

## **SOFIA MED AD**

### **INDEPENDENT AUDITOR'S REPORT**

### **ANNUAL ACTIVITY REPORT**

### **ANNUAL FINANCIAL STATEMENTS**

**31 DECEMBER 2020**

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

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## Independent Auditor's report

To the Shareholders of Sofia Med AD

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### Our opinion

We have audited the financial statements of Sofia Med AD (the "Company"), which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sofia Med AD as at 31 December 2020, and the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

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### Basis for opinion

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

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

### Independence

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

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

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

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



In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

Based on the procedures performed, our opinion is that:

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

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

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

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

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

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

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

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

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

  
Tsvetana Tsankova  
Registered Auditor responsible for the audit  
6 July 2021  
Sofia, Bulgaria



  
Boryana Dimova, Managing Director  
PricewaterhouseCoopers Audit OOD

## **General overview**

On March 11, 2020, the WHO declared pandemics related to the spread of COVID-19. In many countries, following the recommendations of health authorities, governments have been put in front of serious difficulties to deal with a significant number of severe cases of virus suffering. On March 13, 2020, the Bulgarian Parliament voted to declare a state of emergency in the country.

The emergency situation was cancelled on May 13, 2020 and from 14 May 2020 until the date of this report, an epidemic situation has been declared on the territory of the country, including various types of restrictions. The management of SOFIA MED AD will continue to monitor the potential impact of the crisis and will take all possible steps to mitigate its impact.

Given the increased tolerance of COVID-19 countries have taken measures to impose restrictions on movement even blocking activities in industrial areas where a large number of cases have been identified. As a result, in the first six months of 2020, signs of a global economic slowdown were quickly seen at unprecedented levels, especially in the markets of China and Central Europe.

The gradual removal of restrictions on movement and activities during the summer months of the northern hemisphere has led to an increase in the number of cases during the autumn and winter months. As a result, governments were forced to take new measures that were better organized than at the beginning of the year, thus limiting the negative impact on the economies of Europe and the United States. Towards the end of the year, new pandemic vaccines appeared, with vaccinations starting in the last days of December and expected to have a positive impact on the mobility and productivity of economies in 2021. Despite the positive development and recovery in the third quarter, the final data for GDP, as well as most financial data for most countries affected by the pandemic, are expected to end negatively for 2020.

Despite the significant decline in the price of Copper at levels below Euro 4 500 per ton at the end of March, the average price of Copper remained at Euro 5 395 per ton compared to Euro 5 358 per ton for fiscal 2019. The average price of zinc also fluctuated at lower levels, with an average zinc price of Euro 1 980 per ton in 2020, compared to Euro 2 273 per ton in 2019.

Despite the difficulties created by the global pandemic situation, in 2020, 82 277 tons of basic production products were sold, while in 2019 the amount of sold products amounted to 79 113 tons, which is a 3.9% annual increase.

The level of sales of SOFIA MED remained at BGN 923 370 thousand compared to BGN 956 688 thousand in 2019, with a decrease of 3%, reflecting the negative effect of the macroeconomic environment in the countries affected by the pandemic.

During 2020 the ratio EBITDA/Sales was 4.7%, compared to 3.4% in 2019. The ratio a-EBITDA/Sales increased to 5.2% compared to 3.8 % in 2019. The operating profit for 2020 increased and it was BGN 27 040 thousand, compared to BGN 15 947 thousand in 2019 which represented an increase of 69%. The main reasons for the significant increase are optimization of costs related to metal processing and improvement in the purchase prices of raw materials.

The reduction in financial costs continued in 2020. The net financial costs in 2020 were BGN 7 470 thousand, or a reduction of 12% compared in 2019 – BGN 8 470 thousand, as a result of renegotiation of loans conditions and reduction of interest rates.

The working capital excluding cash and cash equivalents (current assets less cash and cash equivalents, minus trade payables) as at the end of the year 2020 amounted to BGN 128 046 thousand (31.12.2019: BGN 63 642 thousand).

In 2020 SOFIA MED AD continued the implementation of its investment program in order to expand the production range and increase the competitiveness of the Company. The total amount of property, plant and equipment acquired during the year was BGN 22 734 thousand (2019: BGN 21,149 thousand).

Current period results and financial position overview – Financial highlights

| <i>In BGN thousand</i>                                  | 2020    | 2019    |
|---|---------|---------|
| Sales revenue   | 923 370 | 956 688 |
| Result from operating activities                        | 27 040  | 15 947  |
| Result before interest, taxes and amortization (EBITDA) | 45 254  | 32 754  |
| EBITDA / Sales  | 4.9%    | 3.4%    |
| Резултат преди данъци (EBT)                             | 19 570  | 7 477   |
| Working capital excluding cash and cash equivalents     | 128 046 | 63 642  |
| Working capital / Sales                                 | 13.9%   | 6.7%    |
| Debt / Equity   | 0,68    | 0,69    |
| Debt / EBITDA   | 3.74    | 4.83    |

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

| <i>In BGN thousand</i>                          | 2020          | 2019          |
|---|---------------|---------------|
| Result from operating activities                | 27 040        | 15 947        |
| Adjustments for:                                |               |               |
| + Depreciation of property, plant and equipment | 17 558        | 16 330        |
| + Depreciation of right of use assets           | 609           | 495           |
| + Amortization of intangible assets             | 156           | 91            |
| - Release of funding provided by the state      | (109)         | (109)         |
| <b>EBITDA</b>                                   | <b>45 254</b> | <b>32 754</b> |

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

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

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

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

| <i>In BGN thousand</i>                                 | 2020          | 2019          |
|--|---------------|---------------|
| <b>EBITDA</b>  | <b>45 254</b> | <b>32 754</b> |
| Adjustments for:                                       |               |               |
| + Loss / - Profit from Metal result                    | 4 393         | 4 201         |
| + Loss / - Profit from disposals of non-current assets | (1 458)       | -             |
| <b>a-EBITDA</b>  | <b>48 189</b> | <b>36 955</b> |
| a-EBITDA/ Sales  | 5.2%          | 3.9%          |



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

The metal result stems from:

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

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

**Sustainable Development**

The management of Sofia Med believes that a well-structured and sustainable culture of corporate social responsibility significantly supports the company's values and reputation, strengthens the company's positive image to stakeholders, creates an atmosphere of trust, inspires greater commitment and employee satisfaction, supports strong links with state institutions and local communities, and contributes to the global concept of sustainable development.

The Company's core philosophy focuses on commitment to transparency in all its operations, protecting the health and safety of employees and minimising its own environmental footprint as well as high customer satisfaction. Sofia Med implements the following integrated system in accordance with the requirements of international standards:

- for quality management according to ISO 9001: 2015 and IATF 16949:2016 for the automotive industry
- environmental management in accordance with the requirements of the international standards ISO 14001:2015
- occupational health and safety, in accordance with OHSAS 45001:2018.
- for energy management certified according to ISO 50001: 2011

The wide production range meets the requirements of the European standards EN, and the standards BS, DIN, ASTM, JIS or any other specific customer requirements. Furthermore, Sofia Med conforms to the ISO 26000:2010 guidelines on Social Responsibility. As part of its efforts for sustainable business, in December 2019 Sofia Med made for the first time the Materiality assessment - assessment of the most important economic, social and environmental factors that affect the company's sustainable performance. This assessment is in accordance with international standards guidelines (GRI Standards, AA1000). In January 2020, Sofia Med also took part in the participation of stakeholder engagement by surveying their views on how the above factors affect the company's business. Sofia Med takes into account the results in its short-term and long-term strategic decisions.

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

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

**Customer focus**

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

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



### **Care for our people**

Sofia Med invests in people and offers continuous training, career path and personal development opportunities to everyone, adopting equal opportunity policies at all levels.

The Company cultivates a rewarding working environment that respects human rights and one of its goals is to provide and maintain a safe working environment, which promotes responsible working practices.

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

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

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

### **2020: the year of COVID-19 and unprecedented employee care**

Sofia Med closely monitors the local and global situation from the very beginning and implements an extensive protocol of measures to deal with the developing pandemic, protect its employees and customers, and ensure a safe working environment. Some of the main measures include:

- immediate establishment of a team of COVID-19, which monitors the situation, proposes measures, as well as monitors their implementation;
- Regular PCR testing campaigns for employees;
- Providing a sufficient amount of protective equipment for employees - masks, gloves, disinfectants;
- Shift and rest schedules have been reorganized accordingly to avoid contacts and significantly reduce the number of people in groups in the same area;
- Providing free lunch for all employees on site after the closing of the company canteen;
- Installation of devices for measuring the temperature of the company inputs
- Regular and extensive disinfection of common areas;
- Remote work schedule where possible.

Extensive and timely measures, as well as their strict adherence ensured business continuity and excellent performance of the company.

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

Sofia Med is committed to protecting the environment and effective use of natural resources and has established and implements an integrated Environmental and Energy Policy under which it is committed to environmentally responsible business.

The company works to continually improve its environmental footprint and energy performance and invests in environmental protection infrastructure and measured to improve its energy efficiency.

### **Supporting local communities**

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

To help medical workers cope with the pandemic, in 2020 Sofia Med made a series of donations to the St. Anna Diagnostic and Consulting Center in Sofia, which included modern equipment and medical supplies.

### Participation in networks and organisations

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

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

### Research and development activities

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

### Branches

The Company has no branches.

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

In 2020 the Company has not redeemed any treasury shares, and as at 31 December 2020 it does not hold any redeemed treasury shares. The members of the Board of Directors do not hold any share options or bonds of the Company. There is no decision of the General Meeting of shareholders granting to the members of the Board of Directors rights to acquire shares and bonds in the Company. The members of the Board of Directors have not declared that they or any parties related to them have contracts concluded with the Company which fall beyond its ordinary course of business or significantly depart from the market conditions. The remuneration of the members of the Board of Directors for 2020 was BGN 345 thousand (2019: BGN 246 thousand).

The members of the Board of Directors of the Company as of December 31, 2020 are as follows:

1. Efstratios Evangelos Stratigis;
2. Angel Petrov Ganev;
3. Ioannis Papadimitriou;
4. Stylianos Theodosiou;
5. Athanassios Athanassopoulos;
6. Charalampos Vlachoutsikos;
7. Dimitrios Dimitriadis;
8. Nikolaos Kopanos;
9. Lidia Atanasova Gerdjikova

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

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

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

| <b>Member of the Board of Directors</b>   | <b>Participating in following companies</b>   |
|---|---|
| Athanassios Athanassopoulos   | <ul style="list-style-type: none"> <li>• LESKO Ltd.</li> <li>• PORT SVISHTOV WEST S.A.</li> <li>• STOMANA ENGINEERING S.A. (with the previous name Sigma JSC)</li> <li>• STOMANA-INDUSTRY S.A.</li> </ul>   |
| Stylianos Theodosiou  | <ul style="list-style-type: none"> <li>• TECHOR S.A.</li> </ul>   |
| Charalampos Vlachoutsikos   | <ul style="list-style-type: none"> <li>• ANAMET S.A.</li> </ul>   |
| Periklis Sapountzis – on 15.04.2020 was removed as a member of the board of directors | <ul style="list-style-type: none"> <li>• ELVALHALCOR HELLENIC COPPER AND ALUMINIUM INDUSTRY S.A</li> <li>• FITCO S.A</li> <li>• HALCOR RESEARCH AND DEVELOPMENT S.A.</li> </ul>                             |
| Dimitrios Dimitriadis   | <ul style="list-style-type: none"> <li>• HELLAS GOLD S.A.</li> <li>• THRACE MINERALS S.A.</li> <li>• THRACIAN GOLD MINING S.A.</li> <li>• MACEDONIAN COPPER S.A.</li> </ul>                                 |
| Ioannis Papadimitriou   | <ul style="list-style-type: none"> <li>• METALCO BULGARIA S.A.</li> <li>• METALVALIUS Ltd.– on 05.03.2020, the Company was deleted from the Commercial Register</li> <li>• STOMANA-INDUSTRY S.A.</li> </ul> |

The other Directors of the Company do not participate in the management of other companies.

The following Directors of the Company own more than 25% of the share capital of other companies:

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

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

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

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

*Interest rate risk*

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

*Foreign currency risk*

As a result of purchases and sales at prices determined in currencies other than the Bulgarian lev, the operating results of the Company could be affected by movements in the exchange rates against BGN. The Company hedges the foreign currency risk by borrowing money in the same currencies as the Company's sales and purchases. Part of sales and purchases denominated in currency different than BGN or EUR are hedged by entering into "sell" or "buy" forward contracts for sale/purchase at determined exchange rate of the respective quantity of foreign currency at the date at which the receivables/payables are expected to be settled.

