STOMANA
INDUSTRY S.A.

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

31 DECEMBER 2017

Unofficial translation from original separate financial statements in Bulgarian

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

CONTENTS

BUSINESS DESCRIPTION

Stomana Industry AD (the 'Company') is a joint stock company, incorporated in Bulgaria. The Company is a subsidiary of VIOHALCO S.A., a company registered in Belgium. These financial statements have been audited by KPMG Audit OOD.

Sidenor Steel Industry SA, Greece holds one share of the Company's share capital.

The Company's main activity is production and trade with steel products.

BUSINESS OVERVIEW

The Company's main activity is production and trade with steel products from ferrous metals. Stomana Industry AD is located in Pernik at the place of the first steel factory in Bulgaria. The Company is a leading manufacturer of steel in Bulgaria with strong position on domestic and international markets. Flat and long products produced as semi-finished products in the electrosteel plant are for the use of rolling production and for sale. One of the strengths of the Company is the production of a great variety of special alloy steel. The Company produces a wide range of products, including hot rolled steel plates from regular and high quality dioxide brands steel and wide range of low ledged, constructional steel materials for the machinery industry, ship-building industry, transport, caldron building and other industries. The varieties of rolling include a big range of hot stretched circles, angles, shvelers, rims, rail connections, lemesh, steel spheres and other special elements as well as wide range of rebars with various diameters from 8 to 40 mm, small profiles, angles and special rounds – all these products are produced with new high-technological computerized automation and up-to-date mechanical equipment responding to the international competitive environment.

In the current period the Company continued its operations as a production company in ferrous metallurgy. The major revenue share is from sale of production and expenses are mainly for materials. Following its strategy for export orientation and improvement and expansion of the production range, in its future development the Company will focus on the production and sales of long products with circular cross-section of special quality used in industrial sectors such as automotive industry, which requires steel with higher quality.

Stomana Industry AD is the only producer of steel using electric furnaces in Bulgaria. The Company has a significant experience in the production of steel and invests continuously in new equipment and production technology development. It aims at becoming one of the leading suppliers of special steel rings in Central and Eastern Europe.

The Company continuously invests in the most modern technologies to ensure competitiveness in the production of high quality products and provision of high standard services to meet the specific requirements of the clients. It will continue to apply in the future its system of quality assurance, which is fully tailored to the needs of modern steel industry.

ANALYSIS OF THE FINANCIAL AND NON-FINANCIAL INDICATORS OF RESULTS FROM OPERATIONS

Total decrease in the carrying amount of property, plant and equipment as at 31 December 2017 compared to 31 December 2016 amounts to BGN 17,281 thousand. The change is due to the excess of depreciation over investments. Machinery and vehicles have the major relative share of 67% from the total carrying amount of property, plant and equipment. The Company continuously invests in assets for production, technological and environmental use in order to increase the volume of production and sales, to improve the quality of production ant to protect environment.

The Company's inventory includes mainly finished production and goods, spare parts and raw materials. The change in inventory as at 31 December 2017 is not material and represents an increase as compared to the respective amount as at 31 December 2016. The net increase of BGN 5,605 thousand is a result of the increase of semi finished products by BGN 4,785 thousand and increase in goods, production, auxiliary and recycling by-products, spare parts and raw materials by BGN 820 thousand. Raw materials are constantly monitored and analysed in order to provide for the normal production and sales capacity.

The change of BGN 33,751 thousand in current assets, which at 31 December 2017 are at the carrying amount of BGN 275,044 thousand, is mainly due the increase of receivables from related and third parties as a result of the higher sales turnover in 2017.

Liabilities

The change in equity is a result from the total comprehensive income, representing profit amounting to BGN 14,550 thousand in 2017.

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

The change of BGN 182,588 thousand of current liabilities, which at 31 December 2017 are at a carrying amount of BGN 215,266 thousand is mainly due to the decrease of current portion of loans and liabilities to banks and finance institutions.

Sales

Revenue includes mainly sales of goods and finished production and in 2017 amounts to BGN 743,637 thousand (2016: BGN 523,192 thousand).

Expenses

Expenses include:
- Cost of sales amounting to BGN 642,176 thousand in 2017 (2016: BGN 468,879 thousand);
- Selling and distribution expenses amounting to BGN 56,478 thousand in 2017 (2016: BGN 39,897 thousand);
- Administrative expenses amounting to BGN 8,366 thousand in 2017 (2016: BGN 8,260 thousand);
- Net finance costs amounting to BGN 20,940 thousand in 2017 (2016: BGN 20,288 thousand);
- Other income and expenses (net) amounting to BGN 0 thousand in 2017 (2016: expense BGN 3,285 thousand)

Debt to equity ratio

The Company's debt to equity ratio amounts to 3,18 as at 31 December 2017 (2016: 3,49).

Current Ratio

The current ratio (correlation between current assets and current liabilities) amounts to 1,27 as at 31 December 2017 (2016: 0,60).

Personnel

As at 31 December 2017 the Company has 1,022 employees (2016: 1,032).

In 2017 the members of the Board of Directors do not participate nor hold more than 25% of other companies.

In the reporting period the Company has not paid remuneration to the members of the Board of Directors.

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

SUBSEQUENT EVENTS

There are no subsequent events that shall result in restatement or amendend of the report.

POSSIBLE FUTURE DEVELOPMENT

In the following years the Company will continue its operations as a production company in the ferrous metallurgy. The main revenue share are from sale of production and the expenses are mainly for materials.

RESEARCH AND DEVELOPMENT ACTIVITIES

The Company does not perform research and development activities.

INFORMATION ON ACQUISITION OF OWN SHARES

The Company does not acquire own shares.

BRANCH NETWORK

The Company does not have a branch network.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company has exposure to different risks from its use of financial instruments. The major financial risks are market risk, credit risk and liquidity risk.

Risk management is conducted by the Company's headquarters administration in collaboration with the Board of Directors. The priority of management is to ensure short-term and mid-term cash flows by reducing its exposure to the financial markets. Long-term financial investments are managed in view of a long-term return.

The Company does not trade actively with financial assets for speculative purposes, nor does it issue options.

As a result of its use of financial instruments, the Company is exposed to a market risk, i.e. to currency risk, interest rate risk and price risk, related to the Company's operating and investing activities. Most of the Company's transactions are performed in BGN. Foreign currency transactions are denominated predominantly in EUR and do not expose the Company to a significant currency risk.

The Company's policy aims at mitigating the interest rate risk on long-term financing. Therefore, loans are usually with fixed interest rates. All other financial assets and liabilities are with fixed interest rates.

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its obligations to the Company. The Company is exposed to credit risk in relation to different financial instruments e.g. loans to customers, receivables from customers, etc. Exposure to credit risk is limited to the carrying amount of the financial assets, recognized at the reporting date as follows:

	2017	**2016**
	BGN'000	**BGN'000**
Groups of financial assets – carrying amounts:		
Trade receivables	113,451	80,177
Cash and cash equivalents, excluding cash in hand	13,691	22,457
Carrying amount	**127,142**	**102,634**

The Company regularly reviews the non-performance of the payables of its customers and other counterparties, individually or in groups, and uses the information to control the credit risk. When the expenses are not too high, the Company uses credit rating data from external sources and/or the financial statements of its customers and other counterparties. The Company's policy is to perform transactions only with counterparties with a high credit rating. Management considers that all of the above mentioned financial assets, which have not been impaired or are maturing in the financial periods presented, are with a high credit rating.

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations. The Company ensures that it can meet its liquidity needs by carefully monitoring the repayment schedules of long-term financial liabilities, as well as the cash inflows and outflows from operating activities.

Detailed information on the Company's exposure to price, credit, liquidity, credit and cash flow risk is included in Note 4 (Financial Risk Management) to the separate financial statements.

INVESTMENTS IN SUBSIDIARIES

Stomana Industry AD participates in the capital of the Joint Stock Company Port Svishtov West AD as an owner of 73.09% of the shares.

As of December 31, 2017 Stomana Industry AD SA is a shareholder in Sidebalk Ltd., Belgrade and owns 100% of the shares of the company.

As of December 31, 2017 Stomana Industry AD SA is a shareholder in Jostdex Ltd, Cyprus and owns 100% of the shares of the Company.

MANAGEMENT

The management of the Company does not plan any changes in the development of its principal activity in a short-term period.

