,425	(36)	-	1,792	114,181
At 1 January 2019	112,425	(36)	-	1,792	114,181
Net gain from cash flow hedge	-	85	-	-	85
Deferred tax effect	2	(8)	-	-	(8)
Effect of merger	-	-	(3,515)	-	(3,515)
Transfer of reserves	(29)	-	-	1,272	1,243
<b>Total change for the period</b>	<b>(27)</b>	<b>77</b>	<b>(3,515)</b>	<b>1,272</b>	<b>(2,195)</b>
At 31 December 2019	112,396	41	(3,515)	3,064	11,986



**13. Loans**

	<b>2019</b>	<b>31 December 2018</b>
<i>In thousands of BGN</i>		
<b>Non-current loans</b>		
Bank loans	137,031	124,195
<b>Total non-current loans</b>	<b>137,031</b>	<b>124,195</b>
<b>Current loans</b>		
Bank loans	4,901	16,473
Current portion of non-current loans	14,980	14,151
<b>Total short term borrowings received</b>	<b>19,881</b>	<b>30,624</b>
<b>Total borrowings received</b>	<b>156,912</b>	<b>154,819</b>
<i>Reconciliation of movements of liabilities to cash flows arising from financing activities</i>		
<i>In thousands of BGN</i>		
<b>Balance as at 1 January</b>	<b>154,819</b>	<b>155,448</b>
Loans received during the period	28,360	6,586
Repayments during the period	(26,662)	(6,844)
Accrued finance costs, not paid	(10)	(371)
Other non-cash flow movements	405	-
<b>Balance as at 31 December</b>	<b>156,912</b>	<b>15,819</b>

The maturity of interest-bearing loans at agreed, non-discounted payments is presented in Note 21. The Company has not capitalised any interest on loans in 2019 (2018: none).

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

	<b>2019</b>	<b>2018</b>
Bank overdrafts	4,70%	5,30%
Short term bank loans	3,80%	4,40%
Long term bank loans	3,05%	4,60%

As of 31 December 2019 short-term debt represents short-term loans from NBG Bank Malta Limited.

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

As at 31 December 2018 the Company has renegotiated its long-term bank loans with EBRD and the bank syndicate with agent Alpha Bank, London. The new loan agreements come into force in the end of January 2019. They extend the maturity of the loans for further 7 years.

As at 31 December 2019 the balance of loans from EBRD and bank syndicate with agent Alpha Bank, London are presented as non-current liability, according to the repayment terms of the new contracts, as the enforcement of the new loan agreements with those banks was agreed and was only at the discretion of Sofia Med AD.

**Financial covenants**

As at 31 December 2019 the Company complied with the financial covenants on the long-term loans.

**14. Lease liabilities**

	31.12.2019	01.01.2019
<i>In thousands of BGN</i>		
Less than one year	478	532
Between one and five years	712	636
<b>Total</b>	<b>1,190</b>	<b>1,168</b>
	<i>Min. lease payments</i>	<i>Present value</i>
	<i>31.12.2019</i>	<i>31.12.2019</i>
<i>In thousands of BGN</i>		
Less than one year	515	478
Between one and five years	749	712
Finance costs	(74)	-
<b>Total</b>	<b>1 190</b>	<b>1 190</b>

**15. Retirement employee benefits**

**a) Expenses for retirement employee benefits**

	2019	2018
<i>In thousands of BGN</i>		
Current service cost	188	155
Interest cost on retirement employee benefit	17	15
<b>Expenses on retirement benefits recognised in profit and loss (Note 3.6)</b>	<b>205</b>	<b>170</b>

**b) Retirement benefits liability**

	2019	2018
<i>In thousands of BGN</i>		
Present value of retirement benefit obligation	1,421	1,332
<b>Retirement benefits liabilities, recognised in the statement of financial position</b>	<b>1,421</b>	<b>1,332</b>