*Price risk*

The Company is exposed to significant risk as a result of the changes in the prices of copper and zinc as they are its main raw materials used in production. The Company is following its policy of hedging this risk. The Company agrees both purchase and selling prices with reference to the prices quoted on the London Metal Exchange (LME) at specified dates.

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

The Company concludes a futures sale contract on LME for each purchase order it places, and it concludes a futures purchase contract for each customer order it accepts. The futures contracts are for approximately the same quantities as the purchase and sales orders and they are concluded for approximately the same dates with reference to which the purchase and selling prices are determined. The Company holds derivative financial instruments such as futures contracts for purchases and sales of inventory, to hedge the risks related to fluctuations of raw materials prices.

*Credit risk*

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

*Liquidity risk*

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

According to the agreements concluded with banking institutions, the company has undertaken to comply with and maintain certain financial covenants. Financial covenants as of December 31 of the corresponding year are calculated on the basis of the company's audited financial statements. SOFIA MED has complied with all financial covenants set in all loan agreements of the Company for the financial year 2020, and in cases where there is a deviation from the agreed indicators, the Company has received from the creditor waiver of its requirement to comply with this ratio for the period of calculation ending on 31 December 2020.

**Responsibilities of the management**

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

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

The management confirms that it has fulfilled its responsibilities and that the financial statements are prepared in compliance with IFRS as adopted by the EU.

The management also confirms that this management report presents true and fairly the activities of the Company and the developments in the business as well as the main risks for the Company.

The management approves for issue the management report and the financial statements of the Company for 2020.

**Important transactions with related parties**

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

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

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

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

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

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

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

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

SOFIA MED sells to Icme Ecab finished goods.

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

Metalvalius sells to SOFIA MED cathodes.

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

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

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

SOFIA MED sells to International Trade finished goods.

Sigma IC SA sells to SOFIA MED subcontracted works and industrial services.

The remunerations of the member of the board as such for 2020 amounts to BGN 345 thousand (2019: BGN 247 thousand)


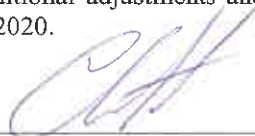
**Composition of the Board of Directors**

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

- Efstratios Evangelos Stratigis, Chairman;
- Angel Petrov Ganev, Vice Chairman;
- Ioannis Papadimitriou;
- Stylianos Theodosiou;
- Athanassios Athanassopoulos;
- Andreas Mavrudis;
- Dimitrios Dimitriadis;
- Panayotis Lolos;
- Lidia Atanasova Gerdjikova;

**Subsequent events**

No other significant events have occurred after the reporting date, which require additional adjustments and/or disclosures in the financial statements of the Company for the year ended 31 December 2020.

  
\_\_\_\_\_  
Ioannis Papadimitriou  
General Manager  
\_\_\_\_\_  
Lidia Gerdjikova  
Director  
\_\_\_\_\_  
Sergey Vlaykov  
Chief Financial Officer

24.03.2021

**SOFIA MED AD**  
**STATEMENT OF COMPREHENSIVE INCOME**

**31 DECEMBER 2020**

**SOFIA MED**

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

|   |       | For the year ended 31<br>December |                |
|---|-------|-----------------------------------|----------------|
|   | Notes | 2020                              | 2019           |
| <i>In thousand BGN</i>  |       |                                   |                |
| Revenue   | 3.1   | 923 370                           | 956 688        |
| Cost of sales   | 3.2   | (882 093)                         | (926 728)      |
| <b>Gross profit</b>   |       | <b>41 277</b>                     | <b>29 960</b>  |
| Selling and distribution expenses                                       | 3.2   | (3 777)                           | (4 126)        |
| Administrative expenses   | 3.2   | (11 234)                          | (10 531)       |
| Impairment loss on trade receivables                                    | 8, 21 | (313)                             | 478            |
| Other expenses and income, net  | 3.3   | 1 087                             | 166            |
| <b>Result from operating activities</b>                                 |       | <b>27 040</b>                     | <b>15 947</b>  |
| Finance income  | 3.4   | 4                                 | 109            |
| Finance expenses  | 3.4   | (7 474)                           | (8 579)        |
| <b>Net finance cost</b>   |       | <b>(7 470)</b>                    | <b>(8 470)</b> |
| <b>Profit before income tax</b>   |       | <b>19 570</b>                     | <b>7 477</b>   |
| Income tax expense  | 4     | (1 971)                           | (716)          |
| <b>Profit for the year</b>  |       | <b>17 599</b>                     | <b>6 761</b>   |
| <b>Other comprehensive income</b>                                       |       |                                   |                |
| Remeasurements of defined benefit liability                             | 15    | (145)                             | 45             |
| Related tax   | 4     | 14                                | (5)            |
|   |       | <b>(131)</b>                      | <b>40</b>      |
| Effective portion of changes in fair value of cash flow hedge contracts | 3.5   | 3 954                             |                |
| Related tax   | 4     | (395)                             | (8)            |
|   |       | <b>3 559</b>                      | <b>77</b>      |
| <b>Other comprehensive income for the period, net of tax</b>            |       | <b>3 428</b>                      | <b>117</b>     |
| <b>Total comprehensive income for the period</b>                        |       | <b>21 027</b>                     | <b>6 878</b>   |

|   |  |   |   |
|---|--|---|---|
| <br>Ioannis Papadimitriou<br>General Manager | <br>Lidia Gerodjikova<br>Director | <br>Sergey Vlaykov<br>Chief Financial Officer | <br>Evelina Chergarska<br>Prepared |
|---|--|---|---|

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

|  |  |  |
|--|--|--|
| <br>Tsvetana Tsankova<br>Registered auditor<br>06-07-2021 | <br>София<br>Рег. № 085<br>ПРИСУТСТВОУЩАТА СЪЩЕСТВЕНА | <br>Boryana Dimova, Managing Director<br>PricewaterhouseCoopers Audit OOD<br>06-07-2021 |
|--|--|--|

The financial statements were approved for issue by Decision of the Board of Directors of 24 March 2021.  
The notes set out on pages 14 to 56 are an integral part of these financial statements



**SOFIA MED AD**  
**STATEMENT OF FINANCIAL POSITION**

**31 DECEMBER 2020**

**SOFIA MED**

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

|                                  | Notes | 31 December 2020 | 31 December 2019 (restated*) | 1 January 2019 (restated*) |
|----------------------------------|-------|------------------|------------------------------|----------------------------|
| <i>In thousand BGN</i>           |       |                  |                              |                            |
| <b>ASSETS</b>                    |       |                  |                              |                            |
| <b>Non-current assets</b>        |       |                  |                              |                            |
| Property, plant and equipment    | 5     | 276 895          | 277 914                      | 266 800                    |
| Right of use assets              | 5     | 1 241            | 1 159                        | -                          |
| Intangible assets                | 6     | 289              | 175                          | 229                        |
| Investments                      | 24    | -                | -                            | 17 610                     |
| Deferred tax assets              | 4     | -                | 1 946                        | 2 618                      |
|                                  |       | <b>278 425</b>   | <b>281 194</b>               | <b>287 257</b>             |
| <b>Current assets</b>            |       |                  |                              |                            |
| Inventories                      | 7     | 189 438          | 143 735                      | 153 929                    |
| Trade and other receivables      | 8     | 50 920           | 44 706                       | 48 352                     |
| Derivative financial instruments | 9     | 4 025            | 167                          | 850                        |
| Cash and cash equivalents        | 10    | 17 725           | 45 290                       | 4 924                      |
| Assets held for sale             | 23    | -                | 8 792                        | 8 792                      |
|                                  |       | <b>262 108</b>   | <b>242 690</b>               | <b>216 847</b>             |
| <b>TOTAL ASSETS</b>              |       | <b>540 533</b>   | <b>523 884</b>               | <b>504 104</b>             |
| <b>EQUITY</b>                    |       |                  |                              |                            |
| Share capital                    | 11    | 110 297          | 110 297                      | 110 297                    |
| Share premium                    |       | 10 820           | 10 820                       | 10 820                     |
| Reserves                         | 12    | 79 943           | 81 524                       | 87 670                     |
| Accumulated losses               |       | 47 840           | 25 232                       | 15 723                     |
|                                  |       | <b>248 900</b>   | <b>227 873</b>               | <b>224 510</b>             |

\*The restements resulting from changes in the accounting policy are disclosed in Note: 2.3.



**SOFIA MED AD**  
**STATEMENT OF FINANCIAL POSITION (CONTINUED)**


**SOFIA MED**


**31 DECEMBER 2020**

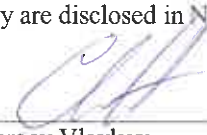
(All amounts are in BGN thousands, unless otherwise stated)

|                                     | Notes | 31 December 2020 | 31 December 2019<br>(restated*) | 1 January 2019<br>(restated*) |
|-------------------------------------|-------|------------------|---------------------------------|-------------------------------|
| <i>In thousand BGN</i>              |       |                  |                                 |                               |
| <b>LIABILITIES</b>                  |       |                  |                                 |                               |
| <b>Non-current liabilities</b>      |       |                  |                                 |                               |
| Loans and borrowings                | 13    | 117 455          | 137 031                         | 124 195                       |
| Lease liabilities                   | 14    | 732              | 712                             | -                             |
| Retirement benefit liabilities      | 15    | 1 747            | 1 421                           | 1 332                         |
| Government grants                   | 16    | 2 619            | 2 728                           | 2 837                         |
| Deferred tax liabilities            | 4     | 347              | -                               | -                             |
|                                     |       | <b>122 900</b>   | <b>141 892</b>                  | <b>128 364</b>                |
| <b>Current liabilities</b>          |       |                  |                                 |                               |
| Loans and borrowings                | 13    | 51 793           | 19 881                          | 30 624                        |
| Lease liabilities                   | 14    | 594              | 478                             | -                             |
| Trade and other payables            | 17    | 111 809          | 122 814                         | 109 643                       |
| Contract liabilities                | 3.1   | 4 537            | 10 946                          | 10 925                        |
| Derivative financial instruments    |       | -                | -                               | 38                            |
|                                     |       | <b>168 733</b>   | <b>154 119</b>                  | <b>151 230</b>                |
| <b>TOTAL LIABILITIES</b>            |       | <b>291 633</b>   | <b>296 011</b>                  | <b>279 594</b>                |
| <b>TOTAL EQUITY AND LIABILITIES</b> |       | <b>540 533</b>   | <b>523 884</b>                  | <b>504 104</b>                |

\*The restatements resulting from changes in the accounting policy are disclosed in Note: 2.3.


