

SOFIA MED AD

ANNUAL MANAGEMENT REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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General overview

The recovery of the economies in the Eurozone and the US throughout 2017 affected positively the sales of SOFIA MED AD (the Company).

The average price of copper for 2017 increased to Euro 5 452 per ton versus Euro 4 399 per ton for 2016.

Sales revenue in 2017 amounted to BGN 830 636 thousand versus BGN 561 006 thousand in 2016 which represents an increase of 48 %. The turnover was positively affected by the increasing prices of metals. Volume of sales increased by 25% and reached 71 thousand tonnes.

During 2017 the ratio EBITDA/Sales increased to 6.07%, compared to 4.55 % in 2016. The improved profitability is a result of improved mix of sales by increase of higher value added products and improved cost of production.

Operating profit for 2017 was BGN 34 844 thousand, compared to BGN 9 674 thousand in 2016.

Improved cost of production, optimization of production procedures and improved quality strengthen the competitive position of the Company. The net financial costs in 2017 were BGN 14 924 thousand, and in 2016 – BGN 14 760 thousand. 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 2017 amounted to BGN 83 517 thousand (end of 2016: BGN 47 066 thousand). In 2017 SOFIA MED AD continued with 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 13 388 thousand. The amount of new intangible assets acquired in 2017 is BGN 194 thousand.

Current period results and financial position overview – Financial highlights

<i>In BGN thousand</i>	<i>2017</i>	<i>2016</i>
Sales revenue	830 636	561 006
Result from operating activities	34 844	9 674
EBITDA	50 458	25 512
<i>EBITDA / Sales</i>	<i>6.07%</i>	<i>4.55 %</i>
EBT	19 920	(5 086)
ROCE	8.5%	2.8 %
Working capital excluding cash and cash equivalents	83 517	47 066
<i>Working capital excluding cash and cash equivalents / Sales</i>	<i>10.06 %</i>	<i>8.04 %</i>
Debt / Equity	0.77	1.07
Debt / EBITDA	3.08	6.91

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 this is reported in the statement of profit and loss.

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

Debt to equity ratio: Debt is calculated using the formula: *non-current interest-bearing loans + 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 thousand BGN</i>	<i>2017</i>	<i>2016</i>
EBITDA	50 458	25 512
Adjustments for:		
+ Loss / - Profit from Metal result	13 794	(5 269)
+ Loss / - Profit from disposals of non-current assets	-	28
a-EBITDA	36 664	20 271

The metal results 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.
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 safety stock that is held.

Sustainable Development

The Company core philosophy focuses on commitment to transparency in all its operations, protecting employees' health and safety and minimising its environmental footprint. Sofia Med implements a series of actions and plans across all fields pertaining to Sustainable Development, such as:

- protection of the natural environment and continuous improvement of Company's environmental performance;
- continuous improvement of working conditions and ensuring a safe and efficient working environment (occupational health and safety management);
- keeping customer satisfaction at high levels and quality management for products and services;
- advancement and development of employees and providing equal opportunities at work;
- investments in technology that allow higher use of recycled materials and further reduction in direct emissions.

ISO 26000:2010

Sofia Med conforms to the ISO 26000:2010 guidelines in Social Responsibility. In particular, the company received a Letter of Conformity by an independent international certification body for complying to the core guidelines of the following seven thematic sections of the ISO 26000:2010: corporate governance, consumer issues, human rights, employment practices, fair operating practices, environmental protection, cooperation with local communities.

Management of Sofia Med believes that a well-structured and sustained CSR culture supports significantly the company values and reputation, enhances the positive company 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. In this context, the Company implements an integrated Quality Management System, certified according to the requirements of international standard ISO 9001. The commitment of the management in this area is described in the Quality Policy implemented. According to the Company's policy, its objectives are:

- the continuous improvement of customer satisfaction;
- a 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 specialized products tailored to their needs.

Care for our people

Recognising the value of our people, we provide a working environment of equal opportunities that respects the personality, rewards the contribution and supports the continuous growth of each employee. We substantially and systematically invest in our people, focusing on their continuous training, personal growth and professional advancement. As a result of the strong growth potential of the Company, in 2017 the number of employees increased by 4.3% compared to previous year.

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

- May - the Month of health, safety and environment month;
- Summer children's camp at the seaside;
- Christmas children's party;
- Medical prophylactic examinations for all 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 facilities, as well as a fitness hall.

Health and safety at work

We have set as a priority and our primary concern to protect the health and safety of our people and contractors and we are committed to compliance with all the necessary safety requirements. Our position is established by the official health and safety policy of Sofia Med. Integrated health and safety management at Sofia Med has been achieved by consistent implementing of the occupational health and safety management system (certified in line with the requirements of the BS OHSAS 18001:2007). The goal of zero accidents remains our first priority.

Environmental protection

We are committed to protecting the environment and this has been integrated into our corporate strategy. Proof of our commitment is that each year we implement a major capital expenditure plan, which includes environmental protection projects and also adopt practices to continually improve our environmental performance. Sofia Med has established and implements an integrated Environmental Policy under which it is committed to environmentally responsible business development and implements a certified Environmental Management System (ISO 14001:2015).

Supporting local communities

Firmly committed to strengthening its ties with the local community where it operates, Sofia Med seeks to implement sustainability practices and actions in order to contribute to the prosperity of local communities.

Additionally, Sofia Med aims at contributing to the economic development of the local community by offering employment opportunities (hiring local people is a priority) and business opportunities (selecting local suppliers). At the same time, it collaborates with various government agencies, technical colleges and universities and provides professional training to students and university graduates.

Sustainable Development (continued)

Participation in networks and organisations

As part of our sustainability strategy, Sofia Med actively participates in a series of networks, organisations, and associations to jointly identify and promote solutions of sectorial 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

No 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 2017.

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 2017 the Company has not redeemed any treasury shares, and as at 31 December 2017 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 a 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 2017 is BGN 189 thousand (2016: BGN 152 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"> • ENERGY SOLUTIONS AD • FIBRAN BULGARIA AD
Lidia Atanasova Gerdjikova	<ul style="list-style-type: none"> • BALANCE FOOD • AMBEL FOOD • EUROTERRA DEVELOPMENT AD • TUIN GRUP AD • PRIMROSEVIEW • EASY HOMES AD • PANSO AD • GERDA OOD • GTB OOD
Athanassios Athanassopoulos	<ul style="list-style-type: none"> • DOMI - BG OOD • ENERGY SOLUTIONS AD • LESKO FOOD • STOMANA-INDUSTRY AD • PORT SVISHTOV WEST AD • SIGMA IS AD • MRAMOR GRANIT AD
Periklis Sapountzis	<ul style="list-style-type: none"> • ELVALHALCOR
Dimitrios Dimitriadis	<ul style="list-style-type: none"> • HELLAS GOLD S.A. • THRACE MINERALS S.A.

	<ul style="list-style-type: none"> • THRACIAN GOLD MINING S.A. • MACEDONIAN COPPER S.A.
Ioannis Papadimitriou	<ul style="list-style-type: none"> • METALCO BULGARIA EAD • METALVALIUS LTD

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"> • BALANCE EOOD • AMBEL EOOD • GERDA OOD • GTB OOD
Athanassios Athanassopoulos	<ul style="list-style-type: none"> • DOMI - BG OOD

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 Notes 3 and 23 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 boards 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. 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 2017.

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.

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 Asian markets.

SOFIA MED sells to Fitco finished goods. Fitco provides SOFIA MED with merchandise, raw materials 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.

