

# **SOFIA MED AD**

**INDEPENDENT AUDITOR'S REPORT**

**ANNUAL ACTIVITY REPORT**

**ANNUAL FINANCIAL STATEMENTS**

**31 DECEMBER 2022**

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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## **General overview**

The financial year started with strong levels of demand and a positive market environment, which allowed an increase in profitability margins despite the difficult macroeconomic environment, Sofia Med AD benefited from the increased demand driven by global attitudes towards sustainability and achieved good performance and growth in 2022.

Higher energy product prices were successfully passed on to customers in price increases across most product categories. In the second half of the year, as a result of the increase in interest rates and their effect on global economic growth, the market outlook changed, leading to an unfavorable market environment and a slight decline in demand.

On the other hand, Sofia Med's market conditions and positioning allowed continuous sales growth throughout the year for extruded copper products and production capacity was filled as a result of copper and alloy rolled orders.

On the other hand, Sofia Med's market conditions and positioning allowed continuous sales growth throughout the year for extruded copper products and production capacity was filled as a result of copper and alloy rolled orders.

Despite the macroeconomic uncertainty generated in the second half of the year, Sofia Med continued to invest in its operations to ensure a strong year with stable financial

The level of sales reached BGN 1,708,128 thousand, which represents a growth of 23%, compared to BGN 1,393,883 thousand in 2021. The main reasons for the increase in revenue are the result of the increase in sales prices, the rise in copper prices and zinc on average by 6% and 29% and the increase in the amount of products sold.

In 2022, 92,758 tons of copper products and alloy products were sold, which represents a growth of 3.8% compared to 89,363 tons of basic production products sold in 2021. The average prices of the metals processed by Sofia Med AD - copper and zinc reached in 2022 EUR 8,375 and EUR 3,308 per ton against average prices in the previous year of EUR 7,881 and EUR 2,548 per ton.

The company reports a growth of 12% in gross profit and 2% in operating profit, reaching BGN 93,134 thousand and BGN 68,880 thousand, compared to BGN 83,464 thousand and BGN 67,788 thousand in 2021, respectively. The result before interest, taxes and depreciation (EBITDA) reaches BGN 88,000 thousand in 2022, which represents a 1.3% increase compared to the result before interest, taxes and depreciation in the previous year of BGN 86,875 thousand.

The company and the companies of the group to which Sofia Med belongs use adjusted EBITDA (a-EBITDA), which isolates the impact of the price of the metal, as an indicator of profitability. In 2022, adjusted EBITDA (a-EBITDA) recorded a growth of 26% and reached BGN 68,891 thousand compared to the profitability indicator in 2021 of BGN 54,787 thousand.

In 2022, Sofia Med AD continues the implementation of its investment program with the aim of expanding the production nomenclature and increasing the competitiveness of the Company. The total amount of payments for investments during the year in machinery and equipment is BGN 9,389 thousand (2021: BGN 12,501 thousand).

In 2023, market conditions in the copper segment are expected to remain unchanged, given the continued uncertainties regarding interest rates, energy costs and their impact on global economic growth.

Companies in the copper segment are confident in their ability to maintain stable sales volumes and develop product lines in key areas.

Sofia Med is on track to increase capacity with targeted investments in high added value products as well as working on several process optimization initiatives that will support the company's performance in 2023.

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

<i>In BGN thousand</i>	<b>2022</b>	<b>2021</b>
Sales revenue	1 708 128	1 393 883
Earnings before interest and tax (EBIT)	68 880	67 788
Earnings before interest, tax, depreciation and amortization (EBITDA)*	88 000	86 875
Earnings before taxes (EBT)	57 687	58 914
Working capital excluding cash and cash equivalents**	272 145	250 120
EBITDA / Sales	5,2%	6,2%
Working capital / Sales	15,9%	17,9%
Current ratio (current assets to current liabilities)	1,74	1,51
Debt*** / Equity	0,58	0,72
Debt / EBITDA	2,24	2,52

**\*EBITDA:** It is a 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 cash flows statement.

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

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

<i>In BGN thousand</i>	<b>2022</b>	<b>2021</b>
EBIT	68 880	67 788
Adjustments for:		
+ Depreciation of property, plant and equipment	18 375	18 091
+ Depreciation of right of use assets	712	637
+ Amortization of intangible assets	142	468
- Release of funding provided by the state	(109)	(109)
<b>EBITDA</b>	<b>88 000</b>	<b>86 875</b>

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

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

<i>In BGN thousand</i>	<b>2022</b>	<b>2021</b>
<b>EBITDA</b>	<b>88 000</b>	<b>86 875</b>
Adjustments for:		
+ Loss / - Profit from Metal result	(20 401)	(32 871)
+ Loss / - Profit from disposals of non-current assets	1 292	783
<b>a-EBITDA</b>	<b>68 891</b>	<b>54 787</b>
a-EBITDA/ Sales	4.0%	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, retention period and metal processing versus the invoicing of sales.
2. The effect of the opening inventory balance (which is affected by the metal prices of prior periods) in the cost of sales, which is calculated using the weighted average price.
3. Specific contracts with customers with certain prices that are exposed to metal price fluctuations between the period when the price is fixed and the date when 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

Sustainable development topics are a priority for Sofia Med. In this context, in 2022 the management enriched the adopted Environment, Social Activities and Governance (ESG) Roadmap by reaffirming its commitment, raising awareness in the company and tracking the implementation of activities on the subject.

As part of the Roadmap, Sofia Med has adopted seven key policies that cover the entire palette of environmental, social activities and management topics, and which affect the company's activities. Each policy is followed on the basis of relevant indicators, internal and external audits for the necessary compliance on important topics and with legal requirements, as well as on the basis of relevant management measures to ensure transparency and accountability.

Some of the main activities are aimed at:

- improving healthy and safe working conditions and working environment
- improving energy efficiency
- increased use of recycled materials
- further reduction of direct emissions
- Improving the waste management infrastructure
- improvement of wastewater treatment processes
- transition to electromobility
- Engaging the supply chain on the Roadmap themes
- support for community sustainability initiatives

More information at:

<https://www.sofiamed.com/bg/capability/ustojchivo-razvitiie>

<https://www.sofiamed.com/bg/kompaniqta/korporativno-upravlenie/povedencheski-kodeksi>

### Commitment to the UN Sustainable Development Goals

Although Sofia Med finds all goals interrelated and important, the company has identified four of them on which it is focusing its efforts more deeply, with the aim of expanded impact and comprehensive contribution.



## **Stakeholder engagement**

In 2022, the company deepened its dialogue with its stakeholders to better understand how, in their opinion, the company could improve its business practices and its cooperation with them. Sofia Med engaged a large group of internal and external stakeholders in an analysis and assessment of the key issues, carried out with the help of an expert third party. The assessment helped to identify the factors that are of greatest importance to the company, as well as to prioritize efforts in these directions in order to improve the positive impact of Sofia Med on society as a whole.

## **Supplier engagement and sustainable supply**

Sofia Med carefully selects its suppliers with whom they can share a common commitment to a positive contribution to society. Sofia Med has adopted a Supplier Code of Conduct, which sets out the minimum standards to which the company's suppliers are expected to adhere.

More information is available at:

<https://www.sofiamed.com/bg/kompaniqta/korporativno-upravlennie/povedencheski-kodeksi>

In this context, in 2022, Sofia Med launched the strategic partnership with EcoVadis and the process of evaluating the main suppliers of the company, based on ESG criteria, continues.

As part of these efforts, Sofia Med also underwent, for the first time, an in-depth assessment of its own sustainability practices, again with the help of EcoVadis. It includes 21 sustainability criteria in four main areas: environment, labor and human rights, ethics and sustainable supply. The company won a silver medal, placing it in the top 25% of over 100,000 companies assessed by EcoVadis worldwide.



## **Sustainability Management**

At Sofia Med, a health, safety, environment and sustainability department has been established, which has the task of regularly tracking and reporting performance on ESG topics. In addition, the company has a broader sustainability team, which includes representatives from various departments, and which aims to raise a awareness of ESG topics, as well as track and report on the implementation of strategic ESG initiatives and projects.

Some of the members of this team are also part of the larger sustainability team of the ElvalHalcor group, which helps to obtain up-to-date information and align with group policies, initiatives and best practices.

## **Reporting mechanism**

Sofia Med encourages open conversation and in 2022 introduced a whistleblowing mechanism and a tool that can be used by all stakeholders to report and report potential concerns.

More information at:

<https://www.sofiamed.com/bg/capability/goreshita-liniq-za-signali>

## **Caring for employees**

Sofia Med invests in its employees and offers training and opportunities for career and personal development to all, implementing policies for equality at all levels. The company creates a conducive work environment that respects human rights and one of its goals is to provide and maintain a safe work environment that promotes responsible work practices.

### **Caring for employees (continued)**

In 2022, Sofia Med invested in an expanded training program for the majority of employees, aimed at strengthening knowledge and understanding of various issues related to ethics, diversity, inclusion, etc. The company also focuses on employee awareness through internal communications on sustainability topics and ongoing dialogue.

As part of its social policy, Sofia Med provides additional health insurance for its employees, a medical center with a doctor who works daily in the company, as well as a gym.

### **Care for our people. Health and safety at work**

SOFIA MED has implemented a management system in accordance with the requirements of the international standard for management of health and safety at work according to OHSAS 45001: 2018. The company's commitment to protecting the health and safety of its employees and associates is an absolute priority that cannot be compromised. However, we realize that we still have a long way to go before we reach our goal of "zero accidents", so we are working methodically in this direction.

In 2022, an intensive health and safety training program was implemented for all employees. At the same time, several actions were taken to raise awareness of OSH topics and incident reporting.

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

Sofia Med is committed to environmental protection and efficient use of natural resources. The company has created and implemented an integrated policy for environmental protection, energy and climate change, by virtue of which it is committed to environmentally responsible business.

The company works to continuously improve its environmental footprint and energy performance, invests in environmental protection infrastructure, and measures to improve its energy efficiency. has implemented a management system in accordance with the requirements of international standards for environmental and energy management according to ISO 14001: 2015 and ISO 50001: 2018. The company works to continuously improve its environmental footprint and energy performance, invests in environmental protection infrastructure, as well as measures to improve its energy efficiency.