  
 Ioannis Papadimitriou  
 General Manager

  
 Lidia Gerdjikova  
 Director

  
 Sergey Vlaykov  
 Chief Financial Officer

  
 Evelina Chergarska  
 Preparer

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

  
 Tsvetana Tsankova  
 Registered auditor

06-07-2021



  
 Boryana Dimova, Managing Director  
 PricewaterhouseCoopers Audit OOD




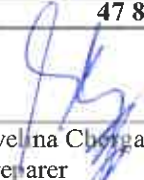
06-07-2021

**SOFIA MED AD**  
**STATEMENT OF CHANGES IN EQUITY**

**SOFIA MED**

**31 DECEMBER 2020**

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

|   | Notes   | Share capital  | Share premium | Reserves       | Accumulated gains and losses | Total equity   |
|---|---------|----------------|---------------|----------------|------------------------------|----------------|
| <i>In thousands of BGN</i>  |         |                |               |                |                              |                |
| <b>Balance as at 1 January 2019</b>   |         | <b>110 297</b> | <b>10 820</b> | <b>114 181</b> | <b>(10 788)</b>              | <b>224 510</b> |
| Restatement from change in accounting policy  |         | -              | -             | (26 511)       | 26 511                       | -              |
| <b>Restated balance as at 1 January 2019</b>  |         | <b>110 297</b> | <b>10 820</b> | <b>87 670</b>  | <b>15 723</b>                | <b>224 510</b> |
| <b>Comprehensive income for the period</b>  |         |                |               |                |                              |                |
| Profit for the year   |         | -              | -             | -              | 6 761                        | 6 761          |
| <b>Other comprehensive income</b>   |         |                |               |                |                              |                |
| Transfer of revaluation reserve   |         | -              | -             | (3 951)        | 3 951                        | -              |
| Cash flow hedge, net of tax   | 3.5, 12 | -              | -             | 77             | -                            | 77             |
| Remeasurements of defined benefit liability, net of tax   | 15      | -              | -             | -              | 40                           | 40             |
| <b>Total comprehensive income for the period (Restated)</b>   |         | <b>-</b>       | <b>-</b>      | <b>(3 874)</b> | <b>10 752</b>                | <b>6 878</b>   |
| <b>Other equity transactions</b>  |         |                |               |                |                              |                |
| Merger of entities under common control   | 26      | -              | -             | (3 515)        | -                            | (3 515)        |
| Other movements in equity   | 12      | -              | -             | 1 243          | (1 243)                      | -              |
| <b>Balance as at 31 December 2019 (restated)</b>  | 2.3     | <b>110 297</b> | <b>10 820</b> | <b>81 524</b>  | <b>25 232</b>                | <b>227 873</b> |
| <b>Balance as at 31 December 2019 (previously issued)</b>   |         | <b>110 297</b> | <b>10 820</b> | <b>111 986</b> | <b>(5 230)</b>               | <b>227 873</b> |
| Effect of restatement from change in accounting policy  | 2.3     | -              | -             | (30 462)       | 30 462                       | -              |
| <b>Balance as at 1 January 2020 (restated)</b>  |         | <b>110 297</b> | <b>10 820</b> | <b>81 524</b>  | <b>25 232</b>                | <b>227 873</b> |
| <b>Comprehensive income for the period</b>  |         |                |               |                |                              |                |
| Profit for the year   |         | -              | -             | -              | 17 599                       | 17 599         |
| <b>Other comprehensive income</b>   |         |                |               |                |                              |                |
| Transfer of revaluation reserve   |         | -              | -             | (5 140)        | 5 140                        | -              |
| Cash flow hedge, net of tax   | 3.5, 12 | -              | -             | 3 559          | -                            | 3 559          |
| Remeasurements of defined benefit liability, net of tax   | 15      | -              | -             | -              | (131)                        | (131)          |
| <b>Total comprehensive income for the period</b>  |         | <b>-</b>       | <b>-</b>      | <b>1 581</b>   | <b>22 608</b>                | <b>21 027</b>  |
| <b>Other equity transactions</b>  |         |                |               |                |                              |                |
| Other movements in equity   | 12      | -              | -             | -              | -                            | -              |
| <b>Balance as at 31 December 2020</b>   |         | <b>110 297</b> | <b>10 820</b> | <b>79 943</b>  | <b>47 840</b>                | <b>248 900</b> |
| <div> <div> <br/> Ioannis Papadimitriou<br/> General Manager </div> <div> <br/> Lidia Geruljova<br/> Director </div> <div> <br/> Sergey Vlaykov<br/> Chief Financial Officer </div> <div> <br/> Evelina Chergarska<br/> Preparer </div> </div> |         |                |               |                |                              |                |

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

|  |   |  |
|--|---|--|
| <br>Tsvetana Tsankova<br>Registered auditor<br>06 -07- 2021 | <br>София<br>Рег. № 085<br>ОДИТНО-ПРОЕКТИРНО-СТРОИТЕЛНО-МОНТАЖНО-ЕНЕРГЕТИЧЕСКО ДРУЖЕСТВО | <br>Boryana Dimova, Managing Director<br>PricewaterhouseCoopers Audit OOD<br>06 -07- 2021 |
|--|---|--|

The financial statements were approved for issue by Decision of the Board of Directors of 24 March 2021.  
The notes set out on pages 14 to 56 are an integral part of these financial statements

**SOFIA MED AD**  
**STATEMENT OF CASH FLOWS**

**31 DECEMBER 2020**

**SOFIA MED**

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

|  |       | For the year ended 31<br>December |                 |
|--|-------|-----------------------------------|-----------------|
| <i>In thousands of BGN</i>   | Notes | 2020                              | 2019            |
| <b>Cash flows from operating activities</b>                          |       |                                   |                 |
| Profit after tax   |       | 17 599                            | 6 761           |
| Adjustments for:   |       |                                   |                 |
| Tax  |       | 1 971                             | 716             |
| Depreciation of property plant and equipment                         | 5     | 17 558                            | 16 330          |
| Depreciation of right of use assets                                  | 5     | 609                               | 495             |
| Amortization of intangible assets                                    | 6     | 156                               | 91              |
| Income from government grants  | 16    | (109)                             | (109)           |
| Finance Income   |       | (4)                               | (109)           |
| Net finance costs  | 3.4   | 7 474                             | 8 579           |
| (Gain) / loss from sale of non-current assets                        |       | (1 458)                           | 5               |
| (Gain) / loss from revaluation of derivatives through profit or loss | 9     | 96                                | 729             |
| (Gains)/ losses from foreign exchange differences                    |       | (1 012)                           | (1 125)         |
| Change in devaluation of inventories to net realisable value         | 7     | (1 936)                           | (3 660)         |
| Impairment and write-off of receivables                              | 8     | 235                               | (478)           |
|  |       | <b>41 179</b>                     | <b>28 225</b>   |
| Decrease / (increase) in inventories                                 | 7     | (43 767)                          | 14 980          |
| Decrease / (increase) in trade and other receivables                 |       | 2 578                             | 18 043          |
| (Decrease) / increase in trade and liabilities                       |       | (11 005)                          | 8 775           |
| Interest charges & related expenses paid                             |       | (7 844)                           | (9 681)         |
| Income tax paid  |       | (56)                              | (7)             |
| Other (payments)/income to / from operational activities             |       | 890                               | (229)           |
| <b>Net cash flows from operating activities</b>                      |       | <b>(18 025)</b>                   | <b>60 106</b>   |
| <b>Cash flows from investing activities</b>                          |       |                                   |                 |
| Purchase of tangible assets  |       | (22 734)                          | (21 149)        |
| Cash acquired from business combinations                             |       | -                                 | 175             |
| Cash inflow from sale of non - current assets                        |       | 1 041                             | -               |
| <b>Net cash flows used in investing activities</b>                   |       | <b>(21 693)</b>                   | <b>(20 974)</b> |
| <b>Cash flows from financing activities</b>                          |       |                                   |                 |
| Loans received   |       | 28 365                            | 28 360          |
| Loans repaid   |       | (15 658)                          | (26 662)        |
| Payments of lease liabilities  |       | (554)                             | (464)           |
| <b>Net cash flows from financing activities</b>                      |       | <b>12 153</b>                     | <b>1 234</b>    |
| <b>Net change in cash and cash equivalents</b>                       |       | <b>(27 565)</b>                   | <b>40 366</b>   |
| Cash and cash equivalents at the beginning of period                 |       | 45 290                            | 4 924           |
| <b>Cash and cash equivalents at the end of period</b>                | 10    | <b>17 725</b>                     | <b>45 290</b>   |

Ioannis Papadimitriou  
General Manager

Lidia Gerdjikova  
Director

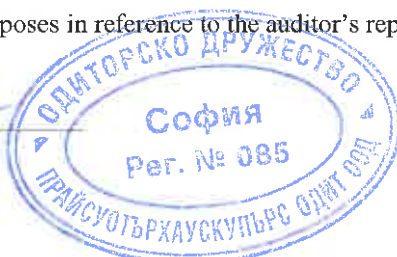
Sergey Vlaykov  
Chief Financial Officer

Evelina Chergarska  
Preparer

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

Tsvetana Tsankova  
Registered auditor

06 -07- 2021



Boryana Dimova, Managing Director  
PricewaterhouseCoopers Audit OOD

06 -07- 2021

## **1. Reporting entity**

### **Incorporation**

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

### **Shareholders**

As at 31 December 2020 the share capital of the Company is held by ElvalHalcor Hellenic Copper and Aluminium Industry S.A. Greece (ElvalHalcor, the parent company) – 89.56%, Viohalco SA/NV – 10.44% and Fitco S.A. Metal Works (Fitco S.A.), Greece – 0.00004%. ElvalHalcor S.A. and Fitco S.A. are also part of the Company of Viohalco SA/NV, (traded on the EURONEXT stock exchange in Belgium) which is the ultimate parent of SOFIA MED AD.

### **Operating activities**

Sofia Med is a producer of a wide range of rolled and extruded copper and copper alloy products such as sheets, strips, plates, circles, disks, bare and plated copper bus bars, rods, profiles, components, and wire that are used in a wide variety of building and industrial applications. The Company started its processing activity in the late 2000.

The Company operates only in Sofia. As at 31 December 2020 the number of employees is 606 (2019: 624).

The financial statements are authorized for issue on 24 March 2021 with a resolution of the Board of Directors.

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

### **2.1 Basis of preparation**

#### **(i) Compliance with IFRS as adopted by EU**

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

#### **Basis of measurement**

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

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

### **Subsidiaries and consolidated financial statements**

As of 31.12.2020 Sofia Med AD has no subsidiaries. As of 31.12.2019 the Company has received 100% of the registered capital of Metalvalius EOOD. The Company's investment in Metalvalius EOOD is accounted at cost. In accordance with IFRS 10 Consolidated Financial Statements, Sofia Med AD is not required to prepare consolidated financial statements as 31.12.2019. Its direct parent and ultimate parent company Viohalco S.A. (www.viohalco.com), Belgium prepares and publishes consolidated financial statements in accordance with IFRS as adopted by the EU. The consolidated financial statements of Viohalco S.A. is published in the Bulgarian Commercial Register in accordance with the requirements of the Accountancy Act.

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

### 2.1 Basis of preparation (continued)

#### (i) Compliance with IFRS as adopted by EU (continued)

##### Functional and presentation currency

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

##### Going concern

These financial statements have been prepared on the basis of the assumption that the Company is a going concern and will continue to operate in the foreseeable future. The management considers that the existing capital resources and sources of funding will be adequate for its liquidity needs.

### 2.2 Changes in accounting policies and disclosures

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

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing on 1 January 2020:

**Amendments to References to the Conceptual Framework in IFRS Standards** (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020)

**Amendments to IAS 1 and IAS 8: Definition of Material** (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020)

**Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform** (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020)

**Amendments to IFRS 3 Business Combinations** (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020)

**Amendment to IFRS 16 Leases Covid 19-Related Rent Concessions** (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020)

All changes of the adopted standards listed above have no impact on the amounts recognized in previous periods and are not expected to have a significant impact on the Company during the current or future reporting periods as well as in the foreseeable future transactions.

#### *b) New standards, interpretations and amendments not yet adopted by the Company*

Certain new accounting standards and interpretations that are not mandatory for the reporting period at 31 December 2020 and have not been previously adopted by the Company have been published.

**Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9** (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2021)

**Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2** (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021)

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



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

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

#### *c) New standards, interpretations and amendments not yet adopted by the EU*

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021) including Amendment to IFRS 17 (issued on 25 June 2020)

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current - deferral of the effective date (issued on 23 January 2020 and 15 July 2020 and effective for annual periods beginning on or after 1 January 2023)

Definition of a business – Amendments to IFRS 3 ; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; Annual improvements to IFRS - Cycle 2018-2020 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022)

### 2.3 Changes in accounting policy

The Company voluntarily changed its accounting policy for transfer of revaluation surplus to retained earnings.

IAS 16 allows the revaluation surplus included in equity in respect of an item of the property, plant and equipment to be transferred to retained earnings when the asset is derecognised, or the surplus may be transferred gradually as the asset is used by an entity. The Company previously transferred the surplus on derecognition of the asset and changed the policy to transferring the surplus gradually as the asset is used.

The newly applied policy is used by all companies in the group to which the Company belongs and the change will align the accounting policies of the Company to the other entities of the group.

As a result, the financial statements of the Company will provide more comparable, reliable and relevant information for the users of the financial statements of the Company.

#### *Effect of the Accounting policy Change (IAS 8, IAS 16)*

In accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the Company has restated the comparative financial information in order to reflect the revaluation surplus and retained earnings as if this policy was in place since the adoption of the IFRS.

As a result the comparative statements for 2019 have been restated.

The tables below present the effect of the restatement as a result of the change in accounting policies to individual line items affected by the restatement:

| Statement of financial position as at 31 December 2019 | 31.12.2019<br>previously issued | Effect of the<br>Accounting policy<br>Change<br>(IAS 8, IAS 16) | 31.12.2019<br>Restated |
|--|---------------------------------|---|------------------------|
| <i>In thousands of BGN</i>                             |                                 |   |                        |
| <b>Equity</b>  |                                 |   |                        |
| Share capital  | 110,297                         |   | 110,297                |
| Share premium  | 10,820                          |   | 10,820                 |
| Reserves   | 111,986                         | (30,462)  | 81,524                 |
| Retained earnings                                      | (5,230)                         | 30,462  | 25,232                 |
|  | <b>227,873</b>                  | <b>-</b>  | <b>227,873</b>         |

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

### **2.3 Changes in accounting policy (continued)**

#### *Effect of the Accounting policy Change (IAS 8, IAS 16) (continued)*

| <b>Statement of financial position as at 1 January 2019</b> | <b>1.1.2019 previously issued</b> | <b>Effect of the Accounting policy Change (IAS 8, IAS 16)</b> | <b>1.1.2019 Restated</b> |
|---|-----------------------------------|---|--------------------------|
| <i>In thousands of BGN</i>                                  |                                   |   |                          |
| <b>Equity</b>   |                                   |   |                          |
| Share capital   | 110,297                           |   | 110,297                  |
| Share premium   | 10,820                            |   | 10,820                   |
| Reserves  | 114,181                           | (26,511)  | 87,670                   |
| Retained earnings   | (10,788)                          | 26,511  | 15,723                   |
|   | <b>224,510</b>                    | <b>-</b>  | <b>224,510</b>           |

### **2.4 Estimates and assumptions**

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

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

#### ***Retirement benefit liabilities***

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

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

The Company's land, buildings and machinery and technical installations are carried at revalued amounts. The determination of the assets' fair values involves estimates. The Company had used assumptions and estimates in the valuation of property plant and equipment at 31.12.2017.