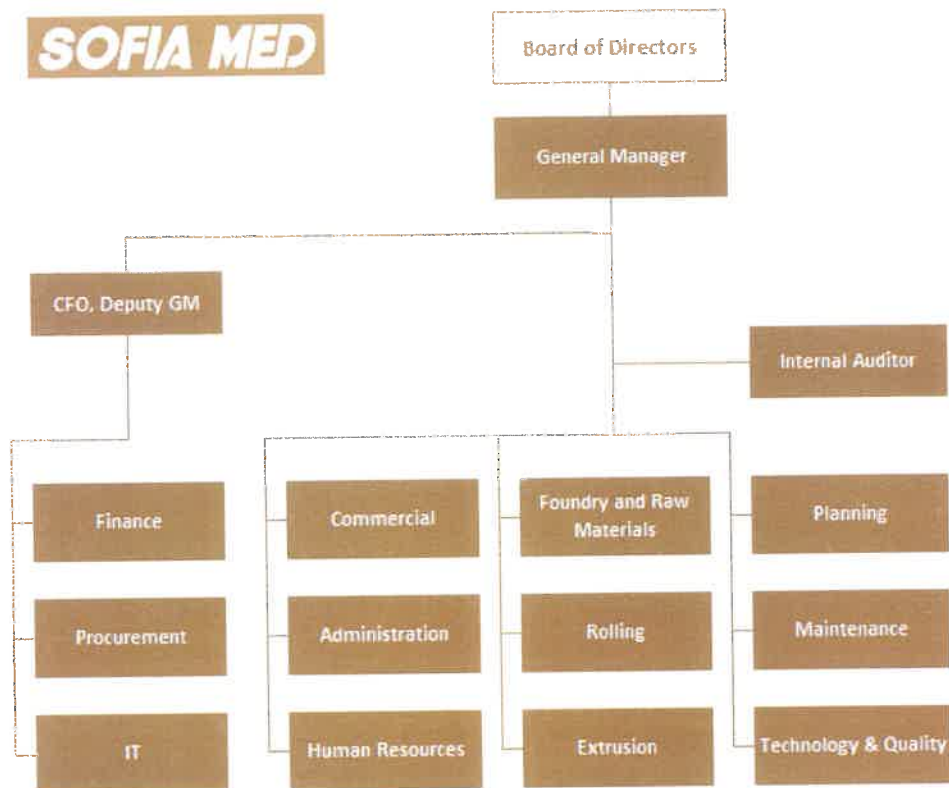
Metalvalius sell to SOFIA MED cathodes.

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

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

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 whom:

- 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 Ganev, 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 Ganev, Vice Chairman, executive member

Mr. Ganev 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.

Stylianios 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. 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.

Curriculum vitae of the Board members (continued)

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.

30.03.2018


Ioannis Papadimitriou
General Manager
Director


Lidia Gerdjikova
Director


Sergey Vlaykov
Chief Financial Officer


Daniel Yordanov
Head of Controlling



SOFIA MED AD

Financial Statements

For the year ended 31 December 2017

With Independent Auditors' Report thereon


SOFIA MED AD

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

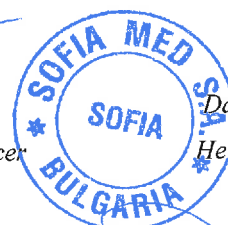
SOFIA MED


	<i>Notes</i>	2017	2016
<i>In thousands of BGN</i>			
Revenue	3.1	830 636	561 006
Cost of sales	3.2	(781 384)	(540 492)
Gross profit		49 252	20 514
Selling and distribution expenses	3.2	(4 600)	(4 448)
Administrative expenses	3.2	(7 581)	(6 232)
Other expenses, net	3.3	(2 227)	(160)
Result from operating activities		34 844	9 674
Finance income	3.4	-	2
Finance expenses	3.4	(14 924)	(14 762)
Net finance cost		(14 924)	(14 760)
Profit/(Loss) before income tax		19 920	(5 086)
Income tax	4	(2 004)	504
Profit/(Loss) for the year		17 916	(4 582)
Other comprehensive income			
<i>Items that will never be reclassified to profit or loss:</i>			
Revaluation of property, plant and equipment		13 965	-
Remeasurements of defined benefit liability	15	(129)	(479)
Related tax	4	(1 384)	48
		12 452	(431)
<i>Items that are or may be reclassified to profit or loss:</i>			
Effective portion of changes in fair value of cash flow hedge contracts	3.5	744	4 070
Related tax	4	(74)	(407)
		670	3 663
Other comprehensive income for the period, net of tax		13 122	3 232
Total comprehensive income for the period		31 038	(1 350)


 Ioannis Papadimitriou
 General Manager,
 Director


 Lidia Gerdjikova
 Director

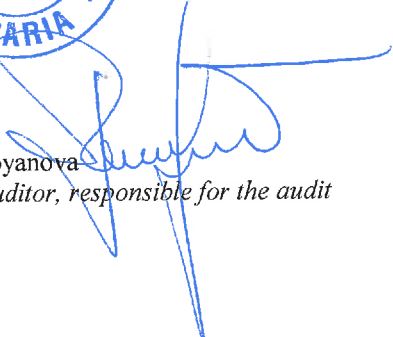

 Sergey Vlaykov
 Chief Financial Officer




 Daniel Yordanov
 Head of Controlling

In accordance with an Auditor's Report:KPMG Audit OOD


 Maria Peneva
 Authorised Representative


 Dobrina Kaloyanova
 Registered Auditor, responsible for the audit

Translation from the original Bulgarian version, in case of divergence the Bulgarian shall prevail.
 The notes from page 6 to page 44 are integral part of these financial statements



SOFIA MED AD

STATEMENT OF FINANCIAL POSITION

As at 31 December

SOFIA MED

	<i>Notes</i>	<i>2017</i>	<i>2016</i>
<i>In thousands of BGN</i>			
ASSETS			
Non-current assets			
Property, plant and equipment	5	264 348	260 775
Intangible assets	6	597	1 245
Deferred tax assets	4	3 788	7 200
		<u>268 733</u>	<u>269 220</u>
Current assets			
Inventories	7	125 323	86 263
Trade and other receivables	8	44 338	37 502
Derivative financial instruments	9	3 622	1 531
Cash and cash equivalents	10	3 589	29 218
Assets held for sale	23	8 792	-
		<u>185 664</u>	<u>154 514</u>
TOTAL ASSETS		<u>454 397</u>	<u>423 734</u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11	103 515	103 515
Reserves	12	114 486	101 248
Retained earnings		(21 879)	(39 679)
		<u>196 122</u>	<u>165 084</u>
LIABILITIES			
Non-current liabilities			
Interest-bearing loans	13	22	143 851
Retirement benefit liabilities	15	1 323	1 059
Government grants	16	2 946	3 055
		<u>4 291</u>	<u>147 965</u>
Current liabilities			
Trade and other payables	17	98 558	78 230
Interest-bearing loans	13	155 426	32 455
		<u>253 984</u>	<u>110 685</u>
TOTAL LIABILITIES		<u>258 275</u>	<u>258 650</u>
TOTAL EQUITY AND LIABILITIES		<u>454 397</u>	<u>423 734</u>

Ioannis Papadimitriou
General Manager,
Director

Lidia Gerdjikova
Director

Sergey Vlaykov
Chief Financial Officer

Daniel Yordanov
Head of Controlling

In accordance with an Auditor's Report:KPMG Audit OOD

Maria Peneva
Authorised Representative

Dobrina Kaloyanova
Registered Auditor, responsible for the audit

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

The notes from page 6 to page 44 are integral part of these financial statements

SOFIA MED AD

STATEMENT OF CHANGES IN EQUITY

SOFIA MED

	<i>Notes</i>	<i>Share capital</i>	<i>Share premium</i>	<i>Revaluation reserve</i>	<i>Hedging reserve</i>	<i>Retained earnings</i>	<i>Total equity</i>
<i>In thousands of BGN</i>							
Balance as at 1 January 2016		194 606	49 601	100 068	(2 483)	(185 136)	156 656
Comprehensive income for the period							
Loss for the year		-	-	-	-	(4 582)	(4 582)
Other comprehensive income							
Net gain from cash flow hedge, net of tax	3.5	-	-	-	3 663	-	3 663
Remeasurements of defined benefit liability, net of tax	15	-	-	-	-	(431)	(431)
Total comprehensive income for the period		-	-	-	3 663	(5 013)	(1 350)
Transactions with owners recognised directly in equity							
Issue of shares	11	7 494	2 284	-	-	-	9 778
Decrease of losses	11	(98 585)	(51 885)	-	-	150 470	-
Total transactions with owners		(91 091)	(49 601)	-	-	150 470	9 778
Balance as at 31 December 2016		103 515	-	100 068	1 180	(39 679)	165 084


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SOFIA MED AD

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

SOFIA MED

	<i>Notes</i>	<i>Share capital</i>	<i>Revaluation reserve</i>	<i>Hedging reserve</i>	<i>Retained earnings</i>	<i>Total equity</i>
<i>In thousands of BGN</i>						
Balance as at 1 January 2017		103 515	100 068	1 180	(39 679)	165 084
Comprehensive income for the period						
Profit for the year		-	-	-	17 916	17 916
Other comprehensive income						
Revaluation of property, plant and equipment, net of tax	5, 12	-	12 568	-	-	12 568
Net gain from cash flow hedge, net of tax	3.5, 12	-	-	670	-	670
Remeasurements of defined benefit liability, net of tax	15	-	-	-	(116)	(116)
Total comprehensive income for the period		-	12 568	670	17 800	31 038
Transactions with owners recognised directly in equity						
		-	-	-	-	-
Balance as at 31 December 2017		103 515	112 636	1 850	(21 879)	196 122


