SOFIA MED AD

INDEPENDENT AUDITOR'S REPORT

ANNUAL ACTIVITY REPORT

ANNUAL FINANCIAL STATEMENTS

31 DECEMBER 2021

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

In the context of the COVID-19 pandemic in early 2020, the signs of growth in the last quarter of 2020 continued in 2021, especially in markets that were directly afeected by the pandemia in the prior year. Growth in industrial production remained strong throughout 2021, reaching pre-pandemic levels. The issues affecting the supply chain do not seem to be resolved at a rapid pace, and the slow return to normal has has forced many companies to rework their supply chains and policies. On the other hand, inflation and growing energy prices, which emerged in the last quarter of 2021, threaten the positive growth prospects and put pressure on costs, retail consumption and profitability.

The prices of metals - copper and zinc, which Sofia Med processes are moving in 2021 at significantly higher levels compared to the previous year. The average price of copper reached 7,881 euros per tonne compared to 5,395 euros per tonne in 2020, and the average price of zinc rose to 2,548 euros per tonne compared to 1,980 euros per tonne in 2020.

Despite the global pandemic situation, Sofia Med reports another year of growth in sales, both in quantity and value. In 2021, 89,363 tons of copper products and alloy products were sold, which is an increase of 8.6% compared to 82,277 tons of sold main production products in 2020. The level of sales reached BGN 1,393,883 thousand compared to BGN 923,370 thousand in 2020. The main reason for the increase in the level of sales of 51% is the result of the significant jump in 2021 of copper and zinc prices by an average of 46% and 29%.

The company reports an increase of 102% in gross profit and 151% in operating profit, amounting to BGN 83,464 thousand and BGN 67,788 thousand, respectively, compared to BGN 41,277 thousand and BGN 27,040 thousand in 2020. The earning before interest, taxes and depreciation (EBITDA) resulted to BGN 86,875 thousand in 2021, which is an increase of 92% compared to the result in the previous year of BGN 45,254 thousand.

The profitability indicator used by the Company and the companies in the group to which Sofia Med belongs, the adjusted EBITDA (a-EBITDA), which isolates the influence of the metal price, also increased by 14% and reached BGN 54,787 thousand compared to the BGN 48,189 thousand BGN in 2020.

In 2021 Sofia Med AD continues the implementation of its investment program in order to expand the production range and increase the competitiveness of the Company. The total amount of payments for investments during the year in machinery and equipment is BGN 12,501 thousand (2020: BGN 22,734 thousand).

Sofia Med's five-year strategic growth plan has been successfully implemented and the company has continued to gain market share and volume. The market conditions in 2021 for the products produced by Sofia Med were their production and product portfolio in order to be able to respond to the prevailing market dynamics by focusing on more sought-after products and products with high added value. This will allow the Company to continue to expand its customer base and market share in the coming years, especially after receiving the status of "approved supplier" from key international customers with high demand and potential.

Current period results and financial position overview – Financial highlights

In BGN thousand	**2021**	**2020**
Sales revenue	1 393 883	923 370
Earnings before interest and tax (EBIT)	67 788	27 040
Earnings before interest, tax, depreciation and amortization (EBITDA)*	86 875	45 254
Earnings before taxes (EBT)	58 914	19 570
Working capital excluding cash and cash equivalents**	251 443	132 583
EBITDA / Sales	6,2%	4,9%
Working capital / Sales	17,9%	13,9%
Current ratio (current assets to current liabilities)	1,51	1,55
Debt*** / Equity	0,72	0,68
Debt / EBITDA	2,52	3,74

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

***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.*

In BGN thousand	**2021**	**2020**
EBIT	67 788	27 040
Adjustments for:		
+ Depreciation of property, plant and equipment	18 091	17 558
+ Depreciation of right of use assets	637	609
+ Amortization of intangible assets	468	156
- Release of funding provided by the state	(109)	(109)
EBITDA	**86 875**	**45 254**

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

In BGN thousand	**2021**	**2020**
EBITDA	**86 875**	**45 254**
Adjustments for:		
+ Loss / - Profit from Metal result	(32 871)	4 393
+ Loss / - Profit from disposals of non-current assets	783	(1 458)
a-EBITDA	**54 787**	**48 189**
a-EBITDA/ Sales	3.9%	5.2%

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

Matters related to sustainable development such as employee care, environmental protection, health and safety at work, and high customer satisfaction are a priority for Sofia Med.

In 2021, in response to the increasing need, in a cooperation with the parent company ElvalHalcor, new project was launched by the Company – establishing a Roadmap for Environment, Social Affairs and Governance (ESG). The Roadmap ambitious focus is on, but not limited to, caring for employees, protecting the environment and managing resources, supporting local communities, and responsible business practices. 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

A dedicated Sustainability Team has been set up to raise awareness of sustainability issues among employees, to monitor the development of ESG projects, to monitor and report on key performance indicators related to ESG, to communicate progress, and to generate and apply new ideas.

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.

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

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

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

2021: a year of COVID-19 and continuous care of employees and their families

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

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

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

Customer focus

Sofia Med follows a customer-oriented approach, prioritising customer satisfaction. The company has implemented a management system in accordance with the requirements of international quality management standards according to ISO 9001: 2015 and IATF 16949: 2016 for the automotive industry. The commitment of the management in this area is described in the Quality Policy implemented. According to the company policy, its objectives are:

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

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.

Supporting local communities

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

To help medical workers cope with the pandemic, in 2021 Sofia Med made a series of donations to the St. Anna Diagnostic and Consulting Center in Sofia, which included modern equipment and medical supplies.

Participation in networks and organisations

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

- International Wrought Copper Council – IWCC
- Hellenic Copper Development Institute – HCDI
- Bulgarian Association of Metallurgical Industry – BAMI
- Hellenic Business Council in Bulgaria - HBCB
- Bulgarian Association of Recycling – BAR
- Bureau of International Recycling – BIR

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

Research and development activities

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

Branches

The Company has no branches.