The Management of the Company has assessed that the revalued amounts as at 31.12.2017 have not changed significantly as at 31.12.2020 and the valuation carried out in 2017 is still valid and applicable as at 31.12.2020. Further details for the applied methods and assumptions are presented in Note 5.

#### ***Useful life of property, plant and equipment and intangible assets***

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



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

### 2.4 Estimates and assumptions (continued)

#### *Impairment of receivables*

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

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

#### *Net realisable value of inventories*

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

#### *Measurement of fair values*

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

When measuring the fair value of an asset or liability, the Company uses market observable data as far as possible.

Fair values are categorised into different level in a fair value hierarchy based on the inputs in the valuation techniques as follows.

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

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

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

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

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

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

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

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

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

### 2.5 Summary of significant accounting policies

#### a) Foreign currency translation

The financial statements are presented in Bulgarian leva, which is the functional and presentation currency of the Company. Foreign currency transactions are initially recorded in the functional currency using the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the end of each month by applying the exchange rate for the last working day published by the Bulgarian National Bank.

All exchange rate differences are recognised in the other operating income and expenses. Non-monetary assets and liabilities that are measured in foreign currency historical cost are translated using the exchange rate as at the date of initial transaction (acquisition).

#### b) Property, plant and equipment

##### Initial recognition

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes the acquisition cost, including all duties and non-recoverable taxes and other expenditures directly attributable to bring the asset to the working condition for its intended use by the management.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. The cost of replacing a part of an item of property, plant and equipment is recognised as part of the carrying amount of the item if it meets the conditions for recognition of non-current asset.

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

##### Subsequent measurement

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

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

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

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

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds, if any, and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised. At each financial year end the asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted prospectively if expectations differ from the previous estimates, the latter change prospectively.

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

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

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

##### Subsequent measurement (continued)

The revaluation reserve arising from the revaluation of land, buildings, machinery and technical installations is transferred to retained earnings in stages on an annual basis and in proportion to the accrued depreciation of the respective assets.

#### c) Borrowing costs

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

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on this asset had not been made.

Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.

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

#### d) Intangible assets

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

Intangible assets are amortised on a straight-line basis.

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

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

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

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

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

#### e) Financial instruments

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

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

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

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

#### e) Financial instruments (continued)

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

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

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

#### **Financial assets**

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

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

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

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

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

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

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

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

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

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

The information considered includes:

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

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

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

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

#### **Financial assets – Business model assessment (continued)**

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

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

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

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition.

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

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

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

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

|   |  |
|---|--|
| <b>Financial assets at FVTPL</b>          | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss, except for derivatives designated as hedging instruments for which hedge accounting is applied.   |
| <b>Financial assets at amortised cost</b> | These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. |



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

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

#### e) Financial instruments (continued)

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

#### Financial assets – Subsequent measurement and gains and losses (continued)

|                                    |  |
|------------------------------------|--|
| <b>Debt investments at FVOCI</b>   | These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. |
| <b>Equity investments at FVOCI</b> | These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.   |

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

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

##### (iii) Derecognition

#### Financial assets

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

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

#### Financial liabilities

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

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

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

##### (iv) Offsetting

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

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

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

#### e) Financial instruments (continued)

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

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

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

##### *Cash flow hedges*

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

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

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

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

##### *Fair value hedges*

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

These hedging contracts are designated as fair value hedges.

##### *Hedge accounting*

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

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

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



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

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

#### e) Financial instruments (continued)

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

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

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

The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognised. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss. In other cases the amount recognised in other comprehensive income is transferred to profit or loss in the same period when the hedged item affects profit or loss.

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised directly in the profit or loss.

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

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

As at each reporting date the Company measures its open positions used as fair value hedging instruments at fair value.

The resulting gain or loss is recognised directly in profit or loss. The hedging gain or loss on the hedged item adjust the carrying amount of the hedged item (if applicable) and is recognised in profit or loss.

##### *(vi) Share capital*

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

#### f) Impairment

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

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

The Company recognises loss allowances for ECLs on:

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

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

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

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

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

#### f) Impairment (continued)

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

###### *Financial instruments and contract assets (continued)*

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

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

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

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

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

###### *Measurement of ECLs*

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

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

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

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

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

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

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

###### *Write-off*

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For third party customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For very large customers with long lasting history of business relations, the Company makes an individual assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery.

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

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

#### f) Impairment (continued)

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

##### *Write-off (continued)*

The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

##### *Non-financial assets*

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

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

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

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

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

#### g) Inventory

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

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

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

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

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

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

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

#### h) Provisions

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

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

#### i) Employee benefits

##### *Defined contribution plans*

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

##### *Defined benefit plans*

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

##### *Termination benefits*

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

##### *Short-term employee benefits*

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

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

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

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

#### j) Leases

From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost.

The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

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

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

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

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

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

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

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

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

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

|                                |           |
|--------------------------------|-----------|
| *right of use for the vehicles | 3-5 years |
|--------------------------------|-----------|

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

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



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

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

#### **k) Revenue**

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

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

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

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

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

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

According to the established business practice of the Company for a part of the sales agreements, prices at which sales invoices are issued are provisional and are determined on the basis of the forward LME quotations for the respective metal, for a specified quotation period at the date of delivery and transfer of control over goods to the customer. At this point in time revenue recognition criteria of IFRS 15 are met and the Company recognizes sales revenue and trade receivables at the prices specified in the invoices. However, according to these sales agreements the metal component of the final sales price and respectively the final consideration payable may be determined by the customer on a future date (sold-not-booked positions), on the basis of the spot market quotations on LME at this date. This is a provisional pricing feature under which the transaction price is based on the spot rate of the metal at the date the payable of the customer is finally confirmed.

This provisional pricing feature does not depend on assessment of quantity or quality of the goods delivered, subsequent to the delivery date but only on changes in the market prices of metals. The sold-not-booked positions represent embedded derivatives, as the gains or losses do not depend on the performance obligation and execution of Sofia Med AD but on an external factor (the metal price) that is not closely related to the contract with the customer. The host contracts of the embedded derivatives are the respective trade receivables, recognized upon recognition of revenue. Under IFRS 9 the embedded derivatives with a host financial asset should not be separated but the entire instrument should be measured as a whole according to the general requirements of the standard (i.e. in this case at fair value). Gains on remeasurement of these trade receivables to fair value are not considered revenue in the scope of IFRS 15.

The Company does not provide sales-related services.

##### ***Interest income***

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

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

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

#### **l) Finance income and finance costs**

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

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

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

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

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

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

#### **n) Taxes**

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

##### ***Current income tax***

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

##### ***Deferred income tax***

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

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

#### **The company does not offer sales services**

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

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

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



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

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

#### n) Taxes (continued)

##### *Value Added Tax ("VAT")*

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

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

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

## 3. Revenue and expenses

### 3.1 Revenue

The effect of the initial application of IFRS 15 on revenue from contracts with customers of the Company is disclosed in Note 2.2.

#### A. Revenue streams

|   | 2020           | 2019           |
|---|----------------|----------------|
| <i>In thousands of BGN</i>  |                |                |
| Revenue from contracts with customers   | 916,320        | 957,540        |
| Gain/(loss) from changes in the fair values of the receivables to which provisional pricing applies | 7,050          | (852)          |
|   | <b>923,370</b> | <b>956,688</b> |

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

#### B. Breakdown of revenue from contracts with customers

|                                  | 2020           | 2019           |
|----------------------------------|----------------|----------------|
| <i>In thousands of BGN</i>       |                |                |
| Revenue from sales of production | 907,094        | 940,948        |
| Revenue from sales of goods      | 2,746          | 2,062          |
| Revenue from sales of scrap      | 6,480          | 14,530         |
|                                  | <b>916,320</b> | <b>957,540</b> |

#### Geographic markets

|                            | 2020           | 2019           |
|----------------------------|----------------|----------------|
| <i>In thousands of BGN</i> |                |                |
| European Union             | 641,251        | 709,624        |
| Other European countries   | 80,937         | 58,563         |
| Asia                       | 97,332         | 89,144         |
| Africa                     | 40,607         | 32,414         |
| America                    | 50,681         | 47,722         |
| Other                      | 5,512          | 20,073         |
|                            | <b>916,320</b> | <b>957,540</b> |

### 3. Revenue and expenses (continued)

#### 3.1 Revenue (continued)

#### B. Breakdown of revenue from contracts with customers (continued)

##### Products/ metal groups

| <i>In thousands of BGN</i>    | 2020           | 2019           |
|-------------------------------|----------------|----------------|
| Rolled industrial products    | 530,089        | 532,151        |
| Rolled architectural products | 69,428         | 62,203         |
| Extruded products             | 307,577        | 300,450        |
| Non-core sales                | 9,226          | 62,736         |
|                               | <b>916,320</b> | <b>957,540</b> |

#### C. Contract balances

##### *In thousands of BGN*

|   | 31 December 2020 | 31 December 2019. |
|---|------------------|-------------------|
| Receivables included in "Trade and other receivables" | 40,004           | 38,363            |
| Contract liabilities                                  | (4,537)          | (10,946)          |
|   | <b>35,467</b>    | <b>27,417</b>     |

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

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

|  | Year ended 31 December 2020 |                                   |                         |                |
|--|-----------------------------|-----------------------------------|-------------------------|----------------|
| <i>In thousands of BGN</i>                             | Cost of sales               | Selling and distribution expenses | Administrative expenses | Total          |
| Employee remuneration                                  | 15,713                      | 2,548                             | 4,292                   | 22,553         |
| Compulsory social security contributions               | 4,062                       | 448                               | 505                     | 5,015          |
| Materials  | 825,081                     | 196                               | 375                     | 825,652        |
| Merchandise  | 2,077                       | -                                 | -                       | 2,077          |
| Change in stock of finished goods and work in progress | (10,727)                    | -                                 | -                       | (10,727)       |
| Hired services   | 29,269                      | 289                               | 4,001                   | 33,559         |
| Depreciation of property, plant and equipment          | 15,525                      | 192                               | 1,057                   | 16,774         |
| Amortisation of intangible assets                      | 11                          | -                                 | 145                     | 156            |
| Net loss from cash flow hedge                          | (362)                       | -                                 | -                       | (362)          |
| Other  | 1,444                       | 104                               | 859                     | 2,407          |
| <b>Total</b>   | <b>882,093</b>              | <b>3,777</b>                      | <b>11,234</b>           | <b>897,104</b> |

Depreciation and amortization absorbed included in *Change in stock of finished goods and work in progress* in 2020 is BGN 122 thousand.