The Company is managed by the Board of Directors consisting of the following members:

- Athanasios Yoanis Athanassopoulos
- Anton Kirilov Petrov
- Vasilios Papantoniou
- Stavros Theodoropoulos
- Nikolaos Mariou
- Elias Stassinopoulos

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

Member of the Board of Directors	**Participating in the following companies**
Athanasios Yoanis Athanassopoulos	Domi-BG OOD Energy Solutions AD Lesko OOD Sigma-IS AD Port Svishtov West AD Sofia Med AD
Anton Kirilov Petrov	Esid Elektrodi EOOD Lesko EOOD Aeiforos Bulgaria EAD Prosal Tubes EAD Metalko Bulgaria EAD Sidma Bulgaria AD Sigma IS AD Port Svishtov West AD Siticonstructions AD Sanra EOOD
Vasileios Papantoniou	No participation in other companies
Stavros Theodoropoulos	Metalko Bulgaria EAD
Nikolaos Mariou	Aeiforos Bulgaria EAD Port Svishtov West AD Prosal Tubes EAD Sigma IS AD Praxis BG EAD
Elias Stassinopoulos	ElvalHalcor SA Greece

MANAGEMENT RESPONSIBILITIES

The Directors are required by Bulgarian legislation to prepare financial statements each financial year that give a true and fair view of the state of affairs of the Company as at the year end and of the profit or loss for the year.

The Directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2017.

The Directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STOMANA PERNIK 3 INDUSTRY S.A.

Nikolaos Mariou	Georgios Bourniotis	Sonia Mangeyna
Executive Director	Finance Director	Chief Accountant
26 March 2018	26 March 2018	26 March 2018

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

STOMANA INDUSTRY S.A.

SEPARATE STATEMENT OF FINANCIAL POSITION

All amounts are in BGN thousand

	Note	As at 31 December 2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment	7	355,512	372,793
Intangible assets	8	491	806
Investments in subsidiaries	9	14,108	12,953
		370,111	**386,552**
Current assets			
Inventories	11	140,194	134,589
Trade and other receivables	12	121,157	84,426
Cash and cash equivalents	13	13,693	22,458
		275,044	**241,473**
Total assets		**645,155**	**628,025**
Equity			
Share capital	14	66,926	66,926
Other reserves	14	12,766	12,766
Retained earnings		74,782	60,232
		154,474	**139,924**
LIABILITIES			
Non-current liabilities			
Bond loan from related parties	15, 31	56,395	54,038
Trade payables to related parties	31, 20	29,337	29,337
Non-current liabilities to related parties		**85,732**	**83,375**
Borrowings	15	181,374	-
Deferred tax liabilities	16	4,269	3,386
Government grants	18	921	1,078
Employee benefits	17	2,598	2,267
Provisions for litigations	19	521	141
Non-current liabilities to third parties		**189,683**	**6,872**
Total non-current liabilities		**275,415**	**90,247**
Current liabilities			
Trade and other payables	20	147,357	135,204
Borrowings	15	67,909	262,650
		215,266	**397,854**
Total liabilities		**490,681**	**488,101**
Total equity and liabilities		**645,155**	**628,025**

The notes on pages 5 to 45 are an integral part of these separate financial statements.

STOMANA PERNIK 3 INDUSTRY S.A.

Nikolaos Mariou
Executive Director

Georgios Bourniotis
Finance Director

Sonia Mangeyna
Chief Accountant, Preparer

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

Tzvetelina Koleva
Authorized Representative

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

Dobrina Kaloyanova
Registered Auditor, responsible for the audit

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STOMANA INDUSTRY S.A.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

All amounts are in BGN thousand	Note	For the year ended 31 December 2017	2016
Revenue	21	743,637	523,192
Cost of sales	22	(642,176)	(468,879)
Gross profit		**101,461**	**54,313**
Selling and distribution expenses	23	(56,478)	(39,897)
Administrative expenses	24	(8,366)	(8,260)
Other income	25	3,881	1,544
Other expenses	26	(3,881)	(4,829)
Operating profit		**36,617**	**2,871**
Finance income	28	428	542
Finance costs	28	(21,368)	(20,830)
Profit/ (loss) before income tax		**15,677**	**(17,417)**
Income tax	29	(907)	4,243
Profit/ (loss) for the year		**14,770**	**(13,174)**
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Remeasurement of retirement benefit obligations	17	(244)	(26)
Related tax	29	24	2
Other comprehensive income for the year, net of tax		(220)	(24)
Total comprehensive income for the year		**14,550**	**(13,198)**

The notes on pages 5 to 45 are an integral part of these separate financial statements.

STOMANA INDUSTRY S.A. PERNIK 3

Nikolaos Mariou
Executive Director

Georgios Bourniotis
Finance Director

Sonia Mangeyna
Chief Accountant, Preparer

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

Tzvetelina Koleva
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SEPARATE STATEMENT OF CHANGES IN EQUITY

All amounts are in BGN thousand	Share capital	Other reserves	Retained earnings	Total equity
Balance at 1 January 2016	**66,926**	**12,766**	**73,430**	**153,122**
Comprehensive income				
Loss for the year	-	-	(13,174)	**(13,174)**
Other comprehensive income				
Remeasurement of retirement benefit obligations	-	-	(24)	**(24)**
Total comprehensive income	-	-	(13,198)	**(13,198)**
Balance at 31 December 2016	**66,926**	**12,766**	**60,232**	**139,924**
Balance at 1 January 2017	**66,926**	**12,766**	**60,232**	**139,924**
Comprehensive income				
Profit for the year	-	-	14,770	**14,770**
Other comprehensive income				
Remeasurement of retirement benefit obligations	-	-	(220)	**(220)**
Total comprehensive income	-	-	14,550	**14,550**
Balance at 31 December 2017	**66,926**	**12,766**	**74,782**	**154,474**

The notes on pages 5 to 45 are an integral part of these separate financial statements.

STOMANA PERNIK 3 INDUSTRY S.A.

Nikolaos Mariou
Executive Director

Georgios Bourniotis
Finance Director

Sonia Mangeyna
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STOMANA INDUSTRY S.A.

SEPARATE STATEMENT OF CASH FLOWS

All amounts are in BGN thousand	Note	For the year ended 31 December 2017	2016
Cash flows from operating activities			
Cash generated from operations	30	**31,975**	58,620
Interest and finance cost paid		(18,660)	(18,234)
Net cash generated from operating activities		**13,315**	**40,386**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(7,676)	(11,794)
Proceeds from sale of property, plant and equipment		65	980
Interest received		2	5
Investments in subsidiaries		(1,155)	-
Net cash used in investing activities		**(8,764)**	**(10,809)**
Cash flows from financing activities			
Proceeds from borrowings		37,444	204,686
Repayments of borrowings		(50,760)	(221,503)
Net cash used in financing activities		**(13,316)**	**(16,817)**
Net increase/ (decrease) in cash and cash equivalents		**(8,765)**	**12,760**
Cash and cash equivalents at beginning of the year		**22,458**	**9,698**
Cash and cash equivalents at the end of the year	13	**13,693**	**22,458**

The notes on pages 5 to 45 are an integral part of these separate financial statements.

STOMANA PERNIK 3 INDUSTRY S.A.

Nikolaos Mariou
Executive Director

Georgios Bourniotis
Finance Director

Sonia Mangeyna
Chief Accountant, Preparer

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

Tzvetelina Koleva
Authorized Representative

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ ОДИТ ООД

Dobrina Kaloyanova
Registered Auditor, responsible for the audit

1. Reporting entity

Stomana Industry AD (the "Company") is a joint stock company, incorporated in Bulgaria. The Company is a subsidiary of Viohalco SA, a company incorporated in Belgium which holds 99.9998% of the share capital of the Company and whose shares are traded on the Athens Stock Exchange and the Euronext Stock Exchange in Brussels. The ultimate parent as well as the ultimate controlling party of Stomana Industry AD is Viohalco SA.

Sidenor Steel Industry SA, with registered office in Greece, Athens 11527, Mesogion Str. 2-4 is a shareholder of Stomana Industry AD and holds one share (0,0002%) of the Company's share capital.

The Company's registered office is: 1 VladaiskoVastanie Str., Pernik. The company is represented by the Executive Director Mr Nikolaos Mariou. The Company is registered with the Commercial Register at the Bulgarian Registry Agency with ID code 113509219.

The Company's main activity is production and trade with steel products.

The financial statements of Stomana Industry AD for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 26 March 2018. These financial statements are subject to the approval of the Company's Annual Shareholder's Meeting with respect to the appropriation of profits.

2.1. Basis of accounting

This separate financial statements of the Company (the „financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

As at 31 December 2017 Stomana Industry AD owns shares in the following entities: Port Svishtov West AD, Bulgaria (73.09%), Sidebalk Ltd, Serbia (100%) and Jostdex Ltd, Cyprus (100%).

At the time of approval of these separate financial statements the Company has not prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the "Group") as required by IFRS.