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

	2019	2018
<i>In thousands of BGN</i>		
Liability at the beginning of the year	1,332	1,323
Current service cost	188	155
Interest cost	17	15
Benefits paid	(71)	(23)
<i>Remeasurements:</i>		
Actuarial losses from changes in demographic assumptions	(96)	(25)
Actuarial losses from changes in financial assumptions	86	(32)
Experience adjustments	(35)	(81)
<b>Retirement benefits liabilities, recognised in the statement of financial position</b>	<b>1,421</b>	<b>1,332</b>

Main actuarial assumptions used for accounting purposes are shown below:

	2019	2018
Discount rate	0,82%	1,34%
Future salary increase	4,00%	4,00%
Price inflation	1,75%	1,75%

**16. Government grants**

The Company has been awarded a government grant related to reimbursement of part of expenses on electricity. The part of reimbursement pertaining to 2018 amounts to BGN 966 thousand and is presented in Other expenses, net in *Statement of profit or loss and other comprehensive income*. The part of reimbursement pertaining to 2019 amounts to BGN 618 thousand and decreases the expenses on electricity included in Materials (Note 3.2). The movement of government grants related to property, plant and equipment is as follows:

<i>In thousands of BGN</i>	2019	2018
Balance at the beginning of the year	2,837	2,946
Amortisation for the year	(109)	(109)
	<u>2,728</u>	<u>2,837</u>

**17. Trade and other payables**

<i>In thousands of BGN</i>	31.12.2019	31.12.2018
Trade payables (Note 22)	57,113	36,679
Related parties trade payables (Note 20, 22)	61,438	67,378
Payables to employees	1,653	1,421
Taxes	561	488
Other payables	2,047	3,677
	<u>122,812</u>	<u>109,643</u>

**18. Commitments**

<i>In thousands of BGN</i>	2019	2018
Property, plant and equipment	<u>4,676</u>	<u>1,863</u>

*Investment program*

In 2020 the Company plans completion of the reconstruction of assets in foundry and rolling workshops. The contracted expenditure amounts to BGN 19 500 thousand.

**19. Contingencies***Bank guarantees*

Bank guarantees and letters of credit issued by other companies on behalf of SOFIA MED AD amount to BGN 2,016 thousand (2018: BGN 3,225 thousand) as at the reporting date.

Bank guarantees and letters of credit issued by SOFIA MED AD on behalf of other companies and state agencies amount to BGN 1,016 thousand (2018: BGN 572 thousand) as at the reporting date.

**20. Related parties****a) Identification of related parties***The ultimate parent company*

The ultimate parent of the Company is Viohalco SA/NV, (traded on the EURONEXT stock exchange in Belgium).

*Entities with controlling interest in the Company*

89.55953 % of the shares of SOFIA MED AD are owned by ElvalHalcor S.A., 10.44043 % are owned by Viohalco SA/NV, 0.00004 % are owned by Fitco S.A. Metal Works (Fitco S.A.), Greece.

*Other related parties*

All companies within the Viohalco Group are considered related parties under common control.

**20. Related parties (continued)****b) Sale of goods and services**

	2019	2018
<i>In thousands of BGN</i>		
Sales of goods	308,214	295,267
Sales of services	130	101
	<u>308,344</u>	<u>295,368</u>
<i>from which:</i>		
- to the parent entity	51,577	80,887
- to entities under common control	256,767	214,481

**c) Purchases of goods, services and other**

	2019	2018
<i>In thousands of BGN</i>		
Purchases of goods	138,807	110,710
Purchases of investments	-	17,602
Purchase of Fixed assets	10,713	-
Purchases of services	7,635	9,144
	<u>157,155</u>	<u>137,456</u>
<i>from which:</i>		
- from the parent entity	89,505	83,654
- from entities under common control	67,650	53,802

**d) Key management remuneration**

	2019	2018
<i>In thousands of BGN</i>		
Salaries and other short-term employee benefits	2,745	2,719
	<u>2,745</u>	<u>2,719</u>