### **Support for local communities**

Sofia Med systematically supports activities and programs related to society. In addition, and to contribute to growth and sustainability, the company prioritizes local recruitment and seeks to employ local suppliers.

At the same time, it cooperates with various high schools and universities and provides opportunities for professional training and practice in the company of students and graduates. In addition, Sofia Med follows the guidelines of ISO 26000:2010 for social responsibility.

### **Membership in professional networks and organizations**

In order to implement its strategy for sustainable development and develop responsible practices with a contribution to the industry, Sofia Med participates directly or indirectly through the parent company in networks, organizations and related bodies such as:

- International Wrought Copper Council (IWCC)
- European Association of Non-Ferrous Metals - Eurometaux
- Association of the Copper and Brass Supply Chain (CBSC)
- Hellenic Copper Development Institute (HCDI)
- Bulgarian Association of the Metallurgical Industry (BAMI)
- Greek Business Council in Bulgaria (HBCB)
- Bulgarian Recycling Association (BAR)
- Bureau of International Recycling (BIR)

### Branch network

The company does not have a branch network.

### Research and development

The company does not carry out research and development activities, in the sense of the accounting standards.

### Information under Art. 187e and Art. 247 of the Commercial Law

In 2022, the Company did not repurchase its own shares and as of December 31, 2022, it does not own any repurchased shares. The members of the Board of Directors do not own shares or bonds of the Company. There is no decision of the General Meeting of Shareholders giving 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 other persons related to them have concluded contracts with the Company that go beyond its usual activity or significantly deviate from market conditions. The remuneration of the members of the Board of Directors for 2022 is BGN 297 thousand. (2021: BGN 308 thousand).

The members of the Company's Board of Directors as of December 31, 2022 are the following persons:

1. Efstratios Evangelos Stratigis
2. Lidiya Atanasova Gerdzhikova
3. Ioannis Papadimitriou
4. Dimitrios Dimitriadis
5. Athanasios Ioannis Athanasopoulos
6. Stylianos Theodosiou
7. Andreas Mavrudis
8. Panagiotis Lolos
9. Spiridon Kokolis

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
Ioannis Papadimitriou	METALCO BULGARIA EAD; STOMANA INDUSTRY AD; DIA.VI.PE.THI.V. S.A.; HUMBEL LIMITED (CYPRUS); WARSAW TUBULARS TRADING SP.ZO.O; STEELMET SERVICES MONOPROSOPI A.E.
Spyridon Kokolis	BALANCE Ltd. METALLINE EAD CABLE WIRES A.E.; CHALKOR RESEARCH AND DEVELOPMENT A.E.; REYNOLDS CUIVRE; METALLOURGIKI IPEIRO ANONYMI ETAIREIA; DIA.VI.PE.THI.V. S.A.; STEELMET SERVICES MONOPROSOPI A.E.; EANEP INOFITA S.A.
Andreas Mavrudis	EL.K.E.ME. ELLINIKO KENTRO EREUNIS METALLON ANONYMI ETAIREIA; ELVIOK Touristic, Agricultural, Industrial Enterprises of Agricultural Development Sole Proprietorship SA.
Panagiotis Lolos	ELVALHALCOR HELLENIC COPPER AND ALUMINIUM INDUSTRY S.A.; EANEP INOFITA S.A.
Lidia Atanasova Gerdjikova	BALANCE EOOD; AMBEL EOOD; EUROTERRA DEVELOPMENT AD; TWIN GROUP AD; PRIMROUZVYU AD; IZY HOMES AD; PANSO AD; GERDA OOD; GTV Ltd.



**Information under Art. 187e and Art. 247 of the Commercial Law (continued)**

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:

<b>Lidia Atanasova Gerdjikova</b>	<ul style="list-style-type: none"><li>● BALANCE Ltd.</li><li>● AMBEL Ltd.</li><li>● GERDA Ltd.</li><li>● GTV Ltd.</li></ul>
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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. 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 2022.

### **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 sells the products of Sofia Med AD on the market in Great Britain and Northern Ireland.

Steelmet Romania trades the products on the Romanian market

Sofia Med AD sells finished products to ElvalHalcor. ElvalHalcor provides Sofia Med AD with raw materials, goods, fixed assets, technical, administrative and commercial assistance services.

TEPROMKC trades the products of Sofia Med AD on the German market and represents the Company on the German, Dutch, Belgian, Russian and Asian markets.

Sofia Med sells finished products to ICME ECAB, and ICME ECAB provides raw materials to Sofia Med AD.

BASE METAL TICARET VE SANAYI A.S. sells products on the Turkish market

Sofia Med sells finished products to Hellenic Cables. Hellenic Cables provides Sofia Med with raw materials.

CPW America Co. Sells Sofia Med products on the American market.

Reynolds Cuivre SAS sells Sofia Med products on the French market.

Alurame S.P.A. sells Sofia Med products on the Italian market.

Sofia Med sells finished products to International Trade

Sofia Med sells finished products to Epirus MetalWorks SA and Fulgor SA

STEELMET SA provide management services

AEIFOROS SA and Cable Wires SA provide Sofia Med AD with raw materials

Stomana Engineering, Stomana Industry, Sidma Bulgaria, Lesko EOOD and DIO Pernik provide Sofia Med with subcontractors, industrial services, maintenance services, production tools, packaging goods and materials, production materials, waste disposal

### **Composition of the Board of Directors**

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

- Efstratios Evangelos Stratigis, Chairman;
- Lidia Atanasova Gerdjikova;
- Ioannis Papadimitriou;
- Dimitrios Dimitriadis;
- Athanassios Athanassopoulos;
- Stylianos Theodosiou;
- Andreas Mavrudis;
- Panayotis Lolos;
- Spyridon Kokolis

### **Subsequent events**

No other events have occurred after 31 December 2022 that could require additional adjustments and/or disclosures in the Company's financial statements for the year ended 31 December 2022.

### **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 2022.

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Ioannis Papadimitriou  
*General Manager*

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Lidia Gerdjikova  
*Director*

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Sergey Vlaykov  
*Chief Financial Officer*

28 June 2023

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

**31 DECEMBER 2022**

**SOFIA MED**

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

	Notes	31 December 2022	31 December 2021
		BGN'000	BGN'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	255 639	269 666
Right-of-use assets	5	2 382	1 648
Intangible assets	6	2 636	188
		<b>260 657</b>	<b>271 502</b>
<b>Current assets</b>			
Inventories	7	351 823	294 362
Trade and other receivables	8	86 397	97 069
Derivative financial instruments	9	1 931	5 896
Corporate income tax receivable		-	6
Cash and cash equivalents	10	22 265	13 194
		<b>462 416</b>	<b>410 527</b>
<b>TOTAL ASSETS</b>		<b>723 073</b>	<b>682 029</b>
<b>EQUITY</b>			
Share capital	11	110 297	110 297
Share premium		10 820	10 820
Reserves	12	76 537	79 628
Retained earnings		143 915	103 227
		<b>341 569</b>	<b>303 972</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Loans and borrowings	13	101 768	95 924
Lease liabilities	14	1 516	1 061
Retirement benefit liabilities	15	1 993	1 569
Government grants	16	2 401	2 510
Deferred tax liabilities	4	8 252	5 498
		<b>115 930</b>	<b>106 562</b>
<b>Current liabilities</b>			
Loans and borrowings	13	95 145	123 205
Lease liabilities	14	757	637
Trade and other payables	17	161 367	145 890
Corporate tax liabilities		1 540	-
Contract liabilities	3.1	6 638	1 423
Derivative financial instruments	9	127	340
		<b>265 574</b>	<b>271 495</b>
<b>TOTAL LIABILITIES</b>		<b>381 504</b>	<b>378 057</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>723 073</b>	<b>682 029</b>

Ioannis Papadimitriou  
General Manager

Lidia Gerdjikova  
Director

Sergey Vlaykov  
Chief Financial Officer

Diana Moravenova  
Preparer

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

Tsvetana Tsankova  
Registered auditor

Boryana Dimova, Managing Director  
PricewaterhouseCoopers Audit OOD

The financial statements were approved for issue by Decision of the Board of Directors of 28 June 2023.  
The notes set out on pages 14 to 54 are an integral part of these financial statements.

**SOFIA MED AD**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**  
**SOFIA MED**

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

	Notes	For the year ended 31 December	
		2022 BGN'000	2021 BGN'000
Sales revenue	3.1	1 708 128	1 393 883
Cost of sales	3.2	<u>(1 614 994)</u>	<u>(1 310 419)</u>
<b>Gross profit</b>		<b><u>93 134</u></b>	<b><u>83 464</u></b>
Selling and distribution expenses	3.2	(4 690)	(4 618)
Administrative expenses	3.2	(18 351)	(10 985)
Impairment (loss)/reversals of trade receivables	8	(111)	80
Other income and expenses, net	3.3	<u>(1 102)</u>	<u>(153)</u>
<b>Result from operating activities</b>		<b><u>68 880</u></b>	<b><u>67 788</u></b>
Finance expenses	3.4	<u>(11 193)</u>	<u>(8 874 )</u>
<b>Net finance cost</b>		<b><u>(11 193)</u></b>	<b><u>(8 874)</u></b>
<b>Profit before tax</b>		<b>57 687</b>	<b>58 914</b>
Income tax expense	4	<u>(5 776)</u>	<u>(5 899)</u>
<b>Profit for the year</b>		<b><u>51 911</u></b>	<b><u>53 015</u></b>
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of defined benefit liability	15	(7)	390
Income tax relating to these items	4	<u>1</u>	<u>(39)</u>
		<b><u>(6)</u></b>	<b><u>351</u></b>
<i>Items that may be reclassified to profit or loss</i>			
Effective portion of changes in fair value of cash flow hedge contracts	3.5	(5 032)	1 896
Income tax relating to these items	3.5, 4	503	(190)
		<u>(4 529)</u>	<u>1 706</u>
<b>Other comprehensive (loss)/income for the period, net of tax</b>		<b><u>(4 529)</u></b>	<b><u>1 706</u></b>
<b>Total comprehensive income for the period</b>		<b><u>(4 535)</u></b>	<b><u>2 057</u></b>