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

In 2021 the Company has not redeemed any treasury shares, and as at 31 December 2021 it does not hold any redeemed treasury shares. The members of the Board of Directors do not hold any share options or bonds of the Company. There is no decision of the General Meeting of shareholders granting to the members of the Board of Directors rights to acquire shares and bonds in the Company. The members of the Board of Directors have not declared that they or any parties related to them have contracts concluded with the Company which fall beyond its ordinary course of business or significantly depart from the market conditions. The remuneration of the members of the Board of Directors for 2021 was BGN 308 thousand (2020: BGN 345 thousand).

The members of the Board of Directors of the Company as of December 31, 2021 are as follows:

1. Efstratios Evangelos Stratigis;
2. Angel Petrov Ganev;
3. Ioannis Papadimitriou;
4. Stylianos Theodosiou;
5. Athanassios Athanassopoulos;
6. Andreas Mavrudis;
7. Dimitrios Dimitriadis;
8. Panayotis Lolos;
9. Lidia Atanasova Gerdjikova;

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

Member of the Board of Directors	Participating in following companies
Angel Petrov Ganev	**FIBRAN BULGARIA S.A.**
Lidia Atanasova Gerdjikova	**BALANCE Ltd.** **AMBEL Ltd.** **EUROTERRA DEVELOPMENT S.A.** **TWIN GRUP S.A.** **PRIMROADVIEW S.A** **EAZY HOMES S.A.** **PANSO S.A.** **GERDA Ltd.** **GTV Ltd.**
Athanassios Athanassopoulos	**LESKO Ltd.** **PORT SVISHTOV WEST S.A.** **STOMANA ENGINEERING S.A. (with the previous name Sigma JSC)** **STOMANA-INDUSTRY S.A.**
Stylianos Theodosiou	**TECHOR S.A.**
Dimitrios Dimitriadis	**HELLAS GOLD S.A.** **THRACE MINERALS S.A.** **THRACIAN GOLD MINING S.A.** **MACEDONIAN COPPER S.A.**
Ioannis Papadimitriou	**METALCO BULGARIA S.A.** **STOMANA-INDUSTRY S.A.**

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

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

Lidia Atanasova Gerdjikova	• BALANCE Ltd. • AMBEL Ltd. • GERDA Ltd. • GTV Ltd.

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

Financial instruments used by the Company and financial risks

The Company 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 2021, and in cases where there is a deviation from the agreed indicators, the Company has received from the creditor waiver of its requirement to comply with this ratio for the period of calculation ending on 31 December 2021.

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.

Responsibilities of the management (continued)

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 2021.

Transactions with related parties

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

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

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

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

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

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

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

SOFIA MED sells to Icme Ecab finished goods.

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

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

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

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

SOFIA MED sells to International Trade finished goods.

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

Composition of the Board of Directors

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

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

Subsequent events

On February 24, 2022, the Russian Federation launched hostilities against Ukraine. In response, the EU, the United States, Canada, Japan, the United Kingdom and other countries have imposed unprecedented economic sanctions on Russia. As of the date of these financial statements the situation is still developing, the Company is not able to assess its impact on the future financial condition and financial results of operations.

Management has performed an additional assessment of the potential future impact on the valuation of assets and liabilities and we do not believe that such a direct impact exists at this stage.

No other significant events have occurred after the reporting date, which require additional adjustments and/or disclosures in the financial statements of the Company for the year ended 31 December 2021.

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

24.03.2022

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

	Notes	For the year ended 31 December 2021 BGN'000	2020 BGN'000
Sales revenue	3.1	1 393 883	923 370
Cost of sales	3.2	(1 310 419)	(882 093)
Gross profit		**83 464**	**41 277**
Selling and distribution expenses	3.2	(4 618)	(3 777)
Administrative expenses	3.2	(10 985)	(11 234)
Impairment loss of trade receivables	8	80	(313)
Other income and expenses, net	3.3	(153)	1 087
Result from operating activities		**67 788**	**27 040**
Finance income	3.4	1	4
Finance expenses	3.4	(8 875)	(7 474)
Net finance cost		**(8 874)**	**(7 470)**
Profit before tax		**58 914**	**19 570**
Income tax expense	4	(5 899)	(1 971)
Profit for the year		**53 015**	**17 599**
Other comprehensive income			
Remeasurements of defined benefit liability	15	390	(145)
Related deferred tax	4	(39)	14
		351	**(131)**
Effective portion of changes in fair value of cash flow hedge contracts	3.5	1 896	3 954
Related deferred tax	4	(190)	(395)
		1 706	**3 559**
Other comprehensive income for the period, net of tax		**2 057**	**3 428**
Total comprehensive income for the period		**55 072**	**21 027**

Ioannis Papadimitriou General Manager	Lidia Gerdjikova Director	Sergey Vlaykov Chief Financial Officer	Evelina Chergarska Preparer

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

Tsvetana Tsankova Registered auditor	Boryana Dimova, Managing Director PricewaterhouseCoopers Audit OOD

The financial statements were approved for issue by Decision of the Board of Directors of 21 March 2021.
The notes set out on pages 13 to 51 are an integral part of these financial statements.