VIOHALCO S.A., a company incorporated in Belgium which holds 99.9998% of the share capital of the Company prepares consolidated financial statements for VIOHALCO S.A. and its subsidiaries in accordance with IFRS as adopted by the EU.
The consolidated financial statements of VIOHALCO S.A. can be found at www.viohalco.com.

Users of the financial statements of Stomana Industry AD should read them together with the consolidated financial statements prepared by VIOHALCO S.A. as at and for the year ended 31 December 2017, in order to obtain information on the financial position, financial result and cash flow of the VIOHALCO S.A. group as a whole. The consolidated financial statements of VIOHALCO S.A. will be published in Bulgarian language within the terms stipulated in Article 38, Paragraph 1, Point 1, in accordance with Article 38, Paragraph 10 of the Accounting Law.

2.2. Going concern principle

These separate financial statements have been prepared on a going concern basis, which assumes that the Company will continue its business in the foreseeable future.
The Company's statement of comprehensive income as at 31 December 2017 shows that the Company achieved profit for the year amounting to BGN 14,550 thousand (2016: a loss of BGN 13,198 thousand). The cash flow from operating activities in 2017 is positive at the amount of BGN 13,315 thousand (2016: positive BGN 40,386 thousand).
Net assets as at 31 December 2017 amount to BGN 154,474 thousand (2016: 139,924 thousand).
The management considers that the existing capital resources and financing source (cash flows from operating activities and access to bank loans) will be adequate to the liquidity needs during the next year 2018 and there are no uncertainties regarding events or conditions that may put in doubt the Company's ability to continue as a going concern.

2.3. Functional and presentation currency

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

2.4. Use of judgments and estimates

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

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

Information about critical judgments made in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements, as well as information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the next financial year, is disclosed in Note 6.

Measurement of fair values

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

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

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

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

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

The Company does not hold financial instruments measured at fair value.
Further information about financial instruments not measured at fair value is included in Note 10 Financial instruments.

2.5 Basis of measurement

This financial statements have been prepared on the historical cost basis except for the defined benefit liability which is measured at the present value of the obligation.

3 Significant accounting policies

The principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1. Investments in subsidiaries

Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Investments are measured at their acquisition cost. Dividends distributed by the subsidiaries from their profits after the acquisition date are recognised as current income.

3.2. Foreign currency translation

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are not retranslated.

Effective 1999, the Bulgarian Lev (BGN) rate is fixed to the Euro (EUR). The applicable exchange rate is BGN 1.95583 / EUR 1.0.

3.3. Financial instruments

The Company classifies non-derivative financial assets into the following categories: loans and receivables.
The Company classifies non-derivative financial liabilities into the other financial liabilities category.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Company initially recognizes loans and receivables on the date that they are originated. All other financial assets and financial liabilities are initially recognized on the trade date.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

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

3. Significant accounting policies (continued)

3.3. Financial instruments (continued)

(ii) Non-derivative financial assets – measurement

Loans and receivables

These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortized cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash and deposits with original maturities of three months or less.
The Company has the following non-derivative financial assets: loans and receivables, cash and cash equivalents.

(iii) Non-derivative financial liabilities – measurement

Non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

(iv) Share capital

Company shares are classified as equity. All shares are of the same rank with respect to the Company's residual assets. Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognized as a deduction from equity. Company's capital is presented at historical cost as at the date of registration.

3.4. Property, plant and equipment

All items of property, plant and equipment are stated at historical cost less accumulated depreciation and possible impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the period in which they are incurred.

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

Land and expenses for acquisition of property, plant and equipment are not depreciated. Depreciation on other assets is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	10-33 years
Vehicles	6-10 years
Machinery and equipment	5-20 years
Office equipment	3-8 years
Computer equipment	2-5 years
Other	3-8 years

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the received price with the carrying amount and are recognised within other gains/ (losses) in the statement of comprehensive income.

3. Significant accounting policies (continued)

3.5. Intangible assets

Computer software
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 to 5 years).

3.6. Impairment

(i) Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss, including interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if there is objective evidence of impairment as a result of an event of loss that occurred after the initial recognition of the asset, and that event had a negative impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired may include: 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 will enter bankruptcy, disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Loans and receivables

The Company considers evidence of impairment for loans and receivables at both an individual asset and a collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical information on the probability of default, timing of recoveries and the amount of loss incurred, adjusted by the management estimate whether the current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is 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 are recognized in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss..

3. Significant accounting policies (continued)

3.6. 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

3.7. Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling costs.

3. Significant accounting policies (continued)

3.8. Income tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.
Interest and penalties related to income taxes, including uncertain tax treatments, are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

(ii) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is possible that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of the taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversal of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered though sale, and the Company has not rebutted this presumption.

3. Significant accounting policies (continued)

3.9. Government grants

The Company recognizes government grants when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant.
Government grants relating to property, plant and equipment presented in non-current liabilities as deferred income and are credited to the statement of comprehensive income on a straight-line basis over the expected lives of the related assets. Grants that compensate the Company for expenses incurred are recognized in profit or loss on a systematic basis in the same periods in which the expenses are recognized.

3.10. Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.11. Employee benefits

Defined contribution plans
Obligations for contributions to defined contribution plans comprise contributions to state-owned institutions and to obligatory pension funds managed by privately owned management companies, in accordance with legal requirements or individual choice. Obligations for contributions to defined contribution plans are expensed as the related service is provided.

Defined benefit plans
The Company's obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods and that amount is discounted.
According to the Article 222 of the Labor Code in Bulgaria, when a labor contract of an employee, who has acquired a pension right, is ended for any reason and the employee's length of service in the company equals to or is greater than 10 or more years, as at retirement date, the employer is obliged to pay to the employee compensations in the amount of six gross monthly salaries.
The calculation is performed annually by a qualified actuary using the projected unit credit method. The Company determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. The company's contributions are charged to the statement of the comprehensive income in the year to which they relate. The long-term payables to employees comprise of present value of Company's liability for compensations due on the date of financial statements, determined by actuarial calculations.

Short-term employee benefits
Short-term employee benefit obligations are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions
As at 31 December 2017 and 2016 key management personnel and Company's employees do not participate in share-based payment transactions. The Company usually does not apply share-based payment plans.

3. Significant accounting policies (continued)

3.12. Revenue recognition

Revenue comprises the fair value of goods or services sold, net of value-added tax and discounts provided. Revenue is recognized as follows:

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met, as explained below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sales of goods and products
Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

Sales of services
Services are provided on a time and material basis or as a fixed-price contract, with contract terms generally ranging from less than one year to three years. Revenue from time based contracts is recognised in accordance with the agreed charges for working hours and direct costs incurred. Revenue from fixed-price contracts for delivering services is recognised under the percentage-of-completion (POC) method. Under the POC method, revenue is generally recognised based on the services performed to date as a percentage of the total services to be performed.
If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

Interest income
Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

3. Significant accounting policies (continued)

3.13. Leases

Determining whether an arrangement contains a lease
At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease.
At inception or upon reassessment of an arrangement that contains a lease, 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 recognized 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 recognized using the Company's incremental borrowing rate.

Leased assets
Assets held by the Company under leases which transfer to the Company substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.
Assets held under other leases are classified as operating leases and are not recognized in the Company's statement of financial position.

Lease payments
Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized 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.

3.14. Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

3.15. Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

3.16. Accounting of merger of entities under common control

Business combinations under common control are accounted for using predecessor accounting method. Under this method, the Company incorporates the assets and liabilities of the acquired entity using the acquired entity's values from the consolidated financial statements of the parent entity ('predecessor value method'); these amounts include any goodwill recognised in the consolidated financial statements of the parent related to the acquired entity. The acquired entity's results are included in the Company's financial statements retrospectively: the financial statements reflect both entities' full year's results, even though the business combination occurred part of the way through the year. In addition, the corresponding amounts for the previous year reflect the combined results of both entities, even though the transaction did not occur until the current year. Intercompany balances and unrealized gains and losses on transactions with the acquired entity are eliminated. The share capital comprise the capital of the acquiring entity for all reported periods.

3. Significant accounting policies (continued)

3.17. New standards and interpretations not yet adopted

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

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

(a) IFRS 9 Financial instruments

IFRS 9 Financial Instruments 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.

(i) Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.
IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.
Based on its assessment, the Company does not believe that the new classification requirements will have a material impact on its accounting for trade and other receivables, loans and cash and cash equivalents.

(ii) Impairment – Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.
The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:
- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

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

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

3. Significant accounting policies (continued)

3.17. New standards and interpretations not yet adopted (continued)

(a) IFRS 9 Financial instruments (continued)

(ii) Impairment – Financial assets and contract assets (continued)

Trade and other receivables, including contract assets

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

The Company performed the calculation of ECL rates separately for related parties, third parties and receivables covered by insurance or given to non-recourse factoring.

