

SOFIA MED AD

ANNUAL MANAGEMENT REPORT AND
SEPARATE FINANCIAL STATEMENTS
For the year ended 31 December 2018

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

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General overview

Throughout 2018 the economic growth in the Eurozone as well as in the United States was strong, a fact which affected positively the sales of SOFIA MED AD (the Company). The average price of Copper reached Euro 5 519 per ton in 2018 versus Euro 5 453 per ton in 2017. The average price of zinc was Euro 2 467 per ton in 2018 versus 2 561 per ton in 2017. Sales revenue in 2018 amounted to BGN 1 028 165 thousand versus BGN 849 038 thousand in 2017 which represents an increase of 21%. The turnover was positively affected by the increasing prices of metals. Volume of core sales increased by 12% and reached 80 thousand tonnes.

During 2018 the ratio EBITDA/Sales was 4.24%, compared to 5.78 % in 2017. The decrease is due to lower metal result (details presented below). The ratio a-EBITDA/Sales increased to 4.46%, compared to 4.15 % in 2017. The improved profitability is a result of improved mix of sales by increase of higher value added products.

The operating profit for 2018 was BGN 26 946 thousand, compared to BGN 33 420 thousand in 2017.

Improved cost of production, optimization of production procedures and improved quality strengthened the competitive position of the Company. The net financial costs in 2018 were BGN 12 772 thousand, and in 2017 – BGN 13 500 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 2018 amounted to BGN 91 355 thousand (end of 2017: BGN 83 517 thousand). In 2018 SOFIA MED AD continued the implementation of its investment program in order to expand the production range and increase the competitiveness of the Company. The total amount of property, plant and equipment acquired during the year was BGN 19 253 thousand.

Current period results and financial position overview – Financial highlights

<i>In BGN thousand</i>	<i>2018</i>	<i>2017</i>
Sales revenue	1 028 165	849 038
Result from operating activities	26 946	33 420
EBITDA	43 592	49 034
<i>EBITDA / Sales</i>	<i>4.24%</i>	<i>5.78%</i>
EBT	14 175	19 920
Working capital excluding cash and cash equivalents	91 355	83 517
<i>Working capital excluding cash and cash equivalents / Sales</i>	<i>8.89 %</i>	<i>9.84 %</i>
Debt / Equity	0.69	0.79
Debt / EBITDA	3.55	3.17

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

Working capital excluding cash and cash equivalents: It is calculated using the formula: *current assets – 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>2018</i>	<i>2017</i>
EBITDA	43 592	49 034
Adjustments for:		
+ Loss / - Profit from Metal result	2 248	(13 794)
+ Loss / - Profit from disposals of non-current assets	63	-
a-EBITDA	45 903	35 240
<i>a-EBITDA/Sales</i>	<i>4.46%</i>	<i>4.15%</i>

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 the safety stock that is held.

Sustainable Development

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

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

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

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

Sustainable Development (continued)

Customer focus

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

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

Care for our people

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

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

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

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

Health and safety at work

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

Environmental protection and Energy efficiency

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

Supporting local communities

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

Sustainable Development (continued)

Participation in networks and organisations

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

- European Copper Institute – ECI
- Hellenic Copper Development Institute – HCDI
- Bulgarian Association of Metallurgical Industry – BAMl
- 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 2018.

Research and development activities

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

Branches

The Company has no branches.

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

In 2018 the Company has not redeemed any treasury shares, and as at 31 December 2018 it does not hold any redeemed treasury shares. The members of the Board of Directors do not hold any share options or bonds of the Company. There is no decision of the General Meeting of shareholders granting to the members of the Board of Directors rights to acquire shares and bonds in the Company. The members of the Board of Directors have not declared that they or any parties related to them have contracts concluded with the Company which fall beyond its ordinary course of business or significantly depart from the market conditions.

The remuneration of the members of the Board of Directors for 2018 was BGN 214 thousand (2017: BGN 189 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"> • FIBRAN BULGARIA S.A.
Lidia Atanasova Gerdjikova	<ul style="list-style-type: none"> • BALANCE Ltd. • AMBEL Ltd. • EURO TERRA DEVELOPMENT S.A. • TWIN GRUP S.A. • PRIMROSEVIEW S.A • EAZY HOMES S.A. • PANSO S.A. • GERDA Ltd. • GTV Ltd.
Athanassios Athanassopoulos	<ul style="list-style-type: none"> • DOMI BG Ltd. • LESKO Ltd. • PORT SVISHTOV WEST S.A. • SIGMA IS S.A.
Stylianos Theodosiou	<ul style="list-style-type: none"> • TECHOR S.A.
Charalampos Vlachoutsikos	<ul style="list-style-type: none"> • ANAMET S.A.

Periklis Sapountzis	<ul style="list-style-type: none"> • ELVALHALCOR HELLENIC COPPER AND ALUMINIUM INDUSTRY S.A • FITCO S.A • HALCOR RESEARCH AND DEVELOPMENT S.A.
Dimitrios Dimitriadis	<ul style="list-style-type: none"> • HELLAS GOLD S.A. • THRACE MINERALS S.A. • THRACIAN GOLD MINING S.A. • MACEDONIAN COPPER S.A.
Ioannis Papadimitriou	<ul style="list-style-type: none"> • METALCO BULGARIA S.A. • 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 Ltd. • AMBEL Ltd. • GERDA Ltd. • GTV Ltd.
Athanassios Athanassopoulos	<ul style="list-style-type: none"> • DOMI BG Ltd.

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 22 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 2018.

Important transactions with related parties

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

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

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

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

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

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

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

SOFIA MED sells to Icme Ecab finished goods.

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

Metalvalius sells to SOFIA MED cathodes.

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

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

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

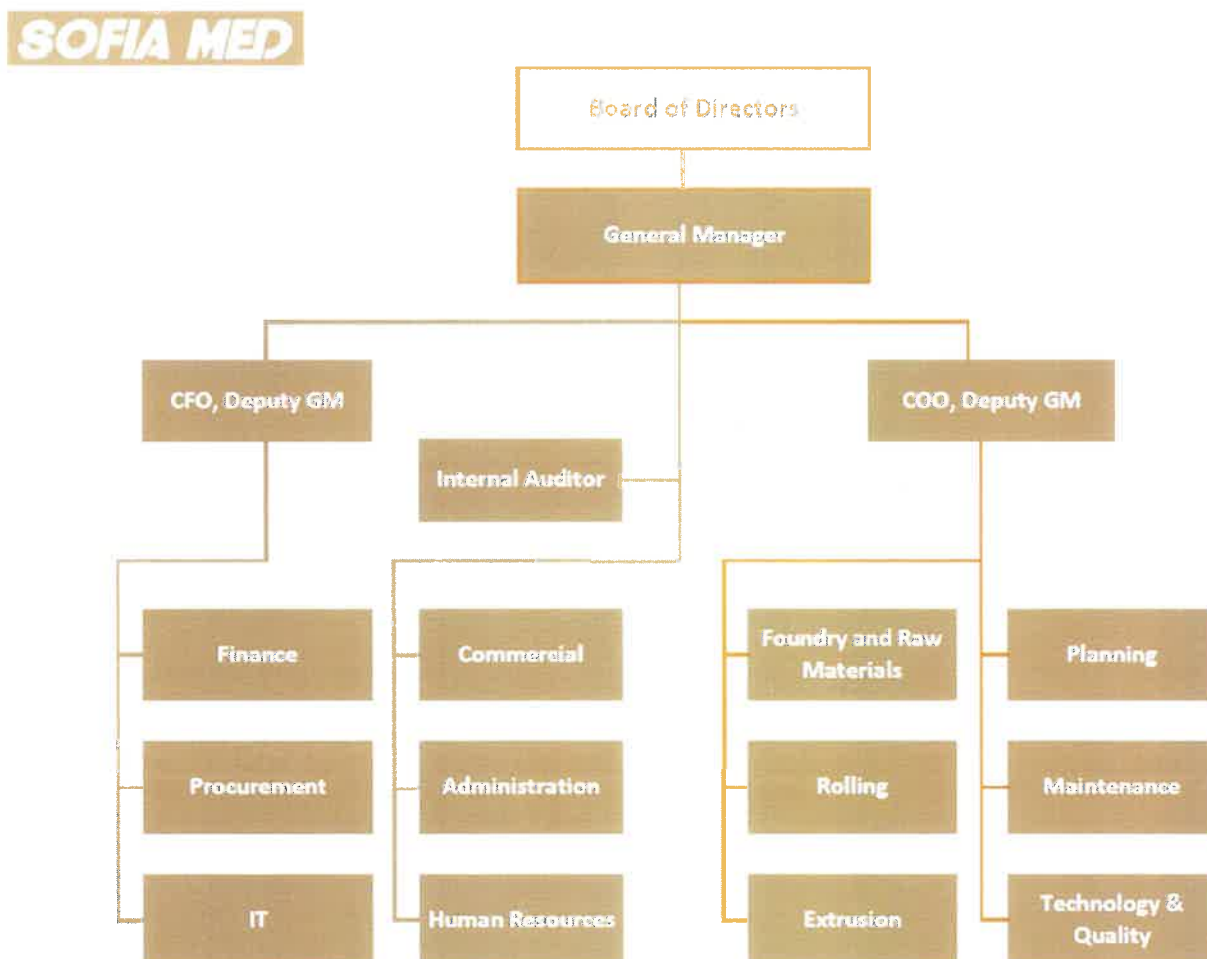
SOFIA MED sells to International Trade finished goods