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 Director


 Lidia Gerdjikova
 Director

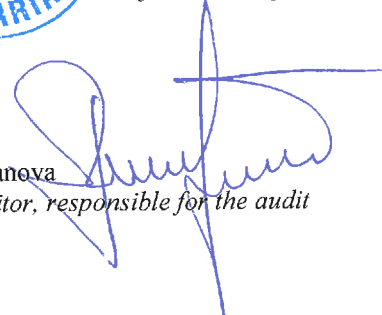

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SOFIA MED AD


STATEMENT OF CASH FLOWS


For the year ended 31 December 2017

SOFIA MED

	<i>Notes</i>	<i>2017</i>	<i>2016</i>
<i>In thousands of BGN</i>			
Cash flows from operating activities			
Profit / (loss) after tax		17 916	(4 582)
Adjustments for:			
Tax		2 004	(504)
Depreciation of property, plant and equipment	5	14 786	14 421
Amortization of intangible assets	6	842	830
Amortization of grants	16	(109)	(109)
Net finance costs	3.4	14 924	14 760
(Gain) / loss from sale of non-current assets		9	27
(Gain) / loss from revaluation of derivatives through profit or loss	9	(1 346)	64
Impairment and write-off of receivables		611	2
		<u>49 637</u>	<u>24 909</u>
Decrease / (increase) in inventories		(39 158)	7 537
Decrease / (increase) in trade and other receivables		(6 836)	15 202
(Decrease) / increase in trade and other payables		9 691	20 903
Interest charges & related expenses paid		(13 470)	(11 587)
Net cash flows from / (used in) operating activities		<u>(136)</u>	<u>56 964</u>
Cash flows from investing activities			
Purchase of tangible assets		(13 032)	(7 706)
Purchase of intangible assets		(189)	(113)
Advance payments received for assets held for sale	23	9 779	-
Net cash flows used in investing activities		<u>(3 442)</u>	<u>(7 819)</u>
Cash flows from financing activities			
Loans received		5 331	-
Loans repaid		(27 382)	(33 342)
Proceeds from share capital increase		-	9 779
Net cash flows used in financing activities		<u>(22 051)</u>	<u>(23 563)</u>
Net (decrease)/ increase in cash and cash equivalents		<u>(25 629)</u>	<u>25 582</u>
Cash and cash equivalents at the beginning of period		29 218	3 636
Cash and cash equivalents at the end of period	10	<u>3 589</u>	<u>29 218</u>


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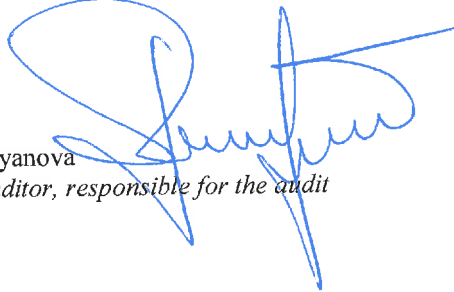



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1. Reporting entity**Incorporation**

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 2017 the share capital of the Company is held by ElvalHalcor Hellenic Copper and Aluminium Industry S.A. Greece – 88.87543%, Viohalco SA/NV – 11.12453% and Fitco S.A. Metal Works (Fitco S.A.), Greece – 0.00004%. ElvalHalcor S.A. and Fitco S.A. are also part of the Group 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 2017 the number of employees is 584 (2016: 560).

The financial statements are authorized for issue on 30 March 2018 with a resolution of the Board of Directors.

2. Basis of preparation and accounting policies**2.1 Basis of preparation**

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

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;
- 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.

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 validity of the going concern assumption depends on the active financial support of the shareholders. In 2016 the share capital of the Company was increased by BGN 9 778 thousand.

As at 31 December 2017 the current liabilities of the Company exceed its current assets by BGN 68 320 thousand. This is due to the fact that all bank loans of the Company are with maturity in the end of 2018 and are therefore presented as current liabilities. Management is in the process of negotiations with the bank creditors for refinancing of the existing loans with new loans with extended repayment terms and for higher amounts.

In 2017 the Company realized a profit of BGN 17 916 thousand (2016 - loss of BGN 4 582 thousand) due to increased volume of sales combined with higher copper prices. The management has continued with its plan and actions to improve the financial position of the Company. The plan consists of, but is not limited to the optimization of the Company's portfolio toward more profitable products and markets as well as optimization of working capital and cash flows. The management considers that the existing capital resources and sources of funding (cash flows from operating activities and access to currently available credit facilities, as well as, new bank loans that will be agreed and obtained in 2018) will be adequate for its liquidity needs.

2.2 Changes in accounting policies and disclosures

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

2.3 New standards and interpretations, not yet adopted

The following new Standards, amendments to Standards and Interpretations, endorsed by the EC, are not yet mandatorily effective for annual periods beginning on or after 1 January 2017, and have not been applied in preparing these financial statements. The Company plans to adopt these pronouncements when they become effective.

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

(a) IFRS 9 Financial instruments

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

(i) Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Until 31 December 2017 Sofia Med used to separate embedded derivatives, related to the provisional pricing model of sales to certain clients, from the host contracts – debt instruments or receivables from contracts with clients and used to present them as derivatives for which hedge accounting was also applied. Since 1 January 2018 Sofia Med will not separate such embedded derivatives from the host contracts – debt instruments or receivables from contracts with clients, as IFRS 9 does not permit separation of embedded derivatives if the host contract is a financial asset. The estimated effects of the new classification requirements on the accounting for trade and other receivables, loans and cash and cash equivalents are not considered material.

(ii) Impairment – Financial assets and contract assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. The Company may determine that a financial asset’s credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; the Company has chosen to apply this policy also for trade receivables and contract assets with a significant financing component.

Management considers that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. Based on the impairment methodology described below, the Company has completed its initial assessment of the potential effect on its financial statements from the application of the impairment requirements of IFRS 9 as at 1 January 2018, but has not completed its detailed assessment.

2.3 New standards and interpretations, not yet adopted (continued)**(a) IFRS 9 Financial instruments (continued)****(ii) Impairment – Financial assets and contract assets (continued)****Trade and other receivables, including contract assets**

The estimated ECLs were calculated based on actual credit loss experience over the past year.

The Company performed the calculation of ECL rates separately for related parties, third parties and receivables covered by insurance or given to non-recourse factoring. Exposures within each group were segmented based on common credit risk characteristics such as credit risk grade, geographic region and industry.

Actual credit loss experience was adjusted by scalar factors to reflect differences between economic conditions during the period over which the historical data was collected, current conditions and the Company's view of economic conditions over the expected lives of the receivables. Scalar factors were based on country risk in the respective sales regions.

The risk of default of related parties receivables is considered to be insignificant. The Company estimated that the application of IFRS 9's impairment requirements at 1 January 2018 will not have a significant effect on the impairment recognised under IAS 39.

Cash and cash equivalents

The cash and cash equivalents are held with bank and financial institution counterparties, which are rated F2-F3, based on Rating Agency Fitch short term credit ratings as at 31 December 2017.

The estimated impairment on cash and cash equivalents was calculated based on the 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties. The Company estimated that application of IFRS 9's impairment requirements at 1 January 2018 will not have a significant effect on the financial statements of the Company.

(iii) Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Company has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Company's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

(iv) Hedge accounting

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Company's risk management practices, as the standard introduces a more principles-based approach. The Company's existing hedge relationships appear to satisfy the provisions of IFRS 9. As a consequence, the Company does not expect a significant impact from application of the hedge accounting model.

(v) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and ECLs.

(vi) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.
- The determination of the business model within which a financial asset is held is made on the basis of the facts and circumstances that exist at the date of initial application.

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

(b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the construction of real estate*, IFRIC 18 *Transfers of assets from customers*, as well as SIC 31 *Revenue- barter transactions, involving advertising services*.

(i) Sales of goods

For the sale of production and trade goods, revenue is currently recognised when the goods are delivered to the customers, which is considered to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognised at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

Under IFRS 15, revenue will be recognised when a customer obtains control of the goods. The Company considers, that the customer does not control the goods in the process of their production and the respective revenue will be recognized upon completion of the production process and when the control over the goods is transferred. For certain contracts that permit the customer to return an item, revenue is currently recognised when a reasonable estimate of the returns can be made, provided that all other criteria for revenue recognition are met. If a reasonable estimate cannot be made, then revenue recognition is deferred until the return period lapses or a reasonable estimate of returns can be made.

Under IFRS 15, revenue will be recognised for these contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur. As a consequence, for those contracts for which the Company is unable to make a reasonable estimate of return, revenue is expected to be recognised sooner than when the return period lapses or a reasonable estimate can be made.