Ioannis Papadimitriou  
General Manager

Lidia Gerdjikova  
Director

Sergey Vlaykov  
Chief Financial Officer

Diana Moravenova  
Preparer

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

Tsvetana Tsankova  
Registered auditor

Boryana Dimova, Managing Director  
PricewaterhouseCoopers Audit OOD

**SOFIA MED AD**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**

**SOFIA MED**

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

		<b>Share capital</b>	<b>Share premium</b>	<b>Reserves</b>	<b>Retained earnings</b>	<b>Total equity</b>
	<i>Notes</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<b>Balance as at 1 January 2021</b>		<b>110 297</b>	<b>10 820</b>	<b>79 943</b>	<b>47 840</b>	<b>248 900</b>
<b>Comprehensive income for the period</b>						
Profit for the year		-	-	-	53 015	53 015
<b>Other comprehensive income</b>						
Cash flow hedge, net of tax	3.5, 12	-	-	1 706	-	1 706
Actuarial gains, net of tax	15	-	-	-	351	351
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>1 706</b>	<b>53 366</b>	<b>55 072</b>
<b>Other equity transactions</b>						
Transfer to statutory reserves	12	-	-	1 760	(1 760)	-
Transfer of revaluation reserve	12	-	-	(3 781)	3 781	-
<b>Balance as at 31 December 2021</b>		<b>110 297</b>	<b>10 820</b>	<b>79 628</b>	<b>103 227</b>	<b>303 972</b>
<b>Balance as at 1 January 2022</b>		<b>110 297</b>	<b>10 820</b>	<b>79 628</b>	<b>103 227</b>	<b>303 972</b>
<b>Comprehensive income for the period</b>						
Profit for the year		-	-	-	51 911	51 911
<b>Other comprehensive income</b>						
Cash flow hedge, net of tax	3.5, 12	-	-	(4 529)	-	(4 529)
Actuarial losses, net of tax	15	-	-	-	(6)	(6)
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>(4 529)</b>	<b>51 905</b>	<b>47 376</b>
<b>Transactions with shareholders in their capacity of shareholders</b>						
Distributed dividend		-	-	-	(9 779)	(9 779)
<b>Total transactions with shareholders in their capacity of shareholders</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(9 779)</b>	<b>(9 779)</b>
<b>Other equity transactions</b>						
Transfer to statutory reserves	12	-	-	5 302	(5 302)	-
Transfer of revaluation reserve	12	-	-	(3 864)	3 864	-
<b>Balance as of 31 December 2022</b>		<b>110 297</b>	<b>10 820</b>	<b>76 537</b>	<b>143 915</b>	<b>341 569</b>

Ioannis Papadimitriou  
General Manager

Lidia Gerdjikova  
Director

Sergey Vlaykov  
Chief Financial Officer

Diana Moravenova  
Preparer

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

Tsvetana Tsankova  
Registered auditor

Boryana Dimova, Managing Director  
PricewaterhouseCoopers Audit OOD

**SOFIA MED AD**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**  
**SOFIA MED**

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

	Notes	For the year ended 31 December	
		2022	2021
		BGN'000	BGN'000
<b>Cash flows from operating activities</b>			
Profit after tax		51 911	53 015
<i>Adjustments for:</i>			
Income tax		5 776	5 899
Depreciation of property, plant and equipment	5	19 059	18 214
Depreciation of right-of-use assets	5	712	637
Amortization of intangible assets	6	142	468
Income from government grants	16	(109)	(109)
Finance Income		-	(1)
Finance costs	3.4	11 193	8 875
Loss from sale/write-off of non-current assets		1 292	783
Loss from revaluation of futures for purchase/sale of metals through profit or loss		679	2 282
Unrealized gains from currency forward contracts		(1 280)	(128)
Increase in inventory allowance	7	7 432	-
Change in provision for retirement benefit liabilities		417	-
Impairment and write-off of trade receivables	8	111	(80)
		<b>97 335</b>	<b>89 855</b>
Increase in inventories	5, 7	(64 424)	(104 924)
Decrease / (increase) in trade and other receivables		9 889	(46 149)
Increase in trade and other payables		15 477	34 081
Increase / (decrease) in contract liabilities		5 215	(3 114)
Interest and financial charges paid	3.4, 13	(10 031)	(8 766)
Income tax paid		(978)	(992)
Other payments for operational activities		-	(1 158)
<b>Net cash flows from / (used in) operating activities</b>		<b>52 483</b>	<b>(41 167)</b>
<b>Cash flows from investing activities</b>			
Purchase of tangible assets		(6 794)	(12 501)
Purchase of intangible assets		(2 592)	-
Cash inflow from sale of non - current assets		-	35
<b>Net cash flows used in investing activities</b>		<b>(9 386)</b>	<b>(12 466)</b>
<b>Cash flows from financing activities</b>			
Dividend paid	11	(9 779)	-
Loans received	13	35 205	69 423
Loans repaid	13	(58 582)	(19 576)
Payments of lease liabilities	13	(870)	(745)
<b>Net cash flows (used in) / from financing activities</b>		<b>(34 026)</b>	<b>49 102</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>9 071</b>	<b>(4 531)</b>
Cash and cash equivalents at the beginning of period		13 194	17 725
<b>Cash and cash equivalents at the end of period</b>	10	<b>22 265</b>	<b>13 194</b>

Ioannis Papadimitriou  
General Manager

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Preparer

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Tsvetana Tsankova  
Registered auditor

Boryana Dimova, Managing Director  
PricewaterhouseCoopers Audit OOD

The financial statements were approved for issue by Decision of the Board of Directors of 28 June 2023.  
The notes set out on pages 14 to 54 are an integral part of these financial statements.

## **1. Reporting entity**

### **Incorporation**

SOFIA MED AD (“the Company”) is a joint-stock company incorporated in 1999 in Bulgaria. The 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 2022 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%. ElvalHalcor S.A. is also part of the Viohalco SA/NV group, (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 2022 the number of employees is 621 (2021: 618).

The financial statements are authorized for issue on 28 June 2023 with a resolution of the Board of Directors.

These financial statements are subject to approval by the shareholders of the Company. According to the Bulgarian legislation it is not forbidden to revoke (following the manner specified in the law) the resolution of the general meeting of the shareholders for approval of the annual financial statement of the company, and if needed to prepare and publish a new amended set of annual financial statement for the same financial year.

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

### **2.1 Basis of preparation**

#### **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 less accumulated depreciation and impairment;
- machinery and technical installations which are measured at revalued amount less accumulated depreciation and impairment; and
- retirement benefit liabilities recognised at the present value of future payments.

#### **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.



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

### 2.1 Basis of preparation (continued)

#### 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 (cash flows from operating activities and access to currently available credit lines) will be adequate for its liquidity needs.

### 2.2 New accounting pronouncements

#### *(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 2022:

**Amendments to IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and Annual Improvements 2018-2020** (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022)

**Amendment to IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021** (issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021)

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 2022 and have not been previously adopted by the Company have been published. The Company's assessment of the impact of these new standards and interpretations is set out below.

**Amendments to IAS 1 Presentation of Financial Statements and IFRS 2 Practice Statement: Disclosure of Accounting policies** (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023)

**Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates** (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023)

**Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction** (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).

**IFRS 17 Insurance Contracts** (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023); **including Amendments to IFRS 17** (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023)

**Amendment to IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information** (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023)

The amendments have no significant impact on the Company. 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 New accounting pronouncements (continued)

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

#### Amendments to IAS 1 Presentation of Financial Statements:

- **Classification of Liabilities as Current or Non-current** (issued on 23 January 2020);
- **Classification of Liabilities as Current or Non-current - Deferral of Effective Date** (issued on 15 July 2020); and
- **Non-current Liabilities with Covenants** (issued on 31 October 2022 and ultimately effective for annual periods beginning on or after 1 January 2024)

**Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback** (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024)

### 2.3 Accounting 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 less accumulated depreciation. 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 31.12.2021. 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 2.4).

#### *Impairment of receivables*

The Management assesses the appropriateness of expected credit loss (ECL) allowance for its financial assets based on ageing analysis of the receivables, historical experience regarding the write-off rates of bad debts, as well as analysis of the solvency of the respective customer, changes in the contractual payment terms, etc. If the financial position and performance of the customers deteriorates (in excess of the expected) the amount of the receivables to be written-off in the following reporting periods may be higher than the one estimated as at the financial statements date. Information about the measurement of ECL allowance for trade receivables and the weighted-average loss rates is included in note 21.

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

### 2.3 Accounting estimates and assumptions (continued)

#### *Net realisable value of inventories*

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

#### *Measurement of fair values*

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

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

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

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

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

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

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

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

### 2.4 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).

31 DECEMBER 2022

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

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

#### 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:

Land	Not depreciable
Buildings	20 – 33.33 years
Machinery and technical installations	2 – 35 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.

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.

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

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

#### c) Borrowing costs (continued)

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

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

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

#### d) Intangible assets

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

Intangible assets are amortised on a straight-line basis.

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

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

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

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

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

#### e) Financial instruments

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

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

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

##### (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.

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

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

#### e) Financial instruments (continued)

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

###### Financial assets (continued)

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:

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

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

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

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

**2.4 Summary of significant accounting policies (continued)**

**e) Financial instruments (continued)**

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

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

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.
<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.

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

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

#### e) Financial instruments (continued)

##### *(iii) Derecognition*

###### **Financial assets**

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

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

###### **Financial liabilities**

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

The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

##### *(iv) Offsetting*

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

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

The 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.

###### **a. 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 other comprehensive income 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.



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

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

#### e) Financial instruments (continued)

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

##### *b. Cash flow hedges (continued)*

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.

##### *c. 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.

##### *d. Hedge accounting*

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

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

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

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

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

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

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

##### *e. 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.

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

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

#### f) 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.

#### g) Impairment

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

##### *Financial instruments*

The Company recognises loss allowances for ECLs on financial assets measured at a amortised cost.

Loss allowances for trade receivables 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 a analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

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

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

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

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

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

##### *Measurement of ECLs*

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

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

At each reporting date, the Company assesses whether financial assets carried at a amortised cost 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:

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

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

#### g) Impairment (continued)

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

###### *Credit-impaired financial assets (continued)*

- 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.

###### *Write-off*

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

However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

###### *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. 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. The management of the Company considers that currently the all company's assets are attributable to a single CGU.

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.