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

	Notes	31 December 2021	31 December 2020
ASSETS		*BGN'000*	*BGN'000*
Non-current assets			
Property, plant and equipment	5	269 666	276 895
Right of use assets	5	1 648	1 241
Intangible assets	6	188	289
		271 502	**278 425**
Current assets			
Inventories	7	294 362	189 438
Trade and other receivables	8	97 069	50 920
Derivative financial instruments	9	5 896	4 025
Corporate tax receivable		6	-
Cash and cash equivalents	10	13 194	17 725
		410 527	**262 108**
TOTAL ASSETS		**682 029**	**540 533**
EQUITY			
Share capital	11	110 297	110 297
Share premium		10 820	10 820
Reserves	12	79 628	79 943
Retained earnings		103 227	47 840
		303 972	**248 900**
LIABILITIES			
Non-current liabilities			
Loans and borrowings	13	95 924	117 455
Lease liabilities	14	1 061	732
Retirement benefit liabilities	15	1 569	1 747
Government grants	16	2 510	2 619
Deferred tax liabilities	4	5 498	347
		106 562	**122 900**
Current liabilities			
Loans and borrowings	13	123 205	51 793
Lease liabilities	14	637	594
Trade and other payables	17	145 890	111 800
Corporate tax liabilities		-	9
Contract liabilities	3.1	1 423	4 537
Derivative financial instruments	9	340	-
		271 495	**168 733**
TOTAL LIABILITIES		**378 057**	**291 633**
TOTAL EQUITY AND LIABILITIES		**682 029**	**540 533**

Ioannis Papadimitriou General Manager	Lidia Gerdjikova Director	Sergey Vlaykov Chief Financial Officer	Evelina Chergarska Preparer

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	Notes	Share capital	Share premium	Reserves	Accumulated gains and losses	Total equity
		BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Balance as at 1 January 2020		**110 297**	**10 820**	**81 524**	**25 232**	**227 873**
Comprehensive income for the period						
Profit for the year		-	-	-	17 599	**17 599**
Other comprehensive income						
Transfer of revaluation reserve		-	-	(5 140)	5 140	**-**
Cash flow hedge, net of tax	3.5, 12	-	-	3 559	-	**3 559**
Actuarial losses	15	-	-	-	(131)	**(131)**
Total comprehensive income for the period		**-**	**-**	**(1 581)**	**22 608**	**21 027**
Balance as at 31 December 2020	2.3	**110 297**	**10 820**	**79 943**	**47 840**	**248 900**
Balance as at 1 January 2021		**110 297**	**10 820**	**79 943**	**47 840**	**248 900**
Comprehensive income for the period						
Profit for the year		-	-	-	53 015	**53 015**
Other comprehensive income						
Transfer of revaluation reserve		-	-	(3 781)	3 781	**-**
Cash flow hedge, net of tax	3.5, 12	-	-	1 706	-	**1 706**
Actuarial gains	15	-	-	-	351	**351**
Total comprehensive income for the period		**-**	**-**	**(2 075)**	**57 147**	**55 072**
Other equity transactions						
Allocation of statutory reserves	12	-	-	1 760	(1 760)	**-**
Balance as at 31 December 2021		**110 297**	**10 820**	**79 628**	**103 227**	**303 972**

Ioannis Papadimitriou
General Manager

Lidia Gerdjikova
Director

Sergey Vlaykov
Chief Financial Officer

Evelina Chergarska
Preparer

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

Tsvetana Tsankova
Registered auditor

Boryana Dimova, Managing Director
PricewaterhouseCoopers Audit OOD

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

	Notes	For the year ended 31 December 2021	2020
		BGN'000	*BGN'000*
Cash flows from operating activities			
Profit after tax		53 015	17 599
Adjustments for:			
Income tax		5 899	1 971
Depreciation of property, plant and equipment	5	18 214	17 558
Depreciation of right of use assets	5	637	609
Amortization of intangible assets	6	468	156
Income from government grants	16	(109)	(109)
Finance Income		(1)	(4)
Net finance costs	3.4	8 875	7 474
(Gain) / loss from sale of non-current assets		783	(1 458)
(Gain) / loss from revaluation of derivatives through profit or loss		2 282	96
(Gains)/ losses from foreign exchange differences		(128)	(1 012)
Change in devaluation of inventories to net realisable value	7	-	(1 936)
Impairment and write-off of receivables	8	(80)	235
		89 855	**41 179**
Decrease / (increase) in inventories	7	(104 924)	(43 767)
Decrease / (increase) in trade and other receivables		(46 149)	2 578
(Decrease) / increase in trade and liabilities		34 081	(11 005)
Interest charges & related expenses paid		(8 766)	(7 844)
Contract liabilities		(3 114)	-
Income tax paid		(992)	(56)
Other (payments)/income to / from operational activities		(1 158)	890
Net cash flows from operating activities		**(41 167)**	**(18 025)**
Cash flows from investing activities			
Purchase of tangible assets		(12 501)	(22 734)
Cash acquired from business combinations		-	-
Cash inflow from sale of non - current assets		35	1 041
Net cash flows used in investing activities		**(12 466)**	**(21 693)**
Cash flows from financing activities			
Loans received		69 423	28 365
Loans repaid		(19 576)	(15 658)
Payments of lease liabilities		(745)	(554)
Net cash flows from financing activities		**49 102**	**12 153**
Net change in cash and cash equivalents		**(4 531)**	**(27 565)**
Cash and cash equivalents at the beginning of period		17 725	45 290
Cash and cash equivalents at the end of period	10	**13 194**	**17 725**

Ioannis Papadimitriou General Manager	Lidia Gerdjikova Director	Sergey Vlaykov Chief Financial Officer	Evelina Chergarska Preparer

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

Tsvetana Tsankova
Registered auditor

Boryana Dimova, Managing Director
PricewaterhouseCoopers Audit OOD

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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 2021 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 2021 the number of employees is 618 (2020: 606).

The financial statements are authorized for issue on 21 March 2022 with a resolution of the Board of Directors.

2. Basis of preparation and accounting policies

2.1 Basis of preparation

(i) Compliance with IFRS as adopted by EU

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

Basis of measurement

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

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

Functional and presentation currency

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

Going concern

These financial statements have been prepared on the basis of the assumption that the Company is a going concern and will continue to operate in the foreseeable future. The management considers that the existing capital resources and sources of funding (cash flows from operating activities and access to currently available credit lines) will be adequate for its liquidity needs.

2. Basis of preparation and accounting policies (continued)

2.2 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing on 1 January 2021:

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

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

Amendment to IFRS 16 Leases Covid 19-Related Rent Concessions (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 2021 and have not been previously adopted by the Company have been published.