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

	2019	2018
<b>Trade receivables</b>		
from the parent entity	342	-
from entities under common control	16,715	14,478
<b>Related party receivables</b>	<u>17,057</u>	<u>14,478</u>
<b>Trade payables to related parties</b>	61,438	67,378
<b>Contract liabilities to related parties</b>	9,778	9,779
<b>Related party payables</b>	<u>71,216</u>	<u>77,157</u>
<i>from which:</i>		
- to the parent entity	67,556	-
- to entities under common control	3,660	77,157

The types of transactions between the Company and its parent, ElvalHalcor 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, services and materials. 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:

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

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

<i>In thousands of BGN</i>	Nominal amount	
	2019	2018
<b>Variable rate instruments</b>		
Financial liabilities	(158,102)	(154,819)
	<b>(158,102)</b>	<b>(154,819)</b>

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

A change of 0,25% in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2018.

<i>Effect in thousands of BGN</i>	Profit or loss		Equity	
	0,25% increase	0,25% decrease	0,25% increase	0,25% decrease
<b>31 December 2019</b>				
Variable rate instruments	(395)	395	-	-
<b>Cash flow sensitivity (net)</b>	<b>(395)</b>	<b>395</b>	<b>-</b>	<b>-</b>
<b>31 December 2018</b>				
Variable rate instruments	(387)	387	-	-
<b>Cash flow sensitivity (net)</b>	<b>(387)</b>	<b>387</b>	<b>-</b>	<b>-</b>

**21. Objectives and policies for management of financial risk and capital (continued)****Market risks (continued)***Foreign currency risk (continued)*

As a result of purchases and sales at prices determined in currencies other than the Bulgarian lev, the operating results of the Company could be affected by movements in the exchange rates against BGN. The Company is hedging this risk. Since the EUR/BGN exchange rate is fixed as a result of the currency board system operating in Bulgaria, no currency risk arises as a result from the transactions in EUR. The Company hedges the foreign currency risk by borrowing money in the same currencies as the Company's sales and purchases. A part of sales /purchases denominated in currency different than BGN or EUR is hedged by entering into forward contracts for sale/purchase at determined exchange rate of the respective quantity of foreign currency at the date at which the receivables/payables are expected to be settled.

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

**2019**

<i>In thousands of BGN</i>	EUR	BGN	USD	GBP
Trade and other receivables	23,679	6,127	8,730	6,170
Interest-bearing loans received	(156,912)	-	-	-
Lease liabilities	-	(1,190)	-	-
Trade and other payables	(80,302)	(41,348)	(1,151)	(11)
Contract liabilities	(10,673)	(19)	(254)	-
Cash and cash equivalents	34,080	5,703	4,137	1,370
	<b>(190,128)</b>	<b>(30,727)</b>	<b>11,462</b>	<b>7,529</b>
Pricing agreements - (purchases)/sales	-	-	(14,181)	-
Derivatives (nominal value)	-	-	-	(7,621)
<b>Total exposure to FX rate risk</b>	<b>(190,128)</b>	<b>(30,727)</b>	<b>(2,719)</b>	<b>(92)</b>

**2018**

<i>In thousands of BGN</i>	EUR	BGN	USD	GBP	CHF
Trade and other receivables	23,405	10,955	8,493	5,499	-
Interest-bearing loans received	(147,234)	(1,940)	(1,170)	(4,475)	-
Trade and other payables	(88,792)	(17,178)	(3,596)	(15)	(62)
Contract liabilities	(10,925)	-	-	-	-
Cash and cash equivalents	3,438	219	1,259	1	7
	<b>(220,108)</b>	<b>(7,944)</b>	<b>4,986</b>	<b>1,010</b>	<b>(55)</b>
Pricing agreements - (purchases)/sales	-	-	(4,079)	-	-
Derivatives (nominal value)	-	-	(389)	(690)	-
<b>Total exposure to FX rate risk</b>	<b>(220,108)</b>	<b>(7,944)</b>	<b>518</b>	<b>320</b>	<b>(55)</b>



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

## Market risks (continued)

## Foreign currency risk (continued)

The following significant exchange rates applied during the year:

	Average FX rate		FX rate at the reporting period-end date	
	2019	2018	2019	2018
USD 1	1,747	1,658	1,741	1,708
GBP 1	2,230	2,211	2,299	2,186
CHF 1	1,758	1,694	1,802	1,736

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.