#### h) 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 – cost of raw materials is determined on weighted average basis;
- Finished goods and work in progress - finished goods and work in progress are determined on weighted average basis;

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

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

#### h) Inventory (continued)

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

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

#### i) Provisions

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

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

#### j) Employee benefits

##### 1. *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.

##### 2. *Retirement benefit liabilities*

According to Bulgarian labor legislation, the Company, as an employer, is obliged to pay two or six gross monthly salaries to its employees upon retirement, depending on the length of service. If the employee has reached 10 years of service in the last 20 years with the same employer or the same group of enterprises, he must receive six gross monthly wages at retirement. Otherwise, two gross monthly wages are payable. The Company determines its retirement benefit obligations using an actuarial valuation method. Revaluations of the liability, including actuarial gains and losses, are recognized immediately in the balance sheet against a debit or credit to retained earnings through other comprehensive income in the period in which they occur. Revaluations are not subject to reclassification to profit or loss in subsequent periods. Interest expense is recognized by applying a discount factor to the employee retirement benefit liability.

##### 3. *Termination benefits*

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

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

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

#### j) Employee benefits (continued)

##### 4. Short-term employee benefits

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

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

#### k) Leases

Leasing contracts are recognized as a right-of-use asset and, accordingly, a lease liability on the date the lease asset is available for use by the Company. Each lease payment is allocated between the lease liability and finance costs. Finance charges are charged to profit or loss over the term of the lease so as to yield a constant periodic interest on the 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 using the straight-line method.

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.

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

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

#### k) Leases (continued)

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. The threshold for low-value assets for the purposes of lease contracts is determined to be BGN 10 thousand (EUR 5 thousand).

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.

#### l) 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 expected discounts (variable consideration) are granted to customers and recognized as a decrease of revenue and trade receivables in the same period when the revenue is recognized. Some customers make prepayments for the goods in advance to delivery. In such cases, the company recognize a contract liability for the amount of consideration received.

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 first determined on the basis of the forward LME quotations for the respective metal, for a specified quotation period at the transfer of control over goods to the customer. However, according to these sales agreements the final settlement price is determined by the customer on a future date within a certain period of time (up to 90 days), on the basis of the spot market quotations on LME at this date.

This provisional pricing feature does not include the assessment of the quantity or the quality of the goods delivered after the delivery date but it is affected only by the changes in the market prices of metals. As at the date of control transfer over the goods the revenue from contracts with customers and the respective trade receivable are measured at the amount to which the Company is contractually entitled to. The trade receivable with provisional pricing feature fails the SPPI test and it is subsequently measured at fair value through profit or loss. All changes in fair value during the year should be presented on a net basis. The net resulting gains on fair value remeasurement of these trade receivables are recognised in revenue. They are not treated as revenue from contracts with customers, they are presented separately in the Note 3.1. The net resulting losses on fair value remeasurement of the trade receivables are presented within Other operating expenses.

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

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

#### **l) Revenue (continued)**

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).

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

Finance income comprises interest income on funds invested. Interest income is recognised as it is accrued 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 profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

#### **n) Government grants**

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

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

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

#### **o) Government assistance**

Certain forms of government assistance are excluded from the definition of government grants provided above. An example for such government assistance is a transfer of resources to the Company from government agencies and similar local, national or international bodies without imposing any future compliance with conditions attached to respective government assistance. When such government assistance is related to cost reimbursement, it is recognized as a decrease of the respective costs in the statement of profit and loss and other comprehensive income in the period when these costs have been incurred.

#### **p) 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.

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

**2.4 Summary of significant accounting policies (continued)**

**p) Taxes (continued)**

*Deferred income tax (continued)*

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

A deferred tax asset is recognised for unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be utilised. The Company reviews the carrying amount of the deferred tax assets at each reporting date and reduce it to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent it has become probable that future taxable profit will be realised, which would allow recovery to the deferred tax asset.

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

*Value Added Tax ("VAT")*

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

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

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

**3. Revenue and expenses**

**3.1 Sales revenue**

**A. Revenue streams**

	<u>2022</u>	<u>2021</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Revenue from contracts with customers	1 705 769	1 363 773
Gain from changes in the fair values of the receivables to which provisional pricing applies	2 359	30 110
	<u>1 708 128</u>	<u>1 393 883</u>

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

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

<i>In thousands BGN</i>	<u>2022</u>	<u>2021</u>
Revenue from sales of production	1 634 135	1 333 663
		222
Revenue from sales of goods	1 845	5 781
Revenue from sales of scrap	69 789	24 329
	<u>1 705 769</u>	<u>1 363 773</u>



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**3. Revenue and expenses (continued)**

**3.1 Revenue (continued)**

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

**Geographic markets**

<i>In thousands BGN</i>	<u>2022</u>	<u>2021</u>
European Union	1 269 795	927 649
Other European countries	172 941	175 809
Asia	107 317	118 920
Africa	19 617	47 528
North America	127 443	86 171
Other	8 656	7 696
	<u><b>1 705 769</b></u>	<u><b>1 363 773</b></u>

**Products/ metal groups**

<i>In thousands BGN</i>	<u>2022</u>	<u>2021</u>
Rolled industrial products	917 811	761 236
Rolled architectural products	107 967	91 274
Extruded products	608 357	473 120
Non-core sales	71 634	38 143
	<u><b>1 705 769</b></u>	<u><b>1 363 773</b></u>

**C. Contract balances**

<i>In thousands BGN</i>	<u>31 December 2022</u>	<u>31 December 2021</u>
Receivables included in "Trade and other receivables"	66 087	81 621
Contract liabilities	(6 638)	(1 423)

Contract liabilities include advance payments received from customers for the purchase of metal and non-metal products. They will be recognized as revenue 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**

<i>In thousands BGN</i>	Cost of sales	Year ended 31 December 2022		
		Selling and distribution expenses	Administrative expenses	Total
Cost of inventory recognized as an expense	1 446 367	-	-	1 446 367
Employee benefits	27 308	3 153	6 121	36 582
Energy	47 036	-	350	47 386
Depreciation and amortization	16 891	175	1 216	18 282
Taxes - duties	462	8	220	690
Other insurance costs	2 111	-	602	2 713
Rental fees	77	19	45	141
Transportation costs - goods and materials	26 297	5	655	26 957
Promotion and advertising	-	234	34	268

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3. Revenue and expenses (continued)

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

<i>In thousands BGN</i>	Cost of sales	Year ended 31 December 2022		
		Selling and distribution expenses	Administrative expenses	Total
Third party fees and benefits	13 031	117	5 870	19 018
(Gains)/losses from derivatives	(8 966)	-	-	(8 966)
Storage and packing costs	9 238	43	1	9 282
Production tools	12 630	111	61	12 802
Commissions	6 218	391	644	7 253
Foreign exchange differences	(311)	-	-	(311)
Maintenance expenses	7 367	56	1 135	8 558
Travel and personnel transport expenses	137	124	126	387
Remuneration of Board of Directors	-	-	297	297
Other maintenance costs	545	17	122	684
Others	8 556	237	852	9 645
<b>Total</b>	<b>1 614 994</b>	<b>4 690</b>	<b>18 351</b>	<b>1 638 035</b>

The costs related to change in retirement benefit liability, which are recognised in profit and loss amounting to BGN 417 thousand (2021: BGN 240 Thousand) are recognised as part of row "Other" in the above table.

<i>In thousands BGN</i>	Cost of sales	Year ended 31 December 2021		
		Selling and distribution expenses	Administrative expenses	Total
Cost of inventory recognized as an expense	1 174 449	-	-	1 174 449
Employee benefits	22 258	2 936	4 339	29 533
Energy	21 901	-	208	22 109
Depreciation and amortization	16 375	167	1 557	18 099
Taxes - duties	447	3	234	684
Other insurance costs	1 680	1	487	2 168
Rental fees	129	22	59	210
Transportation costs - goods and materials	18 434	7	477	18 918
Promotion and advertising	-	76	127	203
Third party fees and benefits	10 543	152	2 209	12 904
Gains/(losses) from derivatives	7 748	-	-	7 748
Storage and packing costs	5 958	38	7	6 003
Production tools	10 650	87	27	10 764
Commissions	5 861	391	315	6 567
Foreign exchange differences	2 729	-	-	2 729
Maintenance expenses	5 594	59	28	5 681
Travel and personnel transport expenses	72	54	59	185
Remuneration Board of Directors	-	-	308	308
Other maintenance costs	412	-	84	496
Others	5 179	624	460	6 263
<b>Total</b>	<b>1 310 419</b>	<b>4 618</b>	<b>10 985</b>	<b>1 326 021</b>

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**3. Revenue and expenses (continued)**

**3.3 Other income and expenses, net**

<i>In thousands BGN</i>	<b>2022</b>	<b>2021</b>
		-
Amortization of Grants (Note 16)	109	109
Rental income	111	98
Income from costs recharged	-	1 569
Gain from sale of Fixed assets	-	17
Other income	1 299	1 602
<b>Total other income</b>	<b>1 519</b>	<b>3 395</b>
Loss from fixed assets write-off	(1 292)	-
Loss from sale of Fixed assets	-	(800)
Depreciation and amortisation for non-used Fixed assets	(947)	(1 096)
Penalties	(15)	(6)
Expenses recharged	-	(1 569)
Other expenses	(367)	(77)
<b>Total other expenses</b>	<b>(2 621)</b>	<b>(3 548)</b>
<b>Other income and expenses, net</b>	<b>(1 102)</b>	<b>(153)</b>

**3.4 Finance income and expense**

<i>In thousands BGN</i>	<b>2022</b>	<b>2021</b>
<b>Finance income</b>		
Interest income	-	1
	-	1
<b>Finance expenses</b>		
Interest expense on loans at a mortised cost	(8 118)	(6 601)
Interest costs associated with factoring	(2 056)	(1 288)
Interest expense on lease liabilities	(61)	(51)
Bank fees	(958)	(935)
	<b>(11 193)</b>	<b>(8 875)</b>

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

<i>In thousands BGN</i>	<b>2022</b>	<b>2021</b>
<b>Net (loss)/gain from cash flow hedge</b>		
Effective portion of changes in fair value of derivatives for cash flow hedges	(5 032)	1 896
Tax effect	503	(190)
<b>Net effect in other comprehensive income</b>	<b>(4 529)</b>	<b>1 706</b>

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**3. Revenue and expenses (continued)**

**3.6 Personnel expenses**

	<b>2022</b>	<b>2021</b>
<i>In thousands BGN</i>		
Employee remuneration	28 887	23 484
Social security expenses	6 788	5 238
Other employee benefits	490	571
Current period costs for retirement benefit liabilities (Note 15)	417	240
<b>Total</b>	<b>36 582</b>	<b>29 533</b>

**4. Income tax**

The main components of the corporate income tax benefit for the years ended 31 December 2022 and 2021 are:

	<b>2022</b>	<b>2021</b>
<i>In thousands BGN</i>		
<b>Tax recognised in profit and loss</b>		
Current tax	(2 518)	(977)
Change in deferred tax balances	(3 258)	(4 922)
<b>Tax recognised in profit or loss</b>	<b>(5 776)</b>	<b>(5 899)</b>
<b>Tax recognised in other comprehensive income</b>	<b>504</b>	<b>(229)</b>

The tax rate for 2022 is 10% (2021: 10%). In 2023, the applicable tax rate will be 10%.