Exposures within each group were segmented based on common credit risk characteristics such as credit risk grade, geographic region and industry.

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

The risk of default of related parties receivables is considered to be insignificant.

The Company estimated that application of IFRS 9's impairment requirements at 1 January 2018 results in an increase of BGN 211 thousand over the impairment recognised under IAS 39.

Cash and cash equivalent

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

The estimated impairment on cash and cash equivalents was calculated based on the 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

The Company estimated that application of IFRS 9's impairment requirements at 1 January 2018 will not have a significant effect on the separate financial statements of the Company.

(iii) Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

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

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

(iv) Hedge accounting

The Company does not apply hedge accounting and does not intend to do so.

(v) Disclosures

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

(vi) Transition

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

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

3. Significant accounting policies (continued)

3.17. New standards and interpretations not yet adopted (continued)

(b) IFRS 15 Revenue from Contracts with Customers

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

(i) Sales of goods

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

Under IFRS 15, revenue will be recognised when a customer obtains control of the goods.

The Company considers, that the customer does not control the goods in the process of their production and the respective revenue will be recognized upon completion of the production process and when the control over the goods is transferred.

For certain contracts that permit the customer to return an item, revenue is currently recognised when a reasonable estimate of the returns can be made, provided that all other criteria for revenue recognition are met. If a reasonable estimate cannot be made, then revenue recognition is deferred until the return period lapses or a reasonable estimate of returns can be made.

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

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

(ii) Rendering of services

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

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

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

3. Significant accounting policies (continued)

3.17. New standards and interpretations not yet adopted (continued)

(b) IFRS 15 Revenue from Contracts with Customers (continued)

(iii) Commission

For commissions earned by the Company , the Company has determined that it acts in the capacity of an agent for certain transactions, as explained in Note 21.

Under IFRS 15, the assessment will be based on whether the Company controls the specific goods before transferring them to the end customer, rather than whether it has exposure to significant risks and rewards associated with the sale of goods.

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

(iv) Transition

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

(c) IFRS 16 Leases

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

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

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

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

3. Significant accounting policies (continued)

3.17. New standards and interpretations not yet adopted (continued)

(c) IFRS 16 Leases (continued)

So far, the most significant impact identified is that the Company will recognise new assets and liabilities for its operating leases.

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

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

(i) Determining whether an arrangement contains a lease

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

(ii) Transition

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

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

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

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

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

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

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

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

(e) Other amendments

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

- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

- Annual Improvements to IFRS 2014-2016 Cycle

- Amendments to IAS 40 Transfers of Investment Property

3. Significant accounting policies (continued)

3.17. New standards and interpretations not yet adopted (continued)

Standards and interpretations not yet endorsed by the EC

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

(a) IFRS 17 *Insurance Contracts*

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

(b) Other amendments

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

- *IFRIC 22 Foreign Currency Transactions and Advance Consideration*

- *IFRIC 23 Uncertainty over Income Tax Treatments*

- *Amendments to IFRS 9: Prepayment Features with Negative Compensation*

- *Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures*

- *Annual Improvements to IFRS 2015-2017 Cycle*

- *Amendments to IAS 19: Plan Amendment, Curtailment or Settlement*

- *Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture.*

Notes to the separate financial statements
(All amounts in BGN thousand)

4. Financial risk management

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

- credit risk;
- liquidity risk;
- market risk.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Management is unable to predict all developments which could have an impact on the sector and wider economy, and consequently what effect, if any, they could have on the future financial position of the Company.
The Company's financial performance is largely dependent upon the global price of and demand for commodities used by the Company. The prices of the commodities are influenced by many factors, including demand, worldwide production capacity, capacity utilisation rates, raw material costs, exchange rates, trade barriers and improvements in production processes.
The Bulgarian economy is also vulnerable to market downturns and economic slowdowns elsewhere in the world. Management is unable to determine reliably the effects on the Company's future financial position of any further changes in the economic environment in which the Company operates. Management believes it is taking all necessary measures to support the sustainability and development of the Company's business in the current circumstances.

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

The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit risk at the reporting date by type of counterparty was:

	Note	Carrying amount 31 December 2017	2016
Trade receivables from third parties	12	53,174	36,777
Trade receivables from related parties	12	60,277	43,400
Cash and cash equivalents, excluding cash in hand	13	13,691	22,457
		127,142	**102,634**

Notes to the separate financial statements
(All amounts in BGN thousand)

4. Financial risk management (continued)

The concentration of credit risk as at reporting date is in the following 5 customers which represent 40% of all trade receivables:

Clients	31 December 2017
Siderom Steel S.A, related party	19,088
Sidenor Steel S.A., related party	8,098
Sidma Bulgaria, related party	6,793
TeproMetal AG, related party	6,232
Dojran, related party	5,620
	45,831

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

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

The aging of trade and other receivables at the reporting date and their movements and impairment balances are disclosed in Note 12 Trade and other receivables.

Liquidity risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.
Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a 60 day period, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted.
To ensure effective management of liquidity risk, the Company maintains bank credit lines.

Management monitors rolling forecasts of the Company's liquidity reserve (comprising cash and cash equivalents) on the basis of expected cash flows. The table below analyses the Company's financial liabilities which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

		Contractual cash flows				
As at 31 December 2016	**Carrying amount**	**Total contractual cash flows**	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**
Borrowings	262,650	(262,650)	(262,650)	-	-	-
Bond loan	54,038	(71,521)	-	-	-	(71,521)
Trade and other payables	161,725	(161,725)	(132,388)	-	-	(29,337)
Interests on trade payables	-	(5,173)	(739)	(739)	(2,217)	(1,478)
	478,413	**(501,069)**	**(395,777)**	**(739)**	**(2,217)**	**(102,336)**

Notes to the separate financial statements
(All amounts in BGN thousand)

4. Financial risk management (continued)

As at 31 December 2017	Carrying amount	Total contractual cash flows	Contractual cash flows: Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Borrowings	248,600	(299,197)	(89,339)	(35,065)	(147,750)	(27,043)
Bond loan	56,395	(71,521)	-	-	-	(71,521)
Trade and other payables	166,872	(166,872)	(137,535)	-	-	(29,337)
Interests on trade payables	-	(4,434)	(739)	(739)	(2,217)	(739)
	471,867	**(524,024)**	**(227,613)**	**(35,804)**	**(149,967)**	**(128,640)**

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its assets. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company does not use derivative financial instruments for hedging market risks.

(i) Currency risk

The Company operates on Bulgarian as well as on external markets and is exposed to risk from changes in exchange rates for sales and purchases transactions denominated in currency different from Euro and Bulgarian levs. Currency risk arise also from future transactions and recognized assets and liabilities.

Effective 1 January 1999, the Bulgarian Lev (BGN) rate is fixed to the Euro (EUR). The applicable exchange rate is BGN 1.95583 / EUR 1.0. Therefore, the management considers there is no currency risk regarding transactions denominated in Euro.

Notes to the separate financial statements
(All amounts in BGN thousand)

4. Financial risk management (continued)

Exposure to currency risk

The Company's exposure to foreign currency risk was as follows:

Denominated in:	**USD**	**GBP**	**USD**	**GBP**
	31 December 2017		**31 December 2016**	
Trade receivables	3,558	-	5,034	-
Cash and cash equivalents	1,829	-	8,069	-
Trade payables	(845)	-	(88)	(17)
Net exposure	4,542	-	13,015	(17)

The following significant exchange rates applied during the year:

	Reporting date spot rate	
BGN	**2017**	**2016**
USD	1.6308	1.8555
GBP	2.2044	2.2844

Sensitivity analysis

A 10% increase/ decrease of the exchange rate of Bulgarian Lev (BGN) against the US Dollar (USD) as at reporting date, would have caused a loss/profit for the Company amounting to BGN 454 thousand.

A 10% increase/ decrease of the exchange rate of Bulgarian Lev (BGN) against the US Dollar (USD) as at 31 December 2016, would have caused a loss/profit for the Company amounting to BGN 1,302 thousand.

(ii) Interest rate risk

Exposure to interest rate risk

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

	Nominal amount 31 December	
	2017	**2016**
Fixed rate instruments		
Financial assets	13,691	22,457
Financial liabilities	(85,732)	(83,375)
	(72,041)	(60,918)
Variable rate instruments		
Financial liabilities	(250,905)	(264,905)
	(250,905)	(264,905)

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

An increase of 100 basis points (1%) in interest rates at the reporting date would have caused a loss for the Company amounting to BGN 2,506 thousand (2016 – a loss amounting to BGN 2,649 thousand).