The application requirements of IFRS 15 as described above does not constitute a change in accounting for revenue from sale of production and goods and the Company does not expect a significant effect from the initial application of IFRS 15, accordingly.

(ii) Rendering of services

The Company provides the following types of services rent. If the services under a single arrangement are rendered in different reporting periods, then the consideration is allocated on a relative fair value basis between the different services. Revenue is currently recognised using the stage-of-completion method.

Under IFRS 15, the total consideration in the service contracts will be allocated to all services based on their stand-alone selling prices. The stand-alone selling prices will be determined based on the list prices at which the Company sells the services in separate transactions.

Based on the Company's assessment, the fair value and the stand-alone selling prices of the services are broadly similar. Therefore, the Company does not expect the application of IFRS 15 to result in significant differences in the timing of revenue recognition for these services.

(iii) Commission

For commissions earned by the Company, the Company has determined that it acts in the capacity of an agent for certain transactions, as explained in Note 21. Under IFRS 15, the assessment will be based on whether the Company controls the specific goods before transferring them to the end customer, rather than whether it has exposure to significant risks and rewards associated with the sale of goods.

Based on its assessment, the Company does not expect the application of IFRS 15 to result in a significant impact on its financial statements.

2.3 New standards and interpretations, not yet adopted (continued)**(b) IFRS 15 Revenue from Contracts with Customers (continued)****(iv) Transition**

The Company plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As a result, the Company will not apply the requirements of IFRS 15 to the comparative period presented.

(c) IFRS 16 Leases

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

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Company has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Company's borrowing rate at 1 January 2019, the composition of the Company's lease portfolio at that date, the Company's latest assessment of whether it will exercise any lease renewal options and the extent to which the Company chooses to use practical expedients and recognition exemptions. So far, the most significant impact identified is that the Company will recognise new assets and liabilities for its operating leases.

In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

No significant impact is expected for the Company's leases, because it has no significant lease contracts as a lessee.

(i) Determining whether an arrangement contains a lease

Management considers that for the existing contracts as at 31 December 2017 there will be no change in the classification of contracts as containing lease as per IAS 17 and IFRIC 4, and as per the definition in IFRS 16.

(ii) Transition

As a lessee, the Company can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

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

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Company is assessing the potential impact of using these practical expedients.

The Company is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

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

(d) Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The Company is not an insurance provider and therefore does not expect any material impact on the financial statements of the Company.

(e) Other amendments

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

- *Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions*
- *Annual Improvements to IFRS 2014-2016 Cycle*
- *Amendments to IAS 40 Transfers of Investment Property*

Standards and interpretations not yet endorsed by the EC

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

(a) IFRS 17 Insurance Contracts

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company because the Company does not issue insurance or reinsurance contracts, does not hold reinsurance contracts and does not issue investment contracts with discretionary participation features.

(b) Other amendments

The following changes are not expected to have a significant impact on the Company's financial statements.

- *IFRIC 22 Foreign Currency Transactions and Advance Consideration*
- *IFRIC 23 Uncertainty over Income Tax Treatments*
- *Amendments to IFRS 9: Prepayment Features with Negative Compensation*
- *Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures*
- *Annual Improvements to IFRS 2015-2017 Cycle*
- *Amendments to IAS 19: Plan Amendment, Curtailment or Settlement*
- *Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture.*

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:

2.4 Estimates and assumptions (continued)***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 uses assumptions and estimates in the impairment test of property plant and equipment at 31.12.2017. 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

Management assesses the appropriateness of doubtful and bad debt allowance based on ageing analysis of the receivables, historical experience regarding the write-off rates of bad debts, as well as analysis of the solvency of the respective customer, changes in the contractual payment terms, etc. If the financial position and performance of the customers deteriorates (in excess of the expected) the amount of the receivables to be written off in the following reporting periods may be higher than the one estimated as at the financial statements date.

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 values of financial instruments.

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. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it meets the conditions for recognition of non-current asset. When major inspection costs are incurred for a machine and/or equipment, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

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.

2.5 Summary of significant accounting policies (continued)**b) Property, plant and equipment (continued)**

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.

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) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists or if an annual impairment test is required then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the greater of its fair value and value in use. Assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. If the carrying amount of an asset exceeds its recoverable amount, the carrying amount of the asset is impaired to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

2.5 Summary of significant accounting policies (continued)

e) Impairment of non-financial assets (continued)

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

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

f) Financial instruments

Non-derivative financial assets

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

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

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

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

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

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the statement of cash flows.

Non-derivative financial liabilities

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

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.

2.5 Summary of significant accounting policies (continued)

f) Financial instruments (continued)

Derivative financial instruments, including hedge accounting

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

The Company concludes 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.

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

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

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

As at each reporting date the Company measures its open futures contracts (open positions) at fair value. The resulting net unrealised gain/loss is recognised directly in other comprehensive income, net of the respective deferred tax.

2.5 Summary of significant accounting policies (continued)

g) Impairment of financial assets

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

Financial assets, carried at amortised cost

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

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

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

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

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

h) Inventory

Inventories are valued at the lower of costs and the 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.

i) 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.

2.5 Summary of significant accounting policies (continued)

j) Employee benefits

Defined contribution plans

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

Defined benefit plans

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

Termination benefits

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

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid for salaries and additional remunerations if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

The Company 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.

k) Leases

The Company as a lessee

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

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

2.5 Summary of significant accounting policies (continued)

k) Leases (continued)

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.

l) Revenue recognition

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

Sales of finished products and goods

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

Rendering of services

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

Interest income

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

m) 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.

n) 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.

2.5 Summary of significant accounting policies (continued)

o) Taxes

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

Current income tax

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

Deferred income tax

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

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

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

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

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

Value Added Tax ("VAT")

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

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

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

3. Revenue and expenses**3.1 Sales revenue**

	2017	2016
<i>In thousands of BGN</i>		
Finished products and goods	830 636	561 006
	<u>830 636</u>	<u>561 006</u>

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

	Year ended 31 December 2017			Total
	<i>Cost of sales</i>	<i>Selling and distribution expenses</i>	<i>Administrative expenses</i>	
<i>In thousands of BGN</i>				
Employee remuneration	11 736	1 842	2 584	16 162
Compulsory social security contributions	3 565	395	588	4 548
Materials	766 979	206	365	767 550
Cost of goods sold	3 142	-	-	3 142
Change in stock of finished goods and work in progress	(36 563)	-	-	(36 563)
Hired services	20 601	1 748	2 413	24 762
Depreciation of property, plant and equipment	12 256	36	812	13 104
Gain from cash flow hedge	(1 098)	-	-	(1 098)
Amortisation of intangible assets	590	-	251	841
Other	176	373	568	1 117
Total	<u>781 384</u>	<u>4 600</u>	<u>7 581</u>	<u>793 565</u>

Depreciation and amortization absorbed included in *Change in stock of finished goods and work in progress* in 2017 is BGN 96 thousand.

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

	Year ended 31 December 2016			Total
	Cost of sales	Selling and distribution expenses	Administrative expenses	
<i>In thousands of BGN</i>				
Employee remuneration	10 000	1 646	2 112	13 758
Compulsory social security contributions	2 903	284	393	3 580
Materials	486 970	168	338	487 476
Cost of goods sold	3 550	-	-	3 550
Change in stock of finished goods and work in progress	8 575	-	-	8 575
Hired services	16 415	2 007	1 862	20 284
Depreciation of property, plant and equipment	12 038	25	827	12 890
Gain from cash flow hedge	(974)	-	-	(974)
Amortisation of intangible assets	602	-	228	830
Other	413	318	472	1 203
Total	540 492	4 448	6 232	551 172

Depreciation and amortization absorbed included in *Change in stock of finished goods and work in progress* in 2016 is BGN 696 thousand.

3.3 Other expenses, net

	2017	2016
<i>In thousands of BGN</i>		
Foreign exchange losses	(8 109)	(6 152)
Foreign exchange gains	8 235	6 240
Depreciation	(1 682)	(1 531)
Other	(671)	1 283
	(2 227)	(160)

3.4 Finance income and finance cost

	2017	2016
<i>Recognised in profit and loss</i>		
<i>In thousands of BGN</i>		
Finance income		
Interest income	-	2
	-	2
Finance expenses		
Interest expense on loans carried at amortised cost	(14 365)	(14 299)
Bank commissions	(559)	(463)
	(14 924)	(14 762)

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

	2017	2016
<i>In thousands of BGN</i>		
Net gain/(loss) from cash flow hedge		
Effective portion of changes in fair value of cash flow hedges	744	4 070
Tax effect	(74)	(407)
Net effect in other comprehensive income	<u>670</u>	<u>3 663</u>

3.6 Personnel expenses

	2017	2016
<i>In thousands of BGN</i>		
Employee remuneration	16 162	13 671
Social security expenses	4 548	3 580
Current period costs for defined benefit obligations (Note 15)	172	87
Total	<u>20 882</u>	<u>17 338</u>

4. Corporate income tax

The main components of the corporate income tax benefit for the years ended 31 December 2017 and 2016 are:

	2017	2016
<i>In thousands of BGN</i>		
Tax recognised in profit and loss		
Current tax	(50)	-
Change in deferred taxes in the period	(1 954)	504
Tax recognised in profit or loss	<u>(2 004)</u>	<u>504</u>
Tax recognised in other comprehensive income	<u>(1 458)</u>	<u>(359)</u>

The tax rate for 2017 is 10% (2016: 10%). The applicable tax rate in 2018 will be 10%.