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

SOFIA MED acquired subsidiary Metalvalius from Anamet S.A.

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

Organisational structure



Composition of the Board of Directors

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

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

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

- Efstratios Evangelos Stratigis, Chairman, executive member;
- Angel Petrov 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.

Stylios 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

Separate Financial Statements

For the year ended 31 December 2018

With Independent Auditors' Report thereon

SOFIA MED AD
SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December

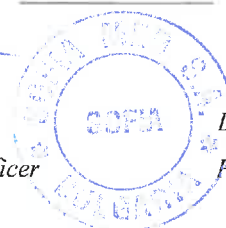
SOFIA MED

<i>In thousands of BGN</i>	<i>Notes</i>	2018	2017
* Note 25			Reclassified *
Revenue	3.1	1 028 165	849 038
Cost of sales	3.2	(987 838)	(801 210)
Gross profit		40 327	47 828
Selling and distribution expenses	3.2	(4 025)	(4 600)
Administrative expenses	3.2	(8 830)	(7 581)
Impairment loss on trade receivables	8, 21	(492)	(137)
Other expenses and income, net	3.3	(34)	(2 090)
Result from operating activities		26 946	33 420
Finance income	3.4	-	-
Finance expenses	3.4	(12 771)	(13 500)
Net finance cost		(12 771)	(13 500)
Profit before income tax		14 175	19 920
Income tax	4	(1 426)	(2 004)
Profit for the year		12 749	17 916
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	138	(129)
Related tax	4	(14)	(1 384)
		124	12 452
<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	(2 095)	744
Related tax	4	209	(74)
		(1 886)	670
Other comprehensive income for the period, net of tax		(1 762)	13 122
Total comprehensive income for the period		10 987	31 038

Ioannis Papadimitriou
General Manager,
Director

Lidia Gerdjikova
Director

Sergey Vlaykov
Chief Financial Officer



Daniel Yordanov
Preparer

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 1 to 26 are an integral part of these financial statements

SOFIA MED AD
SEPARATE STATEMENT OF FINANCIAL POSITION

As at 31 December

SOFIA MED

<i>In thousands of BGN</i>	<i>Notes</i>	<i>2018</i>	<i>2017</i>
ASSETS			
Non-current assets			
Property, plant and equipment	5	266 800	264 348
Intangible assets	6	229	597
Investments	24	17 610	-
Deferred tax assets	4	2 618	3 788
		287 257	268 733
Current assets			
Inventories	7	153 929	125 323
Trade and other receivables	8	48 352	44 338
Derivative financial instruments	9	850	3 622
Cash and cash equivalents	10	4 924	3 589
Assets held for sale	23	8 792	8 792
		216 847	185 664
TOTAL ASSETS		504 104	454 397
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11	110 297	103 515
Share premium		10 820	-
Reserves	12	114 181	114 486
Retained losses		(10 788)	(21 879)
		224 510	196 122
LIABILITIES			
Non-current liabilities			
Loans and borrowings	13	124 195	22
Retirement benefit liabilities	15	1 332	1 323
Government grants	16	2 837	2 946
		128 364	4 291
Current liabilities			
Loans and borrowings	13	30 624	155 426
Trade and other payables	17	109 643	98 558
Contract liabilities	3.1	10 925	-
Derivative financial instruments	9	38	-
		151 230	253 984
TOTAL LIABILITIES		279 594	258 275
TOTAL EQUITY AND LIABILITIES		504 104	454 397

Ioannis Papadimitriou

General Manager, Director

Lidia Gerdjikova

Director

Sergey Vlaykov

Chief Financial Officer

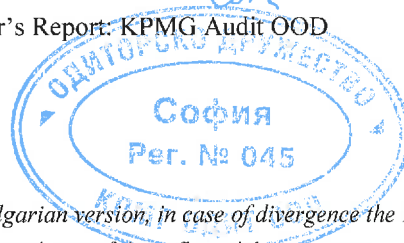
Daniel Yordanov

Preparer

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 1 to 26 are an integral part of these financial statements

SOFIA MED AD

SEPARATE STATEMENT OF CHANGES IN EQUITY

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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SOFIA MED AD
SEPARATE STATEMENT OF CHANGES IN EQUITY (CONTINUED)
SOFIA MED

	Notes	Share capital	Share premium	Statutory reserve	Revaluation reserve	Hedging reserve	Retained earnings	Total equity
<i>In thousands of BGN</i>								
Balance as at 31 December 2017, as previously reported		103 515	-	-	112 636	1 850	(21 879)	196 122
Adjustment on initial application of IFRS 9, net of tax	2.2	-	-	-	-	-	(201)	(201)
Adjusted balance at 1 January 2018		103 515	-	-	112 636	1 850	(22 080)	195 921
Comprehensive income for the period								
Profit for the year		-	-	-	-	-	12 749	12 749
Other comprehensive income								
Loss from cash flow hedge, net of tax	3.5, 12	-	-	-	-	(1 886)	-	(1 886)
Remeasurements of defined benefit liability, net of tax	15	-	-	-	-	-	124	124
Total comprehensive income for the period		-	-	-	-	(1 886)	12 873	10 987
Transactions with owners recognised directly in equity								
Increase of share capital	11	6 782	10 820	-	-	-	-	17 602
Other movements in equity	12	-	-	1 792	(211)	-	(1 581)	-
Balance as at 31 December 2018		110 297	10 820	1 792	112 425	(36)	(10 788)	224 510


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 Director

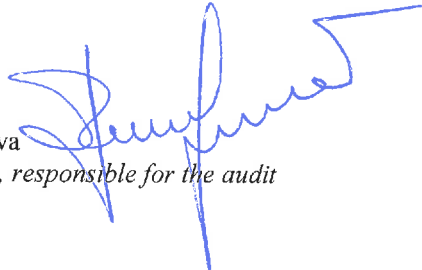

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Daniel Yordanov
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SOFIA MED AD
SEPARATE STATEMENT OF CASH FLOWS

For the year ended 31 December


SOFIA MED


<i>In thousands of BGN</i>	<i>Notes</i>	2018	2017
* Note 25			<i>Reclassified *</i>
Cash flows from operating activities			
Profit after tax		12 749	17 916
Adjustments for:			
Tax		1 426	2 004
Depreciation of property, plant and equipment	5	16 399	14 786
Amortization of intangible assets	6	568	842
Income from government grants	16	(109)	(109)
Net finance costs	3.4	12 771	13 500
(Gain) / loss from sale of non-current assets		108	9
(Gain) / loss from revaluation of derivatives through profit or loss	9	716	(1 346)
Change in devaluation of inventories to net realisable value	7	5 498	98
Impairment and write-off of receivables	8	492	611
		50 618	48 311
Decrease / (increase) in inventories	7	(34 104)	(39 256)
Decrease / (increase) in trade and other receivables		(4 042)	(6 836)
(Decrease) / increase in trade and other payables and contract liabilities		20 921	9 691
Interest charges & related expenses paid		(12 819)	(12 046)
Income tax paid		(105)	-
Net cash flows from / (used in) operating activities		20 469	(136)
Cash flows from investing activities			
Purchase of tangible assets		(18 868)	(13 032)
Purchase of intangible assets		-	(189)
Advance payments for assets held for sale		-	9 779
Investment in subsidiaries		(17 610)	-
Net cash flows used in investing activities		(36 478)	(3 442)
Cash flows from financing activities			
Loans received		6 586	5 331
Loans repaid		(6 844)	(27 382)
Proceeds from increase of share capital	11	17 602	-
Net cash flows from / (used in) financing activities		17 344	(22 051)
Net change in cash and cash equivalents		1 335	(25 629)
Cash and cash equivalents at the beginning of period		3 589	29 218
Cash and cash equivalents at the end of period	10	4 924	3 589


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 Director

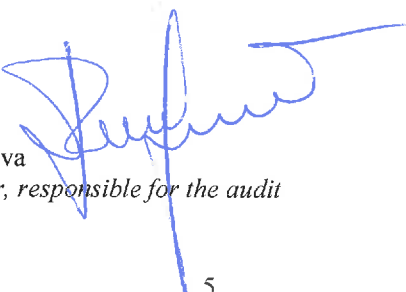

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Translation from the original Bulgarian version, in case of divergence the Bulgarian shall prevail.