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

Amendments to IAS 1 and IFRS Practice Statement 2: 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: Definition of Accounting Estimates (issued on 12 February 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)

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.

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

Amendments 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)

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

Amendments to IAS 12 „Deferred tax“ (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023)

2. Basis of preparation and accounting policies (continued)

2.3 Voluntary changes in accounting policy

As of 31 December 2020 the Company voluntarily changed its accounting policy for transfer of revaluation surplus to retained earnings.

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

This model is accepted and used by all companies in the group to which Sofia Med AD belongs. This change led to the unification of the accounting treatment between the companies in the Group and led to more comparable, reliable and relevant information for the users of the financial statements.

2.4 Estimates and assumptions

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

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

Retirement benefit liabilities

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

Valuation of property, plant and equipment

The Company's land, buildings and machinery and technical installations are carried at revalued amounts. The determination of the assets' fair values involves estimates. The Company had used assumptions and estimates in the valuation of property plant and equipment at 31.12.2021. 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 2.5).

Impairment of receivables

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

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

2. Basis of preparation and accounting policies (continued)

2.4 Estimates and assumptions (continued)

Net realisable value of inventories

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

Measurement of fair values

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

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

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

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

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

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

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

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

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

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

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

2.5 Summary of significant accounting policies

a) Foreign currency translation

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

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

2. Basis of preparation and accounting policies (continued)

2.5 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:

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

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

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)

2.5 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)

2.5 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)

2.5 Summary of significant accounting policies (continued)

e) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

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

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

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

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)

2.5 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.

Cash flow hedges

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

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

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

2. Basis of preparation and accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

e) Financial instruments (continued)

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

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.

Fair value hedges

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

These hedging contracts are designated as fair value hedges.

Hedge accounting

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

Hedge accounting – cash flow hedges

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

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)

2.5 Summary of significant accounting policies (continued)

e) Financial instruments (continued)

(vi) Share capital

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

f) Impairment

(i) Non-derivative financial assets

Financial instruments and contract assets

The Company recognises loss allowances for ECLs on:

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

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

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

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

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

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

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

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

Measurement of ECLs

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

Credit-impaired financial assets

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

2. Basis of preparation and accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

f) Impairment (continued)

(i) Non-derivative financial assets (continued)

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

Write-off

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

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

Non-financial assets

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

For impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

g) Inventory

Inventories are valued at the lower of costs and net realisable value. Inventories that are hedged in a fair value hedge are measured at cost adjusted for the changes in the fair values of the hedging instruments.
Costs incurred to bring a product to its present condition and location are included in the inventory cost, as follows:

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

2. Basis of preparation and accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

g) 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.

h) Provisions

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

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

i) Employee benefits

Defined contribution plans

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

Defined benefit plans

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

Termination benefits

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

2. Basis of preparation and accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

i) Employee benefits (continued)

Short-term employee benefits

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

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

j) Leases

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

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

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

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

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

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

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

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

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

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

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

2. Basis of preparation and accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

j) 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.

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.

k) Revenue

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

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

Sales of finished products and goods

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

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

Provisional pricing

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

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

2. Basis of preparation and accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

k) Revenue (continued)

Provisional pricing (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).

l) Finance income and finance costs

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

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

m) Government grants

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

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

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

n) Taxes

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

Current income tax

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

Deferred income tax

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

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

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

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.

2. Basis of preparation and accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

n) Taxes (continued)

Deferred income tax (continued)

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

	2021	**2020**
	BGN'000	*BGN'000*
Revenue from contracts with customers	1 363 773	916 320
Gain/(loss) from changes in the fair values of the receivables to which provisional pricing applies	30 110	7 050
	1 393 883	**923 370**

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

In thousands BGN	**2021**	**2020**
Revenue from sales of production	1 363 773	907 094
Revenue from sales of goods	5 781	2 746
Revenue from sales of scrap	24 329	6 480
	1 393 883	**916 320**

3. Revenue and expenses (continued)

3.1 Revenue (continued)

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

Geographic markets

In thousands BGN	2021	2020
European Union	957 759	641 251
Other European countries	175 809	80 937
Asia	118 920	97 332
Africa	47 528	40 607
America	86 171	50 681
Other	7 696	5 512
	1 393 883	**916 320**

Products/ metal groups

In thousands BGN	2021	2020
Rolled industrial products	791 346	530 089
Rolled architectural products	91 274	69 428
Extruded products	473 120	307 577
Non-core sales	38 143	9 226
	1 393 883	**916 320**

C. Contract balances

In thousands BGN	31 December 2021	31 December 2020
Receivables included in "Trade and other receivables"	81 621	40 004
Contract liabilities	(1 423)	(4 537)
	80 198	**35 467**

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

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

	Year ended 31 December 2021			
	Cost of sales	**Selling and distribution expenses**	**Administrative expenses**	**Total**
In thousands BGN				
Employee remuneration	17 698	2 945	4 136	24 780
Compulsory social security contributions	4 421	370	477	5 268
Materials	1 260 246	215	489	1 260 590
Merchandise	11 056	-	-	11 056
Change in stock of finished goods and work in progress	(46 110)	-	-	(46 110)

3. Revenue and expenses (continued)

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

	Year ended 31 December 2021			
In thousands BGN	**Cost of sales**	**Selling and distribution expenses**	**Administrative expenses**	**Total**
Hired services	39 599	370	3 569	43 538
Depreciation of property, plant and equipment	16 475	167	1 113	17755
Amortisation of intangible assets	24	-	444	468
Net loss from cash flow hedge	4 152	-	-	4 152
Other	2 858	551	756	4 165
Total	**1 310 419**	**4 618**	**10 985**	**1 326 022**

The costs related to change in defined benefit obligation, which are recognised in profit and loss amounting to BGN 240 thousand (2020: BGN 208 Thousand) are recognised as part of row "Other" in the above table.