Strengthening / (weakening) of the exchange rate of the USD against the BGN		Effect on profit before tax	Effect on equity
	%	In thousands of BGN	In thousands of BGN
2019	10%	(272)	-
	-10%	272	-
2018	10%	(95)	-
	-10%	95	-
Strengthening / (weakening) of the exchange rate of the GBP against the BGN		Effect on profit before tax	Effect on equity
	%	In thousands of BGN	In thousands of BGN
2019	10%	(9)	-
	-10%	9	-
2018	10%	(32)	-
	-10%	32	-
Strengthening / (weakening) of the exchange rate of the CHF against the BGN		Effect on profit before tax	Effect on equity
	%	In thousands of BGN	In thousands of BGN
2019	10%	(20)	-
	-10%	20	-
2018	10%	5	-
	-10%	(5)	-

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

### Market risks (continued)

#### *Foreign currency risk (continued)*

#### *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 futures sale contract on LME for each purchase order it places, and it concludes a futures purchase contract for each customer order it accepts. The futures contracts are for approximately 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 futures.

#### **Credit risk**

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

#### *Trade and other receivables*

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

During 2019, approximately 16% of the Company's revenue is attributable to sales transactions with two multinational customers. However, geographically there is no concentration of credit risk. The Company has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are a related party or third party customer, geographic location, industry and existence of previous financial difficulties.

The Company manages its exposure to credit risk through consistent application of the following policies. A part of its receivables is assigned to factoring companies under non-recourse factoring agreements. The Company follows a policy to insure all sales to customers that are not related parties.

The maximum credit exposure of the Company arising from the financial assets it has recognised equals their carrying amount as per the statement of financial position – BGN 38 530 thousand as of 31 December 2019 (31 December 2018: BGN 35 720 thousand).

The Company has recognised impairment of trade receivables, which represents the expected credit loss in relation to third party customers. The Company considered evidence of impairment for these assets at both an individual asset and a collective level. Trade and other receivables are both individually and collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.

#### *Cash and cash equivalents*

The Company has cash and cash equivalents as at 31.12.2019 at the amount of BGN 45 290 thousand (2018: BGN 4 924 thousand). The cash and cash equivalents of the Company are held with bank and financial institution counterparties, which are rated F2 to C, based on Rating Agency Fitch short term credit ratings. Given the credit ratings of the banks where Sofia Med AD holds its cash and cash equivalents, the expected credit losses have been considered as insignificant and no impairment loss was recognised.

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

### Credit risk (continued)

#### Cash and cash equivalents (continued)

The maximum exposure to credit risk as at the end of the reporting period was as follows:

<i>In thousands of BGN</i>	<i>Notes</i>	<b>31.12. 2019</b>	<b>31.12. 2018</b>
Trade and other receivables	8	38,363	34,870
Cash and cash equivalents	10	45,290	4,924
Derivative financial instruments	9	167	850
		<u>83,820</u>	<u>40,644</u>

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

<i>In thousands of BGN</i>		<b>31.12. 2019</b>	<b>31.12. 2018</b>
Third parties		21,306	20,392
Related parties	20	17,057	14,478
		<u>38,363</u>	<u>34,870</u>

### Liquidity risk

The Company manages its liquidity risk through a maturity analysis of its current and non-current liabilities and regular forecasts of cash flows. 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 2019

	<i>Carrying amount</i>	<i>&lt; 1 year</i>	<i>1-2 years</i>	<i>2-5 years</i>	<i>&gt; 5 years</i>	<i>Total</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Interest bearing loans and borrowings	156,912	24,441	23,618	84,436	42,049	174,544
Lease liabilities	1,190	515	749	-	-	1,264
Contract liabilities	10,946	10,946	-	-	-	10,946
Trade and other payables	122,812	122,812	-	-	-	122,812
	<u>291,860</u>	<u>158,714</u>	<u>24,367</u>	<u>84,436</u>	<u>42,049</u>	<u>309,566</u>