The notes from 1 to 26 are an integral part of these financial statements

1. Reporting entity

Incorporation

SOFIA MED AD (the Company) is a joint-stock company incorporated in 1999 in Bulgaria. The address of the Company's registered office is: 4 Dimitar Peshev Str., Gara Iskar, Sofia, Bulgaria. The Company is registered in the Bulgarian Trade Register at the Registry Agency with ID No. 130144438.

Shareholders

As at 31 December 2018 the share capital of the Company is held by ElvalHalcor Hellenic Copper and Aluminium Industry S.A. Greece (ElvalHalcor, the parent company) – 89.56%, Viohalco SA/NV – 10.44% and Fitco S.A. Metal Works (Fitco S.A.), Greece – 0.0004%. ElvalHalcor S.A. and Fitco S.A. are also part of the Company of Viohalco SA/NV, (traded on the EURONEXT stock exchange in Belgium) which is the ultimate parent of SOFIA MED AD.

Operating activities

Sofia Med is a producer of a wide range of rolled and extruded copper and copper alloy products such as sheets, strips, plates, circles, disks, bare and plated copper bus bars, rods, profiles, components, and wire that are used in a wide variety of building and industrial applications. The Company started its processing activity in the late 2000. The Company operates only in Sofia. As at 31 December 2018 the number of employees is 616 (2017: 584).

The financial statements are authorized for issue on 30 March 2019 with a resolution of the Board of Directors.

2. Basis of preparation and accounting policies

2.1 Basis of preparation

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

This is the first set of the Company's annual financial statements in which IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* have been applied. Changes to significant accounting policies are described in Note 2.2.

Basis of measurement

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

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

Subsidiaries and consolidated financial statements

These financial statements are separate financial statements, prepared in accordance with IAS 27 *Separate Financial Statements*. As at 31 December 2018 Sofia Med AD owns 100% of the registered capital of Metalvalius LTD, a company registered in Bulgaria. In these separate financial statements the Company's investment in Metalvalius LTD is accounted at cost. In accordance with IFRS 10 *Consolidated Financial Statements*, Sofia Med AD is not required to prepare consolidated financial statements as its direct parent and ultimate parent company Viohalco S.A. (www.viohalco.com), Belgium prepares and publishes consolidated financial statements in accordance with IFRS as adopted by the EU. The consolidated financial statements of Viohalco S.A. will be published in the Bulgarian Commercial Register in accordance with the requirements of the Accountancy Act.

Functional and presentation currency

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

Going concern

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

The bank loans of the Company, which matured in the end of 2018, are refinanced with new loans with extended repayment terms and for higher amounts.

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

2.2 Changes in accounting policies and disclosures

The Company has initially applied IFRS 15 (see A) and IFRS 9 (see B) from 1 January 2018. A number of other new amendments to standards are also effective from 1 January 2018 but they do not have a material effect on the Company's financial statements.

Due to the transition methods chosen by the Company in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

The effect of initially applying these standards is mainly attributed to the following:

- reclassification of certain amounts from other payables, advance payments, to contract liabilities (see A);
- classification of trade receivables with embedded derivatives, related to provisional pricing features as measured at fair value through profit or loss (see B);
- classification of trade receivables, held in a model whose objective is not to hold the receivables to collect the contractual cash flows but to sell them according to agreements for non-recourse factoring, as measured at fair value through profit and loss (see B);
- increase in impairment losses recognised on financial assets (see B(ii)).

A. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time requires judgement.

The Company has adopted IFRS 15 using the cumulative effect method (without practical expedients). However, there is no effect of initially applying this standard on the equity at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

The effects of applying IFRS 15 are limited to reclassification of liabilities for advance payments received from customers to contract liabilities and classification of net gains from remeasurement to fair value of trade receivables, containing embedded derivatives related to provisional pricing feature to other income (Note 3.1).

For additional information about the Company's accounting policies relating to revenue recognition, see Note 2.5 (k).

B. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising 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*.

As a result of the adoption of IFRS 9, the Company has adopted consequential amendments to IAS 1 *Presentation of Financial Statements*, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Company's approach was to include the impairment of trade receivables in other expenses. Consequently, the Company reclassified impairment losses amounting to BGN 137 thousand, recognised under IAS 39, from 'other expenses' to 'impairment loss on trade receivables' in the statement of profit or loss and OCI for the year ended 31 December 2017. Additionally, the Company has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018 but have not been generally applied to comparative information.

The impact of transition to IFRS 9 on the opening balance of retained earnings is BGN 201 thousand loss from additional impairment of trade receivables as at 1 January 2018.

2.2 Changes in accounting policies and disclosures (continued)**B. IFRS 9 Financial Instruments (continued)***(i) Classification and measurement of financial assets and financial liabilities*

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous 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 separated. Instead, the hybrid financial instrument as a whole is assessed for classification. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities and derivative financial instruments.

For an explanation of how the Company classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see Note 2.5 (e).

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 January 2018. The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

<i>In thousands of BGN</i>	<i>Note</i>	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets					
Forward exchange contracts used for hedging	(a)	Fair value – hedging instruments	Fair value – hedging instruments	1 566	1 566
Commodity futures contracts used for hedging	(a)	Cash flow hedging instruments	Cash flow hedging instruments	2 056	2 056
Trade and other receivables	(b)	Loans and receivables	Amortised cost	34 349	15 214
Trade and other receivables		Loans and receivables	Mandatorily at FVTPL	-	18 934
Cash and cash equivalents		Loans and receivables	Amortised cost	3 589	3 589
Total financial assets				41 560	41 359
Financial liabilities					
Loans and borrowings		Other financial liabilities	Other financial liabilities	(155 448)	(155 448)
Trade payables		Other financial liabilities	Other financial liabilities	(84 120)	(84 120)
Total financial liabilities				(239 568)	(239 568)

B. IFRS 9 Financial Instruments (continued)**(i) Classification and measurement of financial assets and financial liabilities (continued)**

(a) Upon the initial application of IFRS 9 the Company chose as accounting policy to continue to apply the hedge accounting requirements of IAS 39, instead of the requirements of IFRS 9. The application of IFRS 9 has no effect on the classification and measurement of the derivative financial instruments used for hedging.

(b) Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost or at fair value, depending on the Company's business model for managing the respective receivables and the contractual cash flow characteristics.

Sofia Med recognizes a part of its sales revenue and trade receivables at provisional prices as these relate to sales agreements where the metal price is to be booked by the customer on a future date (sold-not-booked positions). This is a provisional pricing feature under which the transaction price is based on the spot rate of the metal at the payment due date. The sold-not-booked positions represent embedded derivatives, as the gains or losses do not depend on the performance obligation and execution of Sofia Med AD but on an external factor (the metal price) that is not closely related to the contract with the customer. Under IFRS 9 the embedded derivatives with a host financial asset should not be separated but the entire instrument should be measured as a whole according to the general requirements of the standard (i.e. in this case at fair value).

The Company has also receivables that are held to be transferred to factoring companies under non-recourse factoring agreements, for which the business model is not "hold to collect the contractual cash flows".

Respectively, upon the initial application of IFRS 9 these trade receivables are classified at FVTPL. The fair value of the trade receivables reclassified at FVTPL does not differ materially from their carrying amount and no remeasurement was recognized on the date of reclassification.