### 3. Revenue and expenses (continued)

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

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

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

#### 3.3 Other expenses and income, net

| <i>In thousands of BGN</i>       | 2020         | 2019       |
|----------------------------------|--------------|------------|
| Foreign exchange gains           | -            | -          |
| Depreciation                     | (1,393)      | (1,298)    |
| Other income and (expenses), net | 2,480        | 1,464      |
|                                  | <b>1,087</b> | <b>166</b> |

#### 3.4 Finance income and finance cost

##### *Recognised in profit and loss*

| <i>In thousands of BGN</i>                  | 2020           | 2019           |
|---|----------------|----------------|
| <b>Finance income</b>                       |                |                |
| Interest income                             | 4              | 109            |
|   | <b>4</b>       | <b>109</b>     |
| <b>Finance expenses</b>                     |                |                |
| Interest expense on loans at amortised cost | (6,787)        | (7,694)        |
| Interest expense on lease liabilities       | (48)           | (50)           |
| Bank commissions                            | (639)          | (835)          |
|   | <b>(7,474)</b> | <b>(8,579)</b> |

### 3. Revenue and expenses (continued)

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

|  | 2020         | 2019      |
|--|--------------|-----------|
| <i>In thousands of BGN</i>   |              |           |
| <b>Net gain/(loss) from cash flow hedge</b>                                    |              |           |
| Effective portion of changes in fair value of derivatives for cash flow hedges | 3,954        | 85        |
| Tax effect   | (395)        | (8)       |
| <b>Net effect in other comprehensive income</b>                                | <b>3,559</b> | <b>77</b> |

#### 3.6 Personnel expenses

|  | 2020          | 2019          |
|--|---------------|---------------|
| <i>In thousands of BGN</i>                                     |               |               |
| Employee remuneration  | 22,553        | 20,028        |
| Social security expenses                                       | 5,015         | 5,270         |
| Current period costs for defined benefit obligations (Note 15) | 208           | 205           |
| <b>Total</b>   | <b>27,776</b> | <b>25,503</b> |

### 4. Corporate income tax

The main components of the corporate income tax benefit for the years ended 31 December 2020 and 2019 are:

|   | 2020           | 2019         |
|---|----------------|--------------|
| <i>In thousands of BGN</i>                          |                |              |
| <b>Tax recognised in profit and loss</b>            |                |              |
| Current tax   | (58)           | (50)         |
| Change in deferred taxes in the period              | (1,913)        | (666)        |
| <b>Tax recognised in profit or loss</b>             | <b>(1,971)</b> | <b>(716)</b> |
| <b>Tax recognised in other comprehensive income</b> | <b>(381)</b>   | <b>(13)</b>  |

The tax rate for 2020 is 10% (2019: 10%). The applicable tax rate in 2021 will be 10%.

The reconciliation between the nominal corporate income tax benefit based on the accounting profit and the applicable tax rate and the effective income tax for the years ended 31 December 2020 and 2019 is as follows:

|   | 2020           | 2019         |
|---|----------------|--------------|
| <i>In thousands of BGN</i>  |                |              |
| <b>Profit/ (loss) before income tax</b>   | <b>19,568</b>  | <b>7,477</b> |
| Income tax at applicable tax rate of 10%  | (1,957)        | (748)        |
| Income/(Expenses) non-deductible for tax purposes                               | (14)           | 32           |
| <b>Income tax benefit/(expense) at effective tax rate 10.06% (2019: 10.06%)</b> | <b>(1,971)</b> | <b>(716)</b> |

#### 4. Corporate income tax (continued)

Deferred taxes as at 31 December relate to the following:

|                                  | Statement of financial position |             | Statement of comprehensive income |           |
|----------------------------------|---------------------------------|-------------|-----------------------------------|-----------|
|                                  | 2020                            | 2019        | 2020                              | 2019      |
| <i>In thousands of BGN</i>       |                                 |             |                                   |           |
| <b>Deferred tax liabilities:</b> |                                 |             |                                   |           |
| Property, plant and equipment    | (295)                           | -           | (1,733)                           | -         |
| Derivative financial instruments | (403)                           | (17)        | 10                                | 65        |
| Other                            | (5)                             | -           | (64)                              | -         |
|                                  | <b>(703)</b>                    | <b>(17)</b> | <b>(1,788)</b>                    | <b>65</b> |

#### **Deferred tax assets:**

|   | Statement of financial position |              | Statement of comprehensive income |              |
|---|---------------------------------|--------------|-----------------------------------|--------------|
|   | 2020                            | 2019         | 2020                              | 2019         |
| <i>In thousands of BGN</i>                              |                                 |              |                                   |              |
| Property, plant and equipment                           | -                               | 1,438        | -                                 | (280)        |
| Inventories   | 6                               | 194          | (188)                             | (366)        |
| Employee benefits                                       | 301                             | 261          | 26                                | 19           |
| Other   | 49                              | 70           | 37                                | (110)        |
|   | <b>356</b>                      | <b>1,963</b> | <b>(125)</b>                      | <b>(737)</b> |
| Deferred income tax, recognised in profit or loss       |                                 |              | (1,913)                           | (666)        |
| Deferred taxes recognised in other comprehensive income |                                 |              | (381)                             | (13)         |
| Effect of merger  |                                 |              | -                                 | 7            |
| <b>Total change in deferred taxes</b>                   |                                 |              | <b>(2,294)</b>                    | <b>(672)</b> |

**(Deferred tax liabilities)/Deferred tax assets, net**

**(347) 1,946**

As at 31 December 2020 there are no unrecognised deferred tax assets or liabilities.

#### 5. Property, plant and equipment

Movements in property, plant and equipment is presented below:

|                            | Land          | Buildings     | Machinery and technical installations | Vehicles     | Other        | Assets under construction | Total          |
|----------------------------|---------------|---------------|---------------------------------------|--------------|--------------|---------------------------|----------------|
| <i>In thousands of BGN</i> |               |               |                                       |              |              |                           |                |
| <b>Cost:</b>               |               |               |                                       |              |              |                           |                |
| At 1 January 2019          | 61,825        | 32,530        | 177,127                               | 1,122        | 5,693        | 19,431                    | 297,728        |
| Additions                  | -             | -             | -                                     | -            | -            | 27,412                    | 27,412         |
| Transfers                  | -             | 104           | 16,501                                | 954          | 148          | (17,707)                  | -              |
| Effect of merger           | -             | -             | 48                                    | -            | 204          | -                         | 252            |
| Disposals                  | -             | -             | (234)                                 | (26)         | (84)         | -                         | (344)          |
| <b>At 31 December 2019</b> | <b>61,825</b> | <b>32,634</b> | <b>193,442</b>                        | <b>2,050</b> | <b>5,961</b> | <b>29,136</b>             | <b>325,048</b> |
| Additions                  | -             | -             | -                                     | -            | -            | 17,381                    | 17,381         |
| Transfers                  | -             | 315           | 15,915                                | 40           | 250          | (16,790)                  | (270)          |
| Disposals                  | -             | -             | (616)                                 | -            | (6)          | (998)                     | (1,620)        |
| <b>At 31 December 2020</b> | <b>61,825</b> | <b>32,949</b> | <b>208,741</b>                        | <b>2,090</b> | <b>6,205</b> | <b>28,729</b>             | <b>340,539</b> |

**5. Property, plant and equipment (continued)**

|                                  | Land     | Buildings     | Machinery and technical installations | Vehicles   | Other        | Assets under construction | Total         |
|----------------------------------|----------|---------------|---------------------------------------|------------|--------------|---------------------------|---------------|
| <i>In thousands of BGN</i>       |          |               |                                       |            |              |                           |               |
| <b>Accumulated depreciation:</b> |          |               |                                       |            |              |                           |               |
| At 1 January 2019                | -        | 4,748         | 19,683                                | 765        | 4,941        | 791                       | 30,928        |
| Depreciation for the year        | -        | 3,413         | 12,628                                | 36         | 253          | -                         | 16,330        |
| Effect of merger                 | -        | -             | 43                                    | -          | 175          | -                         | 218           |
| Depreciation of disposals        | -        | -             | (231)                                 | (26)       | (85)         | -                         | (342)         |
| <b>At 31 December 2019</b>       | <b>-</b> | <b>8,161</b>  | <b>32,123</b>                         | <b>775</b> | <b>5,284</b> | <b>791</b>                | <b>47,134</b> |
| Depreciation for the year        | -        | 3,432         | 13,818                                | 93         | 215          | -                         | 17,558        |
| Depreciation of disposals        | -        | -             | (251)                                 | -          | (6)          | (791)                     | 1,048         |
| <b>At 31 December 2020</b>       | <b>-</b> | <b>11,593</b> | <b>45,690</b>                         | <b>868</b> | <b>5,493</b> | <b>-</b>                  | <b>63,644</b> |
| <b>Carrying amount:</b>          |          |               |                                       |            |              |                           |               |
| At 1 January 2019                | 61,825   | 27,782        | 157,444                               | 357        | 752          | 18,640                    | 266,800       |
| At 31 December 2019              | 61,825   | 24,473        | 161,319                               | 1,275      | 677          | 28,345                    | 277,914       |
| At 31 December 2020              | 61,825   | 21,356        | 163,051                               | 1,222      | 712          | 28,729                    | 276,895       |

*Impairment of property, plant and equipment*

Management considers that as at 31 December 2020 there are no indications for impairment of property, plant and equipment of the Company.

**Assets under construction**

As at 31 December 2020 assets under construction include advances paid, amounting to BGN 3,781 thousand (2019: BGN 5,738 thousand), in accordance with agreements for purchase of machinery and equipment. These items of machinery and equipment are intended primarily for the reconstruction of the rolling workshop.

**Pledge of property, plant and equipment**

As at 31 December 2020 property, plant and equipment with carrying amount of BGN 210,420 thousand (2019: BGN 216,114 thousand) are pledged as collateral for bank loans received by the Company (Note 13).

**Revaluation of land and buildings**

Management determined that the revalued land and buildings constitute one class of asset in accordance with IAS 16, based on the nature, characteristics and risks of the properties. If land and buildings were carried at the cost model, their net carrying amount as at 31 December 2020 would be BGN 5,786 thousand of land and BGN 3,812 thousand of buildings.

**(i) Fair value hierarchy**

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

The assessment of management is that as at 31 December 2020 the fair values of land and buildings do not differ significantly from their carrying amount as presented below. The fair value measurement for land and buildings has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.



## 5. Property, plant and equipment (continued)

### Revaluation of land and buildings (continued)

#### (ii) Level 3 fair value

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

|                               | Land          |               | Buildings     |               |
|-------------------------------|---------------|---------------|---------------|---------------|
|                               | 2020          | 2019          | 2020          | 2019          |
| <i>In thousands of BGN</i>    |               |               |               |               |
| Balance at 1 January 2019     | 61,825        | 61,825        | 24,473        | 27,782        |
| Additions                     | -             | -             | 315           | 104           |
| Depreciation for the year     | -             | -             | (3,432)       | (3,413)       |
| Disposed assets               | -             | -             | -             | -             |
| <b>Balance at 31 December</b> | <b>61,825</b> | <b>61,825</b> | <b>21,356</b> | <b>24,473</b> |

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

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

| Valuation technique   | Significant unobservable inputs                                  | Inter-relationship between key unobservable inputs and fair value measurement   |
|---|--|---|
| <i>Land plots:</i> Market approach is used for valuation.   | • Price of land plots per square meter (Range EUR 110 - 180).    | Significant increases (decreases) in market price per square meter would result in significantly higher (lower) fair value of land plots. Significant increases (decreases) in estimated rent per square meter would result in significantly higher (lower) fair value of land plots. |
| <i>Buildings:</i> Two approaches are used to value every building: amortized replacement cost method and market approach. | • Price of buildings per square meter (Range EUR 1,120 - 1,182). |   |

### Revaluation of machinery and technical installations

Management determined that the revalued plant and equipment constitute one class of asset in accordance with IAS 16, based on the nature, characteristics and risks of the assets. If machinery and technical installations were carried at the cost model, their net carrying amount as at 31 December 2020 would be BGN 150,541 thousand.

#### (i) Fair value hierarchy

The fair value of machinery and technical installations was determined by external, independent property values as at 31 December 2017. The assessment of management is that as at 31 December 2020 the fair values of machinery and technical installations do not differ significantly from their carrying amount as presented bellow. The fair value measurement for machinery and technical installations has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

#### (ii) Level 3 fair value

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

|                               | <i>Machinery and technical installations</i> |                |
|-------------------------------|--|----------------|
|                               | 2020   | 2019           |
| <i>In thousands of BGN</i>    |  |                |
| Balance at 1 January          | 161,319                                      | 157,444        |
| Additions                     | 15,915                                       | 16,501         |
| Disposed assets               | (365)  | (3)            |
| Depreciation for the year     | (13,818)                                     | (12,628)       |
| Effect of merger              | -  | 5              |
| <b>Balance at 31 December</b> | <b>163,051</b>                               | <b>161,319</b> |

## 5. Property, plant and equipment (continued)

### Revaluation of machinery and technical installations (continued)

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

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

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

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

#### Right of use assets

|                                    |                 |
|------------------------------------|-----------------|
| <i>In thousands of BGN</i>         | <i>Vehicles</i> |
| <b>Cost</b>                        |                 |
| At 31 December 2019                | 1,654           |
| Additions                          | 691             |
| At 31 December 2020                | 2,345           |
| <b>Accumulated depreciation</b>    |                 |
| At 31 December 2019                | (495)           |
| Depreciation charge for the period | (609)           |
| At 31 December 2020                | (1,104)         |
| <b>Net book value:</b>             |                 |
| At 31 December 2019                | 1,159           |
| At 31 December 2020                | 1,241           |

The following amounts were recognised in profit and loss:

|  |             |             |
|--|-------------|-------------|
| <i>In thousands of BGN</i>   | <b>2020</b> | <b>2019</b> |
| Depreciation charge  | 609         | 495         |
| Interest expense   | 48          | 50          |
| Operating lease expense (IAS17) (included in administrative and distribution expenses) | -           | -           |
| <b>Total expenses related to leases</b>  | <b>657</b>  | <b>545</b>  |

In 2020 the Company recognised payments for lease liabilities of BGN 691 thousand (2019 : BGN 693 thousand) in accordance with IFRS 16.