#### The year ended 31 December 2018

	<i>Carrying amount</i>	<i>&lt; 1 year</i>	<i>1-2 years</i>	<i>2-5 years</i>	<i>&gt; 5 years</i>	<i>Total</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Interest bearing loans and borrowings	154,819	34,057	18,571	65,690	53,441	168,759
Contract liabilities	10,925	-	-	-	-	10,925
Trade and other payables	109,643	109,643	-	-	-	109,643
	<u>275,387</u>	<u>143,700</u>	<u>18,571</u>	<u>65,690</u>	<u>53,441</u>	<u>289,327</u>

**21. Objectives and policies for management of financial risk and capital (continued)****Liquidity risk (continued)***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. To a great extent the management of the structure of the equity and 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 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.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

**22. Fair values of financial instruments**

31 December 2019		Carrying amount					Fair Value			
In thousands of BGN	Note	hedging	Mandatorily	Financial	Other	Total	Level 1	Level 2	Level 3	Total
		instruments		assets at						
		at FV	at FVTPL	amortised	financial					
				cost	liabilities					
<b>Financial assets measured at fair value</b>										
Trade and other receivables	8	-	8,408	-	-	8,408	-	8,408	-	8,408
Derivative financial instruments	9	167	-	-	-	167	46	121	-	167
		167	8,408	-	-	8,575	-	8,529	-	8,575
<b>Financial assets not measured at fair value</b>										
Trade and other receivables	8	-	-	29,955	-	29,955				
Cash and cash equivalents	10	-	-	45,290	-	45,290				
		-	-	75,245	-	75,245				
<b>Financial liabilities not measured at fair value</b>										
Interest bearing loans and borrowings	13	-	-	-	(156,912)	(156,912)				
Lease liabilities	14	-	-	-	(1,190)	(1,190)				
Trade payables	17	-	-	-	(118,551)	(118,551)				
		-	-	-	(276,653)	(276,653)				

## 22. Fair values of financial instruments (continued)

31 December 2018		Carrying amount					Fair Value			
		hedging		Financial						
		instruments	Mandatorily	assets at	Other					
<i>In thousands of BGN</i>	<i>Note</i>	at FV	at FVTPL	amortised	financial	Total	Level 1	Level 2	Level 3	Total
				cost	liabilities					
<b>Financial assets measured at fair value</b>										
Trade and other receivables	8	-	6,239	-	-	6,239	-	6,239	-	6,239
Derivative financial instruments	9	850	-	-	-	850	-	850	-	850
		850	6,239	-	-	7,089	-	7,089	-	7,089
<b>Financial assets not measured at fair value</b>										
Trade and other receivables	8	-	-	28,631	-	28,631				
Cash and cash equivalents	10	-	-	4,924	-	4,924				
		-	-	33,555	-	33,555				
<b>Financial liabilities measured at fair value</b>										
Derivative financial instruments	9	(38)	-	-	-	(38)	(38)	-	-	(38)
		(38)	-	-	-	(38)	(38)			(38)
<b>Financial liabilities not measured at fair value</b>										
Interest bearing loans and borrowings	13	-	-	-	(154,819)	(154,819)				
Trade payables	17	-	-	-	(104,057)	(104,057)				
		-	-	-	(258,876)	(258,876)				

The management has performed analysis to determine the fair values of the long-term financial instruments to which the Company is a party. The management considers that the long-term financial instruments stated below meet the criteria for classification in the third level of the fair value hierarchy. During the reporting period, the Company has not transferred financial instruments between the different levels of the fair value hierarchy.

## 23. Assets held for sale

As at 31 December 2019 a group of assets, representing a continuous zinc casting line are presented as assets held for sale. The carrying amount of the assets as at 31 December 2019 is BGN 8,792 thousand. The intention of management is to sell these assets to the parent company. In May 2017 the Company signed a contract with Halcor Metal Works S.A. (currently ElvalHalcor) for the sale of the zinc line for a price, exceeding the carrying amount of the assets. In the end of May 2017 the Company received advance payment of EUR 5 million in relation to the execution of the contract with Halcor Metal Works S.A. for the sale of the zinc line (Note 20). In 2018, Sofia Med AD signed an annex to the sales contract for the extension of the term of the initial contract.