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39 – see Note 2.5 (g).

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional allowance for impairment as follows.

In thousands of BGN

Loss allowance at 31 December 2017 under IAS 39	137
Additional impairment recognised at 1 January 2018 on:	
Trade and other receivables as at 31 December 2017	223
Loss allowance at 1 January 2018 under IFRS 9	<u>360</u>

Additional information about how the Company measures the allowance for impairment is described in Note 21.

(iii) Hedge accounting

The Company has elected to continue applying the hedge accounting model of IAS 39, according to IFRS 9.7.2.21.

(iv) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

— The Company has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

— The assessment and determination of the business model within which a financial asset is held for has been made on the basis of the facts and circumstances that existed at the date of initial application.

2.3 New standards and interpretations, not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. However, the Company has not early adopted the new or amended standards in preparing these separate financial statements.

Of those standards that are not yet effective, IFRS 16 is expected to have a material impact on the Company's financial statements in the period of initial application.

(a) IFRS 16 Leases

The Company is required to adopt IFRS 16 *Leases* from 1 January 2019. The Company has assessed the estimated impact that initial application of IFRS 16 will have on its separate financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because:

- the Company has not finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

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.

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*.

(i) *Leases in which the Company is a lessee*

The Company will recognise new assets and liabilities for its operating leases. The nature of expenses related to those leases will now change because the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

In addition, the Company will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the Company will include the payments due under the lease in its lease liability.

No significant impact is expected for the Company's finance leases.

Based on the information currently available, the Company estimates that it will recognise additional lease liabilities of approximately BGN 1 160 thousand as at 1 January 2019.

(ii) *Leases in which the Company is a lessor*

No significant impact is expected for other leases in which the Company is a lessor.

(iii) *Transition*

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.

The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

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

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements:

- IFRIC 23 *Uncertainty over Tax Treatments*;
- *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*;
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*;
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*;
- *Annual Improvements to IFRS Standards 2015–2017 Cycle* – various standards;
- *Amendments to References to Conceptual Framework in IFRS Standards*;
- IFRS 17 *Insurance Contracts*.

2.4 Estimates and assumptions

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

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

Retirement benefit liabilities

The amount recognised as long-term retirement employee benefits is the present value of the obligation to repay such benefits as at the financial statements date. The management believes that the amount of the obligation as at the financial statements date would not differ significantly from the actuarial valuation, as all requirements of IAS 19 *Employee Benefits* have been taken into consideration. Due to the long-term nature of retirement employee benefits such assumptions are subject to significant uncertainty. Further details related to employee retirement benefits are provided in Note 15.

Valuation of property, plant and equipment

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

Useful life of property, plant and equipment and intangible assets

Financial reporting of property, plant and equipment and intangible assets involves using estimates as to their expected useful lives and residual values, based on management judgement. Further details as to the useful lives are presented in the Company's accounting policies (Note 2.5).

Impairment of receivables

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

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

2.4 Estimates and assumptions (continued)**Net realisable value of inventories**

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

Measurement of fair values

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

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

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

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

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

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

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

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

Subsequent measurement

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

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

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

Buildings	20 – 33.33 years
Machinery and technical installations	6.67 – 35 years
Supporting machinery and equipment	2 – 25 years
Cars	4 years
Other vehicles	10 years
Other assets	6.67 years.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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

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) Financial instruments**(i) Recognition and initial measurement**

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

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

2.5 Summary of significant accounting policies (continued)**e) Financial instruments (continued)****(ii) Classification and subsequent measurement****Financial assets – Policy applicable from 1 January 2018**

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

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

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

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

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

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

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

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

Financial assets – Business model assessment: Policy applicable from 1 January 2018

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

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

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

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

2.5 Summary of significant accounting policies (continued)

e) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018

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

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

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

Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 January 2018

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

2.5 Summary of significant accounting policies (continued)

e) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Financial liabilities – Classification, subsequent measurement and gains and losses

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

(iii) Derecognition

Financial assets

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

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

Financial liabilities

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

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

(iv) Offsetting

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

(v) Derivative financial instruments and hedge accounting

The policy applied in the comparative information presented for 2017 is similar to that applied for 2018. The Company has elected to continue to apply the hedge accounting requirements of IAS 39 to all of its hedging relationships.

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

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

2.5 Summary of significant accounting policies (continued)

e) Financial instruments (continued)

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

Cash flow hedges

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

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

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

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

Fair value hedges

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

Hedge accounting

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

Hedge accounting – cash flow hedges

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

Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. 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.

2.5 Summary of significant accounting policies (continued)**e) Financial instruments (continued)*****Hedge accounting – fair value hedges***

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

Share capital

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

f) Impairment***(i) Non-derivative financial assets*****Policy applicable from 1 January 2018*****Financial instruments and contract assets***

The Company recognises loss allowances for ECLs on:

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

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

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

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

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held);

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

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

Measurement of ECLs

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

2.5 Summary of significant accounting policies (continued)**f) Impairment (continued)****(i) Non-derivative financial assets (continued)*****Credit-impaired financial assets***

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

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

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

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

Policy applicable before 1 January 2018***Non-derivative financial assets***

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- indications that a debtor or issuer would enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

2.5 Summary of significant accounting policies (continued)**f) Impairment (continued)****(i) Non-derivative financial assets (continued)****Policy applicable before 1 January 2018 (continued)**

Financial assets not classified at FVTPL, including the interest from the investment, were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- indications that a debtor or issuer would enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

Financial assets measured at amortised cost	The Company considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.
	In assessing collective impairment, the Company used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.
	An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account. When the Company considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.
Available-for-sale financial assets	Impairment losses on available-for-sale financial assets were recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified was the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increased and the increase was related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale were not reversed through profit or loss.

2.5 Summary of significant accounting policies (continued)**f) Impairment (continued)****(ii) Non-financial assets**

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

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

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

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

g) Inventory

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

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

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

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

For the purpose of assessing the net realisable value, inventories that contain metal are grouped under several categories according to the type of metal (alloy) included. The effect of any write-down to net realisable value or reversed write-down of inventories are presented in cost of sales.

h) Provisions

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

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

2.5 Summary of significant accounting policies (continued)**i) Employee benefits*****Defined contribution plans***

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

Defined benefit plans

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

Termination benefits

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

Short-term employee benefits

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

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

j) Leases***The Company as a lessee***

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

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

Determining whether an arrangement contains a lease

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

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

2.5 Summary of significant accounting policies (continued)**j) Leases (continued)**

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

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

k) Revenue**Performance obligations and revenue recognition policies – nature and timing of satisfaction of performance obligations**

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

Sales of finished products and goods

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

Revenue recognition in accordance with IFRS 15 (applicable from 1 January 2018)

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

Provisional pricing

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

The Company does not provide sales-related services.

2.5 Summary of significant accounting policies (continued)**k) Revenue recognition (continued)****Revenue recognition under IAS 18 (applicable before 1 January 2018)**

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

The Company does not provide significant services to clients.

Interest income

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

l) Finance income and finance costs

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

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

m) Government grants

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

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

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

n) Taxes

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

Current income tax

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

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.

2.5 Summary of significant accounting policies (continued)**n) Taxes (continued)****Deferred income tax (continued)**

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

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

Value Added Tax ("VAT")

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

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

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

3. Revenue and expenses

3.1 Revenue

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

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

A. Revenue streams

<i>In thousands of BGN</i>	2018	2017 <i>*Reclassified</i>
Revenue from contracts with customers	1 030 405	847 410
Gain/(loss) from changes in the fair values of the receivables to which provisional pricing applies	(2 240)	1 628
	<u>1 028 165</u>	<u>849 038</u>

* Information about the reclassification of the comparative information is disclosed in Note 25.