The reconciliation between the nominal corporate income tax benefit based on the accounting (loss)/profit and the applicable tax rate and the effective income tax for the years ended 31 December 2017 and 2016 is as follows:

	2017	2016
<i>In thousands of BGN</i>		
Profit/ (loss) before income tax	<u>19 920</u>	<u>(5 086)</u>
Income tax at applicable tax rate of 10%	(1 992)	509
Expenses non-deductible for tax purposes	(12)	(5)
Income tax benefit/ (expense) at effective tax rate 10.06% (2016: 9.96 %)	<u>(2 004)</u>	<u>504</u>

4. Corporate income tax (continued)

Deferred taxes as at 31 December relate to the following:

	Statement of financial position		Statement of comprehensive income	
	2017	2016	2017	2016
<i>In thousands of BGN</i>				
Deferred tax liabilities:				
Derivative financial instruments	(362)	(153)	(209)	(125)
	<u>(362)</u>	<u>(153)</u>	<u>(209)</u>	<u>(125)</u>
Deferred tax assets:				
Property, plant and equipment	3 770	4 965	(1 195)	1 462
Inventories	10	-	10	(1 095)
Tax losses carried forward	-	2 172	(2 172)	122
Derivative financial instruments	-	-	-	(276)
Employee benefits	242	154	88	59
Other	128	62	66	(2)
	<u>4 150</u>	<u>7 353</u>	<u>(3 203)</u>	<u>270</u>
Deferred income tax, recognised in profit or loss			(1 954)	504
Deferred taxes recognised in other comprehensive income			(1 458)	(359)
Total change in deferred taxes			<u>(3 412)</u>	<u>145</u>
Deferred tax assets, net	<u>3 788</u>	<u>7 200</u>		

As at 31 December 2017 there are no unrecognised deferred tax assets or liabilities.

5. Property, plant and equipment

Movements in property, plant and equipment is presented below:

	<i>Land</i>	<i>Buildings</i>	<i>Machinery and technical installations</i>	<i>Vehicles</i>	<i>Other</i>	<i>Assets under construction</i>	<i>Total</i>
<i>In thousands of BGN</i>							
Cost:							
At 1 January 2016	61 988	35 155	190 926	782	5 086	6 724	300 661
Additions	-	-	1 095	-	201	5 890	7 186
Disposals	-	-	(115)	(87)	(15)	-	(217)
Transfer to intangible assets	-	-	-	-	-	(17)	(17)
Transfers	-	542	6 838	-	49	(7 429)	-
At 31 December 2016	61 988	35 697	198 744	695	5 321	5 168	307 613
Additions	-	-	215	-	104	13 069	13 388
Transfers	-	233	5 737	399	179	(6 548)	-
Disposed assets	-	-	(490)	(7)	(48)	-	(545)
Revaluation	(21)	3 960	10 026	-	-	-	13 965
Netting off cost and accumulated depreciation in revaluation	-	(8 768)	(34 310)	-	-	-	(43 078)
Transfer to assets held for sale	-	-	(13 817)	-	-	-	(13 817)
At 31 December 2017	61 967	31 122	166 105	1 087	5 556	11 689	277 526
Accumulated depreciation and impairment:							
At 1 January 2016	-	2 955	23 991	757	4 112	791	32 606
Depreciation for the year	-	2 888	11 177	20	336	-	14 421
Depreciation of disposals	-	-	(87)	(87)	(15)	-	(189)
At 31 December 2016	-	5 843	35 081	690	4 433	791	46 838
Depreciation for the year	-	2 925	11 526	32	303	-	14 786
Netting off cost and accumulated depreciation in revaluation	-	(8 768)	(34 310)	-	-	-	(43 078)
Transfer to assets held for sale	-	-	(5 025)	-	-	-	(5 025)
Depreciation of disposals	-	-	(287)	(7)	(49)	-	(343)
At 31 December 2017	-	-	6 985	715	4 687	791	13 178
Carrying amount:							
At 1 January 2016	61 988	32 200	166 935	25	974	5 933	268 055
At 31 December 2016	61 988	29 854	163 663	5	888	4 377	260 775
At 31 December 2017	61 967	31 122	159 120	372	869	10 898	264 348

Impairment of property, plant and equipment

A cash-generating unit (CGU) is the smallest identifiable group of assets generating cash flows from the use of assets which are largely independent of the cash flows from other assets or groups of assets. The management of the Company identified one CGU including the whole production process and all assets used in it.

Management considers that there are indications for impairment of property, plant and equipment of the Company and respectively performed an impairment test of the CGU.

The recoverable amount of the CGU is based on its value in use, determined by discounting the estimated future cash flows from the use of this CGU. The impairment test results showed that the estimated recoverable amount of the CGU exceeds the carrying amount of all assets associated with the CGU. The discount rate used for calculation is 7.92%.

5. Property, plant and equipment (continued)**Assets under construction**

As at 31 December 2017 assets under construction include advances paid, amounting to BGN 1 795 thousand (2016: BGN 609 thousand), in accordance with agreements for purchase of machinery and equipment. These machinery and equipment are intended primarily for the reconstruction of the foundry and the rolling workshop.

Pledge of property, plant and equipment

As at 31 December 2017 property, plant and equipment with carrying amount BGN 252 209 thousand (2016: BGN 255 505 thousand) are mortgaged and 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 2017 would be BGN 5 792 thousand of land and BGN 4 800 thousand of buildings.

(i) Fair value hierarchy

The fair value of land and buildings was determined by external, independent property values as at 31 December 2017. 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.

(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>
<i>In thousands of BGN</i>		
Balance at 1 January 2017	61 988	29 854
Additions	-	233
Depreciation for the year	-	(2 925)
Revaluation	(21)	3 960
Balance at 31 December 2017	61 967	31 122

(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"> Price of land plots per square meter (Range EUR 110 - 180). 	Significant increases (decreases) in market price 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"> Price of buildings per square meter (Range EUR 1 120 – 1 182). 	Significant increases (decreases) in estimated rent per square meter would result in significantly higher (lower) fair value of land plots.

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 2017 would be BGN 141 777 thousand.

5. Property, plant and equipment (continued)**Revaluation of machinery and technical installations (continued)****(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 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>Machinery and technical installations</i>
<i>In thousands of BGN</i>	
Balance at 1 January 2017	163 663
Additions	5 952
Disposed assets	(203)
Depreciation for the year	(11 526)
Transfer to assets held for sale	(8 792)
Revaluation	10 026
Balance at 31 December 2017	159 120

(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"> • Depreciated replacement cost • Physical wear • Residual life • Functional and economic impairment 	<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.

Revaluation reserve

The total amount of the revaluation of property, plant and equipment recognized in 2017 is BGN 13 965 thousand. The revaluation is recognized in other comprehensive income for the year and the respective revaluation reserve is presented in the statement of changes in equity, net of deferred tax liability – BGN 12 568 thousand (refer also to Note 12 Reserves).

6. Intangible assets

	<i>Trademarks and patents</i>	<i>Software</i>	<i>Total</i>
<i>In thousands of BGN</i>			
<i>Cost:</i>			
At 1 January 2016	3	4 082	4 085
Additions	-	5	5
Write-offs	-	(7)	(7)
Other reclassifications	-	17	17
At 31 December 2016	3	4 097	4 100
Additions	-	194	194
Write-offs	-	(4)	(4)
At 31 December 2017	3	4 287	4 290
<i>Accumulated amortisation:</i>			
At 1 January 2016	3	2 029	2 032
Amortisation charge	-	830	830
Write-offs	-	(7)	(7)
At 31 December 2016	3	2 852	2 855
Amortisation charge	-	842	842
Write-offs	-	(4)	(4)
At 31 December 2017	3	3 690	3 693
<i>Carrying amount:</i>			
At 1 January 2016	-	2 053	2 053
At 31 December 2016	-	1 245	1 245
At 31 December 2017	-	597	597

7. Inventory

	<i>2017</i>	<i>2016</i>
<i>In thousands of BGN</i>		
Materials	37 670	24 416
Work in progress	55 858	37 264
Finished goods	31 452	23 773
Merchandise	441	454
Advances for acquisition of materials	-	356
	<u>125 421</u>	<u>86 263</u>
Less: Inventories write-down:		
Materials	(98)	-
	<u>125 323</u>	<u>86 263</u>
Total inventories at the lower of cost and net realisable value	125 323	86 263

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 2017 inventory pledged as collateral for bank loans received by the Company amounts to BGN 108 451 thousand (2016: BGN 70 634 thousand) (Note 13).