## 24. Investments

In 2018 Sofia Med acquired 100% of the shares of the related party company Metalvalius EOOD. The consideration paid was BGN 17,610 thousand. In 2019 the Metalvalius EOOD merged in Sofia Med AD (see Note 25).

## 25. Merger of entities under common control

A business combination between entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Business combinations under common control are accounted for using predecessor accounting method. Under this method, the Company incorporates the assets and liabilities of the acquired entity using the acquired entity's carrying amounts of assets and liabilities generally from the consolidated financial statements of the highest level of common control ('predecessor value method'); these amounts include any goodwill related to the acquired entity recognised in those consolidated financial statements. Any difference between the carrying amount of the investment in the acquiree (if the surviving entity owned acquiree before the legal merger) or the consideration transferred and the net assets of the acquiree is recognised in "Other reserve" in Statement of changes in equity.

**25. Merger of entities under common control (continued)**

The acquired entity's results are included in the Company's financial statements prospectively: the financial statements reflect the result of the acquired entity only from the date on which the business combination between the entities under common control occurred, i.e. from the moment when the merger transaction occurred. The corresponding amounts are not restated. At the date of merger, intercompany balances and unrealized gains and losses on transactions with the acquired entity are eliminated.

*Metalvalius EOOD*

On 12 November 2019 Sofia Med AD and Metalvalius EOOD signed a merger contract, where Metalvalius EOOD merges in Sofia Med EOOD and discontinues its existence. The merger of Metalvalius EOOD has been registered by Registration agency on 5 March 2020. All substantive conditions under the merger contract have been satisfied before the registration by Registration agency, which is of administrative nature, as the rights and obligations of Metalvalius have been transferred to Sofia Med on 12 November 2019. The Company accounted the merger on 30 September 2019, as the transactions for the period 30 September 2019 till 12 November 2019 are not significant.

In accordance with the accounting policy for the predecessor accounting, the Company used the carrying amounts of assets and liabilities of Metalvalius, which were recognised in the consolidated financial statements of Viohalco SA (highest level of consolidation). As these are the same amounts as the amounts which are recognised in the separate financial statements of Metalvalius EOOD thus in effect the carrying amounts from the separate financial statements of Metalvalius EOOD have been used. As a result of the merger, the share capital of Metalvalius EOOD was eliminated and the share capital of Sofia Med AD remains unchanged.

The transaction was accounted for prospectively from 30 September 2019, therefore the statement of financial position as at 31 December 2018 does not include the assets, liabilities, equity of Metalvalius EOOD, as well as the statement of comprehensive income and the cash flow statement for the year ended 31 December 2018 do not include the income, expense and cash flows of the same entity.

The tables below present the statement of comprehensive income of for the periods prior to 30 of September 2019 and statement of financial position as at that date reflecting the impact of the merger on the Company's financial statements.

**Impact on Statement of financial position as at 30 September 2019**

	Sofia Med AD	Metalvalius EOOD	Adjustments	Statement of financial position
	BGN'000	BGN'000	BGN'000	BGN'000
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	270,102	34	-	270,136
Right of use assets	1,125	-	-	1,125
Intangible assets	196	1	-	197
Investments in subsidiaries	17,610	-	(17,610)	-
Deferred tax assets	1,974	7	-	1,981
	<b>291,007</b>	<b>42</b>	<b>(17,610)</b>	<b>273,439</b>
<b>Current assets</b>				
Inventories	188,401	-	-	188,401
Trade and other receivables	59,157	14,317	(14,316)	59,158
Cash and cash equivalents	1,953	175	-	2,128
Assets held for sale	8,792	-	-	8,792
	<b>258,303</b>	<b>14,492</b>	<b>(14,316)</b>	<b>258,479</b>
<b>TOTAL ASSETS</b>	<b>549,310</b>	<b>14,531</b>	<b>(31,926)</b>	<b>531,918</b>