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

B. Breakdown of revenue from contracts with customers

<i>In thousands of BGN</i>	2018	2017 <i>*Reclassified</i>
Revenue from sales of production	997 732	826 150
Revenue from sales of goods	2 695	2 857
Revenue from sales of scrap	29 978	18 403
	<u>1 030 405</u>	<u>847 410</u>

Geographic markets

<i>In thousands of BGN</i>	2018	2017 <i>*Reclassified</i>
European Union	750 235	593 587
Other European countries	57 200	53 433
Asia	88 721	93 438
Africa	45 283	29 970
America	52 511	49 632
Other	36 455	27 350
	<u>1 030 405</u>	<u>847 410</u>

Products/ metal groups

<i>In thousands of BGN</i>	2018	2017 <i>*Reclassified</i>
Rolled industrial products	567 287	482 453
Rolled architectural products	63 456	63 995
Extruded products	308 831	272 127
Non-core sales	90 831	28 835
	<u>1 030 405</u>	<u>847 410</u>

3.1 Revenue (continued)**C. Contract balances**

<i>In thousands of BGN</i>	<i>31 December 2018</i>	<i>1 January 2018</i>
Receivables included in "Trade and other receivables"	34 870	34 148
Contract liabilities	(10 925)	(1 263)

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

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

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

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

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

	Year ended 31 December 2017* <i>Reclassified</i>			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	786 158	206	365	786 729
Merchandise	3 142	-	-	3 142
Change in stock of finished goods and work in progress	(36 563)	-	-	(36 563)
Hired services	20 925	1 748	2 413	25 086
Depreciation of property, plant and equipment	12 256	36	812	13 104
Amortisation of intangible assets	590	-	251	841
Net loss from cash flow hedge	(1 098)	-	-	(1 098)
Other	499	373	568	1 440
Total	801 210	4 600	7 581	813 391

* Information about the reclassification of the comparative information is disclosed in Note 25.

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

3.3 Other expenses and income, net

	2018	2017 <i>*Reclassified</i>
<i>In thousands of BGN</i>		
Foreign exchange losses	(5 714)	(8 109)
Foreign exchange gains	5 748	8 235
Depreciation	(1 111)	(1 682)
Other income and (expenses), net	1 043	(534)
	(34)	(2 090)

* Information about the reclassification of the comparative information is disclosed in Note 25.

3.4 Finance income and finance cost

	2018	2017 <i>* Reclassified</i>
<i>Recognised in profit and loss</i>		
<i>In thousands of BGN</i>		
Finance income		
Interest income	-	-
	-	-
Finance expenses		
Interest expense on loans at amortised cost	(11 896)	(12 941)
Bank commissions	(875)	(559)
	(12 771)	(13 500)

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

	2018	2017
<i>In thousands of BGN</i>		
Net gain/(loss) from cash flow hedge		
Effective portion of changes in fair value of derivatives for cash flow hedges	(2 095)	744
Tax effect	209	(74)
Net effect in other comprehensive income	<u>(1 886)</u>	<u>670</u>

3.6 Personnel expenses

	2018	2017
<i>In thousands of BGN</i>		
Employee remuneration	17 957	15 990
Social security expenses	4 790	4 548
Current period costs for defined benefit obligations (Note 15)	170	172
Total	<u>22 917</u>	<u>20 710</u>

4. Corporate income tax

The main components of the corporate income tax benefit for the years ended 31 December 2018 and 2017 are:

	2018	2017
<i>In thousands of BGN</i>		
Tax recognised in profit and loss		
Current tax	(61)	(50)
Change in deferred taxes in the period	(1 365)	(1 954)
Tax recognised in profit or loss	<u>(1 426)</u>	<u>(2 004)</u>
Tax recognised in other comprehensive income	195	(1 458)

The tax rate for 2018 is 10% (2017: 10%). The applicable tax rate in 2019 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 2018 and 2017 is as follows:

	2018	2017
<i>In thousands of BGN</i>		
Profit/ (loss) before income tax	<u>14 175</u>	<u>19 920</u>
Income tax at applicable tax rate of 10%	(1 417)	(1 992)
Expenses non-deductible for tax purposes	(9)	(12)
Income tax benefit/(expense) at effective tax rate 10.06% (2017: 10.06%)	<u>(1 426)</u>	<u>(2 004)</u>

4. Corporate income tax (continued)

Deferred taxes as at 31 December relate to the following:

	Statement of financial position		Statement of comprehensive income	
	2018	2017	2018	2017
<i>In thousands of BGN</i>				
Deferred tax liabilities:				
Derivative financial instruments	(82)	(362)	280	(209)
	<u>(82)</u>	<u>(362)</u>	<u>280</u>	<u>(209)</u>
Deferred tax assets:				
Property, plant and equipment	1 718	3 770	(2 052)	(1 195)
Inventories	560	10	550	10
Tax losses carried forward	-	-	-	(2 172)
Employee benefits	242	242	-	88
Other	180	128	52	66
	<u>2 700</u>	<u>4 150</u>	<u>(1 450)</u>	<u>(3 203)</u>
Deferred income tax, recognised in profit or loss			(1 365)	(1 954)
Deferred taxes recognised in other comprehensive income			195	(1 458)
Total change in deferred taxes			<u>(1 170)</u>	<u>(3 412)</u>
Deferred tax assets, net	<u>2 618</u>	<u>3 788</u>		

As at 31 December 2018 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 2017	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
Other reclassifications	-	(7 422)	(34 192)	-	-	-	(41 614)
Transfer to assets held for sale	-	-	(13 817)	-	-	-	(13 817)
At 31 December 2017	61 967	32 468	166 223	1 087	5 556	11 689	278 990
Additions	-	-	-	-	-	19 253	19 253
Transfers to intangible assets	-	117	10 989	35	159	(11 500)	(200)
Disposed assets	(142)	(55)	(85)	-	(22)	(11)	(315)
At 31 December 2018	61 825	32 530	177 127	1 122	5 693	19 431	297 728
Accumulated depreciation:							
At 1 January 2017	-	5 843	35 081	690	4 433	791	46 838
Depreciation for the year	-	2 925	11 526	32	303	-	14 786
Depreciation of disposals	-	-	(287)	(7)	(49)	-	(343)
Other reclassifications	-	(7 422)	(34 192)	-	-	-	(41 614)
Transfer to assets held for sale	-	-	(5 025)	-	-	-	(5 025)
At 31 December 2017	-	1 346	7 103	715	4 687	791	14 642
Depreciation for the year	-	3 411	12 663	50	275	-	16 399
Depreciation of disposals	-	(9)	(83)	-	(21)	-	(113)
At 31 December 2018	-	4 748	19 683	765	4 941	791	30 928
Carrying amount:							
At 1 January 2017	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
At 31 December 2018	61 825	27 782	157 444	357	752	18 640	266 800

Impairment of property, plant and equipment

Management considers that as at 31 December 2018 there are no indications for impairment of property, plant and equipment of the Company.

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

As at 31 December 2018 assets under construction include advances paid, amounting to BGN 9 943 thousand (2017: BGN 1 795 thousand), in accordance with agreements for purchase of machinery and equipment. These items of machinery and equipment are intended primarily for the reconstruction of the rolling workshop.

Pledge of property, plant and equipment

As at 31 December 2018 property, plant and equipment with carrying amount of BGN 247 051 thousand (2017: BGN 252 209 thousand) are pledged as collateral for bank loans received by the Company (Note 13).

Revaluation of land and buildings

Management determined that the revalued land and buildings constitute one class of asset in accordance with IAS 16, based on the nature, characteristics and risks of the properties.

If land and buildings were carried at the cost model, their net carrying amount as at 31 December 2018 would be BGN 5 786 thousand of land and BGN 4 417 thousand of buildings.

(i) Fair value hierarchy

The fair value of land and buildings as determined by external, independent property values as at 31 December 2017. The assessment of management is that as at 31 December 2018 the fair values of land and buildings do not differ significantly from their carrying amount as presented below. The fair value measurement for land and buildings has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

(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 2018	61 967	31 122
Additions	-	117
Depreciation for the year	-	(3 402)
Disposed assets	(142)	(55)
Balance at 31 December 2018	61 825	27 782

(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. Significant increases (decreases) in estimated rent per square meter would result in significantly higher (lower) fair value of land plots.
<i>Buildings:</i> Two approaches are used to value every building: amortized replacement cost method and market approach.	<ul style="list-style-type: none"> Price of buildings per square meter (Range EUR 120 - 1 182). 	

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 2018 would be BGN 141 873 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 assessment of management is that as at 31 December 2018 the fair values of machinery and technical installations do not differ significantly from their carrying amount as presented below. The fair value measurement for machinery and technical installations has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

(ii) Level 3 fair value

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

<i>In thousands of BGN</i>	2018	<i>Machinery and technical installations</i> 2017
Balance at 1 January	159 120	163 663
Additions	10 989	5 952
Disposed assets	(2)	(203)
Depreciation for the year	(12 663)	(11 526)
Transfer to assets held for sale	-	(8 792)
Revaluation	-	10 026
Balance at 31 December	157 444	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.