**6. Intangible assets**

|                                  | <i>Trademarks and<br/>patents</i> | <i>Software</i> | <i>Total</i>   |
|----------------------------------|-----------------------------------|-----------------|----------------|
| <i>In thousands of BGN</i>       |                                   |                 |                |
| <b>Cost:</b>                     |                                   |                 |                |
| At 1 January 2019                | 3                                 | 4,487           | 4,490          |
| Transfer from PPE                | -                                 | 35              | 35             |
| Mergers and absorption           |                                   | 88              | 88             |
| <b>At 31 December 2019</b>       | <b>3</b>                          | <b>4,610</b>    | <b>4,613</b>   |
| Transfer                         | -                                 | 270             | 270            |
| Disposals                        | -                                 | (4)             | (4)            |
| <b>At 31 December 2020</b>       | <b>3</b>                          | <b>4,876</b>    | <b>4,879</b>   |
| <b>Accumulated amortisation:</b> |                                   |                 |                |
| At 1 January 2019                | (3)                               | (4,258)         | (4,261)        |
| Mergers and absorption           |                                   | (86)            | (86)           |
| Amortisation charge              | -                                 | (91)            | (91)           |
| <b>At 31 December 2019</b>       | <b>(3)</b>                        | <b>(4,435)</b>  | <b>(4,438)</b> |
| Amortisation charge              |                                   | (156)           | (156)          |
| Disposals                        | -                                 | 4               | 4              |
| <b>At 31 December 2020</b>       | <b>(3)</b>                        | <b>(4,587)</b>  | <b>(4,590)</b> |
| <b>Carrying amount:</b>          |                                   |                 |                |
| At 1 January 2019                | -                                 | 229             | 229            |
| <b>At 31 December 2019</b>       | <b>-</b>                          | <b>175</b>      | <b>175</b>     |
| <b>At 31 December 2020</b>       | <b>-</b>                          | <b>289</b>      | <b>289</b>     |

**7. Inventory**

|  | <b>31.12.2020</b> | <b>31.12.2019</b> |
|--|-------------------|-------------------|
| <i>In thousands of BGN</i>   |                   |                   |
| Materials  | 86,200            | 55,532            |
| Work in progress   | 63,084            | 51,690            |
| Finished goods   | 39,827            | 37,919            |
| Merchandise  | 327               | 530               |
|  | <b>189,438</b>    | <b>145,671</b>    |
| Less: Inventories write-down:  |                   |                   |
| Materials  | -                 | (1,936)           |
| <b>Total inventories at the lower of cost and net realisable value</b> | <b>189,438</b>    | <b>143,735</b>    |

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

As at 31 December 2020, there are inventory pledged as collateral for bank loans received by the Company BGN 166,458 thousand (2019: 0 ) (Note 13).

**8. Trade and other receivables**

|   | 31.12.2020    | 31.12.2019    |
|---|---------------|---------------|
| <i>In thousands of BGN</i>                |               |               |
| Trade receivables (Note 22)               | 20,571        | 21,599        |
| Impairment loss                           | (528)         | (293)         |
| Related parties receivables (Note 20, 21) | 19,961        | 17,057        |
| VAT receivable                            | 7,075         | 4,389         |
| Down payments for delivery of inventory   | 1,523         | 817           |
| Other receivables                         | 2,318         | 1,137         |
|   | <b>50,920</b> | <b>44,706</b> |

There are no pledged receivables as of 31.12.2020. (2019 : BGN 0 ) (Note 13).

As at 31 December 2020 the aging analysis of gross trade receivables from third parties only (less receivables from related parties) is presented below. The table provides information about the exposure to credit risk and ECLs for trade receivables from customers:

|                             | Weighted-average loss rate | Gross carrying amount | Impairment loss allowance | Credit-impaired |
|-----------------------------|----------------------------|-----------------------|---------------------------|-----------------|
| <b>31 December 2020</b>     |                            |                       |                           |                 |
| <i>In thousands of BGN</i>  |                            |                       |                           |                 |
| Current (not past due)      | 2.18%                      | 15,685                | (342)                     | No              |
| Less than 30 days past due  | 3.66%                      | 4,662                 | (168)                     | No              |
| 31-60 days past due         | 8.04%                      | 224                   | (18)                      | No              |
| 61-90 days past due         | -                          | -                     | -                         | -               |
| 91-120 days past due        | -                          | -                     | -                         | -               |
| More than 120 days past due | -                          | -                     | -                         | -               |
|                             |                            | <b>20,571</b>         | <b>(528)</b>              |                 |
| <b>31 December 2019</b>     |                            |                       |                           |                 |
| <i>In thousands of BGN</i>  |                            |                       |                           |                 |
| Current (not past due)      | 0,86%                      | 14,958                | (128)                     | No              |
| Less than 30 days past due  | 0,88%                      | 5,401                 | (48)                      | No              |
| 31-60 days past due         | 0,51%                      | 1,129                 | (6)                       | No              |
| 61-90 days past due         | 100,00%                    | -                     | -                         | -               |
| 91-120 days past due        | 100,00%                    | -                     | -                         | -               |
| More than 120 days past due | 100,00%                    | 111                   | (111)                     | Yes             |
|                             |                            | <b>21,599</b>         | <b>(293)</b>              |                 |

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

|                            | Total         | Not overdue | Overdue   |            |            |             |           |
|----------------------------|---------------|-------------|-----------|------------|------------|-------------|-----------|
|                            |               |             | 1-30 days | 31-60 days | 61-90 days | 91-120 days | >120 days |
| <i>In thousands of BGN</i> |               |             |           |            |            |             |           |
| <b>2020</b>                | <b>19,961</b> | 17,455      | 2,309     | 31         | 27         | 140         | -         |
| <b>2019</b>                | <b>17,057</b> | 16,566      | 312       | 39         | 25         | -           | 115       |

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

## 9. Derivative financial instruments

|  | 2020         |             | 2019       |             |
|--|--------------|-------------|------------|-------------|
|  | Assets       | Liabilities | Assets     | Liabilities |
| <i>In thousands of BGN</i>                                     |              |             |            |             |
| Futures contracts designated as cash flow hedging instruments  | -            | -           | -          | -           |
| Forward contracts designated as fair value hedging instruments | 4,025        | -           | 167        | -           |
|  | <b>4,025</b> | <b>-</b>    | <b>167</b> | <b>-</b>    |
| <b>Net assets/ liabilities</b>                                 | <b>4,025</b> |             | <b>167</b> |             |

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

The forward contracts designated as fair value hedging instruments are these used to hedge the risks related to fluctuations of foreign currencies rates. Additional information as to the type of hedge and the risks associated with the hedging relationship is presented in Note 21.

## 10. Cash and cash equivalents

|                            | 31.12.2020    | 31.12.2019    |
|----------------------------|---------------|---------------|
| <i>In thousands of BGN</i> |               |               |
| Cash at bank               | 17,719        | 45,285        |
| Cash in hand               | 6             | 5             |
|                            | <b>17,725</b> | <b>45,290</b> |

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

As at 31.12.2020 outstanding amount of loans secured (including interest payable) with pledge of cash at bank is BGN 1,990 thousand (2019: BGN 8,144 thousand).

## 11. Share capital

|                        | Number of shares | Ordinary shares in thousands of BGN | Share premium in thousands of BGN | Total in thousands of BGN |
|------------------------|------------------|-------------------------------------|-----------------------------------|---------------------------|
| As at 1 January 2019   | 2,626,126        | 110,297                             | 10,820                            | 121,117                   |
| Issued shares          | -                | -                                   | -                                 | -                         |
| As at 31 December 2019 | 2,626,126        | 110,297                             | 10,820                            | 121,117                   |
| Issued shares          | -                | -                                   | -                                 | -                         |
| As at 31 December 2020 | 2,626,126        | 110,297                             | 10,820                            | 121,117                   |

As at 31 December 2020 the registered share capital of the Company is comprised of 2,626,126 ordinary shares at a par value of BGN 42 each. Shares are fully paid.

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

**12. Reserves**

|  | Revaluation<br>reserve | Hedging<br>reserve | Other<br>reserves | Statutory<br>reserves | Total<br>Reserves |
|--|------------------------|--------------------|-------------------|-----------------------|-------------------|
| <i>In thousands of BGN</i>                   |                        |                    |                   |                       |                   |
| <b>At 1 January 2019</b>                     | <b>112,425</b>         | <b>(36)</b>        | <b>-</b>          | <b>1,792</b>          | <b>114,181</b>    |
| Restatement from change in accounting policy | (26,511)               | -                  | -                 | -                     | (26,511)          |
| <b>Restated balance as at 1 January 2019</b> | <b>85,914</b>          | <b>(36)</b>        | <b>-</b>          | <b>1,792</b>          | <b>87,670</b>     |
| Net gain from cash flow hedge                | -                      | 85                 | -                 | -                     | 85                |
| Deferred tax effect                          | -                      | (8)                | -                 | -                     | (8)               |
| Effect of merger                             | -                      | -                  | (3,515)           | -                     | (3,515)           |
| Transfer of reserves                         | (29)                   | -                  | -                 | 1,272                 | 1,243             |
| Transfer of revaluation reserve              | (3,951)                | -                  | -                 | -                     | (3,951)           |
| <b>Total change for the period</b>           | <b>(3,980)</b>         | <b>77</b>          | <b>(3,515)</b>    | <b>1,272</b>          | <b>(6,146)</b>    |
| <b>At 31 December 2019</b>                   | <b>81,934</b>          | <b>41</b>          | <b>(3,515)</b>    | <b>3,064</b>          | <b>81,524</b>     |
| <b>At 1 January 2020</b>                     | <b>81,934</b>          | <b>41</b>          | <b>(3,515)</b>    | <b>3,064</b>          | <b>81,524</b>     |
| Net gain from cash flow hedge                | -                      | 3,954              | -                 | -                     | 3,954             |
| Deferred tax effect                          | -                      | (395)              | -                 | -                     | (395)             |
| Transfer of revaluation reserve              | (5,140)                | -                  | -                 | -                     | (5,140)           |
| <b>Total change for the period</b>           | <b>(5,140)</b>         | <b>3,559</b>       | <b>-</b>          | <b>-</b>              | <b>(1,581)</b>    |
| <b>At 31 December 2020</b>                   | <b>76,794</b>          | <b>3,600</b>       | <b>(3,515)</b>    | <b>3,064</b>          | <b>79,943</b>     |

**13. Loans**

|   | 31.12.2020     | 31.12.2019     |
|---|----------------|----------------|
| <i>In thousands of BGN</i>                  |                |                |
| <b>Non-current loans</b>                    |                |                |
| Bank loans                                  | 117,455        | 137,031        |
| <b>Total non-current loans</b>              | <b>117,455</b> | <b>137,031</b> |
| <b>Current loans</b>                        |                |                |
| Bank loans                                  | 33,266         | 4,901          |
| Current portion of non-current loans        | 18,527         | 14,980         |
| <b>Total short term borrowings received</b> | <b>51,793</b>  | <b>19,881</b>  |
| <b>Total borrowings received</b>            | <b>169,249</b> | <b>156,912</b> |

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

|                                  | 31.12.2020     | 31.12.2019     |
|----------------------------------|----------------|----------------|
| <i>In thousands of BGN</i>       |                |                |
| <b>Balance as at 1 January</b>   | <b>156,912</b> | <b>154,819</b> |
| Loans received during the period | 28,365         | 28,360         |
| Repayments during the period     | (15,658)       | (26,662)       |
| Accrued finance costs, not paid  | (370)          | (10)           |
| Other non-cash flow movements    | -              | 405            |
| <b>Balance as at 31 December</b> | <b>169,249</b> | <b>156,912</b> |



### 13. Loans (continued)

The maturity of interest-bearing loans at agreed, non-discounted payments is presented in Note 21. The Company has not capitalised any interest on loans in 2020 and 2019.