Notes to the separate financial statements
(All amounts in BGN thousand)

4. Financial risk management (continued)

(iii) Price risk

The commodity price change risk is monitored by the Company's management. The sales are managed locally using competitive prices. Main factors influencing sale prices are: change in competitor's prices and change in the price of raw materials for the production process.

5. Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may issue new shares or sell assets to reduce debt. Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital.

Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' plus net debt.

The gearing ratios at 31 December 2017 and 31 December 2016 were as follows:

	31 December	
	2017	**2016**
Total borrowings (Note 15)	249,283	262,650
Zero-coupon bond loan	56,395	54,038
Less:		
Cash and cash equivalents	(13,693)	(22,458)
Net debt	**291,985**	**294,230**
Total equity	154,474	139,924
Total capital employed	**446,459**	**434,154**
Gearing ratio	**65.40%**	**67.77%**

Notes to the separate financial statements
(All amounts in BGN thousand)

6. Critical accounting estimates and judgments

Estimates and judgments are based on experience and other factors, including expectations of future events in the current circumstances. Reliability of estimates and judgments is reviewed regularly. The Company made judgments and estimates for accounting and disclosure requirements that may differ from actual results. Significant accounting estimates for which there is significant risk of further substantial adjustment to the carrying values of assets and liabilities within the next financial year are listed below:

Deferred tax assets

The Company recognizes deferred tax assets on temporary tax differences and tax loss carry forward, to the extent that it is probable that future taxable profits will be available against which tax loss carry forward can be utilized. The management's assessment regarding future taxable profits is based on Company's five-year business plan and on the general possibilities for tax planning.

Estimated useful life of fixed assets

The management have used significant accounting estimates and judgements to determine the useful life of property, plant and equipment based on examination and estimation made by the technical personnel who evaluates the useful life of the tangible and intangible assets.

Write down of inventory

Inventories are written down to net realizable value on an item by item basis. Estimates of net realizable value is determi based on the most reliable evidence available at the time of performing this assessment according to the inventories' volı which is expected to be realized. When determining the net realizable value, the management also takes into account v is the purpose of the inventory held.

Impairment of receivables

Based on the knowledge and the current circumstances the management has made evaluation of the amount and synchronisation of the estimated future cash flows related to receivables.

Provisions

The Company's management estimates the amount of provisions for contingent liabilities based on its experience regarding similar contingencies, taking into account the available current information for the specific liabilities, including legal advices from Company's counsels.

Impairment of non-financial assets

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. The calculation of the fair value less costs to sell is based on the available information of committed unconstrained and fair sales transactions for similar assets or observable market prices, less costs to sell the asset. The calculation of value in use is based on discounted cash flows model. Recoverable amount of cash-generating units (CGUs) is based on their value in use. Calculations require the use of estimates and are based on pre-tax cash flow projections based on financial budgets approved by management covering five-year period. Cash flows beyond that period are extrapolated using an expected growth rate.

Notes to the separate financial statements
(All amounts in BGN thousand)

6. Critical accounting estimates and judgments (continued)

Impairment of non-financial assets (continued)

Calculation of value in use is most sensitive to the following assumptions:

- Discount rate
- Growth rate, used for extrapolation of cash flows beyond the budgeted period
- Gross profit.

Applied pre-tax discount rates reflect the specific risks of the respective operating segment. The carrying value of assets is presented as cash outflow. The results of the impairment test performed revealed no need of impairment.

The management of the Company performed a sensitivity analysis of the assumptions to which the value in use is sensitive and a reasonable change in those assumptions will not result in an impairment of the Company's assets.

The calculation is most sensitive to gross profit, but only a decrease by more than one third of the forecasted gross profit margin will lead to an impairment of the assets.

Notes to the separate financial statements
(All amounts are in BGN thousands)

7. Property, plant and equipment

	Land and buildings	Vehicles and machinery	Office and computer equipment	Assets under construction	Total
At 1 January 2016					
Cost	168,636	530,941	4,137	6,113	709,827
Accumulated depreciation	(51,703)	(281,017)	(2,587)	-	(335,307)
Carrying amount	**116,933**	**249,924**	**1,550**	**6,113**	**374,520**
Additions	189	2,043	151	8,824	11,207
Transfers from inventory	-	13,948	-	-	13,948
Disposals	-	(438)	-	-	(438)
Transfers	184	5,235	49	(5,468)	-
Depreciation charge	(3,425)	(22,674)	(345)	-	(26,444)
31 December 2016					
Cost	169,009	550,966	4,337	9,469	733,781
Accumulated depreciation	(55,128)	(302,928)	(2,932)	-	(360,988)
Carrying amount	**113,881**	**248,038**	**1,405**	**9,469**	**372,793**
At 1 January 2017					
Opening net book amount	113,881	248,038	1,405	9,469	372,793
Additions	156	3,094	278	3,908	7,436
Transfers from inventory	-	3,151	-	-	3,151
Disposals	-	(121)	-	-	(121)
Transfers	-	7,630	47	(7,677)	-
Depreciation charge	(3,414)	(24,059)	(274)	-	(27,747)
31 December 2017					
Cost	169,165	564,533	4,662	5,700	744,060
Accumulated depreciation	(58,542)	(326,800)	(3,206)	-	(388,548)
Carrying amount	**110,623**	**237,733**	**1,456**	**5,700**	**355,512**

Depreciation expenses have been charged to cost of goods sold BGN 24,741 thousand (2016: BGN 23,099 thousand), BGN 321 thousand (2016: BGN 336 thousand) has been charged to distribution costs, BGN 351 thousand (2016: BGN 383 thousand) has been charged to administrative and BGN 2,334 thousand (2016: BGN 4,027 thousand) to other expenses.

The amount of borrowing costs that are capitalized in the cost of property, plant and equipment is presented in Note 28.

As at 31 December 2017 property, plant and equipment at the amount of BGN 202,057 thousand (31 December 2016: BGN 204,038 thousand) are pledged as collateral of bank loans by mortgages on land and buildings and pledges of equipment and machinery (see also Note 15).

Impairment of property, plant and equipment

A cash-generating unit (CGU) is the smallest group of assets that independently generates cash flow and whose cash flow is largely independent of the cash flows generated by other assets. The Company's management has identified one CGU comprising the whole production process and all used assets. The recoverable amount of the CGU is estimated based on its value in use, determined on the basis of discounted future cash flows. Based on the impairment test performed, the management has concluded that expected recoverable amount of the CGU exceeds its carrying amount, for all related assets. An average discount rate of 7.58% has been applied in calculations. The prior year average discount rate applied was 7.81%.

Notes to the separate financial statements
(All amounts are in BGN thousands)

8. Intangible assets

	Software
At 1 January 2016	
Cost	2,326
Accumulated amortisation	(1,795)
Carrying amount	**531**
Additions	586
Amortisation charge	(311)
Carrying amount	**806**
At 31 December 2017	
Cost	2,912
Accumulated amortisation	(2,106)
Carrying amount	**806**
Additions	240
Amortisation charge	(555)
Carrying amount	**491**
At 31 December 2017	
Cost	3,152
Accumulated amortisation	(2,661)
Carrying amount	**491**

Amortization expenses have been charged to cost of goods sold BGN 104 thousand (2016: BGN 78 thousand), an amount of BGN 451 thousand (2016: BGN 224 thousand) has been charged to administrative.

9. Investment in subsidiaries

	31 December		31 December	
	2017	**2016**	**2017**	**2016**
	Carrying amount		**% ownership**	
Jostdex Ltd	7,530	6,375	100%	99.89%
Port Svishtov West AD	5,365	5,365	73.09%	73.09%
Sidebalk Ltd	1,213	1,213	100%	100%
	14,108	12,953		

Notes to the separate financial statements
(All amounts are in BGN thousands)

10. Financial instruments

Accounting classifications and fair values

The Company does not hold financial instruments measured at fair value.
The Management of the Company considers the carrying amounts of following financial instruments to be reasonable estimations of their fair values:

- Trade and other receivables (Note 12)
- Cash and cash equivalents (Note 13)
- Trade and other payables (Note 20)
- Borrowings (Note 15)

In the analysis for determining the fair values, management has concluded that there is no observable market data available, which can be used without significant adjustments in determining the fair value of these financial instruments.
Management considers that determining the fair values of financial instruments has a significant number of risks and circumstances that influence the determination of the fair value of these financial instruments - the amount of the financial instrument, maturity, type of interest rate, collateral, economic environment where the parties to the financial instrument operate, own risk of default, and others.

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 their carrying amount is a reasonable approximation of fair value.