The reconciliation between the nominal corporate income tax expense based on the accounting profit and the effective income tax for the years ended 31 December 2022 and 2021 is as follows:

	<b>2022</b>	<b>2021</b>
<i>In thousands BGN</i>		
<b>Profit before income tax</b>	<b>57 687</b>	<b>58 914</b>
Income tax at applicable tax rate of 10%	(5 768)	(5 891)
Non-deductible expenses for tax purposes	(8)	(8)
Income tax expense at effective tax rate 10% (2021: 10%)	<b>(5 776)</b>	<b>(5 899)</b>

Deferred taxes as at 31 December relate to the following:

Description	Deferred tax			
	Temporary difference 31.12.2022	asset / (liability) 31.12.2022	Temporary difference 31.12.2021	Tax 31.12.2021
Property, plant and equipment	(91 460)	(9 146)	(51 369)	(5 137)
Derivative financial instruments	(1 100)	(110)	(5 556)	(556)
<b>Deferred tax liabilities:</b>	<b>(92 560)</b>	<b>(9 256)</b>	<b>(56 925)</b>	<b>(5 693)</b>
Right of use assets	(109)	(11)	50	5
Impairment of inventories	7 432	743	39	4
Pension and other liabilities	2 483	248	1,862	186
<b>Total deferred tax assets</b>	<b>9 806</b>	<b>980</b>	<b>1 951</b>	<b>195</b>
<b>Net balance of deferred income taxes</b>	<b>(82 754)</b>	<b>(8 276)</b>	<b>(54 974)</b>	<b>(5 498)</b>

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4. Income tax (continued)

	Balance as of 01.01.2022	Recognized in profit or loss	Recognized in other comprehensive income	Balance as of 31.12.2022
<b>Deferred tax (liabilities) / assets</b>				
Property, plant and equipment	(5 137)	(4 009)	-	(9 146)
Derivative financial instruments	(556)	(57)	503	(110)
<b>Deferred tax liabilities:</b>	<b>(5 693)</b>	<b>(4 066)</b>	<b>503</b>	<b>(9 256)</b>
Right of use assets	5	(16)	-	(11)
Impairment of inventories	4	763	-	767
Pension and other liabilities	186	61	1	248
<b>Total deferred tax assets</b>	<b>195</b>	<b>808</b>	<b>1</b>	<b>1 004</b>
<b>Net balance-liabilities</b>	<b>(5 498)</b>	<b>(3 258)</b>	<b>504</b>	<b>(8 252)</b>

	Balance as of 01.01.2021	Recognized in profit or loss	Recognized in other comprehensive income	Balance as of 31.12.2021
<b>Deferred tax (liabilities) / assets</b>				
Property, plant and equipment	(295)	(4 842)	-	(5 137)
Derivative financial instruments	(402)	36	(190)	(556)
<b>Deferred tax liabilities:</b>	<b>(697)</b>	<b>(4 806)</b>	<b>(190)</b>	<b>(5 693)</b>
Property, plant and equipment				
Right of use assets	8	(3)	-	5
Impairment of inventories	6	(2)	-	4
Pension and other liabilities	336	(111)	(39)	186
<b>Total deferred tax assets</b>	<b>350</b>	<b>(116)</b>	<b>(39)</b>	<b>195</b>
<b>Net balance-liabilities</b>	<b>(347)</b>	<b>(4 922)</b>	<b>(229)</b>	<b>(5 498)</b>

As at 31 December 2022 there are no unrecognised deferred tax assets or liabilities.

	2022	2021
<b>Deferred tax liabilities</b>		
Deferred tax liabilities to be realized after more than 12 months	8 142	4 942
Deferred tax liabilities to be realized in less than 12 months	110	556
	<b>8 252</b>	<b>5 498</b>

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## 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 BGN</i>							
<b>Cost or valuation:</b>							
<b>At 1 January 2021</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>
Additions	-	-	-	-	-	11 379	11 379
Transfers	-	129	29 330	54	137	(30 017)	(367)
Disposals	-	-	(48)	(126)	(10)	-	(184)
<b>At 31 December 2021</b>	<b>61 825</b>	<b>33 078</b>	<b>238 023</b>	<b>2 018</b>	<b>6 332</b>	<b>10 091</b>	<b>351 367</b>
Additions	-	-	-	-	-	6 794	6 794
Transfers	-	595	6 983	17	644	(8 239)	-
Transfer to inventory	-	-	(469)	-	-	-	(469)
Disposals	-	-	(5 135)	(91)	(613)	(80)	(5 919)
<b>At 31 December 2022</b>	<b>61 825</b>	<b>33 673</b>	<b>239 402</b>	<b>1 944</b>	<b>6 363</b>	<b>8 566</b>	<b>351 773</b>
<b>Accumulated depreciation and impairment:</b>							
<b>At 1 January 2021</b>	-	<b>11 593</b>	<b>45 690</b>	<b>868</b>	<b>5 493</b>	-	<b>63 644</b>
Depreciation for the year	-	3 456	14 468	98	192	-	18 214
Disposal of accumulated depreciation	-	-	(29)	(118)	(10)	-	(157)
<b>At 31 December 2021</b>	-	<b>15 049</b>	<b>60 129</b>	<b>848</b>	<b>5 675</b>	-	<b>81 701</b>
Depreciation for the year	-	3 504	15 246	103	206	-	19 059
Depreciation of disposals	-	-	(3 926)	(91)	(609)	-	(4 626)
<b>At 31 December 2022</b>	-	<b>18 553</b>	<b>71 449</b>	<b>860</b>	<b>5 272</b>	-	<b>96 134</b>
<b>Carrying amount:</b>							
<b>At 1 January 2021</b>	<b>61 825</b>	<b>21 356</b>	<b>163 051</b>	<b>1 222</b>	<b>712</b>	<b>28 729</b>	<b>276 895</b>
<b>At 31 December 2021</b>	<b>61 825</b>	<b>18 029</b>	<b>177 894</b>	<b>1 170</b>	<b>657</b>	<b>10 091</b>	<b>269 666</b>
<b>At 31 December 2022</b>	<b>61 825</b>	<b>15 120</b>	<b>167 953</b>	<b>1 084</b>	<b>1 091</b>	<b>8 566</b>	<b>255 639</b>

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

Management considers that as at 31 December 2022 and 31 December 2021 there are no indications for impairment of property, plant and equipment of the Company.

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

**Pledge of property, plant and equipment**

As at 31 December 2022 property, plant and equipment with carrying amount of BGN 238,841 thousand (2021: BGN 259,285 thousand) we are pledged as collateral for bank loans received by the Company (Note 13).

**(i) 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 2022 would be BGN 5 789 thousand of land and BGN 3 396 thousand of buildings.

**(ii) Fair value hierarchy**

The fair value of land and buildings was determined by an external independent appraiser as of 31 December 2021. As a result, it was determined that the fair value did not differ materially from the balance sheet at that date and, accordingly, no adjustments were recorded. The Company's management has not prepared an estimate as of 31 December 2022, as it considers that there are no events that indicate that the fair value determined as of 31 December 2021 has changed materially. The valuation of the fair value of land and buildings is categorized as a Level 3 fair value based on the inputs used in the valuation.

**(iii) Level 3 fair value**

The following table shows reconciliation from the opening balances to the closing balances for Level 3 fair values as of the date of last revaluation performed (31.12.2021).

	<b>Land</b>	<b>Buildings</b>
	<b>2021</b>	<b>2021</b>
<i>In thousands BGN</i>		
Balance at 1 January 2021	61 825	21 356
Additions	-	129
Depreciation for the year	-	(3 456)
<b>Balance at 31 December</b>	<b>61 825</b>	<b>18 029</b>

1.

**(iv) 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.

<b>Valuation technique</b>	<b>Significant unobservable inputs</b>	<b>Inter-relationship between key unobservable inputs and fair value measurement</b>
	Land:	
	Price of land plots per square meter (Range BGN 203 - 489).	Significant increases (decreases) in market price per square meter would result in significantly higher (lower) fair value of land plots.
	Buildings:	
	<ul style="list-style-type: none"> <li>Benchmarks for construction and installation work from STROY SEC EXPERT handbooks from 2021, incl. functional obsolescence in the range of 10-12% and economic obsolescence of 0%</li> </ul>	Significant increases (decreases) in estimated rent per square meter would result in significantly higher (lower) fair value of buildings.
<i>Land plots:</i> Market approach is used for valuation.		
<i>Buildings:</i> Two approaches are used to value every building: amortized replacement cost method and income approach.	<ul style="list-style-type: none"> <li>Rent per square meter (Range 1 – 6 EUR/sq. m)</li> <li>Discount rates (Range 10.6% - 11.85%)</li> </ul>	Significant decreases/(increases) in estimated discount rates would result in significantly higher (lower) fair value of buildings

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

**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 2022 would be BGN 158 026 thousand.

**(i) Fair value hierarchy**

An external independent appraiser was used to determine the fair value of the machinery and technical installations as at 31.12.2021. The fair value of machinery and equipment is categorized as 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 as of the date of the last revaluation performed (31.12.2021)

<i>In thousands BGN</i>	<i>Machinery and technical installations</i>
	<u>2021</u>
Balance at 1 January	163 051
Additions	29 330
Disposals	(19)
Depreciation for the year	(14 468)
<b>Balance at 31 December</b>	<b><u>177 894</u></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.