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

3.3 Other income and expenses, net

In thousands BGN	**2021**	**2020**
Foreign exchange gains		-
Depreciation	(1 096)	(1 393)
Other income and (expenses), net	943	2 480
	(153)	**1 087**

3. Revenue and expenses (continued)

3.4 Finance income and expense

Recognised in profit and loss	2021	2020
In thousands BGN		
Finance income		
Interest income	1	4
	1	**4**
Finance expenses		
Interest expense on loans at amortised cost	(7 889)	(6 787)
Interest expense on lease liabilities	(51)	(48)
Bank commissions	(935)	(639)
	(8 875)	**(7 474)**

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

	2021	2020
In thousands BGN		
Net gain/(loss) from cash flow hedge		
Effective portion of changes in fair value of derivatives for cash flow hedges	1 896	3 954
Tax effect	(190)	(395)
Net effect in other comprehensive income	**1 706**	**3 559**

3.6 Personnel expenses

	2021	2020
In thousands BGN		
Employee remuneration	24 780	22 553
Social security expenses	5 268	5 015
Current period costs for defined benefit obligations (Note 15)	240	208
Total	**30 288**	**27 776**

4. Income tax

The main components of the corporate income tax benefit for the years ended 31 December 2021 and 2020 are:

	2021	2020
In thousands BGN		
Tax recognised in profit and loss		
Current tax	(977)	(58)
Change in deferred tax balances	(4 922)	(1 913)
Tax recognised in profit or loss	**(5 899)**	**(1 971)**
Tax recognised in other comprehensive income	**(229)**	**(381)**

The tax rate for 2021 is 10% (2020: 10%). The applicable tax rate in 2022 will be 10%.

4. Income tax (continued)

The reconciliation between the nominal corporate income tax benefit based on the accounting profit and the applicable tax rate and the effective income tax for the years ended 31 December 2021 and 2020 is as follows:

In thousands BGN	**2021**	**2020**
Profit/ (loss) before income tax	**58 914**	**19 570**
Income tax at applicable tax rate of 10%	(5 891)	(1 957)
Expenses non-deductible for tax purposes	(8)	(14)
Income tax benefit/(expense) at effective tax rate 10% (2020: 10%)	**(5 899)**	**(1 971)**

Deferred taxes as at 31 December relate to the following:

Description	**Temporary difference 31.12.2021**	**Deferred tax asset / (liability) 31.12.2021**	**Temporary difference 31.12.2020**	**Tax 31.12.2020**
Property, plant and equipment	(51 369)	(5 137)	(2 953)	(295)
Derivative financial instruments	(5 556)	(556)	(4 025)	(402)
Deferred tax liabilities:	**(56 925)**	**(5 693)**	**(6 978)**	**(697)**
Right of use assets	50	5	86	8
Impairment of inventories	39	4	59	6
Pension and other liabilities	1,862	186	3 361	336
Total deferred tax assets	**1,951**	**195**	**3 506**	**350**
Net balance of deferred income taxes	**(54 974)**	**(5 498)**	**(3 472)**	**(347)**

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

Deferred tax (liabilities) / assets	**Balance of 01.01.2020**	**Recognized in profit or loss**	**Recognized in other comprehensive income**	**Balance of 31.12.2020**
Property, plant and equipment	-	(295)	-	(295)
Derivative financial instruments	(17)	10	(395)	(402)
Deferred tax liabilities:	**(17)**	**(285)**	**(395)**	**(697)**
Property, plant and equipment	1 438	(1 438)	-	-
Right of use assets	3	5	-	8
Impairment of inventories	194	(188)	-	6
Pension and other liabilities	328	(7)	15	336
Total deferred tax assets	**1 963**	**(1 628)**	**15**	**350**
Net balance-liabilities	**1 946**	**(1 913)**	**(380)**	**(347)**

As at 31 December 2021 there are no unrecognised deferred tax assets or liabilities.

5. Property, plant and equipment

Movements in property, plant and equipment is presented below:

In thousands BGN	Land	Buildings	Machinery and technical installations	Vehicles	Other	Assets under construction	Total
Cost:							
At 1 January 2020	**61 825**	**32 634**	**193 442**	**2 050**	**5 961**	**29 136**	**325 048**
Additions	-	-	-	-	-	17 381	17 381
Transfers	-	315	15 915	40	250	(16 790)	(270)
Disposals	-	-	(616)	-	(6)	(998)	(1 620)
At 31 December 2020	**61 825**	**32 949**	**208 741**	**2 090**	**6 205**	**28 729**	**340 539**
Additions	-	-	-	-	-	11 379	11 379
Transfers	-	129	29 330	54	137	(30 017)	(367)
Disposals	-	-	(48)	(126)	(10)	-	(184)
At 31 December 2021	**61 825**	**33 078**	**238 023**	**2 018**	**6 332**	**10 091**	**351 367**
Accumulated depreciation and impairment:							
At 1 January 2020	**-**	**8 161**	**32 123**	**775**	**5 284**	**791**	**47 134**
Depreciation for the year	-	3 432	13 818	93	215	-	17 558
Depreciation of disposals	-	-	(251)	-	(6)	(791)	(1 048)
At 31 December 2020	**-**	**11 593**	**45 690**	**868**	**5 493**	**-**	**63 644**
Depreciation for the year	-	3 456	14 468	98	192	-	18 214
Depreciation of disposals	-	-	(29)	(118)	(10)	-	(157)
At 31 December 2021	**-**	**15 049**	**60 129**	**848**	**5 675**	**-**	**87 701**
Carrying amount:							
At 1 January 2020	**61 825**	**24 473**	**161 319**	**1 275**	**677**	**28 345**	**277 914**
At 31 December 2020	**61 825**	**21 356**	**163 051**	**1 222**	**712**	**28 729**	**276 895**
At 31 December 2021	**61 825**	**18 029**	**177 894**	**1 170**	**657**	**10 091**	**269 666**

Impairment of property, plant and equipment

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

Assets under construction

As at 31 December 2021 assets under construction include advances paid, amounting to BGN 867 thousand (2020: BGN 3 781 thousand), in accordance with agreements for purchase of machinery and equipment. These itesm of machinery and equipment are intended primarily for the reconstruction of the rolling workshop.