	31 December			
	2017		2016	
Assets	**Carrying amount**	**Fair value-Level 3**	**Carrying amount**	**Fair value-Level 3**
Loans and receivables				
Trade and other receivables	113,451	-	80,177	-
Cash and cash equivalents	13,693	-	22,458	-
	127,144		**102,635**	
Liabilities				
Other financial liabilities				
Long-term bonds	56,395	-	54,038	-
Long-term interest-bearing borrowings to related parties	29,337	32,034	29,337	30,655
Long-term borrowings	181,374	-	-	-
Short-term borrowings	67,909	-	262,650	-
Trade and other payables	137,535	-	132,388	-
	472,550		**478,413**	

The management of the Company considers that *Long-term interest-bearing borrowings to related parties* (note 20) meet the criteria for classification as Level 3 in the fair values hierarchy and its carrying amounts differs from the fair value, as it is presented at the table above.

Notes to the separate financial statements
(All amounts are in BGN thousands)

11. Inventories

	31 December 2017	2016
Finished goods	53,750	55,430
Raw materials and spare parts	40,064	40,628
Semi-finished goods	35,652	30,867
Goods	5,915	6,679
Stock in transit	3,537	620
Other	1,276	365
	140,194	**134,589**

12. Trade and other receivables

	31 December 2017	2016
Trade receivables	56,305	39,913
Less: impairment of trade receivables	(3,131)	(3,136)
Trade receivables, net	**53,174**	**36,777**
Receivables from related parties (Note 31)	60,277	43,400
Tax receivables	2,005	2,325
Advances for procurement of stocks	3,048	745
Other receivables	2,653	1,179
	121,157	**84,426**

At the end of the current reporting period the Company has reviewed its trade receivables and has impaired some of the receivables for which there is uncertainty that the Company will be able to collect all amounts due.
The net movement in account balance for impairment in 2017 is decrease by BGN 5 thousand (2016: BGN 326 thousand) and is recognised in the statement of comprehensive income within selling and distribution expenses.
Trade receivable that are less than three months past due, are not considered impaired. As at 31 December 2017 and as at 31 December 2016, the aging of trade receivables is as follows:

	31 December 2017	2016
Not due or less than 3 months	101,461	63,971
Between 3 and 6 months	6,721	13,636
More than 6 months	5,269	2,570
	113,451	**80,177**

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables described above. The receivables from non- related parties of the Company are insured and transferred to factoring companies under the terms of non-recourse factoring agreements. Receivables past due more than 6 months that are non-impaired are only from related parties.
Receivables from related parties are not subject to impairment.

The movement in the allowance for impairment in respect receivables during the year was as follows:

	2017	2016
As at 1 January	3,136	2,810
Impairment loss recognized	11	326
Amounts written off	(16)	-
As at 31 December	**3,131**	**3,136**

Notes to the separate financial statements
(All amounts are in BGN thousands)

13. Cash and cash equivalents

	31 December 2017	2016
Cash in hand	2	1
Cash at bank	13,691	15,230
Cash restricted for letters of credit	-	7,227
	13,693	**22,458**

14. Share capital

	Number of shares	In BGN thousand
At 31 December 2016	669,263	66,926
At 31 December 2017	**669,263**	**66,926**

The total authorised number of ordinary shares is 669,263 with a par value of BGN 100. All issued shares are fully paid.
As at 31 December 2017 other reserves amounting to BGN 6,544 thousand (2016: BGN 6,544 thousand) represent 10% of the profit for 2001, 2004, 2005, 2006 and 2007 allocated in accordance with the Commercial Law and follow up decisions of the Board of Directors in the respective years, as well as reserve as a result of the merger in 2015 amounting to BGN 6,222 thousand.

15. Borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk,

	31 December 2017	2016
Non-current liabilities		
Secured bank loans	181,374	-
Bond loan from related parties	56,395	54,038
	237,769	54,038
Current liabilities		
Current portion of Long term secured bank loans	10,493	197,090
Secured bank loans	56,733	65,560
Interest liabilities	683	-
	67,909	262,650
	305,678	**316,688**

Notes to the separate financial statements
(All amounts are in BGN thousands)

15. Borrowings (continued)

Terms and conditions of outstanding loans were as follows:

				31 December 2017		31 December 2016	
	Currency	Effective interest rate	Year of maturity	Nominal value (principal)	Carrying amount	Nominal value (principal)	Carrying amount
Secured bank loan	EUR	5,59%	2018-23	194,172	192,409	199,346	197,090
Bond loan	EUR	4,23%	2023	56,395	56,395	54,038	54,038
Secured bank loan	EUR	4,68%	2018	55,133	55,274	63,960	63,960
Secured bank loan	BGN	4,00%	2018	1,600	1,600	1,600	1,600
				307,300	**305,678**	**318,944**	**316,688**

The bank loans are secured over land and buildings with a carrying amount of BGN 202,057 thousand.

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

	2017	2016
As at 1 January	316,688	334,496
Proceeds from borrowings	37,444	204,686
Repayments of borrowings	(50,760)	(221,503)
Capitalized borrowing costs	274	273
Interest expense	15,896	16,961
Interest paid	(13,864)	(18,225)
The effect of changes in foreign exchange rates	-	-
As at 31 December	**305,678**	**316,688**

Notes to the separate financial statements
(All amounts are in BGN thousands)

16. Deferred tax assets and liabilities

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Assets/(liabilities)	**Assets**		**Liabilities**		**Net**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Property, plant and equipment	-	-	(5,085)	(6,662)	(5,085)	(6,662)
Employee benefits	451	338	-	-	451	338
Trade and other receivables	313	314	-	-	313	314
Provisions	52	14	-	-	52	14
Tax loss carry-forwards	-	2,610	-	-	-	2,610
Tax assets/(liabilities)	816	3,276	(5,085)	(6,662)	(4,269)	(3,386)
Set off of tax	(816)	(3,276)	816	3,276	-	-
Net tax assets /(liabilities)	-	-	(4,269)	(3,386)	(4,269)	(3,386)

Assets/(liabilities)	**Balance 1 January 2016**	**Recognized in profit or loss**	**Recognized in other comprehen-sive income**	**Balance 31 December 2016**	**Recognized in profit or loss**	**Recognized in other comprehen-sive income**	**Balance 31 December 2017**
Property, plant and equipment	(9,402)	2,740	-	(6,662)	1,577	-	(5,085)
Inventories	1,084	(1,084)	-	-	-	-	-
Employee benefits	391	(55)	2	338	89	24	451
Trade and other receivables	281	33	-	314	(1)	-	313
Provisions	12	2	-	14	38	-	52
Other	3	(3)	-	-	-	-	-
Tax loss carry-forwards	-	2,610	-	2,610	(2,610)	-	-
	(7,631)	4,243	2	(3,386)	(907)	24	(4,269)

Unrecognised deferred tax assets

As at 31 December 2017 the Company has not recognized deferred tax assets at the amount of BGN 1,107 thousand (2016: BGN 1,800 thousand) on interest expenses, non-deductible for tax purposes in relation to the thin capitalization rules. The management does not consider probable that the Company will be able to utilise this temporary difference within the period provided, therefore no deferred tax asset is recognized in respect of this item.

Notes to the separate financial statements
(All amounts are in BGN thousands)

17. Employee benefits

	31 December 2017	2016
Obligations for defined benefit retirement compensations at 31 December	2,598	2,267

	2017	2016
Charge in statement of comprehensive income	300	248
Actuarial (gains) losses, recognized in other comprehensive income	244	26

The principal actuarial assumptions at the reporting date are:

	2017	2016
Discount rate per year	1,15%	1,80%
Future salary increases	2,75%	2,75%

Movements in defined benefit obligations	2017	2016
Defined benefit obligations at 1 January	2,267	2,218
Charge in statement of comprehensive income	300	248
Actuarial (gains) losses, recognized in other comprehensive income	244	26
Benefits paid by the plan	(213)	(225)
Defined benefit obligations at 31 December	2,598	2,267

18. Government grants

Grants for property, plant and equipment

	31 December 2017	2016
Beginning of the year	1,078	1,224
Income for the period	(157)	(146)
End of the year	921	1,078

The grants have been received from the Government of Republic of Greece for the acquisition of machine for shredding of scrap.

Government grants for operating activities

Government grants for reduction of the burden related to the cost for energy from renewable sources

In 2017 and 2016 the Company applied for receiving government grants for reduction of the burden related to the cost for energy from renewable sources in accordance with Ordinance № E-RD-04-06/28.09.2016 for reduction of the burden related to the cost for energy from renewable sources.
The amount of the government grant is recognized as deduction of costs of sales as follows:

	2017	2016
	11,885	12,042

In 2017 Stomana was entitled of BGN 11,885 thousand of grant for Green Energy Fees and changed the mechanism of state aid instead of receiving money to directly deducting amounts payable.
Under Decrees of the Minister of Energy, the Company received a government grant amounting to BGN 5,502 thousand for pricing period July 2016 – December 2016. The grants in prior periods were BGN 8,859 thousand for the first pricing period from 1 August 2015 to 30 June 2016.