<b>Valuation technique</b>	<b>Significant unobservable inputs</b>	<b>Inter-relationship between key unobservable inputs and fair value measurement</b>
<i>Machinery and technical installations</i> : Cost approach	<ul style="list-style-type: none"> <li>• New replacement cost;</li> <li>• Residual life</li> <li>• functional obsolescence in the range of 10-12%</li> <li>• economic obsolescence of 0%</li> </ul>	Significant increases (decreases) in new replacement cost and residual life would result in significantly higher (lower) fair value of machinery and technical installations.; Significant increases (decreases) in functional and economic obsolescence would result in significantly lower (higher) fair value of machinery and technical installations.

The Company used the depreciated replacement cost (DRC) a approach for detemining the fair values of machinery and technical installations.

**Right-of-use assets**

<i>In thousands BGN</i>	<i>Vehicles</i>
<b>Cost at 1 January 2021</b>	<b><u>2 345</u></b>
Additions	1 055
Disposals	(117)
<b>At 31 December 2021</b>	<b><u>3 283</u></b>
Additions	1 446
Disposals	(133)
<b>At 31 December 2022</b>	<b><u>4 596</u></b>



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

**Right of use assets (continued)**

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

<i>In thousands BGN</i>	<u><i>Vehicles</i></u>
<b>Accumulated depreciation at 01 January 2021</b>	<b>(1 104)</b>
Depreciation charge	(637)
Disposals	106
<b>At 31 December 2021</b>	<b>(1 635)</b>
Depreciation charge	(712)
Disposals	133
<b>At 31 December 2022</b>	<b>(2 214)</b>
<b>Net book value:</b>	
<b>At 31 December 2021</b>	<b>1 648</b>
<b>At 31 December 2022</b>	<b>2 382</b>

The following amounts were recognised in profit and loss:

<i>In thousands BGN</i>	<u>2022</u>	<u>2022</u>
Depreciation charge	712	637
Interest expense	61	51
<b>Total expenses related to leases</b>	<b>773</b>	<b>688</b>

**6. Intangible assets**

	<u><i>Trademarks and patents</i></u>	<u><i>Software</i></u>	<u><i>Total</i></u>
<i>In thousands BGN</i>			
<b>Cost:</b>			
<b>At 1 January 2021</b>	<b>3</b>	<b>4 876</b>	<b>4 879</b>
Additions	-	367	367
Disposals	-	(10)	(10)
<b>At 31 December 2021</b>	<b>3</b>	<b>5 233</b>	<b>5 236</b>
Additions	-	2 590	2 590
Disposals	-	(15)	(15)
<b>At 31 December 2022</b>	<b>3</b>	<b>7 808</b>	<b>7 811</b>
<b>Accumulated amortisation:</b>			
<b>Balance at 1 January 2021</b>	<b>(3)</b>	<b>(4 587)</b>	<b>(4 590)</b>
Amortisation charge	-	(468)	(468)
Disposals	-	10	10
<b>At 31 December 2021</b>	<b>(3)</b>	<b>(5 045)</b>	<b>(5 048)</b>
Amortisation charge	-	(142)	(142)
Disposals	-	15	15
<b>At 31 December 2022</b>	<b>(3)</b>	<b>(5 172)</b>	<b>(5 175)</b>
<b>Carrying amount:</b>			
<b>At 1 January 2021</b>	<b>-</b>	<b>289</b>	<b>289</b>
<b>At 31 December 2021</b>	<b>-</b>	<b>188</b>	<b>188</b>
<b>At 31 December 2022</b>	<b>-</b>	<b>2 636</b>	<b>2 636</b>

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**7. Inventory**

	<u>31.12.2022</u>	<u>31.12.2021</u>
<i>In thousands BGN</i>		
Materials	131 924	143 579
Work in progress	143 510	80 530
Finished goods	83 092	68 491
Goods for resale	729	1 762
	<u>359 255</u>	<u>294 362</u>
Less: Inventories write-down:		
Materials	(7 432)	-
<b>Total inventories at the lower of cost and net realisable value</b>	<u><b>351 823</b></u>	<u><b>294 362</b></u>

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 a agreed sales price or quotations of metal prices at a commodity exchange). As at 31 December 2022 inventories for the amount of BGN 268 531 thousand (2021: BGN 251 329 thousand) are pledged as collateral for bank loans received by the Company (Note 13).

**8. Trade and other receivables**

	<u>31.12.2022</u>	<u>31.12.2021</u>
<i>In thousands BGN</i>		
Trade receivables (Note 22)	32 106	41 950
Impairment loss	(559)	(448)
Trade receivables, net of impairment	<u>31 547</u>	<u>41 502</u>
Trade receivables from related parties (Note 20, 21)	34 540	40 119
VAT receivable	9 937	8 065
Advance payments for delivery of inventory	6 028	5 159
Other receivables	4 345	2 224
	<u><b>86 397</b></u>	<u><b>97 069</b></u>

The aging structure of gross receivables from non-affiliated customers only (excluding receivables from related parties) is presented in the table below, which contains information on credit risk exposure and expected credit losses (ECLs) in respect of trade receivables from customers to December 31, 2022. In 2022, the Company charged additional impairment in the amount of BGN 111 thousand (2021: reversal of impairment for the amount of BGN 80 thousand).

**ECL for trade receivables at amortized cost**

	<b>Weighted-average loss rate</b>	<b>Gross carrying amount</b>	<b>Impairment loss allowance</b>	<b>Net carrying amount</b>
<b>31 December 2022</b>				
<i>In thousands BGN</i>				
Current (not past due)	6.07%	6 618	(402)	6 216
Less than 30 days past due	1.63%	8 772	(143)	8 629
31-60 days past due	1.46%	823	(12)	811
61-90 days past due	5.26%	19	(1)	18
91-120 days past due	-	6	-	6
More than 120 days past due	10.00%	10	(1)	9
		<b>16 248</b>	<b>(559)</b>	<b>15 689</b>
<b>31 December 2021</b>				
<i>In thousands BGN</i>				
Current (not past due)	0.68 %	2 935	(20)	2 915
Less than 30 days past due	0.31%	26 287	(81)	26 206
31-60 days past due	3.26%	591	(19)	572
61-90 days past due	8.37%	758	(63)	695
91-120 days past due	15.55 %	1 703	(265)	1 438
More than 120 days past due	-	-	-	-
		<b>32 274</b>	<b>(448)</b>	<b>31 826</b>

### 8. Trade and other receivables (continued)

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

	Total	Current (Not overdue)	1-30 days	31-60 days	Overdue 61-90 days	91-120 days	>120 days
<i>In thousands BGN</i>							
<b>2022</b>	<b>34 540</b>	34 472	-	-	-	-	68
<b>2021</b>	<b>40 119</b>	36 085	3 845	121	-	-	68

When assessing the impairment of receivables from related parties, the Company uses historical data on collectability and the amount of losses from these receivables. The weighted average loss used in the impairment calculation is only applied when evaluating receivables from third parties. The company assesses impairment losses in connection with receivables from related parties overdue by more than 1 year. Based on historical collectability and the criteria used by the Company, there have been no cases of actual uncollected and written-off receivables from related parties.

### 9. Derivative financial instruments

	2022		2021	
	Assets	Liabilities	Assets	Liabilities
<i>In thousands BGN</i>				
Futures contracts designated as cash flow hedging instruments	991	127	5 896	-
Forward contracts designated as fair value hedging instruments	940	-	-	340
	<b>1 931</b>	<b>127</b>	<b>5 896</b>	<b>340</b>
<b>Net assets/ (liabilities)</b>	<b>1 804</b>		<b>5 556</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

	31.12.2022	31.12.2021
<i>In thousands BGN</i>		
Cash at bank	22 265	13 194
	<b>22 265</b>	<b>13 194</b>

Cash at banks earns interest at floating interest rates based on daily bank deposit rates. As at 31.12.2021 cash at bank amounting to BGN 3 976 thousand (2021: BGN 1 065 thousand) are pledged as collateral for bank loans received by the Company (Note 13).

## 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 2021	<u>2 626 126</u>	<u>110 297</u>	<u>10 820</u>	<u>121 117</u>
Issued shares	-	-	-	-
As at 31 December 2021	<u>2 626 126</u>	<u>110 297</u>	<u>10 820</u>	<u>121 117</u>
Issued shares	-	-	-	-
As at 31 December 2022	<u>2 626 126</u>	<u>110 297</u>	<u>10 820</u>	<u>121 117</u>

As of 31 December 2022, the Company's registered capital consists of 2,626,126 ordinary shares with a nominal value of BGN 42 each, which are fully paid. The ordinary shares of Sofia Med AD, which are owned by the parent company, are used as collateral for the loan received from the European Bank for Reconstruction and Development (EBRD). During the year 2022, a dividend was distributed in the amount of BGN 9,779,150 (2021: BGN 0) or BGN 3.72 per share (2021: BGN 0). As per the requirements of the Bulgarian Commercial Law, the equity of Sofia Med AD should exceed its share capital. The company complies with this requirement as at 31.12.2022 and 31.12.2021.

## 12. Reserves

	Statutory reserve	Hedging reserve	Other reserves	Revaluation reserves	Total Reserves
<i>In thousands BGN</i>					
At 1 January 2021	3 064	3 600	(3 515)	76 794	79 943
Net gain from cash flow hedge, net of tax	-	1 706	-	-	1 706
Transfer to statutory reserves	1 760	-	-	-	1 760
Transfer of revaluation reserve	-	-	-	(3 781)	(3 781)
At 31 December 2021	<u>4 824</u>	<u>5 306</u>	<u>(3 515)</u>	<u>73 013</u>	<u>79 628</u>
At 1 January 2022	4 824	5 306	(3 515)	73 013	79 628
Net (gain) loss from cash flow hedge, net of tax	-	(4 529)	-	-	(4 529)
Transfer to statutory reserves	5 302	-	-	-	5 302
Transfer of revaluation reserve	-	-	-	(3 864)	(3 864)
At 31 December 2022	<u>10 126</u>	<u>777</u>	<u>(3 515)</u>	<u>69 149</u>	<u>76 537</u>

### Statutory reserves

The statutory reserves are formed in connection with the legal requirement pursuant to Art. 246 of the Commercial Law for joint-stock companies to form a "Reserve" fund. The company should allocate funds to the "Reserve" Fund until its size reaches one tenth or more of the registered capital. As required by the law, sources for the formation of the "Reserve" fund are at least one tenth of the net profit, premiums from share issues and the funds provided for in the articles of association or by decision of the general meeting of shareholders. The resources of the "Reserve" fund can only be used to cover losses from the current and previous accounting periods. When the funds of the "Reserve" fund exceed 1/10 or the larger part of the capital determined by the statute, the larger amount can also be used to increase the capital.