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

|                       | 2020  | 2019  |
|-----------------------|-------|-------|
| Bank overdrafts       | 3.53% | 4.70% |
| Short term bank loans | 2.92% | 3.80% |
| Long term bank loans  | 3.07% | 3.05% |

As of December 31, 2020 the short-term loans of Sofia Med AD are provided by financial institutions in the form of loan agreements and overdrafts. The funds are secured by letters of support issued by the parent company and a pledge of cash on current accounts. During the reporting year, the Company entered into a new short-term loan in the amount of EUR 35,000 thousand, while repaying existing exposures under contracts with certain banks concluded in previous years. During the reporting period there was no renegotiation of the terms of the long-term bank loans, the maturities of which were extended in 2018 with a new 7-year period. The long-term loans of the Company are secured by a pledge of property, plant and equipment, inventories and inventories (Note 7).

As of December 31, 2020, short-term loans consist of short-term loans and overdrafts secured by letters of support issued by the parent company and a pledge of current accounts. According to concluded agreements with banking institutions, Sofia Med AD has undertaken to comply with and maintain certain financial covenants.

The financial covenants as of December 31 of the respective year are calculated on the basis of the audited financial statements of the Company. Sofia Med AD has complied with all financial covenants set in all loan agreements of the Company for the financial year 2020, and in cases where there is a deviation from the agreed indicators, the Company has received from the respective creditor a waiver of its requirement to comply with this ratio for the calculation period ending on 31 December 2020.

### Financial conditions under secured loan agreements

As of December 31, 2020, the Company has no financial conditions imposed under the loan agreements.

### 14. Lease liabilities

The fixed lease contributions to the operating lease are paid as follows:

|                            | 31.12.2020                | 31.12.2019           |
|----------------------------|---------------------------|----------------------|
| <i>In thousands of BGN</i> |                           |                      |
| Less than one year         | 594                       | 478                  |
| Between one and five years | 732                       | 712                  |
| <b>Total</b>               | <b>1,326</b>              | <b>1,190</b>         |
|                            | <i>Min.lease payments</i> | <i>Present value</i> |
|                            | 31.12.2020                | 31.12.2020           |
| <i>In thousands of BGN</i> |                           |                      |
| Less than one year         | 632                       | 594                  |
| Between one and five years | 769                       | 732                  |
| Finance costs              | (75)                      | -                    |
| <b>Total</b>               | <b>1,326</b>              | <b>1,326</b>         |

**14. Lease liabilities (continued)**

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

**15. Retirement employee benefits**

**a) Expenses for retirement employee benefits**

|   | <b>2020</b> | <b>2019</b> |
|---|-------------|-------------|
| <i>In thousands of BGN</i>  |             |             |
| Current service cost  | 197         | 188         |
| Interest cost on retirement employee benefit                                    | 11          | 17          |
| <b>Expenses on retirement benefits recognised in profit and loss (Note 3.6)</b> | <b>208</b>  | <b>205</b>  |

**b) Retirement benefits liability**

|   | <b>2020</b>  | <b>2019</b>  |
|---|--------------|--------------|
| <i>In thousands of BGN</i>  |              |              |
| Present value of retirement benefit obligation  | 1,747        | 1,421        |
| <b>Retirement benefits liabilities, recognised in the statement of financial position</b> | <b>1,747</b> | <b>1,421</b> |

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

|  | <b>2020</b>  | <b>2019</b>  |
|--|--------------|--------------|
| <i>In thousands of BGN</i>                               |              |              |
| Liability at the beginning of the year                   | 1,421        | 1,332        |
| Current service cost                                     | 198          | 188          |
| Interest cost  | 11           | 17           |
| Benefits paid  | (27)         | (71)         |
| <i>Remeasurements:</i>                                   |              |              |
| Actuarial losses from changes in demographic assumptions | (7)          | (96)         |
| Actuarial losses from changes in financial assumptions   | 307          | 86           |
| Experience adjustments                                   | (155)        | (35)         |
|  | <b>1,747</b> | <b>1,421</b> |

Main actuarial assumptions used for accounting purposes are shown below:

|                        | <b>2020</b> | <b>2019</b> |
|------------------------|-------------|-------------|
| Discount rate          | 0.19%       | 0.82%       |
| Future salary increase | 5.00%       | 4.00%       |
| Price inflation        | 1.20%       | 1.75%       |

## 16. Government grants

The Company has been granted state aid to reduce the burden associated with the distribution of costs arising from the obligations to purchase electricity produced from renewable sources. The aid is to reimburse part of the cost of electricity. The part of the reimbursed costs, which refers to 2020, amounts to BGN 184 thousand (2019: BGN 618 thousand) and is indicated in the reduction of the electricity costs for the period as part of the material costs (Appendix 3.2 ). The movement of grants provided by the state related to real estate machinery and equipment is as follows:

|                                    | 2020         | 2019         |
|------------------------------------|--------------|--------------|
| <i>In thousands of BGN</i>         |              |              |
| Balance at the beginng of the year | 2,728        | 2,837        |
| Amortisation for the year          | (109)        | (109)        |
|                                    | <b>2,619</b> | <b>2,728</b> |

## 17. Trade and other payables

|  | 31.12.2020     | 31.12.2019     |
|--|----------------|----------------|
| <i>In thousands of BGN</i>                   |                |                |
| Trade payables (Note 22)                     | 55,418         | 57,113         |
| Related parties trade payables (Note 20, 22) | 51,287         | 61,438         |
| Payables to employees                        | 1,787          | 1,653          |
| Taxes  | 643            | 561            |
| Other payables                               | 2,674          | 2,049          |
|  | <b>111,809</b> | <b>122,814</b> |

## 18. Commitments

*In thousands of BGN*

|                               | 2020         | 2019         |
|-------------------------------|--------------|--------------|
| Property, plant and equipment | <b>1,168</b> | <b>4,676</b> |

## 19. Contingencies

*Bank guarantees*

Bank guarantees and letters of credit issued by other companies on behalf of SOFIA MED AD amount to BGN 1,070 thousand (2019: BGN 2,016 thousand) as at the reporting date.

Bank guarantees and letters of credit issued by SOFIA MED AD on behalf of other companies and state agencies amount to BGN 1,393 thousand (2019: BGN 1,016 thousand) as at the reporting date.

## 20. Related parties

### a) Identification of related parties

*The ultimate parent company*

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

*Entities with controlling interest in the Company*

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

**20. Related parties (continued)**

**a) Identification of related parties (continued)**

*Other related parties*

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

**b) Sale of goods and services**

|                                    | <b>2020</b>    | <b>2019</b>    |
|------------------------------------|----------------|----------------|
| <i>In thousands of BGN</i>         |                |                |
| Sales of goods                     | 342,843        | 308,214        |
| Sales of services                  | -              | 130            |
|                                    | <b>342,843</b> | <b>308,344</b> |
| <i>from which:</i>                 |                |                |
| - to the parent entity             | 3,564          | 51,577         |
| - to entities under common control | 339,279        | 256,767        |

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

|                                      | <b>2020</b>    | <b>2019</b>    |
|--------------------------------------|----------------|----------------|
| <i>In thousands of BGN</i>           |                |                |
| Purchases of goods                   | 99,719         | 138,807        |
| Purchases of investments             | -              | -              |
| Purchase of Fixed assets             | 3,793          | 10,713         |
| Purchases of services                | 6,125          | 7,635          |
|                                      | <b>109,637</b> | <b>157,155</b> |
| <i>from which:</i>                   |                |                |
| - from the parent entity             | 95,572         | 89,505         |
| - from entities under common control | 14,065         | 67,650         |

**d) Key management remuneration**

|   | <b>2020</b>  | <b>2019</b>  |
|---|--------------|--------------|
| <i>In thousands of BGN</i>                      |              |              |
| Salaries and other short-term employee benefits | 3,050        | 2,745        |
|   | <b>3,050</b> | <b>2,745</b> |

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

|                                    | <b>31.12.2020</b> | <b>31.12.2019</b> |
|------------------------------------|-------------------|-------------------|
| <b>Trade receivables</b>           |                   |                   |
| from the parent entity             | -                 | 342               |
| from entities under common control | 19,961            | 16,715            |
|                                    | <b>19,961</b>     | <b>17,057</b>     |

|   | <b>31.12.2020</b> | <b>31.12.2019</b> |
|---|-------------------|-------------------|
| <b>Trade payables</b>                   |                   |                   |
| Trade payables to related parties       | 51,287            | 61,438            |
| Contract liabilities to related parties | 2,736             | 9,778             |
| <b>Related party payables</b>           | <b>54,023</b>     | <b>71,216</b>     |

*from which:*

|                                    |        |        |
|------------------------------------|--------|--------|
| - to the parent entity             | 51,667 | 67,556 |
| - to entities under common control | 2,356  | 3,660  |

## 20. Related parties (continued)

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

The types of transactions between the Company and its parent, ElvalHalcor S.A., include purchases of materials, equipment and services related to technical and management assistance, commission costs related to sales of finished products; sales of products, services and materials. Outstanding balances at year end are unsecured, interest free and settlement occurs in cash.

There have been no guarantees provided or received for any related party receivables or payables. Assessment for impairment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

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

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

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

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

### Risk management framework

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

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

### Market risks

#### Interest rate risk

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

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

| <i>In thousands of BGN</i>       | Nominal amount   |                  |
|----------------------------------|------------------|------------------|
|                                  | 2020             | 2019             |
| <b>Variable rate instruments</b> |                  |                  |
| Financial liabilities            | (170,575)        | (158,102)        |
|                                  | <b>(170,575)</b> | <b>(158,102)</b> |

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

A change of 0,25% in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2019.

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

### Market risks (continued)

#### Cash flow sensitivity analysis for variable rate instruments (continued)

| <i>Effect in thousands of BGN</i>  | Profit or loss    |                   | Equity            |                   |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                    | 0,25%<br>increase | 0,25%<br>decrease | 0,25%<br>increase | 0,25%<br>decrease |
| <b>31 December 2020</b>            |                   |                   |                   |                   |
| Variable rate instruments          | (426)             | 426               | -                 | -                 |
| <b>Cash flow sensitivity (net)</b> |                   |                   | -                 | -                 |
| <b>31 December 2019</b>            |                   |                   |                   |                   |
| Variable rate instruments          | (395)             | 395               | -                 | -                 |
| <b>Cash flow sensitivity (net)</b> | <b>(395)</b>      | <b>395</b>        | -                 | -                 |

#### Foreign currency risk

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

### 2020

| <i>In thousands of BGN</i>            | EUR              | BGN             | USD           | GBP          |
|---------------------------------------|------------------|-----------------|---------------|--------------|
| Trade and other receivables           | 15,828           | 5,787           | 12,153        | 6,236        |
| Interest-bearing loans received       | (165,446)        | (3,803)         | -             | -            |
| Lease liabilities                     | -                | (1,326)         | -             | -            |
| Trade and other payables              | (82,483)         | (21,096)        | (3,185)       | 59           |
| Contract liabilities                  | (3,483)          | -               | (1,054)       | -            |
| Cash and cash equivalents             | 11,634           | 748             | 5,195         | 148          |
|                                       | <b>(223,950)</b> | <b>(19,690)</b> | <b>13,109</b> | <b>6,443</b> |
| Pricing agreements                    |                  |                 |               |              |
| Derivatives (nominal value)           | -                | -               | (12,246)      | (6,613)      |
| <b>Total exposure to FX rate risk</b> | <b>(223,950)</b> | <b>(19,690)</b> | <b>863</b>    | <b>(170)</b> |

### 2019

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



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

### Market risks (continued)

#### Foreign currency risk (continued)

The following significant exchange rates applied during the year:

|       | Average FX rate | FX rate at the reporting period-end date |       |       |
|-------|-----------------|--|-------|-------|
|       | 2020            | 2019                                     | 2020  | 2019  |
| USD 1 | 1.716           | 1.747                                    | 1.594 | 1.741 |
| GBP 1 | 2.200           | 2.230                                    | 2.175 | 2.299 |
| CHF 1 | 1.806           | 1.758                                    | 1.811 | 1.802 |

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

| Increase / (decrease) of the exchange rate of the Swiss franc against the BGN   |      | Effect on profit before tax | Effect on equity    |
|---|------|-----------------------------|---------------------|
|   | %    | In thousands of BGN         | In thousands of BGN |
| 2020  | 10%  | (86)                        | -                   |
|   | -10% | 86                          | -                   |
|   |      |                             |                     |
| 2019  | 10%  | (272)                       | -                   |
|   | -10% | 272                         | -                   |
|   |      |                             |                     |
| Increase / (decrease) of the exchange rate of the British pound against the BGN |      | Effect on profit before tax | Effect on equity    |
|   | %    | In thousands of BGN         | In thousands of BGN |
| 2020  | 10%  | (29)                        | -                   |
|   | -10% | 29                          | -                   |
|   |      |                             |                     |
| 2019  | 10%  | (9)                         | -                   |
|   | -10% | 9                           | -                   |
|   |      |                             |                     |
| Increase / (decrease) of the exchange rate of the Swiss franc against the BGN   |      | Effect on profit before tax | Effect on equity    |
|   | %    | In thousands of BGN         | In thousands of BGN |
| 2020  | 10%  | -                           | -                   |
|   | -10% | -                           | -                   |
|   |      |                             |                     |
| 2019  | 10%  | (20)                        | -                   |
|   | -10% | 20                          | -                   |
|   |      |                             |                     |

#### Price risk

The Company is exposed to significant risk as a result of the changes in the prices of copper and zinc as they are its main raw materials used in production. The Company is following its policy of hedging this risk. The Company agrees both purchase and selling prices with reference to the prices quoted on the London Metal Exchange (LME) at specified dates.