8. Trade and other receivables

	<i>2017</i>	<i>2016</i>
<i>In thousands of BGN</i>		
Trade receivables (Note 22)	24 809	15 812
Impairment losses	(137)	-
Related parties receivables (Note 20, 22)	9 677	9 734
Other receivables	1 413	6 207
VAT receivable	7 889	5 410
Down payments for delivery of inventory	687	339
	<u>44 338</u>	<u>37 502</u>

Receivables with minimum notional amount EUR 5 500 thousand are pledged as at 31.12.2017 (2016: EUR 5 500 thousand) (Note 13).

As at 31 December the aging analysis of gross trade receivables (less receivables from related parties) is presented in the table below:

	Total	Not overdue	Overdue				
			< 30 days	30-60 days	60-90 days	90-120 days	>120 days
<i>In thousands of BGN</i>							
2017	24 809	15 969	7 749	775	198	65	53
2016	15 812	11 786	3 629	265	71	5	56

9. Derivative financial instruments

<i>In thousands of BGN</i>	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Futures contracts designated as cash flow hedging instruments	2 056	-	1 311	-
Forward contracts designated as fair value hedging instruments	1 566	-	220	-
	<u>3 622</u>	<u>-</u>	<u>1 531</u>	<u>-</u>
Net assets / (liabilities)	<u>3 622</u>		<u>1 531</u>	

The fair value of the derivative financial instruments as of the reporting date is based on 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>	2017	2016
Cash at bank	3 583	29 213
Cash in hand	6	5
Total cash in hand and at banks	<u>3 589</u>	<u>29 218</u>

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

The amount of cash at bank as at 31.12.2017 pledged as collateral for short-term bank loans received by the Company is BGN 1 365 thousand (2016: BGN 5 530 thousand) (Note 13). As at 31.12.2017 outstanding amount of loans secured (including interest payable) with pledge of cash at bank is BGN 151 thousand (2016: BGN 106 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 2016	2 373 241	194 606	49 601	244 207
Issued shares	91 394	7 494	2 284	9 778
Decrease of losses	-	(98 585)	(51 885)	(150 470)
As at 31 December 2016	<u>2 464 635</u>	<u>103 515</u>	<u>-</u>	<u>103 515</u>
As at 31 December 2017	<u>2 464 635</u>	<u>103 515</u>	<u>-</u>	<u>103 515</u>

As at 31 December 2017 the registered share capital of the Company is comprised of 2 464 635 ordinary shares at a par value of BGN 42 each.

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

12. Reserves

	Revaluation reserve	Hedging reserve	Total Reserves
<i>In thousands of BGN</i>			
At 1 January 2016	100 068	(2 483)	97 585
Net loss from cash flow hedge	-	4 070	4 070
Deferred tax effect	-	(407)	(407)
Total change for the period	-	3 663	3 663
At 31 December 2016	100 068	1 180	101 248
At 1 January 2017	100 068	1 180	
Net gain from cash flow hedge	-	744	744
Deferred tax effect	-	(74)	(74)
Revaluation reserve	13 965	-	13 965
Deferred tax effect	(1 397)	-	(1 397)
Total change for the period	12 568	670	13 238
At 31 December 2017	112 636	1 850	114 486

Other reserves occur due to cash flow hedging and revaluation of land, buildings machinery and technical installations to fair value. The Company qualifies for cash flow hedge accounting in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, chapter Hedge Accounting. At the reporting date the Company recognises the portion of gains or losses, measured as effective hedge and related to open hedging positions in other comprehensive income and in *Hedge reserves*. The respective deferred tax is recognised also in other comprehensive income. It is expected that the cash flows related to cash flow hedge will be realised and will affect profit or loss in the first quarter of 2018. Respectively, the effect of the cash flow hedge recognised in *Other reserves* in equity, as at 31 December 2016 was reclassified to profit or loss in 2017.

13. Interest-bearing loans

	2017	2016
<i>In thousands of BGN</i>		
Non-current loans		
Bank loans	22	143 851
Total non-current loans	<u>22</u>	<u>143 851</u>
Current loans		
Bank loans	155 407	4 998
Current portion of non-current loans	19	27 457
Total short term borrowings received	<u>155 426</u>	<u>32 455</u>
Total borrowings received	<u>155 448</u>	<u>176 306</u>

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

In thousands of BGN

Balance as at 1 January	176 306	208 912
Loans received during the period	5 331	-
Repayments during the period	(27 382)	(33 342)
Accrued finance costs, not paid	1 193	736
FX revaluation	-	-
Balance as at 31 December	<u>155 448</u>	<u>176 306</u>

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 2017 (2016: none).

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

	2017	2016
Bank overdrafts	5.15%	5.60%
Short term bank loans	4.40%	5.10%
Long term bank loans	5.30%	5.90%

As of 31 December 2017 long-term loans payable within 12 months received by the Company are as follows:

- Long term loan payable within 12 months granted by the European Bank for Reconstruction and Development (EBRD) with loan principal EUR 13 727 178 . The loan is secured by mortgage of lands and buildings and pledge of movables, inventory and ordinary shares of SOFIA MED held by the parent company.

- Long term loan payable within 12 months granted by a syndicate of lenders: Alpha Bank A.E., Bulgaria Branch; Eurobank Bulgaria AD.; United Bulgarian Bank AD; Piraeus Bank Bulgaria AD. Loan principal is EUR 60 million. The loan is secured by mortgage of lands and buildings, and pledge of movables and inventory. The loan is secured also by a Letter of Support issued by the parent company.

Carrying amounts of the Company's assets pledged as collateral for the long-term loans as at 31.12.2017 are as follows: lands and buildings - BGN 93 089 thousand, plant and equipment - BGN 159 120 thousand, inventory: BGN 108 451 thousand.

As of 31 December 2017 short-term debt represents short-term loans from United Bulgarian Bank AD, Piraeus Bank Bulgaria AD, Societe Generale Expressbank, National Bank of Greece – Malta Branch and short-term portion of long-term loans received. Short-term portion of the long-term loans amounts to BGN 10 690 thousand.

The short-term bank loans are secured by Letters of Support issued by the parent company, pledge of cash at bank, and pledge of trade receivables. Receivables with minimum notional amount EUR 5 500 thousand are pledged as at 31.12.2017 (2016: EUR 5 500 thousand). As at 31.12.2017 the outstanding amount of short-term bank loans secured (including interest payable) with pledge of receivables is BGN 97 thousand (2016: BGN 1 thousand) and the amount of blocked credit limit of these loans due to issued bank guarantees is BGN 0 thousand (2016: BGN 3 413 thousand). The amount of cash at bank at 31.12.2017 pledged as collateral for short-term bank loans received by the Company is

13. Interest-bearing loans (continued)

BGN 1 365 thousand (2016: BGN 5 530 thousand). As at 31.12.2017 outstanding amount of loans secured (including interest payable) with pledge of cash at bank is BGN (151) thousand (2016: BGN 106 thousand).

Secured loans conditions

The Company has obligations to comply with certain conditions (covenants) under a contract for a secured loan with balance payable BGN 27 382 thousand (EUR 14 000 thousand) as of 31 December 2017. Under the terms of the agreement, the loan will be repaid by the 1st of December 2018. Under the terms of the loan over the entire duration of the loan the Company has an obligation to maintain certain financial ratios. As of 31.12.2017 there are three financial covenants to be met and the Company meets them.

The Company has obligations under a secured loan agreement in the amount of BGN 117 350 thousand as of 31 December 2017. Under the terms of the agreement, the loan will be repaid by the 5th of December 2018. The Company has established all pledges required by the loan agreement.

14. Operating leases

Contracted operating lease rentals are payable as follows:

	2017	2016
<i>In thousands of BGN</i>		
Less than one year	420	416
Between one and five years	842	579
More than five years	-	-
Total	<u><u>1 262</u></u>	<u><u>995</u></u>

During the year an amount of BGN 610 thousand was recognised as an expense in profit or loss in respect of operating leases (2016: BGN 613 thousand).