6. Intangible assets

	<i>Trademarks and patents</i>	<i>Software</i>	<i>Total</i>
<i>In thousands of BGN</i>			
Cost:			
At 1 January 2017	3	4 097	4 100
Disposals	-	(4)	(4)
Additions	-	194	194
At 31 December 2017	3	4 287	4 290
Transfer from PPE	-	200	200
At 31 December 2018	3	4 487	4 490
Accumulated amortisation:			
At 1 January 2017	(3)	(2 852)	(2 855)
Amortisation charge	-	(842)	(842)
Disposals	-	4	4
At 31 December 2017	(3)	(3 690)	(3 693)
Amortisation charge	-	(568)	(568)
At 31 December 2018	(3)	(4 258)	(4 261)
Carrying amount:			
At 1 January 2017	-	1 245	1 245
At 31 December 2017	-	597	597
At 31 December 2018	-	229	229

7. Inventory

	2018	2017
<i>In thousands of BGN</i>		
Materials	52 521	37 670
Work in progress	70 038	55 858
Finished goods	36 684	31 452
Merchandise	282	441
Advances for acquisition of materials	-	-
	<u>159 525</u>	<u>125 421</u>
Less: Inventories write-down:		
Materials	(5 596)	(98)
	<u>153 929</u>	<u>125 323</u>
Total inventories at the lower of cost and net realisable value	153 929	125 323

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 2018 inventory pledged as collateral for bank loans received by the Company amounts to BGN 127 672 thousand (2017: BGN 108 451 thousand) (Note 13).

8. Trade and other receivables

	2018	2017
<i>In thousands of BGN</i>		
Trade receivables (Note 22)	21 222	24 809
Impairment loss	(830)	(137)
Related parties receivables (Note 20, 22)	14 478	9 677
Other receivables	1 708	1 413
VAT receivable	9 844	7 889
Down payments for delivery of inventory	1 930	687
	<u>48 352</u>	<u>44 338</u>

Receivables with minimum notional amount EUR 5 500 thousand are pledged as at 31.12.2018 (2017: EUR 5 500 thousand) (Note 13).

As at 31 December 2018 the aging analysis of gross trade receivables from third parties only (less receivables from related parties) is presented below. The table provides information about the exposure to credit risk and ECLs for trade receivables from customers as at 31 December 2018:

31 December 2018		Gross	Impairment	
<i>In thousands of BGN</i>	Weighted- average loss rate	carrying amount	loss allowance	Credit- impaired
Current (not past due)	1.05%	13 475	(141)	No
Less than 30 days past due	1.88%	6 545	(123)	No
31-60 days past due	44.84%	1 153	(517)	No
61-90 days past due	100.00%	28	(28)	Yes
91-120 days past due	100.00%	-	-	-
More than 120 days past due	100.00%	21	(21)	Yes
		<u>21 222</u>	<u>(830)</u>	

8. Trade and other receivables (continued)

As at 31 December 2017 the aging analysis of gross trade receivables and the respective expected impairment loss in accordance with IAS 39 (less receivables from related parties) was the following:

31 December 2017 <i>In thousands of BGN</i>	Gross amount	Impairment loss
Current (not past due)	15 969	-
Less than 30 days past due	7 749	-
30-60 days past due	775	-
60-90 days past due	198	(19)
90-120 days past due	65	(65)
More than 120 days past due	53	(53)
	24 809	(137)

As at 31 December the aging analysis of gross trade receivables from related parties is provided 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>							
2018	14 478	8 014	3 556	990	1 350	503	65
2017	9 677	6 947	2 378	197	72	48	35

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

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

9. Derivative financial instruments

<i>In thousands of BGN</i>	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Futures contracts designated as cash flow hedging instruments	-	(38)	2 056	-
Forward contracts designated as fair value hedging instruments	850	-	1 566	-
	<u>850</u>	<u>(38)</u>	<u>3 622</u>	<u>-</u>
Net assets / (liabilities)	<u>812</u>		<u>3 622</u>	

The fair value of the derivative financial instruments as of the reporting date is based on forward prices quoted on the London Metal Exchange. The futures contracts designated as cash flow hedging instruments are these used to hedge the risks related to fluctuations of raw materials prices. The forward contracts designated as fair value hedging instruments are these used to hedge the risks related to fluctuations of foreign currencies rates. Additional information as to the type of hedge and the risks associated with the hedging relationship is presented in Note 21.

10. Cash and cash equivalents

<i>In thousands of BGN</i>	2018	2017
Cash at bank	4 922	3 583
Cash in hand	2	6
Total cash in hand and at banks	<u>4 924</u>	<u>3 589</u>

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

The amount of cash at bank as at 31.12.2018 pledged as collateral for short-term bank loans received by the Company is BGN 2 134 thousand (2017: BGN 1 288 thousand) (Note 13). As at 31.12.2018 outstanding amount of loans secured (including interest payable) with pledge of cash at bank is BGN 5 480 thousand (2017: BGN 3 202 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 2017	2 464 635	103 515	-	103 515
Issued shares	-	-	-	-
As at 31 December 2017	<u>2 464 635</u>	<u>103 515</u>	<u>-</u>	<u>103 515</u>
Issued shares	<u>161 491</u>	<u>6 782</u>	<u>10 820</u>	<u>17 602</u>
As at 31 December 2018	<u>2 626 126</u>	<u>110 297</u>	<u>10 820</u>	<u>121 117</u>

As at 31 December 2018 the registered share capital of the Company is comprised of 2 626 126 ordinary shares at a par value of BGN 42 each.

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

12. Reserves

	Revaluation reserve	Hedging reserve	Statutory reserves	Total Reserves
<i>In thousands of BGN</i>				
At 1 January 2017	100 068	1 180	-	101 248
Net loss 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	<u>12 568</u>	<u>670</u>	<u>-</u>	<u>13 238</u>
At 31 December 2017	<u>112 636</u>	<u>1 850</u>	<u>-</u>	<u>114 486</u>
At 1 January 2018	112 636	1 850	-	114 486
Net gain from cash flow hedge	-	(2 095)	-	(2 095)
Deferred tax effect	-	209	-	209
Transfer of reserves	(211)	-	1 792	1 581
Total change for the period	<u>(211)</u>	<u>(1 886)</u>	<u>1 792</u>	<u>(305)</u>
At 31 December 2018	<u>112 425</u>	<u>(36)</u>	<u>1 792</u>	<u>114 181</u>

13. Loans

	2018	2017
<i>In thousands of BGN</i>		
Non-current loans		
Bank loans	124 195	22
Total non-current loans	124 195	22
Current loans		
Bank loans	16 473	155 407
Current portion of non-current loans	14 151	19
Total short term borrowings received	30 624	155 426
Total borrowings received	154 819	155 448
<i>Reconciliation of movements of liabilities to cash flows arising from financing activities</i>		
<i>In thousands of BGN</i>		
Balance as at 1 January	155 448	176 306
Loans received during the period	6 586	5 331
Repayments during the period	(6 844)	(27 382)
Accrued finance costs, not paid	(371)	1 193
Balance as at 31 December	154 819	155 448

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 2018 (2017: none).

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

	2018	2017
Bank overdrafts	5.30%	5.15%
Short term bank loans	4.40%	4.40%
Long term bank loans	4.60%	5.30%

As of 31 December 2018 short-term debt represents short-term loans from United Bulgarian Bank AD, Piraeus Bank Bulgaria AD, Expressbank AD, NBG Bank Malta Limited, Reiffeisenbank Bulgaria AD.

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.

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

As at 31 December 2018 the balance of loans from EBRD and bank syndicate with agent Alpha Bank, London are presented as non-current liability, according to the repayment terms of the new contracts, as the enforcement of the new loan agreements with those banks was agreed and was only at the discretion of Sofia Med AD.

Financial covenants

As at 31 December 2018 the Company does not have to comply with any financial covenants as the long-term loans have been renegotiated and the new loan agreements become effective in the end of January 2019.