Notes to the separate financial statements
(All amounts are in BGN thousands)

19. Provisions for court cases

The major part of the recognised provisions of BGN 521 thousand (2016: BGN 141 thousand) represents a provision for certain legal claims brought against the Company by former employees. The provision charge is recognised in statement of comprehensive income within administrative expenses. According to the management's opinion, after taking appropriate legal advices, the outcome of these legal claims will not give rise to any significant loss beyond the amounts recognised at 31 December of the respective year.

	31 December	
	2017	**2016**
At beginning of the year	141	150
Provisions charged during the year	498	67
Reversal due to payment	(118)	(76)
At the end of the year	**521**	**141**

20. Trade and other payables

	31 December	
	2017	**2016**
Trade payables	55,042	52,279
Payables to related parties (Note 31)	110,152	107,959
Advances from clients	3,460	2,578
Employee benefits and social security payables	1,678	1,450
Other taxes payable	479	237
Other payables	5,883	38
	176,694	**164,541**

21. Sales revenue

The sales for the year are as follows:	**2017**	**2016**
Sales of finished and semi-finished goods	596,102	430,478
Sales of goods	125,628	59,263
Sales of materials	10,442	24,459
Sales of services	10,159	8,992
Commision income	1,306	-
	743,637	**523,192**

The commission income comes from transactions where the Company acts as an agent rather than as principal.

Notes to the separate financial statements
(All amounts are in BGN thousands)

22. Cost of sales

	2017	2016
Materials	(494,022)	(354,917)
Energy	(79,625)	(61,783)
Depreciation and amortisation	(24,845)	(23,177)
Salaries and social security expenses	(21,815)	(17,394)
Hired services	(13,708)	(4,307)
Transportation expenses	(2,170)	(1,307)
Insurances	(317)	(314)
Rents	(109)	(116)
Other expenses	(5,565)	(5,564)
	(642,176)	**(468,879)**

23. Selling and distribution expenses

	2017	2016
Transportation expenses	(41,868)	(28,967)
Hired services	(7,219)	(4,642)
Salaries and social security expenses	(2,124)	(1,755)
Insurances	(1,952)	(1,375)
Depreciation and amortisation	(321)	(345)
Energy	(50)	(46)
Impairment of receivables	5	(326)
Materials	(1,063)	(1,114)
Other expenses	(1,886)	(1,327)
	(56,478)	**(39,897)**

24. Administrative expenses

	2017	2016
Hired services	(3,922)	(4,163)
Salaries and social security expenses	(2,405)	(2,188)
Depreciation and amortisation	(802)	(607)
Insurance	(116)	(131)
Energy	(100)	(91)
Materials	(54)	(80)
Transportation expenses	(9)	(9)
Other expenses	(958)	(991)
	(8,366)	**(8,260)**

25. Other income

	2017	2016
Compensation for damages	1,956	-
Foreign exchange rate gains	-	554
Amortisation of government grants	157	145
Gain on sale of property, plant and equipment	27	677
Other	1,741	168
	3,881	**1,544**

Notes to the separate financial statements
(All amounts are in BGN thousands)

26. Other expenses

	2017	2016
Depreciation of temporarily unused tangible assets	(2,334)	(2,626)
Expenses related to temporarily unused assets	(637)	(1,776)
Foreign exchange transactions losses	(99)	(427)
Other	(811)	-
	(3,881)	**(4,829)**

27. Expenses by nature

	2017	2016
Materials	(495,476)	(357,262)
Energy	(79,775)	(61,920)
Transportation expenses	(44,047)	(30,283)
Depreciation and amortisation	(28,302)	(26,755)
Salaries and social security expenses	(26,390)	(21,337)
Hired services	(25,522)	(13,112)
Insurances	(2,385)	(1,820)
Impairment of receivables	5	(326)
Rents	(124)	(116)
Other expenses	(8,885)	(8,934)
Total expenses by nature	**(710,901)**	**(521,865)**

Expenses by function

	2017	2016
Cost of sales	(642,176)	(468,879)
Selling and distribution expenses	(56,478)	(39,897)
Administrative expenses	(8,366)	(8,260)
Other expenses	(3,881)	(4,829)
Total expenses by function	**(710,901)**	**(521,865)**

Expenses for personnel

	2017	2016
Wages and salaries	(21,008)	(17,059)
Social security expenses	(5,082)	(4,030)
Retirement benefit expenses	(300)	(248)
	(26,390)	**(21,397)**

28. Finance costs, net

	2017	2016
Interest income	2	5
Foreign exchange transactions gains	401	520
Other financial income	25	17
Finance income	**428**	**542**
Interest expense	(13,258)	(14,323)
Interest expense on bond loan	(2,638)	(2,638)
Foreign exchange transactions losses	(1,374)	(326)
Factoring expenses	(1,277)	(988)
Bank guarantee expenses	(317)	(28)
Other financial expenses	(2,504)	(2,527)
Finance expenses	**(21,368)**	**(20,830)**

Notes to the separate financial statements
(All amounts are in BGN thousands)

28. Finance costs, net (continued)

In 2017 the Company has capitalised borrowing costs under financing of assets building amounting to BGN 274 thousand (2016: BGN 273 thousand) and has included them in the amount of acquisitions of "property, plant and equipment" (Note 7).
In order to determine the borrowing costs to be capitalized in 2017, the Company uses a capitalisation rate of 5,59%

29. Income taxes

	2017	2016
Current tax expense	-	-
Deferred income tax in comprehensive income (Note 16)	(907)	4,243
Deferred income tax in other comprehensive income (Note 16)	24	2
Income tax	**(883)**	**4,245**

The respective tax periods of the Company may be subject to inspection by the tax authorities until the expiration of 5 years from the end of the year in which a declaration was submitted, or should have been submitted, and additional taxes or penalties may be imposed in accordance with the interpretation of the tax legislation. The Company's management is not aware of any circumstances which may give rise to a contingent additional liability in this respect.

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the Company as follows:

	2017	2016
Profit / (Loss) before tax	15,677	(17,417)
Tax due at a tax rate applicable to profits 10% (2016: 10%)	(1,567)	1,742
Expenses not deductible for tax purposes	(33)	(61)
Recognised deferred tax asset for tax loss carry-forward (Note 16)	-	2,610
Tax loss for which deferred tax asset was not recognised previously	-	1,752
Effect from unrecognised deferred tax assets (Note 16)	693	(1,800)
Income tax in profit or loss	**(907)**	**4,243**

30. Cash flows from operating activities

Reconciliation of profit before tax to cash generated from operations:

	2017	2016
(Loss)/Profit for the year	14,770	(13,174)
Adjustments for:		
Income tax (Note 29)	907	(4,243)
Depreciation and amortisation (Note 27)	28,302	26,755
Finance costs (Note 28)	20,940	20,288
(Gains) /losses from sale of property, plant and equipment	(27)	(677)
Book value of assets written off	38	438
Amortisation of government grants	(157)	(145)
Changes in working capital:		
– inventories	(8,740)	(8,049)
– trade and other receivables	(36,732)	17,233
– payables and provisions	12,679	19,868
- impairment of receivables	(5)	326
Cash generated from operating activities	**31,975**	**58,620**

Notes to the separate financial statements
(All amounts are in BGN thousands)

31. Related party transactions

The Company is controlled by Viohalco S.A. (incorporated in Belgium) which owns 99.9998% of the Company's shares. The remaining 0.0002% is owned by Sidenor Steel Industry S.A. Greece.

i) Sale of inventory, fixed assets and services

Sale of inventory, fixed assets and services to related parties under common control

		2017	2016
Sidenor Steel Industry SA	Inventory	17,685	10,222
Sidenor Steel Industry SA	Services	210	-
Sovel SA	Inventory	2,597	31,597
Sovel SA	Services	4	35
Ethil SA	Inventory	316	150
Sigma IS AD	Inventory	165	97
Sigma IS AD	Services	187	133
Erlikon SA	Services	1	1
Corinth Pipeowrks, USA	Inventory	-	2,780
Corinth Pipeowrks, Greece	Inventory	-	750
Corinth Pipeowrks Pipe Industry, Greece	Inventory	1	184
Dojran Steel DOO	Inventory	6,898	7,470
Dojran Steel DOO	Fixed assets	-	509
Aeiforos Bulgaria EAD	Inventory	139	236
Aeiforos Bulgaria EAD	Services	109	98
Prosal Tubes EAD	Inventory	-	1
Prosal Tubes EAD	Services	314	178
Siderom	Inventory	27,389	19,148
Sideral Shph	Inventory	1,917	573
Teka Systems BG	Services	-	4
Etem BG	Services	-	24
TeproMetal AG	Inventory	7,986	6,696
TeproMetal Bulgaria AD	Services	-	1
Metal Agencies Ltd	Inventory	4,717	870
Metalvalius EOOD	Inventory	18	154
Sidma SA, Greece	Inventory	14,415	7,476
Sidma Srl, Romania	Inventory	-	900
Sidma Bulgaria AD	Inventory	19,150	13,140
Genecos SA	Inventory	99	-
Metalco Bulgaria	Services	1	-
International Trade	Inventory	255	-
		104,573	**103,427**