15. Retirement employee benefits**a) Expenses for retirement employee benefits**

	2017	2016
<i>In thousands of BGN</i>		
Current service cost	155	74
Interest cost on retirement employee benefit	17	13
Expenses on retirement benefits recognised in profit and loss (Note 3.6)	<u><u>172</u></u>	<u><u>87</u></u>

b) Retirement benefits liability

	2017	2016
<i>In thousands of BGN</i>		
Present value of retirement benefit obligation	1 323	1 059
Retirement benefits liabilities, recognised in the statement of financial position	<u><u>1 323</u></u>	<u><u>1 059</u></u>

15. Retirement employee benefits (continued)

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

In thousands of BGN

Retirement benefit obligation at 1 January 2016	547
Current service cost	74
Interest cost	13
Benefits paid	(54)
Remeasurements:	
Actuarial losses from changes in demographic assumptions	716
Actuarial losses from changes in financial assumptions	(206)
Experience adjustments	(31)
Retirement benefit obligation at 31 December 2016	1 059
Current service cost	155
Interest cost	17
Benefits paid	(37)
Remeasurements:	
Actuarial losses from changes in demographic assumptions	-
Actuarial losses from changes in financial assumptions	105
Experience adjustments	24
Retirement benefit obligation at 31 December 2017	1 323

Main actuarial assumptions used for accounting purposes are shown below:

	2017	2016
Discount rate	1,15%	1.80%
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 for the period 01.08.2015-31.12.2017. The part of reimbursement pertaining to 2016 amounts to BGN 1 264 thousand and is presented in Other expenses, net in *Statement of profit or loss and other comprehensive income*. The part of reimbursement pertaining to 2017 amounts to BGN 1 142 thousand and decreases the expenses on electricity included in Materials (Note 3.2).

17. Trade and other payables

	2017	2016
<i>In thousands of BGN</i>		
Trade payables (Note 22)	29 195	22 775
Related parties trade payables (Note 20, 22)	54 925	50 718
Advance payments from related parties (Note 20)	9 779	-
Payables to employees	1 331	981
Related parties other payables (Note 20)	312	426
Taxes	453	410
Other payables	2 563	2 920
	98 558	78 230

18. Commitments

	<i>2017</i>	<i>2016</i>
<i>In thousands of BGN</i>	<u> </u>	<u> </u>
Property, plant and equipment	<u><u>11 090</u></u>	<u><u>3 994</u></u>

Investment program

In 2018 the Company plans completion of the reconstruction of assets in foundry and rolling workshops. The contracted expenditure amounts to BGN 11 090 thousand.

19. Contingencies

Bank guarantees

Bank guarantees and letters of credit issued by other companies on behalf of SOFIA MED AD amount to BGN 1 658 thousand (2016: BGN 4 910 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 3 705 thousand (2016: BGN 7 588 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

88.87543 % of the shares of SOFIA MED AD are owned by ElvalHalcor S.A., 11.12453% 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.

b) Sale of goods and services

	<i>2017</i>	<i>2016</i>
<i>In thousands of BGN</i>		
Sales of goods	244 334	181 803
Sales of services	<u>234</u>	<u>333</u>
	<u><u>195 254</u></u>	<u><u>136 467</u></u>

c) Purchases of goods and services

	<i>2017</i>	<i>2016</i>
<i>In thousands of BGN</i>		
Purchases of goods	244 334	181 803
Purchases of services	<u>5 574</u>	<u>4 821</u>
	<u><u>249 908</u></u>	<u><u>186 624</u></u>

20. Related parties (continued)

d) Key management remuneration

	2017	2016
<i>In thousands of BGN</i>		
Salaries and other short term employee benefits	2 481	2 346
	<u>2 481</u>	<u>2 346</u>

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

	2017	2016
<i>In thousands of BGN</i>		
Related party receivables	9 677	9 734
Related party payables	65 016	51 144

Receivables	2017	2016	Payables	2017	2016
	<i>BGN'000</i>	<i>BGN'000</i>		<i>BGN'000</i>	<i>BGN'000</i>
Etem Bulgaria	-	11	Steelmet Romania	66	6
Teprometal Germany	134	341	Teprometal Germany	235	354
MKC Metall Kunden Center	797	6 176	Metal Agencies	-	22
Hellenic Cables	440	382	Teka Systems Greece	136	133
CPW America Co.	334	299	Hellenic Cables	-	4
Fitco	211	-	ElvalHalcor – trade payables	39 261	39 473
Elval Colour	13	13	ElvalHalcor – advance payments received	9 779	-
Metal Agencies	3 545	1 141	Metalco Bulgaria	12	18
Steelmet Romania	-	3	Sigma-Is	411	182
Metalvalius	24	-	Lesco	106	101
Reynolds Cuivre SAS	4 074	1 307	MKC Metall Kunden Center	6	2
Vepal	-	26	Genecos	4	147
Metalign	2	35	Viexal	25	14
International Trade	103	-	Base Metal Ticaret ve Sanayi A.S.	91	55
			Fulgor	-	199
			Metalvalius	14 689	9 656
			Sidma Bulgaria	6	1
			CPW America Co.	-	168
			Alurame	124	170
			Reynolds Cuivre SAS	-	466
			Metalign	43	(32)
			Stomana Industry	-	5
			Icme Ecab	22	-
				<u>65 016</u>	<u>51 144</u>
	<u>9 677</u>	<u>9 734</u>			

20. Related parties (continued)

Sales	2017	2016	Purchases	2017	2016
	BGN'000	BGN'000		BGN'000	BGN'000
Etem Bulgaria	45	76	Etem Bulgaria	7	87
Metal Agencies	55 926	41 207	Teprometal Germany	774	612
Steelmet Romania	5 695	5 880	Metal Agencies	16	22
ElvalHalcor	5 069	3 597	Stomana Industry	-	4
MKC Metall Kunden Center	54 910	41 408	Fitco	538	1 129
Teprometal Germany	4 598	4 659	Teka Systems Greece	868	317
Teka Systems Bulgaria	2	2	Sidma Bulgaria	70	63
Elval	-	7	ElvalHalcor	118 766	73 185
Fitco	8 975	4 158	Teprometal Bulgaria	-	150
Genecos	-	(257)	Sigma-Is	2 123	1 732
Corint pipeworks	18	-	Lesco	802	811
			MKC Metall Kunden		
Icme Ecab	1 992	786	Center	16	5
Hellenic Cables	1 748	1 177	Elval	-	2
Metalvalius	10 300	12 749	Genecos	-	86
Fulgor	15	458	Steelmet Romania	94	34
CPW America Co.	2 005	1 686	Metalvalius	122 867	106 505
Erlikon	-	-	Hellenic Cables	1	17
Reynolds Cuivre SAS	41 620	18 729	Viexal	483	409
Base Metal Ticaret ve Sanayi A.S.	-	23	Fulgor	240	498
Vepal	-	26	Alurame	217	166
			Base Metal Ticaret ve		
Metalign	72	96	Sanayi A.S.	112	111
Stomana Industry	90	-	Elkeme	-	1
Alurame	278	-	Etil	58	-
International Trade	1 896	-	CPW America Co.	21	357
			Reynolds Cuivre SAS	41	44
			Vepal	-	2
			Metalign	346	275
			Metalco Bulgaria	124	-
			Bridgnorth Aluminium	8	-
			Icme Ecab	1 316	-
	<u>195 254</u>	<u>136 467</u>		<u>249 908</u>	<u>186 624</u>

20. Related parties (continued)

Related parties	Type of transactions in 2017
Etem Bulgaria	Finished goods, merchandise, materials
Metal Agencies	Finished goods, services
Reynolds Cuivre SAS	Finished goods, services
Steelmet Romania	Finished goods, services
ElvalHalcor	*
Hellenic Cables	Finished goods, materials
MKC Metall Kunden Center	Finished goods, services
Sidma Bulgaria	Materials
Teprometal Germany	Finished goods, services
Teka Systems Bulgaria	Services
Icme Ecab	Finished goods
Sigma-Is	Services, materials
Alurame	Services
Metalvalius	Materials, services
CPW America Co.	Finished goods, services
Stomana Industry	Fixed assets
Teprometal Bulgaria	Services
Lesco	Materials
Genecos	Finished goods, services
Fulgor	Finished goods, materials
Fitco	Finished goods, materials, merchandise, services
Elval	Finished goods, services
Vepal	Materials, Services
Teka Systems Greece	Fixed assets, services
Viexal	Services
Elkeme	Services
Metalign	Services, materials
Base Metal Ticaret ve Sanayi A.S.	Finished goods, services
Metalco Bulgaria	Services
International Trade	Finished goods
Bridgnorth Aluminium	Services

(*)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.