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

### Market risks (continued)

#### *Price risk (continued)*

The Company concludes a futures sale contract on LME for each purchase order it places, and it concludes a futures purchase contract for each customer order it accepts. The futures contracts are for approximately the same quantities as the purchase and sales orders and they are concluded for approximately the same dates with reference to which the purchase and selling prices are determined. The effect from the price difference realised by the Company in a certain sale as a result of the movement of prices of metals between the date of purchase of raw materials and the date in respect of which the sell price is fixed, are offset by the gain or loss on the respective buy and sell futures.

#### *Credit risk*

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

#### *Trade and other receivables*

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

However, management also considers the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. Geographically there is no concentration of credit risk. The Company has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered.

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

The Company manages its exposure to credit risk through consistent application of the following policies. A part of its receivables is assigned to factoring companies under non-recourse factoring agreements. The Company follows a policy to insure all sales to customers that are not related parties. The maximum credit exposure of the Company arising from the financial assets it has recognised equals their carrying amount as per the statement of financial position – BGN 40,004 thousand as of 31 December 2020 (31 December 2019: BGN 38,530 thousand). The Company has recognised impairment of trade receivables, which represents the expected credit loss in relation to third party customers. The Company considered evidence of impairment for these assets at both an individual asset and a collective level. Trade and other receivables are both individually and collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar financial assets.

#### *Cash and cash equivalents*

The Company has cash and cash equivalents as at 31.12.2020 at the amount of BGN 17,725 thousand (2019: BGN 45,290 thousand). The impairment of cash and cash equivalents is estimated on the basis of a 12-month expected credit loss and reflects the short-term maturities of the exposures. Given the credit ratings of the banks where Sofia Med AD holds its cash and cash equivalents, the expected credit losses have been considered as insignificant and no impairment loss was recognised.

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

| <i>In thousands of BGN</i>       | Notes | 31.12.2020    | 31.12.2019    |
|----------------------------------|-------|---------------|---------------|
| Trade and other receivables      | 8     | 40,004        | 38,363        |
| Cash and cash equivalents        | 10    | 17,725        | 45,290        |
| Derivative financial instruments | 9     | 4,025         | 167           |
|                                  |       | <b>61,754</b> | <b>83,820</b> |

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

**Market risks (continued)**

*Cash and cash equivalents (continued)*

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

| <i>In thousands of BGN</i> | Notes | 31.12.2020    | 31.12.2019    |
|----------------------------|-------|---------------|---------------|
| Third parties              |       | 20,043        | 21,306        |
| Related parties            | 20    | 19,961        | 17,057        |
|                            |       | <b>40,004</b> | <b>38,363</b> |

**Liquidity risk**

The Company manages its liquidity risk through a maturity analysis of its current and non-current liabilities and regular forecasts of cash flows. As at 31 December the maturity structure of the Company's financial liabilities based on the agreed undiscounted payments is as follows:

**The year ended 31 December 2020**

|                                       | Carrying<br>amount<br>BGN'000 | < 1 year<br>BGN'000 | 1-2 years<br>BGN'000 | 2-5 years<br>BGN'000 | > 5<br>years<br>BGN'000 | Total<br>BGN'000 |
|---------------------------------------|-------------------------------|---------------------|----------------------|----------------------|-------------------------|------------------|
| Interest bearing loans and borrowings | 169,249                       | 53,347              | 23,559               | 107,204              | -                       | 184,110          |
| Lease liabilities                     | 1,327                         | 632                 | 356                  | 413                  | -                       | 1,401            |
| Contract liabilities                  | 4,537                         | 4,537               | -                    | -                    | -                       | 4,537            |
| Trade and other payables              | 106,705                       | 106,705             | -                    | -                    | -                       | 106,705          |
|                                       | <b>281,818</b>                | <b>165,221</b>      | <b>23,915</b>        | <b>107,617</b>       | <b>-</b>                | <b>296,753</b>   |

**The year ended 31 December 2019**

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

*Equity management*

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

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

## 22. Fair values of financial instruments

Fair value is the amount for which a financial instrument could be exchanged or settled between knowledgeable, willing parties in an arm's length transaction and which serves as the best indicator of its market price in an active market. The Company determines the fair value of financial instruments based on available market information. The fair value of financial instruments that are actively traded on organized financial markets is determined based on quoted prices at the end of the last business day of the reporting period.

The Company's management believes that the fair values of financial instruments, which include cash, trade and other receivables, interest-bearing loans and borrowings, trade and other payables, do not differ materially from their carrying amounts, especially if they are current or current. interest rates vary according to market conditions. The table below shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. Fair value information is not included if the carrying amount is a reasonable approximation of fair value.

| 31 December 2020                                    |             | Carrying amount           |                    |                                    |                             |                  | Fair Value   |               |          |               |
|---|-------------|---------------------------|--------------------|------------------------------------|-----------------------------|------------------|--------------|---------------|----------|---------------|
| <i>In thousands of BGN</i>                          | <i>Note</i> | hedging instruments at FV | Mandatory at FVTPL | Financial assets at amortised cost | Other financial liabilities | Total            | Level 1      | Level 2       | Level 3  | Total         |
| <b>Financial assets measured at fair value</b>      |             |                           |                    |                                    |                             |                  |              |               |          |               |
| Trade and other receivables                         | 8           | -                         | 10,012             | -                                  | -                           | 10,012           | -            | 10,012        | -        | 10,012        |
| Derivative financial instruments                    | 9           | 4,025                     | -                  | -                                  | -                           | 4,025            | 4,000        | 25            | -        | 4,025         |
|   |             | <b>4,025</b>              | <b>10,012</b>      | <b>-</b>                           | <b>-</b>                    | <b>14,037</b>    | <b>4,000</b> | <b>10,037</b> | <b>-</b> | <b>14,037</b> |
| <b>Financial assets not measured at fair value</b>  |             |                           |                    |                                    |                             |                  |              |               |          |               |
| Trade and other receivables                         | 8           | -                         | -                  | 29,992                             | -                           | 29,992           | -            | -             | -        | -             |
| Cash and cash equivalents                           | 10          | -                         | -                  | 17,725                             | -                           | 17,725           | -            | -             | -        | -             |
|   |             | <b>-</b>                  | <b>-</b>           | <b>47,717</b>                      | <b>-</b>                    | <b>47,717</b>    | <b>-</b>     | <b>-</b>      | <b>-</b> | <b>-</b>      |
| <b>Financial liabilities measured at fair value</b> |             |                           |                    |                                    |                             |                  |              |               |          |               |
| Interest bearing loans and borrowing                | 13          | -                         | -                  | -                                  | (169,249)                   | (169,249)        | -            | -             | -        | -             |
| Lease liabilities                                   | 14          | -                         | -                  | -                                  | (1,326)                     | (1,326)          | -            | -             | -        | -             |
| Trade payables                                      | 17          | -                         | -                  | -                                  | (106,705)                   | (106,705)        | -            | -             | -        | -             |
|   |             | <b>-</b>                  | <b>-</b>           | <b>-</b>                           | <b>(277,280)</b>            | <b>(277,280)</b> | <b>-</b>     | <b>-</b>      | <b>-</b> | <b>-</b>      |

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

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

### **23. Assets held for sale**

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

### **24. Investments**

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

### **25. Merger of entities under common control**

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

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

#### *Metalvalius EOOD*

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

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

The transaction was accounted for prospectively from 30 September 2019.

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

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

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

|                                      | Sofia Med AD   | Metalvalius EOOD | Adjustments     | Statement of financial position |
|--------------------------------------|----------------|------------------|-----------------|---------------------------------|
|                                      | BGN'000        | BGN'000          | BGN'000         | BGN'000                         |
| <b>Assets</b>                        |                |                  |                 |                                 |
| <b>Non-current assets</b>            |                |                  |                 |                                 |
| Property, plant and equipment        | 270,102        | 34               | -               | 270,136                         |
| Right of use assets                  | 1,125          | -                | -               | 1,125                           |
| Intangible assets                    | 196            | 1                | -               | 197                             |
| Investments in subsidiaries          | 17,610         | -                | (17,610)        | -                               |
| Deferred tax assets                  | 1,974          | 7                | -               | 1,981                           |
|                                      | <b>291,007</b> | <b>42</b>        | <b>(17,610)</b> | <b>273,439</b>                  |
| <b>Current assets</b>                |                |                  |                 |                                 |
| Inventories                          | 188,401        | -                | -               | 188,401                         |
| Trade and other receivables          | 59,157         | 14,317           | (14,316)        | 59,158                          |
| Cash and cash equivalents            | 1,953          | 175              | -               | 2,128                           |
| Assets held for sale                 | 8,792          | -                | -               | 8,792                           |
|                                      | <b>258,303</b> | <b>14,492</b>    | <b>(14,316)</b> | <b>258,479</b>                  |
| <b>TOTAL ASSETS</b>                  | <b>549,310</b> | <b>14,531</b>    | <b>(31,926)</b> | <b>531,918</b>                  |
| <b>EQUITY AND LIABILITIES</b>        |                |                  |                 |                                 |
| Share capital                        | 110,297        | 14,340           | (14,340)        | 110,297                         |
| Share premium                        | 10,820         | -                | -               | 10,820                          |
| Reserves                             | 85,831         | -                | (3,515)         | 82,316                          |
| Retained earnings/(Accumulated loss) | 23,151         | (245)            | 245             | 23,151                          |
| <b>Total equity</b>                  | <b>230,099</b> | <b>14,095</b>    | <b>(17,610)</b> | <b>226,584</b>                  |
| <b>Non-current liabilities</b>       |                |                  |                 |                                 |
| Borrowings from banks                | 144,480        | -                | -               | 144,480                         |
| Government grants                    | 2,755          | -                | -               | 2,755                           |
| Lease liabilities                    | 761            | -                | -               | 761                             |
| Retirement benefit obligation        | 1,446          | -                | -               | 1,446                           |
|                                      | <b>149,442</b> | <b>-</b>         | <b>-</b>        | <b>149,442</b>                  |
| <b>Current liabilities</b>           |                |                  |                 |                                 |
| Borrowings from banks                | 36,671         | -                | -               | 36,671                          |
| Lease liabilities                    | 415            | -                | -               | 415                             |
| Trade and other liabilities          | 119,696        | 439              | (14,316)        | 105,819                         |
| Contract liabilities                 | 12,737         | -                | -               | 12,737                          |
| Current income tax payable           | 34             | -                | -               | 34                              |
| Derivative financial instruments     | 216            | -                | -               | 216                             |
| <b>Total current liabilities</b>     | <b>169,769</b> | <b>439</b>       | <b>(14,316)</b> | <b>155,892</b>                  |
| <b>Total liabilities</b>             | <b>319,211</b> | <b>439</b>       | <b>(14,316)</b> | <b>305,334</b>                  |
| <b>TOTAL EQUITY AND LIABILITIES</b>  | <b>549,310</b> | <b>14,534</b>    | <b>(31,926)</b> | <b>531,918</b>                  |

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



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

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

|  | Metalvalius<br>EOOD<br>BGN'000 |
|--|--------------------------------|
| Revenue  | 23,841                         |
| Cost of sales  | (23,796)                       |
| <b>Gross profit</b>  | <b>45</b>                      |
| Other income, net  | 431                            |
| Selling and distribution expenses  | (457)                          |
| Administrative expenses  | (160)                          |
| <b>Operating loss</b>  | <b>(141)</b>                   |
| Finance costs  | (753)                          |
| <b>Loss before tax</b>   | <b>(894)</b>                   |
| Income tax   | 35                             |
| <b>Loss for the year</b>   | <b>(859)</b>                   |
| Actuarial gains on retirement benefit obligation   | 23                             |
|  | 23                             |
| <b>Other comprehensive income that will not be reclassified to profit and loss, net of tax</b> |                                |
| <b>Total comprehensive income</b>  | <b>(836)</b>                   |

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

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

**26. Subsequent events**

No other significant events have occurred after the reporting date, which require additional adjustments and/or disclosures in the financial statements of the Company for the year ended 31 December 2020.