**25. Merger of entities under common control (continued)**

	Sofia Med AD	Metalvalius EOOD	Adjustments	Statement of financial position
	BGN'000	BGN'000	BGN'000	BGN'000
<b>Assets</b>				
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	110,297	14,340	(14,340)	110,297
Share premium	10,820	-	-	10,820
Reserves	85,831	-	(3,515)	82,316
Retained earnings/(Accumulated loss)	23,151	(245)	245	23,151
<b>Total equity</b>	<b>230,099</b>	<b>14,095</b>	<b>(17,610)</b>	<b>226,584</b>
<b>Non-current liabilities</b>				
Borrowings from banks	144,480	-	-	144,480
Government grants	2,755	-	-	2,755
Lease liabilities	761	-	-	761
Retirement benefit obligation	1,446	-	-	1,446
	<b>149,442</b>	<b>-</b>	<b>-</b>	<b>149,442</b>
<b>Current liabilities</b>				
Borrowings from banks	36,671	-	-	36,671
Lease liabilities	415	-	-	415
Trade and other liabilities	119,696	439	(14,316)	105,819
Contract liabilities	12,737	-	-	12,737
Current income tax payable	34	-	-	34
Derivative financial instruments	216	-	-	216
<b>Total current liabilities</b>	<b>169,769</b>	<b>439</b>	<b>(14,316)</b>	<b>155,892</b>
<b>Total liabilities</b>	<b>319,211</b>	<b>439</b>	<b>(14,316)</b>	<b>305,334</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>549,310</b>	<b>14,534</b>	<b>(31,926)</b>	<b>531,918</b>

Adjustments in trade and other receivables and payables represent the elimination of outstanding balances between the entities as at 30 September 2019.

**Statement of comprehensive income for the year ended 31 December 2018 (not included into the Statement of Comprehensive income for the year ended 31 December 2018 of Sofia Med)**

	Metalvalius EOOD
	BGN'000
Revenue	23,841
Cost of sales	(23,796)
<b>Gross profit</b>	<b>45</b>
Other income, net	431
Selling and distribution expenses	(457)
Administrative expenses	(160)
<b>Operating loss</b>	<b>(141)</b>

**25. Merger of entities under common control (continued)**

	<b>Metalvalius EODD BGN'000</b>
Finance costs	(753)
<b>Loss before tax</b>	<b>(894)</b>
Income tax	35
<b>Loss for the year</b>	<b>(859)</b>
Actuarial gains on retirement benefit obligation	23
<b>Other comprehensive income that will not be reclassified to profit and loss, net of tax</b>	<b>23</b>
<b>Total comprehensive income</b>	<b>(836)</b>

Statement of comprehensive income for the period ended 30 September 2019 (not included into the Statement of Comprehensive income for the year ended 31 December 2019 of Sofia Med)

	<b>Metalvalius EODD BGN'000</b>
Revenue	49,949
Cost of sales	(49,638)
<b>Gross profit</b>	<b>311</b>
Other income, net	1,293
Selling and distribution expenses	(140)
Administrative expenses	(83)
<b>Operating profit</b>	<b>1,381</b>
Finance costs	(359)
<b>Profit before tax</b>	<b>1,022</b>
Income tax	(198)
<b>Profit for the year</b>	<b>824</b>
<b>Total comprehensive income</b>	<b>824</b>

**26. Subsequent events**

Late in 2019 news first emerged from China about the COVID-19 (Coronavirus). The situation at year end, was that a limited number of cases of an unknown virus had been reported to the World Health Organization. In the first few months of 2020 the virus had spread globally and its negative impact has gained momentum. Management considers this outbreak to be a non-adjusting post balance sheet event.

While this is still an evolving situation at the time of issuing these financial statements, to date there has been limited impact on the Company's sales or supply chain, however the future effects cannot be predicted. Management will continue to monitor the potential impact and will take all steps possible to mitigate any effects.

No other significant 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 2019.