5. Property, plant and equipment (continued)

Pledge of property, plant and equipment

As at 31 December 2021 property, plant and equipment with carrying amount of BGN 259 285 thousand (2020: BGN 210 420 thousand) are pledged as collateral for bank loans received by the Company (Note 13).

Revaluation of land and buildings

Management determined that the revalued land and buildings constitute one class of asset in accordance with IAS 16, based on the nature, characteristics and risks of the properties. If land and buildings were carried at the cost model, their net carrying amount as at 31 December 2021 would be BGN 5 789 thousand of land and BGN 3 396 thousand of buildings.

(i) Fair value hierarchy

The fair value of land and buildings as determined by external, independent property values as at 31 December 2021.

The fair value measurement for land and buildings has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

(ii) Level 3 fair value

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

	Land		**Buildings**	
	2021	**2020**	**2021**	**2020**
In thousands BGN				
Balance at 1 January 2021	61 825	61 825	21 356	24 473
Additions	-	-	129	315
Depreciation for the year	-	-	(3 456)	(3 432)
Balance at 31 December	**61 825**	**61 825**	**18 029**	**21 356**

(iii) Valuation technique and significant unobservable inputs

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

Valuation technique	**Significant unobservable inputs**	**Inter-relationship between key unobservable inputs and fair value measurement**
Land plots: Market approach is used for valuation. *Buildings:* Two approaches are used to value every building: amortized replacement cost method and market approach.	• Price of land plots per square meter (Range EUR 104 - 250). • Standards for construction and installation work from Directories of STROY SEC EXPERT 2021	Significant increases (decreases) in market price per square meter would result in significantly higher (lower) fair value of land plots. Significant increases (decreases) in estimated rent per square meter would result in significantly higher (lower) fair value of land plots.

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 2021 would be BGN 167 437 thousand.

5. Property, plant and equipment (continued)

Revaluation of machinery and technical installations (continued)

(i) Fair value hierarchy

The fair value of machinery and technical installations was determined by external, independent property values as at 31 December 2021.

The fair value measurement for machinery and technical installations has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

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

	Machinery and technical installations	
In thousands BGN	**2021**	**2020**
Balance at 1 January	163 051	161 319
Additions	29 330	15 915
Disposals	(19)	(365)
Depreciation for the year	(14 468)	(13 818)
Balance at 31 December	**177 894**	**163 051**

(iii) Valuation technique and significant unobservable inputs

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

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Machinery and technical installations: Cost approach	• Acquisition value Physical wear • Adjustment for marketability	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 physical wear and functional and economic impairment would result in significantly lower (higher) fair value of machinery and technical installations.

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

Right of use assets

In thousands BGN	*Vehicles*
Cost at 01 January 2020	**1 654**
Additions	691
At 31 December 2020	**2 345**
Additions	1 055
Disposals	(117)
At 31 December 2021	**3 283**
Accumulated depreciation at 01 January 2020	**(495)**
Depreciation charge	(609)
At 31 December 2020	**(1 104)**

5. Property, plant and equipment (continued)

Right of use assets (continued)

In thousands BGN	*Vehicles*
Depreciation charge	(637)
Disposals	106
At 31 December 2021	**(1 635)**
Net book value:	
At 31 December 2020	**1 241**
At 31 December 2021	**1 648**

The following amounts were recognised in profit and loss:

In thousands BGN	2021	2020
Depreciation charge	637	609
Interest expense	51	48
Total expenses related to leases	**688**	**657**

In 2021 the Company recognised payments for lease liabilities of BGN 938 thousand (2020 : BGN 691 thousand) in accordance with IFRS 16.

6. Intangible assets

In thousands BGN	*Trademarks and patents*	*Software*	*Total*
Cost:			
At 1 January 2020	**3**	**4 610**	**4 613**
Transferred	-	270	270
Disposals	-	(4)	(4)
At 31 December 2020	**3**	**4 876**	**4 879**
Transferred	-	367	367
Disposals	-	(10)	(10)
At 31 December 2021	**3**	**5 233**	**5 236**
Accumulated amortisation:			
Balance at 1 January 2020	**(3)**	**(4 435)**	**(4 438)**
Amortisation charge		(156)	(156)
Disposals	-	4	4
At 31 December 2020	**(3)**	**(4 587)**	**(4 590)**
Amortisation charge		(468)	(468)
Disposals	-	10	10
At 31 December 2021	**(3)**	**(5 045)**	**(5 048)**
Carrying amount:			
At 1 January 2020	**-**	**175**	**175**
At 31 December 2020	**-**	**289**	**289**
At 31 December 2021	**-**	**188**	**188**

7. Inventory

	31.12.2021	31.12.2020
In thousands BGN		
Materials	143 579	86 200
Work in progress	80 530	63 084
Finished goods	68 491	39 827
Merchandise	1 762	327
	294 362	**189 438**
Less: Inventories write-down:		
Materials	-	-
Total inventories at the lower of cost and net realisable value	**294 362**	**189 438**

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

As at 31 December 2021, there are inventory pledged as collateral for bank loans received by the Company BGN 251 329 thousand (2020: BGN 166 458 thousand) (Note 13).

8. Trade and other receivables

	31.12.2021	31.12.2020
In thousands BGN		
Trade receivables (Note 22)	41 950	20 571
Impairment loss	(448)	(528)
Related parties receivables (Note 20, 21)	40 119	19 961
VAT receivable	8 065	7 075
Advance payments for delivery of inventory	5 159	1 523
Other receivables	2 224	2 318
	97 069	**50 920**

As at 31 December 2021 the aging analysis of gross trade receivables from third parties (less receivables from related parties) is presented below. The table provides information about the exposure to credit risk and ECLs for trade receivables from customers. In 2021 the Company has reintegrated impairment in the amount of BGN 80 thousand.