14. Operating leases

Contracted operating lease rentals are payable as follows:

	2018	2017
<i>In thousands of BGN</i>		
Less than one year	490	420
Between one and five years	828	842
More than five years	5	-
Total	<u>1 323</u>	<u>1 262</u>

During the year an amount of BGN 1 030 thousand was recognised as an expense in profit or loss in respect of operating leases (2017: BGN 610 thousand).

15. Retirement employee benefits

a) Expenses for retirement employee benefits

	2018	2017
<i>In thousands of BGN</i>		
Current service cost	155	155
Interest cost on retirement employee benefit	15	17
Expenses on retirement benefits recognised in profit and loss (Note 3.6)	<u>170</u>	<u>172</u>

b) Retirement benefits liability

	2018	2017
<i>In thousands of BGN</i>		
Present value of retirement benefit obligation	1 332	1 323
Retirement benefits liabilities, recognised in the statement of financial position	<u>1 332</u>	<u>1 323</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 2017	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
Current service cost	155
Interest cost	15
Benefits paid	(23)
Remeasurements:	
Actuarial losses from changes in demographic assumptions	(25)
Actuarial losses from changes in financial assumptions	(32)
Experience adjustments	(81)
Retirement benefit obligation at 31 December 2018	1 332

Main actuarial assumptions used for accounting purposes are shown below:

	2018	2017
Discount rate	1,34%	1,15%
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 01.08.2015-31.12.2018. The part of reimbursement pertaining to 2017 amounts to BGN 1 142 thousand and is presented in Other expenses, net in *Statement of profit or loss and other comprehensive income*. The part of reimbursement pertaining to 2018 amounts to BGN 966 thousand and decreases the expenses on electricity included in Materials (Note 3.2).

17. Trade and other payables

	2018	2017
<i>In thousands of BGN</i>		
Trade payables (Note 22)	25 754	29 195
Related parties trade payables (Note 20, 22)	67 378	54 925
Advance payments from related parties (Note 20)	9 779	9 779
Payables to employees	1 421	1 331
Related parties other payables (Note 20)	-	312
Taxes	488	453
Liabilities for advance payments received from customers	-	1 263
Other payables	4 823	1 300
	109 643	98 558

18. Commitments

	<i>2018</i>	<i>2017</i>
<i>In thousands of BGN</i>		
Property, plant and equipment	<u>1 863</u>	<u>11 090</u>

Investment program

In 2019 the Company plans completion of the reconstruction of assets in foundry and rolling workshops. The contracted expenditure amounts to BGN 28 500 thousand.

19. Contingencies

Bank guarantees

Bank guarantees and letters of credit issued by other companies on behalf of SOFIA MED AD amount to BGN 3 225 thousand (2017: BGN 1 658 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 572 thousand (2017: BGN 3 705 thousand) as at the reporting date.

20. Related parties

a) Identification of related parties

The ultimate parent company

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

Entities with controlling interest in the Company

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

Other related parties

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

b) Sale of goods and services

	<i>2018</i>	<i>2017</i>
<i>In thousands of BGN</i>		
Sales of goods	295 267	195 020
Sales of services	<u>101</u>	<u>234</u>
	<u>295 368</u>	<u>195 254</u>

c) Purchases of goods, services and other

	<i>2018</i>	<i>2017</i>
<i>In thousands of BGN</i>		
Purchases of goods	110 710	244 334
Purchases of investment property	17 602	-
Purchases of services	<u>9 144</u>	<u>5 574</u>
	<u>137 456</u>	<u>249 908</u>

20. Related parties (continued)

d) Key management remuneration

	2018	2017
<i>In thousands of BGN</i>		
Salaries and other short term employee benefits	2 719	2 481
	<u>2 719</u>	<u>2 481</u>

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

	2018	2017
<i>In thousands of BGN</i>		
Related party receivables	14 478	9 677
Related party payables	77 157	65 016

Receivables	2018	2017	Payables	2018	2017
	<i>BGN'000</i>	<i>BGN'000</i>		<i>BGN'000</i>	<i>BGN'000</i>
E TEM BULGARIA S.A.	3	-	STEELMET ROMANIA S.A.	18	66
TEPROMETAL A.G	50	134	TEPROMETAL A.G	188	235
MKC METALL KUNDEN CENTER GMBH	1 019	797	METAL AGENCIES	9	-
HELLENIC CABLES S.A.	263	440	TEKA SYSTEMS S.A.	239	136
CPW AMERICA CO.	197	334	HELLENIC CABLES S.A.	-	-
FITCO S.A.	64	211	ELVALHALCOR S.A.	46 589	49 040
ELVAL COLOUR S.A.	-	13	E TEM BULGARIA S.A.	-	-
METAL AGENCIES L.T.D	5 503	3 545	METALCO BULGARIA	25	12
STEELMET ROMANIA S.A.	68	-	SIGMA IC. S.A.	494	411
METALVALIUS LTD	-	24	LESCO OOD	116	106
REYNOLDS CUIVRE S.A.	5 487	4 074	MKC METALL KUNDEN CENTER GMBH	36	6
METALIGN S.A.	19	2	GENECOS S.A	4	4
INTERNATIONAL TRADE	1 522	103	VIEXAL S.A.	16	25
ALURAME S.P.A.	164	-	BASE METAL TICARET VE SANAYI A.S.	36	91
METALCO BULGARIA S.A.	1	-	FULGOR S.A.	-	-
STOMANA INDUSTRY S.A.	118	-	METALVALIUS LTD	29 276	14 689
			SIDMA BG	-	6
			ALURAME S.P.A.	79	124
			REYNOLDS CUIVRE	26	-
			METALIGN S.A.	-	43
			INTERNATIONAL TRADE	1	-
			ICME ECAB S.A.	-	22
			ELKEME S.A.	5	-
	<u>14 478</u>	<u>9 677</u>		<u>77 157</u>	<u>65 016</u>

20. Related parties (continued)

Related parties	Type of transactions
AEIFOROS BULGARIA S.A.	Materials, services
ALURAME S.P.A.	Services
ANAMET S.A.	Materials, services, investment property
BASE METAL TICARET VE SANAYI A.S.	Finished goods, services
Bridgnorth Aluminium	Services
CORINTH PIPEWORKS S.A.	Finished goods
CPW AMERICA CO.	Finished goods, services
ELKEME S.A.	Services
ELVAL COLOUR S.A.	Finished goods, services
ELVALHALCOR S.A.	*
ETEM BULGARIA S.A.	Finished goods, merchandise, materials
FITCO S.A.	Finished goods, materials, merchandise, services
FULGOR S.A.	Finished goods, materials
HELLENIC CABLES S.A.	Finished goods, materials
ICME ECAB S.A.	Finished goods
INTERNATIONAL TRADE	Finished goods
LESCO OOD	Materials
METAL AGENCIES L.T.D	Finished goods, services
METALCO BULGARIA S.A.	Services
METALIGN S.A.	Services
METALVALIUS LTD	Materials, services
MKC METALL KUNDEN CENTER GMBH	Finished goods, services
REYNOLDS CUIVRE S.A.	Finished goods, services
SIGMA IC. S.A.	Services, materials
STEELMET ROMANIA S.A.	Finished goods, services
STOMANA INDUSTRY S.A.	Fixed assets
SYMETAL S.A.	Materials, services
TEKA SYSTEMS BG	Services
TEKA SYSTEMS S.A.	Fixed assets, services
TEPROMETAL A.G	Finished goods, services
VIEXAL S.A.	Services
VIOMAL S.A.	Fixed assets

(*)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	
	2018	2017
Variable rate instruments		
Financial liabilities	(154 819)	(155 448)
	(154 819)	(155 448)

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 2017.