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

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	
	2017	2016
Variable rate instruments		
Financial liabilities	(155 448)	(176 306)
	(155 448)	(176 306)

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 2016.

<i>Effect in thousands of BGN</i>	Profit or loss		Equity	
	0,25% increase	0,25% decrease	0,25% increase	0,25% decrease
31 December 2017				
Variable rate instruments	(389)	389	-	-
Cash flow sensitivity (net)	(389)	389	-	-
31 December 2016				
Variable rate instruments	(577)	577	-	-
Cash flow sensitivity (net)	(577)	577	-	-

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

2017

<i>In thousands of BGN</i>	EUR	BGN	USD	GBP	CHF
Trade and other receivables	18 937	1 133	10 855	3 541	(117)
Interest-bearing loans received	(151 275)	(47)	(1 872)	(2 208)	(46)
Trade and other payables	(62 954)	(7 246)	(13 940)	26	(6)
Cash and cash equivalents	2 650	-	925	5	9
	<u>(192 642)</u>	<u>(6 160)</u>	<u>(4 032)</u>	<u>1 364</u>	<u>(160)</u>
Pricing agreements (purchases)/sales	-	-	(3 729)	2 996	22
Derivatives (nominal value)	<u>(6 224)</u>	<u>-</u>	<u>10 099</u>	<u>(3 880)</u>	<u>5</u>
Total exposure to FX rate risk	<u>(198 866)</u>	<u>-</u>	<u>2 338</u>	<u>480</u>	<u>(133)</u>

2016

<i>In thousands of BGN</i>	EUR	BGN	USD	GBP	CHF
Trade and other receivables	21 150	3 430	6 409	909	(145)
Interest-bearing loans received	(176 200)	-	(106)	-	-
Trade and other payables	(63 069)	(1 142)	(10 394)	55	(92)
Cash and cash equivalents	20 312	4 723	1 136	2 596	451
	<u>(197 807)</u>	<u>7 011</u>	<u>(2 955)</u>	<u>3 560</u>	<u>214</u>
Derivatives (nominal value)	<u>1 312</u>	<u>-</u>	<u>3 343</u>	<u>(3 368)</u>	<u>(228)</u>
Total exposure to FX rate risk	<u>(196 495)</u>	<u>-</u>	<u>388</u>	<u>192</u>	<u>(14)</u>

The following significant exchange rates applied during the year:

	Average FX rate		FX rate at the reporting period-end date	
	2017	2016	2017	2016
USD 1	1.735	1.768	1.631	1.855
GBP 1	2.232	2.393	2.204	2.284
CHF 1	1.762	1.795	1.671	1.821

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

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

	Strengthening / (weakening) of the exchange rate of the USD against the BGN	Effect on profit before tax	Effect on equity
	%	<i>In thousands of BGN</i>	<i>In thousands of BGN</i>
2017	10%	234	-
	-10%	(234)	-
2016	10%	39	-
	-10%	(39)	-

	Strengthening / (weakening) of the exchange rate of the GBP against the BGN	Effect on profit before tax	Effect on equity
	%	<i>In thousands of BGN</i>	<i>In thousands of BGN</i>
2017	10%	48	-
	-10%	(48)	-
2016	10%	19	-
	-10%	(19)	-

	Strengthening / (weakening) of the exchange rate of the CHF against the BGN	Effect on profit before tax	Effect on equity
	%	<i>In thousands of BGN</i>	<i>In thousands of BGN</i>
2017	10%	(13)	-
	-10%	13	-
2016	10%	(1)	-
	-10%	1	-

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.

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

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 – 41 560 BGN thousand as of 31 December 2017 (31 December 2016: BGN 62 502 thousand).

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 2017

	<i>Carrying amount</i>	<i>< 1 year</i>	<i>1-2 years</i>	<i>2-5 years</i>	<i>> 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	155 448	155 448	-	-	-	155 448
Trade and other payables	84 120	84 120	-	-	-	84 120
	<u>239 568</u>	<u>239 568</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>239 568</u>

The bank loans are with maturity December 2018. Management is in active communication with bank creditors and considers that the negotiation of new loan facilities will be finalised in the third quarter of 2018. Respectively the existing bank loans will be refinanced before their maturity.

The year ended 31 December 2016

	<i>Carrying amount</i>	<i>< 1 year</i>	<i>1-2 years</i>	<i>2-5 years</i>	<i>> 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	176 306	41 197	150 432	-	-	191 629
Trade and other payables	74 642	74 642	-	-	-	74 642
	<u>250 948</u>	<u>115 839</u>	<u>150 432</u>	<u>-</u>	<u>-</u>	<u>266 271</u>

Equity management

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

The Company manages its equity structure and adjusts it, where necessary, depending on the changes in the economic environment. In view of maintaining or changing its capital structure the Company may adjust the payment of dividends to the shareholders, may redeem its treasury shares, reduce or increase its share capital by virtue of decision of the shareholders. In 2017 and in 2016 there have been no changes in the objectives, policies or processes related to the Company's equity management.

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

22. Fair values of financial instruments

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

The Company determines the fair value of its financial instruments based on available market information. The fair value of financial instruments traded actively at organised financial markets is determined based on the 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.

31 December 2017		Carrying amount				Fair Value				
		Cash flow hedging instru- ments	Fair value hedging instru- ments	Loans and receiva- bles	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
<i>In thousands of BGN</i>	<i>Note</i>									
Financial assets measured at fair value										
Derivative financial instruments		2 056	-	-	-	2 056		-	-	2 056
Derivative financial instruments	9	-	1 566	-	-	1 566	-	1 566	-	1 566
		2 056	1 566	-	-	3 622	2 056	1 566	-	3 622
Financial assets not measured at fair value										
Trade and other receivables	8	-	-	34 349	-	34 349				
Cash and cash equivalents	10	-	-	3 589	-	3 589				
		-	-	37 938	-	37 938				
Financial liabilities measured at fair value										
Derivative financial instruments	9	-	-	-	-	-	-	-	-	-
Financial liabilities not measured at fair value										
Interest bearing loans and borrowings	13	-	-	-	(155 448)	(155 448)				
Trade payables	17	-	-	-	(84 120)	(84 120)				
		-	-	-	(239 568)	(239 568)				

22. Fair values of financial instruments (continued)

31 December 2016		Carrying amount					Fair Value			
		Cash flow hedging instru- ments	Fair value hedging instru- ments	Loans and receiva- bles	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
<i>In thousands of BGN</i>	<i>Note</i>									
Financial assets measured at fair value										
Derivative financial instruments		1 311	-	-	-	1 311	1 311	-	-	1 311
Derivative financial instruments	9	-	220	-	-	220	-	220	-	220
		1 311	220	-	-	1 531	1 311	220	-	1 531
Financial assets not measured at fair value										
Trade and other receivables	8	-	-	31 753	-	31 753				
Cash and cash equivalents	10	-	-	29 218	-	29 218				
		-	-	60 971	-	60 971				
Financial liabilities not measured at fair value										
Interest bearing loans and borrowings	13	-	-	-	(176 306)	(176 306)				
Trade payables	17	-	-	-	(74 642)	(74 642)				
		-	-	-	(250 948)	(250 948)				

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 2017 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 2017 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 within the year ending 30 June 2018 and for a price, exceeding the carrying amount of the assets as at 31 December 2017. 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).

24. Subsequent events

No events have occurred after the reporting date, which require additional adjustments and/or disclosures in the financial statements of the Company for the year ended 31 December 2017.



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INDEPENDENT AUDITORS' REPORT

To the shareholders of
Sofia Med AD

Opinion

We have audited the financial statements of Sofia Med AD (the Company) as set out on pages 1 to 44, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of 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 'Auditors' Responsibilities for the Audit of the Financial Statements' section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Statements and Auditors' Report Thereon

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



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

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

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

Based on the procedures performed, our opinion is that:

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

Responsibilities of Management and Those Charged with Governance for the 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.

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



Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

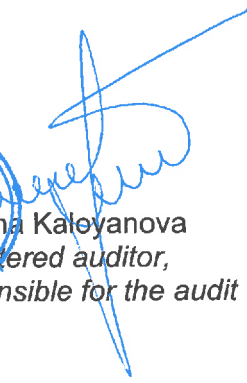


We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Audit OOD


Maria Peneva
Authorised representative




Dobrina Kaleyanova
Registered auditor,
responsible for the audit

45/A Bulgaria Boulevard
Sofia 1404, Bulgaria

12 June 2018