31 December 2021	**Weighted-average loss rate**	**Gross carrying amount**	**Impairment loss allowance**	**Credit-impaired**
In thousands BGN				
Current (not past due)	0.16%	12 611	(20)	No
Less than 30 days past due	0.31%	26 287	(81)	No
31-60 days past due	3.26%	591	(19)	No
61-90 days past due	8.37%	758	(63)	No
91-120 days past due	15.50%	1 703	(264)	No
More than 120 days past due	-	-	-	-
		41 950	**(448)**	
31 December 2020				
In thousands BGN				
Current (not past due)	2.18%	15 685	(342)	No
Less than 30 days past due	3.66%	4 662	(168)	No
31-60 days past due	8.04%	224	(18)	No
61-90 days past due	-	-	-	-
91-120 days past due	-	-	-	-
More than 120 days past due	-	-	-	-
		20 571	**(528)**	

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:

			Overdue				
	Total	**Current (Not overdue)**	**1-30 days**	**31-60 days**	**61-90 days**	**91-120 days**	**>120 days**
In thousands BGN							
2021	**40 119**	36 085	3 845	121	-	-	68
2020	**19 961**	17 454	2 309	31	27	140	-

In assessing related party receivables' impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred is based on the historical trends of the receivables. The weighted - average loss rates used in the calculation of the impairment loss allowance are applicable to third party receivables only.

The Company's policy is to consider for impairment related party receivables that are more than 1 year past due.

Based on the historical recoverability trends and the criteria applied by the Company, there have been no incurred losses from uncollected related party receivables so far.

9. Derivative financial instruments

	2021		2020	
	Assets	**Liabilities**	**Assets**	**Liabilities**
In thousands BGN				
Futures contracts designated as cash flow hedging instruments	5 896	-	4 025	-
Forward contracts designated as fair value hedging instruments	-	340	-	-
	5 896	**340**	**4 025**	**-**
Net assets/ liabilities	**5 896**	**340**	**4 025**	**-**

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

	31.12.2021	**31.12.2020**
In thousands BGN		
Cash at bank	13 194	17 719
Cash in hand	-	6
	13 194	**17 725**

Cash at banks earns interest at floating interest rates based on daily bank deposit rates. As at 31.12.2021 outstanding amount of loans secured (including interest payable) with pledge of cash at bank is BGN 1 065 thousand (2020: BGN 1 990 thousand) (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 2020	**2 626 126**	**110 297**	**10 820**	**121 117**
Issued shares	-	-	-	-
As at 31 December 2020	**2 626 126**	**110 297**	**10 820**	**121 117**
Issued shares	-	-	-	-
As at 31 December 2021	**2 626 126**	**110 297**	**10 820**	**121 117**

As at 31 December 2021 the registered share capital of the Company is comprised of 2 626 126 ordinary shares at a par value of BGN 42 each. Shares are fully paid. Ordinary shares of SOFIA MED AD held by the parent company are used as collateral for a loan granted by the European Bank for Reconstruction and Development (EBRD).

12. Reserves

In thousands BGN	Revaluation reserve	Hedging reserve	Other reserves	Statutory reserves	Total Reserves
At 1 January 2020	**81 934**	**41**	**(3 515)**	**3 064**	**81 524**
Net gain from cash flow hedge	-	3 954	-	-	3 954
Deferred tax effect	-	(395)	-	-	(395)
Transfer of revaluation reserve	(5 140)	-	-	-	(5 140)
Total change for the period	**(5 140)**	**3 559**	**-**	**-**	**(1 581)**
At 31 December 2020	**76 794**	**3 600**	**(3 515)**	**3 064**	**79 943**
At 1 January 2021	**76 794**	**3 600**	**(3 515)**	**3 064**	**79 943**
Net gain from cash flow hedge	-	1 896	-	-	1 896
Deferred tax effect	-	(190)	-	-	(190)
Revaluation and statutory reserve	(3 781)	-	-	1 760	(2 021)
Total change for the period	**(3 781)**	**1 706**	**-**	**1 760**	**(315)**
At 31 December 2021	**73 013**	**5 306**	**(3 515)**	**4 824**	**79 628**

13. Loans

In thousands BGN	31.12.2021	31.12.2020
Non-current loans		
Bank loans	95 924	117 455
Total non-current loans	**95 924**	**117 455**
Current loans		
Bank loans	102 689	33 266
Current portion of non-current loans	20 516	18 527
Total short term borrowings received	**123 205**	**51 793**
Total borrowings received	**219 129**	**169 248**

13. Loans (continued)

	31.12.2021	31.12.2020
Reconciliation of movements of liabilities to cash flows arising from financing activities		
In thousands of BGN		
Balance as at 1 January	**169 248**	**156 912**
Loans received during the period	69 423	28 365
Repayments during the period	(19 576)	(15 658)
Prepaid financial expenses	34	(371)
Balance as at 31 December	**219 129**	**169 248**

The maturity of interest-bearing loans at agreed, non-discounted payments is presented in Note 21. The Company has not capitalised any interest on loans in 2021 and 2020.

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

	2021	2020
Bank overdrafts	3.60%	3.53%
Short term bank loans	2.84%	2.92%
Long term bank loans	3.06%	3.07%

As of December 31, 2021 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, inventories 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.

As of December 31, 2021, short-term loans consist of short-term loans and overdrafts secured by letters of support issued by the parent company and a pledge of current accounts. According to concluded agreements with banking institutions, Sofia Med AD has undertaken to comply with and maintain certain financial covenants.