<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 2018				
Variable rate instruments	(387)	387	-	-
Cash flow sensitivity (net)	(387)	387	-	-
31 December 2017				
Variable rate instruments	(389)	389	-	-
Cash flow sensitivity (net)	(389)	389	-	-

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:

2018

<i>In thousands of BGN</i>	EUR	BGN	USD	GBP	CHF
Trade and other receivables	22 037	306	7 028	5 499	(0)
Interest-bearing loans received	(147 234)	(1 940)	(1 170)	(4 475)	-
Trade and other payables	(76 525)	(12 934)	(3 596)	(15)	(62)
Cash and cash equivalents	3 438	219	1 259	1	7
	<u>(198 284)</u>	<u>(14 349)</u>	<u>3 521</u>	<u>1 010</u>	<u>(55)</u>
Pricing agreements (purchases)/sales	-	-	(4 079)	-	-
Derivatives (nominal value)	-	-	(389)	(690)	-
Total exposure to FX rate risk	<u>(198 284)</u>	<u>(14 349)</u>	<u>(947)</u>	<u>320</u>	<u>(55)</u>

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	-	-	(3 729)	2 996	22
Derivatives (nominal value)	(6 224)	-	10 099	(3 880)	5
Total exposure to FX rate risk	<u>(198 866)</u>	<u>(6 160)</u>	<u>2 338</u>	<u>480</u>	<u>(133)</u>

The following significant exchange rates applied during the year:

	Average FX rate		FX rate at the reporting period-end date	
	2018	2017	2018	2017
USD 1	1.658	1.735	1.708	1.631
GBP 1	2.211	2.232	2.186	2.204
CHF 1	1.694	1.762	1.736	1.671

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>
2018	10%	(95)	-
	-10%	95	-
2017	10%	234	-
	-10%	(234)	-
	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>
2018	10%	(32)	-
	-10%	32	-
2017	10%	48	-
	-10%	(48)	-
	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>
2018	10%	5	-
	-10%	(5)	-
2017	10%	(13)	-
	-10%	13	-

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**

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

Trade and other receivables

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

During 2018, approximately 17% of the Company's revenue is attributable to sales transactions with two multinational customers. However, geographically there is no concentration of credit risk. The Company has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered.

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

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

The maximum credit exposure of the Company arising from the financial assets it has recognised equals their carrying amount as per the statement of financial position – BGN 40 644 thousand as of 31 December 2018 (31 December 2017: BGN 41 560 thousand).

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

Cash and cash equivalents

The Company has cash and cash equivalents as at 31.12.2018 at the amount of BGN 4 924 thousand (2017: BGN 3 589 thousand). The cash and cash equivalents of the Company are held with bank and financial institution counterparties, which are rated F2 to C, based on Rating Agency Fitch short term credit ratings. Given the credit ratings of the banks where Sofia Med AD holds its cash and cash equivalents, the expected credit losses have been considered as insignificant and no impairment loss was recognised.

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

<i>In thousands of BGN</i>	<i>Notes</i>	31 December 2018	31 December 2017
Trade and other receivables	8	34 870	34 349
Cash and cash equivalents	10	4 924	3 589
Derivative financial instruments	9	850	3 622
		40 644	41 560

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

<i>In thousands of BGN</i>	31 December 2018	31 December 2017
Third parties	20 392	24 672
Related parties	14 478	9 677
	34 870	34 349

21. Objectives and policies for management of financial risk and capital (continued)**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 2018

	<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	154 819	31 057	18 571	65 690	53 441	168 759
Trade and other payables	93 132	93 132	-	-	-	93 132
	<u>247 951</u>	<u>124 189</u>	<u>18 571</u>	<u>65 690</u>	<u>53 441</u>	<u>261 891</u>

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>

Equity management

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

The Company manages its equity structure and adjusts it, where necessary, depending on the changes in the economic environment. To a great extent the management of the structure of the equity and borrowed capital is performed by the parent company.

22. Fair values of financial instruments

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

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

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

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

31 December 2018		Carrying amount					Fair Value				
		hedging instruments	Mandatorily at FVTPL	Financial assets at amortised cost	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total	
<i>In thousands of BGN</i>		<i>Note</i>	<i>at FV</i>	<i>at FVTPL</i>	<i>cost</i>	<i>liabilities</i>	<i>Total</i>				
Financial assets measured at fair value											
Trade and other receivables	8	-	6 239	-	-	-	6 239	-	6 239	-	6 239
Derivative financial instruments	9	850	-	-	-	-	850	-	850	-	850
		850	6 239	-	-	-	7 089	-	7 089	-	7 089
Financial assets not measured at fair value											
Trade and other receivables	8	-	-	28 631	-	-	28 631				
Cash and cash equivalents	10	-	-	4 924	-	-	4 924				
		-	-	33 555	-	-	33 555				
Financial liabilities measured at fair value											
Derivative financial instruments	9	(38)	-	-	-	-	(38)	(38)	-	-	(38)
		(38)	-	-	-	-	(38)	(38)	-	-	(38)
Financial liabilities not measured at fair value											
Interest bearing loans and borrowings	13	-	-	-	(154 819)	-	(154 819)				
Trade payables	17	-	-	-	(93 132)	-	(93 132)				
		-	-	-	(247 951)	-	(247 951)				

22. Fair values of financial instruments (continued)

31 December 2017		Carrying amount				Total	Fair Value			
		Cash flow hedging instruments	Fair value hedging instruments	Loans and receivables	Other financial liabilities		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	-	-	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)				

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

24. Investments

In 2018 Sofia Med acquired 100% of the shares of the related party company Metalvalius LTD. The consideration paid was BGN 17 610 thousand. The Company's investments in subsidiaries are listed below:

<i>In thousands of BGN</i>	2018		2017	
	% ownership	Cost	% ownership	Cost
Metalvalius LTD	100%	17 610	-	-

25. Reclassification

Statement of Profit or Loss for the year ended 31 December 2017

<i>In thousands of BGN</i>	<i>2017 As reported</i>	<i>Reclassification</i>	<i>2017 Reclassified*</i>
Revenue	(2) 830 636	18 402	849 038
Cost of sales	(1) (781 384)	(19 826)	(801 210)
Gross profit	(1) 49 252	(1 424)	47 828
Selling and distribution expenses	(4 600)	-	(4 600)
Administrative expenses	(7 581)	-	(7 581)
Impairment loss on trade receivables	-	(137)	(137)
Other expenses, net	(2 227)	137	(2 090)
Result from operating activities	(1) 34 844	(1 424)	33 420
Finance income	-	-	-
Finance expenses	(14 924)	1 424	(13 500)
Net finance cost	(1) (14 924)	1 424	(13 500)
Profit/(Loss) before income tax	19 920	-	19 920
Income tax	(2 004)	-	(2 004)
Profit/(Loss) for the year	17 916	-	17 916

Reclassification (1) – interest on purchases of raw materials amounting to BGN 1 424 thousand has been reclassified from the 2017 finance expenses to cost of sales. The management has considered this as a more appropriate presentation in the financial statements for the year ended 31.12.2018 and the comparative information for the year ended 31.12.2017 has been reclassified for comparability purposes.

Reclassification (2) – in 2017 net gains or losses from sales of scrap have been presented on a net basis in cost of sales, because these sales were not considered a part of the Company's ordinary activities. Management considers now that scrap purchases and sales have become a part of the Company's ordinary activities due to the transfer of this process from another entity in the Group and scrap sales no longer represented transactions incidental to the main revenue-generating activities of Sofia Med AD. The Company's scrap sales refer to contracts with customers for obtaining goods that are an output of the entity's ordinary activities in exchange for consideration. The assessment of management is that purchases and sales of scrap are becoming part of the normal activities of the Company and it would be appropriate to present them as revenue from contracts with customers in the normal course of business. The comparative figures for 2017 are reclassified accordingly. The amount reclassified is BGN 18 402 thousand.

26. 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 2018.



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
"Sofia Med" AD

Opinion

We have audited the separate financial statements of "Sofia Med" AD (the Company) as set out on pages 1 to 54, which comprise the separate statement of financial position as at 31 December 2018, and the separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2018, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 'Auditors' Responsibilities for the Audit of the Separate Financial Statements' section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' 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 separate financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Information Other than the Separate Financial Statements and Auditors' Report Thereon

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

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

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

We have nothing to report in this regard.

Additional Matters to be Reported under the Accountancy Act

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

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

Based on the procedures performed, our opinion is that:

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

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.



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

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

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

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

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

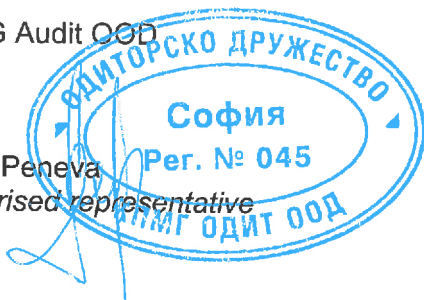


— Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

KPMG Audit OOD

Maria Peneva
Authorised representative



Dobrina Kaloyanova
Registered auditor, responsible
for the audit

45/A Bulgaria Boulevard
Sofia 1404, Bulgaria

6 June 2019