### Hedging reserves

Hedging reserves include the effective portion of changes in the fair value of hedging instruments related to hedges of cash flows. More details are disclosed in the accounting policy described in appendix 2.4e) (v). Hedge reserves are non-distributable.

### Other reserves

The other reserves were formed when the subsidiary company Metalvalius EOOD merged with Sofia Med AD in 2019.

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## 12. Reserves (continued)

### Revaluation reserve

The revaluation reserve is formed from the revaluation of land, buildings, machinery and technical installations. More details are disclosed in the accounting policy described in appendix 2.4b). The revaluation reserve is non-distributable.

## 13. Loans

	31.12.2022	31.12.2021
<i>In thousands BGN</i>		
<b>Non-current loans</b>		
Bank loans	101 768	95 924
<b>Total non-current loans</b>	<b>101 768</b>	<b>95 924</b>
<b>Current loans</b>		
Bank loans	65 784	102 689
Current portion of non-current loans	29 361	20 516
<b>Total short term borrowings received</b>	<b>95 145</b>	<b>123 205</b>
<b>Total borrowings received</b>	<b>196 913</b>	<b>219 129</b>
	<b>31.12.2022</b>	<b>31.12.2021</b>

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

*In thousands of BGN*

Loans received during the period	35 205	69 423
Repayments during the period	(58 582)	(19 576)
<b>Total cash flows related to principal</b>	<b>(23 377)</b>	<b>49 847</b>

<i>In thousands of BGN</i>	Note	Loans	Lease liabilities	Total debt	Cash and cash equivalents	Net debt
<b>1 January 2021</b>		<b>169 248</b>	<b>1 326</b>	<b>170 574</b>	<b>17 725</b>	<b>188 299</b>
Cash flows		49 847	(568)	<b>49 279</b>	(4 531)	<b>44 748</b>
New leases	5	-	1 055	<b>1 055</b>	-	<b>1 055</b>
Terminated leases		-	(117)	<b>(117)</b>	-	<b>(117)</b>
Interest expenses	3.4	6 525	51	<b>6 576</b>	-	<b>6 576</b>
Interest paid		(6 491)	(51)	<b>(6 542)</b>	-	<b>(6 542)</b>
<b>31 December 2021</b>		<b>219 129</b>	<b>1 696</b>	<b>220 825</b>	<b>13 194</b>	<b>234 019</b>
Cash flows		(23 377)	(870)	<b>(24 247)</b>	9 071	<b>(15 176)</b>
New leases	5	-	1 446	<b>1 446</b>	-	<b>1 446</b>
Interest expenses	3.4	8 118	61	<b>8 179</b>	-	<b>8 179</b>
Interest paid		(7 453)	(60)	<b>(7 513)</b>	-	<b>(7 513)</b>
Amortization of prepaid bank charges		496	-	<b>496</b>	-	<b>496</b>
<b>31 December 2022</b>		<b>196 913</b>	<b>2 273</b>	<b>199 186</b>	<b>22 265</b>	<b>221 451</b>

The maturity of interest-bearing loans at a agreed, non-discounted payments is presented in Note 21. The Company has not capitalised any borrowing costs during 2022 and 2021.

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### 13. Loans (continued)

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

	<b>2022</b>	<b>2021</b>
Bank overdrafts	4.32%	3.60%
Short term bank loans	3.04%	2.84%
Long term bank loans	3.15%	3.06%

As of 31 December 2022 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 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 and inventories (Note 7). During the reporting year, the Company entered into a new long-term loan in the amount of EUR 20 000 thousand, while repaying existing exposures under contracts with certain banks concluded in previous years.

The financial covenants as of 31 December 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 2022.

### 14. Lease liabilities

	<b>31.12.2022</b>	<b>31.12.2021</b>
<i>In thousands of BGN</i>		
Less than one year	757	637
Between one and five years	1 516	1 061
<b>Total</b>	<b>2 273</b>	<b>1 698</b>
	<i>Undiscounted lease payments</i>	<i>Present value</i>
	<b>31.12.2021</b>	<b>31.12.2021</b>
<i>In thousands BGN</i>		
Less than one year	691	637
Between one and five years	1 067	1 061
Finance costs	(60)	-
<b>Total</b>	<b>1 698</b>	<b>1 698</b>
	<i>Undiscounted lease payments</i>	<i>Present value</i>
	<b>31.12. 2022</b>	<b>31.12. 2022</b>
<i>In thousands BGN</i>		
Less than one year	824	757
Between one and five years	1 559	1 516
Finance costs	-	-
<b>Total</b>	<b>2 384</b>	<b>2 273</b>

In 2022, the Company recognized payments for lease liabilities in financial activities in the statement of cash flows in the amount of BGN 870 thousand (2021: BGN 568 thousand)

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## 15. Retirement benefit liabilities

### a) Expenses for retirement benefit liabilities

	2022	2021
<i>In thousands BGN</i>		
Current service cost	221	237
Interest expense on employee retirement benefit liabilities	13	3
Internship costs for a past period arising in the current period	223	-
Payments made during the period	(40)	-
<b>Expenses on retirement benefit liabilities recognised in profit and loss (Note 3.6)</b>	<b>417</b>	<b>240</b>

### b) Retirement benefits liability

	2022	2021
<i>In thousands BGN</i>		
Present value of retirement benefit liabilities	1 993	1 569
<b>Retirement benefit liabilities, recognised in the statement of financial position</b>	<b>1 993</b>	<b>1 569</b>

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

	2022	2021
<i>In thousands BGN</i>		
Liability at the beginning of the year	1 569	1 747
Current service cost	221	237
Interest cost	13	3
Benefits paid	(40)	(28)
Past service cost:	223	-
Remeasurements:		
• Actuarial losses / profits from changes in demographic assumptions	474	(209)
• Actuarial losses / profits from changes in financial assumptions	(835)	(185)
• Experience adjustments	368	4
	<b>1 993</b>	<b>1 569</b>

Main actuarial assumptions used for accounting purposes are shown below:

	2022	2021
Discount rate	3,85%	0,86%
Future salary increase	5,00%	5,00%

## 16. Government grants

The movement of grants provided by the state related to real estate machinery and equipment is as follows:

	2022	2021
<i>In thousands BGN</i>		
Balance at the beginning of the year	2 510	2 619
Amortisation for the year	(109)	(109)
	<b>2 401</b>	<b>2 510</b>

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 2022, amounts to BGN 20 034 thousand (2021: BGN 85 thousand) is presented as a reduction of the electricity costs for the period as part of the material costs ( Note 3.2 ). In addition, in 2021, by decree of the Council of Ministers, companies will be compensated for the increased price of electricity. The compensation presented as a reduction of energy costs by Sofia Med AD for 2022 amounts to BGN 2,209 thousand.

**17. Trade and other payables**

	<b>31.12. 2022</b>	<b>31.12.2021</b>
<i>In thousands BGN</i>		
Trade payables	106 525	96 407
Related parties trade payables (Note 20, 22)	45 078	42 607
Payables to employees	7 786	5 526
Taxes	618	456
Other payables	1 360	894
	<b><u>161 367</u></b>	<b><u>145 890</u></b>

**18. Commitments**

<i>In thousands BGN</i>	<b><u>2022</u></b>	<b><u>2021</u></b>
Commitments for the purchase of property, plant and equipment	<b><u>3 634</u></b>	<b><u>109</u></b>

**19. Contingencies**

*Bank guarantees*

Bank guarantees and letters of credit issued by other companies in favour of SOFIA MED AD amount to BGN 3 041 thousand (2021: BGN 2 386 thousand) as at the reporting date.

Bank guarantees and letters of credit issued on behalf of SOFIA MED AD in favour to other companies and state agencies amount to BGN 2 462 thousand (2021: BGN 544 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*

89.56 % of the shares of SOFIA MED AD are owned by ElvalHalcor S.A., 10.44 % are owned by Viohalco SA/NV.

*Other related parties*

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

**b) Sale of goods and services**

<i>In thousands BGN</i>	<b>2022</b>	<b>2021</b>
Sales of goods	581 642	512 213
Sales of services	68	-
	<b><u>581 710</u></b>	<b><u>512 213</u></b>
from which:		
- to the parent entity	40 746	20 912
- to entities under common control	540 964	491 301



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**20. Related parties (continued)**

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

	2022	2021
<i>In thousands BGN</i>		
Purchases of goods	138 970	95 495
Purchase of fixed assets	1 657	2 464
Purchases of services	13 022	8 631
	<u>153 649</u>	<u>106 590</u>
from which:		
- from the parent entity	129 735	97 093
- from entities under common control	23 914	9 497

**d) Key management remuneration**

	2022	2021
<i>In thousands BGN</i>		
Salaries and other short-term employee benefits	6 744	3 652
	<u>6 744</u>	<u>3 652</u>

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

<b>Trade receivables</b>	<b>31.12.2022</b>	<b>31.12.2021</b>
from the parent entity	502	-
from entities under common control	34 038	40 119
	<u>34 540</u>	<u>40 119</u>
<b>Trade payables</b>	<b>31.12.2022</b>	<b>31.12.2021</b>
Trade payables to related parties	45 078	42 607
Contract liabilities to related parties	-	627
<b>Related party payables</b>	<u>45 078</u>	<u>43 234</u>
from which:		
- to the parent entity	41 461	41 384
- to entities under common control	3 617	1 850

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.

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

### 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 BGN</i>	Nominal amount	
	2022	2021
<b>Variable rate instruments</b>		
Interest-bearing loans received, gross of capitalized fees	13 (196 248)	(219 129 )
	<b>(196 248)</b>	<b>(219 129 )</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 2021.