Sales of inventory, fixed assets and services to subsidiaries

Related party	**Type of sale**	**2017**	**2016**
Port Svishtov West AD	Services	24	15
Sidebalk Steel DOO	Inventory	487	551
		511	**566**
Total sales to related parties		**105,084**	**103,993**

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

Notes to the separate financial statements
(All amounts are in BGN thousands)

31. Related party transactions (continued)
ii) Purchases of inventory, fixed assets and services

Related party	Type of purchase	2017	2016
Purchases from the parent company			
Viohalco SA	Investment in ubsidiaries	-	-
Purchases of inventory, fixed assets and services from related parties under common control			
Sidenor Steel Industry SA	Inventory	17,351	14,380
Sidenor Steel Industry SA	Services	1,851	2,331
Sidenor Steel Industry SA	Fixed assets	-	211
Sovel SA	Inventory	96,398	55,101
Sovel SA	Services	60	32
Sofia Med	Fixed assets	90	-
Ethil SA	Inventory	338	373
Sigma IS AD	Inventory	1,913	1,150
Sigma IS AD	Services	4,542	4,780
Sigma IS AD	Fixed assets	-	564
Erlikon SA	Inventory	23	19
Corinth Pipeworks, Greece	Fixed assets	-	183
Dojran Steel DOO	Inventory	9,322	3,900
Dojran Steel DOO	Services	-	4
Aeiforos Bulgaria EAD	Inventory	1,373	1,478
Aeiforos Bulgaria EAD	Services	205	278
Prosal Tubes EAD	Inventory	284	212
Prosal Tubes EAD	Services	-	6
Praksys BG SA	Inventory	-	221
Thermolith SA	Inventory	1,473	1,136
Viexal SA	Services	179	219
Teka Greece SA	Inventory	-	69
Teka Greece SA	Services	292	150
Teka Greece SA	Fixed assets	-	715
Steelmet Cyprus SA	Services	-	286
Etem Bulgaria EAD	Services	25	2
TeproMetal AG	Services	2,128	1,385
Metalco Bulgaria EAD	Services	394	459
Metalvalious EOOD	Inventory	4,202	328
Sidma Bulgaria AD	Inventory	6	5
Sidma Bulgaria AD	Services	1,119	638
Base Metals	Services	118	-
Genecos	Services	-	1
El.Ke.Me SA	Services	176	143
Inos Balkan	Inventory	23,331	18,858
Metalign EAD	Services	310	247
Lesko	Inventory	-	28
		167,503	**109,892**

Notes to the separate financial statements
(All amounts are in BGN thousands)

31. Related party transactions (continued)

ii) Purchases of inventory, fixed assets and services (continued)
Purchases of inventory, fixed assets and services from subsidiaries

Subsidiary	Type of purchase	2017	2016
Port Svishtov West AD	Services	373	282
Sidebalk Steel DOO	Services	34	311
		407	**593**
Total purchases form related parties		**167,910**	**110,485**

iii) Receivables from related parties

	31 December 2017	31 December 2016
Receivables from related parties under common control		
Aeiforos Bulgaria	282	-
Corinth Pipeworks Pipe Industry, Greece	-	184
Corinth Pipeworks, Greece	1,107	951
Corinth Pipeworks, USA	-	(15)
Dojran DOO	5,620	5,837
Energy Solutions Ltd	-	154
Ergosteel SA	4	4
Erlikon SA	2	1
Etem BG	3	3
Ethil SA	203	74
International Trade	255	
Metal Agensies Ltd	641	126
Metalco Bulgaria EAD	7	6
Metalvalius EOOD	-	154
Praksys BG	8	-
Praksys SA	162	121
Prosal Tubes EAD	1,812	1,050
Sidenor Steel SA	8,098	-
Sideral Shpk	1,244	744
Siderom Srl	19,088	12,572
Sidma Bulgaria AD	6,793	3,386
Sidma Romania SA	84	84
Sidma SA Greece	4,307	2,077
Sofia Med AD	-	5
Sovel SA	3,859	7,019
SIGMA IC. S.A.	11	-
TeproMetal AG	6,232	6,848
	59,822	**41,385**
Receivables from subsidiaries		
Sidebalk Steel DOO	454	2,015
Port Svishtov West AD	1	-
	455	**2,015**
Total receivables from related parties	**60,277**	**43,400**

Notes to the separate financial statements
(All amounts are in BGN thousands)

31. Related party transactions (continued)
iv) Payables to related parties

	31 December 2017	2016
Payables to the parent company		
Viohalco SA	7,178	7,178
Payables to related parties under common control		
Aeiforos Bulgaria AD	1,672	1,069
AWM (Associate)	6	-
Base Metals	32	-
Corinth Pipeworks, Greece	5,333	5,113
El.Ke.Me	132	272
Erlikon	2	19
Etem Bulgaria EAD	30	-
Ethil SA	-	23
Genecos	1	1
Inos Balkan	1,431	779
Jostdex Ltd	10	-
Metalco Bulgaria EAD	2,996	3,605
Metalign EAD	38	58
Metalvalius EOOD	102	16
Praksys BG S.A.	-	21
Prosal Tubes EAD	162	-
Sidenor	31,954	45,328
Sidma Bulgaria AD	-	23
Sidma Romania Srl	23	23
Sigma IS AD	5,622	6,259
Sovel SA	46,096	33,798
Steelmet Cyprus SA	43	44
Teka Greece SA	550	42
TeproMetal AG	4,867	2,739
Termolith SA	296	197
Viexal	5	56
	101,403	**99,485**
Payables to subsidiaries		
Port Svishtov West AD	1,562	1,271
Sidebalk Steel DOO	9	25
	1,571	**1,296**
Total payables to related parties	**110,152**	**107,959**

Notes to the separate financial statements
(All amounts are in BGN thousands)

31. Related party transactions (continued)

v) Remuneration of management	**2017**	**2016**
Gross salaries and social benefits	3,580	3,106
	3,580	**3,106**

vi) Bond loan

As at 31.12.2017 there are zero coupon bond loans with issuing value of EUR 25,000 thousand and nominal amount of EUR 36,568 thousand. The lender is Viohalco Belgium. The bond is not traded on financial markets and is payable 7 years after issuing date.

	31 December 2017	**2016**
Beginning of the year	54,038	51,401
Interest charged	2,357	2,637
End of year	**56,395**	**54,038**

32. Commitments

As at 31 December 2017 the company has commitments from commercial contract for the purchase of equipment and machinery of total amount BGN 1,902 thousand.

33. Contingent assets and liabilities

	31 December 2017	**2016**
Contingent assets		
Letters of credit from customers in favour of the Company	3,012	13,693
Contingent liabilities		
Bank guaranties in favour of suppliers	2,284	4,766

Other contingent liabilities
The Bulgarian tax legislation is subject to different interpretations and on-going changes. In that respect the interpretation of the tax legislation by the tax authorities for the purposes of the deals and activities of the Company may not be the same as that of the management.

As a result of that the tax authorities may express uncertainty regarding the way in which tax losses are calculated the as well as may impose additional taxes and fees.

The last inspections conducted by the tax authorities are as follows:
Corporate Income Tax Act – last period audited up to 31.12.2009
Value Added Tax Act - last period audited up to 31.10.2010
Personal Income Taxation Act – last period audited up to 31.12.2009
Social Insurance Code - last period audited up to 31.07.2011

Tax authorities may inspect the the financial reports and records for the five successive tax years of the current tax period and impose additional penalties. Management of the Company is not aware of any circumstances that could lead to substantial obligations in this area.

34. Subsequent events

No subsequent events, that require adjustments or disclosures in the financial statements, have occurred during the period from the reporting date to the date the financial statements were authorized for issue by the Board of Directors 26 March 2018.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Stomana Industry AD

Opinion

We have audited the separate financial statements of Stomana Industry AD (the Company) as set out on pages 1 to 45, which comprise the separate statement of financial position as at 31 December 2017, 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 2017, 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

Одиторско дружество София Рег. № 045 КПМГ Одит ООД

Tzvetelina Koleva
Authorised representative

Dobrina Kaloyanova
Registered auditor

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11 May 2018