<i>Effect in thousands BGN</i>	Profit or loss		Equity	
	0,25% increase	0,25% decrease	0,25% increase	0,25% decrease
<b>31 December 2022</b>				
Variable rate instruments	(498)	498	(498)	498
<b>Cash flow sensitivity (net)</b>	<b>(498)</b>	<b>498</b>	<b>(498)</b>	<b>498</b>
<b>31 December 2021</b>				
Variable rate instruments	(552)	552	(552)	552
<b>Cash flow sensitivity (net)</b>	<b>(552)</b>	<b>552</b>	<b>(552)</b>	<b>552</b>

Interest rate risk is not mitigated by any financial instruments.

#### 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:

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

**Market risks (continued)**

*Foreign currency risk (continued)*

**2022**

<i>In thousands BGN</i>	<b>EUR</b>	<b>BGN</b>	<b>USD</b>	<b>GBP</b>
Trade and other receivables	62 124	13 738	5 892	4 643
Cash and cash equivalents	13 567	1 946	6 621	131
Interest-bearing loans received	(196 913)	-	-	-
Lease liabilities	-	2 273		
Trade and other payables	(114 240)	(39 320)	(7 644)	(62)
	<b>(235 462)</b>	<b>(21 363)</b>	<b>4 869</b>	<b>4 712</b>
Derivatives (nominal value)	-	-	<b>(7 884)</b>	<b>(4 419)</b>
<b>Total exposure to FX rate risk</b>	<b>(235 462)</b>	<b>(21 363)</b>	<b>(3 015)</b>	<b>293</b>

**2021**

<i>In thousands BGN</i>	<b>EUR</b>	<b>BGN</b>	<b>USD</b>	<b>GBP</b>
Trade and other receivables	55 518	1 497	17 490	7 116
Cash and cash equivalents	5 972	532	6 381	309
Interest-bearing loans received	(219 129)	-	-	-
Lease liabilities	-	1 698	-	-
Trade and other payables	(120 317)	(9 218)	(9 434)	(45)
	<b>(277 956)</b>	<b>(5 491)</b>	<b>14 437</b>	<b>7 380</b>
Derivatives (nominal value)	-	-	<b>(15 298)</b>	<b>(7 427)</b>
<b>Total exposure to FX rate risk</b>	<b>(277 956)</b>	<b>(5 491)</b>	<b>(861)</b>	<b>(47)</b>

The following significant exchange rates applied during the year:

	<b>Average FX rate</b>		<b>FX rate at the reporting period-end date</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
USD 1	1.862	1.653	1.834	1.655
GBP 1	2.295	2.300	2.205	2.327

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.

	<b>Increase / (decrease) of the exchange rate of the US dollar against the BGN</b>	<b>Effect on profit before tax</b>	<b>Effect on equity</b>
	<b>%</b>	<b><i>In thousands BGN</i></b>	<b><i>In thousands BGN</i></b>
<b>2022</b>	10%	(827)	(827)
	-10%	827	827
<b>2021</b>	10%	(119)	(119)
	-10%	119	119

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

**Market risks (continued)**

*Foreign currency risk (continued)*

	<b>Increase / (decrease) of the exchange rate of the British pound against the</b>	<b>Effect on profit before tax</b>	<b>Effect on equity</b>
	<b>BGN</b> %	<i>In thousands BGN</i>	<i>In thousands BGN</i>
<b>2022</b>			
	10%	29	29
	-10%	(29)	(29)
<b>2021</b>			
	10%	(5)	(5)
	-10%	5	5

*Price risk*

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

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

*Credit risk*

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

*Trade and other receivables*

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

However, management also considers the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. The geographical concentration of the credit risk from third party trade receivables is presented in the table below.

<i>In thousands BGN</i>	<b>31.12.2022</b>	<b>31.12.2021</b>
European Union	8 245	14 700
Other European countries	3 486	2 717
Asia	13 909	16 924
Africa	3 892	2 903
North America	1 750	4 549
Other	824	157
	<b>32 106</b>	<b>41 950</b>

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

### Market risks (continued)

#### *Trade and other receivables risk (continued)*

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 Company reports impairment, which represents the expected losses in respect of trade and other receivables. Impairment consists mainly of a component that relates to individually significant exposures and a collective loss component for groups of similar assets in respect of losses that have occurred but have not yet been identified. The collective component is determined on the basis of historical data on payments on similar financial assets.

#### *Cash and cash equivalents*

The Company has cash and cash equivalents as at 31.12.2022 at the amount BGN 22 265 thousand (2021: BGN 13 194 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 BGN</i>	<b>Notes</b>	<b>31.12.2022</b>	<b>31.12.2021</b>
Trade receivables and receivables from related parties	8	66 087	81 621
Cash and cash equivalents	10	22 265	13 194
Derivative financial instruments	9	1 931	5 896
		<b><u>90 283</u></b>	<b><u>100 711</u></b>

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

<i>In thousands BGN</i>	<b>Notes</b>	<b>31.12. 2022</b>	<b>31.12.2021</b>
Third parties		31 547	41 502
Related parties	20	34 540	40 119
		<b><u>66 087</u></b>	<b><u>81 621</u></b>

### Liquidity risk

The Company manages its liquidity risk through a maturity analysis of its short-term and long-term 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:

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

**Liquidity risk (continued)**

	Carrying amount BGN'000	< 1 year BGN'000	1-2 years BGN'000	2-5 years BGN'000	> 5 years BGN'000	Total BGN'000
Interest bearing loans and borrowing:	196 913	101 658	38 856	64 081	8 113	212 708
Lease liabilities	2 273	824	824	735	-	2 383
Trade payables and payables to related parties	151 603	151 603	-	-	-	151 603
Derivatives	127	127	-	-	-	127
		<b>254</b>				<b>366</b>
	<b>350 916</b>	<b>230</b>	<b>39 680</b>	<b>64 816</b>	<b>8 113</b>	<b>821</b>

**The year ended 31 December 2021**

	Carrying amount BGN'000	< 1 year BGN'000	1-2 years BGN'000	2-5 years BGN'000	> 5 years BGN'000	Total BGN'000
Interest bearing loans and borrowing:	219 129	126 594	28 154	73 304	-	228 052
Lease liabilities	1 698	648	564	546	-	1 758
Trade payables and payables to related parties	139 014	139 014	-	-	-	139 014
Derivatives	340	340	-	-	-	340
		<b>266</b>				<b>369</b>
	<b>360 181</b>	<b>596</b>	<b>28 718</b>	<b>73 850</b>	-	<b>164</b>

*Capital 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 capital 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.

	<b>31 December 2022</b>	<b>31 December 2021</b>
Loans and borrowings (Note 13)	196 913	219 129
Lease liabilities (Note 14)	2 273	1 698
Less: Cash and cash equivalents (Note 10)	(22 265)	(13 194)
<b>Net debt</b>	<b>176 921</b>	<b>207 633</b>
Total equity	341 569	303 972
<b>Net debt to equity ratio</b>	<b>0.52</b>	<b>0.68</b>

**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 of a short-term nature or the applicable interest rates change 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 2022		Carrying amount			Fair Value					
		hedging instruments at FV	Financial assets at fair value	Financial assets at amortised cost	Total	Level 1	Level 2*	Level 3	Total	
<i>In thousands BGN</i>		<i>Note</i>								
<b>Financial assets measured at fair value</b>										
	Trade receivables and receivables from related parties	8	-	15 858	-	<b>15 858</b>	-	15 858	-	<b>15 858</b>
	Derivative financial instruments	9	1 931	-	-	<b>1 931</b>	1 931	-	-	<b>1 931</b>
			<b>1 931</b>	<b>15 858</b>	-	<b>17 789</b>	<b>1 931</b>	<b>15 858</b>	-	<b>17 789</b>
<b>Financial assets not measured at fair value</b>										
	Trade receivables and receivables from related parties	8	-	-	50 229	<b>50 229</b>				
	Cash and cash equivalents	10	-	-	22 265	<b>22 265</b>				
			-	-	<b>72 494</b>	<b>72 494</b>				
<b>Financial liabilities not measured at fair value</b>										
	Interest bearing loans and borrowings	13	-	-	(196 913)	<b>(196 913)</b>				
	Lease liabilities	14	-	-	(2 273)	<b>(2 273)</b>				
	Trade payables	17	-	-	(151 603)	<b>(151 603)</b>				
			-	-	<b>(350 789)</b>	<b>(350 789)</b>				

22. Fair values of financial instruments (continued)

31 December 2021

<i>In thousands BGN</i>	Note	Carrying amount			Fair Value				
		hedging instruments at FV	Financial assets at fair value	Financial assets at amortised cost	Total	Level 1	Level 2*	Level 3	Total
<b>Financial assets measured at fair value</b>									
Trade receivables and receivables from related parties	8	-	9 676	-	<b>9 676</b>	-	9 676	-	<b>9 676</b>
Derivative financial instruments	9	5 896	-	-	<b>5 896</b>	5 896	-	-	<b>5 896</b>
		<b>5 896</b>	<b>9 676</b>	-	<b>15 572</b>	<b>5 896</b>	<b>9 676</b>	-	<b>15 572</b>
<b>Financial assets not measured at fair value</b>									
Trade receivables and receivables from related parties	8	-	-	71 945	<b>71 945</b>				
Cash and cash equivalents	10	-	-	13 194	<b>13 194</b>				
		-	-	<b>85 139</b>	<b>85 139</b>				
<b>Financial liabilities not measured at fair value</b>									
Interest bearing loans and borrowings	13	-	-	(219 129)	<b>(219 129)</b>				
Lease liabilities	14	-	-	(1 698)	<b>(1 698)</b>				
Trade payables	17	-	-	(139 014)	<b>(139 014)</b>				
		-	-	<b>(359 841)</b>	<b>(359 841)</b>				

\* The Level 2 financial assets (trade receivables at FVTPL resulting from unsettled provisional pricing – refer to Note 2.41) comprise of two components – fixed and variable based on LME quotations. The fair value of the assets as at year-end is determined as a sum of the fixed component and updated variable component based on observable market inputs – market quotations for the respective metals on the London Metal Exchange (LME) valid as at year-end.

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. Subsequent events

After December 31, 2022, no events occurred that could require additional adjustments and/or disclosures in the Company's financial statements for the year ended December 31, 2022.