The financial covenants as of December 31 of the respective year are calculated on the basis of the audited financial statements of the Company. Sofia Med AD has complied with all financial covenants set in all loan agreements of the Company for the financial year 2021.

Financial conditions under secured loan agreements

As of December 31, 2021, the Company has no financial conditions imposed under the loan agreements.

14. Lease liabilities

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

	31.12.2021	31.12.2020
In thousands of BGN		
Less than one year	637	594
Between one and five years	1 061	732
Total	**1 698**	**1 326**

14. Lease liabilities (continued)

In thousands BGN	***Minimum .lease payments*** **31.12.2021**	***Present value*** **31.12.2021**
Less than one year	691	637
Between one and five years	1 067	1 061
Finance costs	(60)	-
Total	**1 698**	**1 698**

In thousands BGN	***Minimum lease payments*** **31.12. 2020**	***Present value*** **31.12. 2020**
Less than one year	632	594
Between one and five years	769	732
Finance costs	(75)	-
Total	**1 326**	**1 190**

15. Retirement employee benefits

a) Expenses for retirement employee benefits

In thousands BGN	**2021**	**2020**
Current service cost	237	197
Interest cost on retirement employee benefit	3	11
Expenses on retirement benefits recognised in profit and loss (Note 3.6)	**240**	**208**

b) Retirement benefits liability

In thousands BGN	**2021**	**2020**
Present value of retirement benefit obligation	1 569	1 747
Retirement benefits liabilities, recognised in the statement of financial position	**1 569**	**1 747**

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

In thousands BGN	**2021**	**2020**
Liability at the beginning of the year	1 747	1 421
Current service cost	237	198
Interest cost	3	11
Benefits paid	(28)	(27)
Remeasurements:		
Actuarial losses / profits from changes in demographic assumptions	(209)	(7)
Actuarial losses / profits from changes in financial assumptions	(185)	307
Experience adjustments	4	(155)
	1 569	**1 747**

15. Retirement employee benefits (continued)

b) Retirement benefits liability (continued)

Main actuarial assumptions used for accounting purposes are shown below:

	2021	**2020**
Discount rate	0.86%	0.19%
Future salary increase	5.00%	5.00%
Price inflation	2.10%	1.20%

16. Government grants

The Company has been granted state aid to reduce the burden associated with the distribution of costs arising from the obligations to purchase electricity produced from renewable sources. The aid is to reimburse part of the cost of electricity. The part of the reimbursed costs, which refers to 2021, amounts to BGN 85 thousand (2020: BGN 184 thousand) and is indicated in the 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 referred to the reduction of electricity costs by Sofia Med AD for 2021 amounts to BGN 2,209 thousand.

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

In thousands BGN	**2021**	**2020**
Balance at the beginng of the year	2 619	2 728
Amortisation for the year	(109)	(109)
	2 510	**2 619**

17. Trade and other payables

In thousands BGN	**31.12. 2021**	**31.12.2020**
Trade payables	96 407	55 418
Related parties trade payables (Note 20, 22)	42 607	51 287
Payables to employees	5526	1 787
Taxes	456	643
Other payables	894	2 674
	145 890	**111 809**

18. Commitments

In thousands BGN	**2021**	**2020**
Property, plant and equipment	**109**	**1 168**

19. Contingencies

Bank guarantees

Bank guarantees and letters of credit issued by other companies on behalf of SOFIA MED AD amount to BGN 2 386 thousand (2020: BGN 1 070 thousand) as at the reporting date.

Bank guarantees and letters of credit issued by SOFIA MED AD on behalf of other companies and state agencies amount to BGN 544 thousand (2020: BGN 1 393 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

In thousands BGN	2021	2020
Sales of goods	512 213	342 843
Sales of services	-	-
	512 213	**342 843**
from which:		
- to the parent entity	20 912	3 564
- to entities under common control	491 301	339 279

c) Purchases of goods, services and other

In thousands BGN	2021	2020
Purchases of goods	95 495	99 719
Purchase of fixed assets	2 464	3 793
Purchases of services	8 631	6 125
	106 590	**109 637**
from which:		
- from the parent entity	97 093	95 572
- from entities under common control	9 497	14 065

d) Key management remuneration

In thousands BGN	2021	2020
Salaries and other short-term employee benefits	3 652	3 050
	3 652	**3 050**

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

Trade receivables	**31.12.2021**	**31.12.2020**
from the parent entity	-	-
from entities under common control	40 119	19 961
	40 119	**19 961**

20. Related parties (continued)

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

Trade payables	**31.12.2021**	**31.12.2020**
Trade payables to related parties	42 607	51 287
Contract liabilities to related parties	627	2 736
Related party payables	**43 234**	**54 023**
from which:		
- to the parent entity	41 384	51 667
- to entities under common control	1 850	2 356

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

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

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

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

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

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

Risk management framework

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

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

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

Market risks

Interest rate risk

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

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

	Nominal amount	
In thousands BGN	**2021**	**2020**
Variable rate instruments		
Financial liabilities	(220 827)	(170 575)
	(220 827)	**(170 575)**

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

Market risks (continued)

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 2020.

	Profit or loss		Equity	
Effect in thousands BGN	**0,25% increase**	**0,25% decrease**	**0,25% increase**	**0,25% decrease**
31 December 2021				
Variable rate instruments	(552)	552	-	-
Cash flow sensitivity (net)	**(552)**	**552**	**-**	**-**
31 December 2020				
Variable rate instruments	(426)	426	-	-
Cash flow sensitivity (net)	**(426)**	**426**	**-**	**-**

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:

2021

In thousands BGN	**EUR**	**BGN**	**USD**	**GBP**
Trade and other receivables	55 518	1 497	17 490	7 116
Interest-bearing loans received	(219 129)	-	-	-
Lease liabilities	-	1 698	-	-
Trade and other payables	(120 317)	(9 218)	(9 434)	(45)
Contract liabilities	(1 034)	(48)	(341)	-
Cash and cash equivalents	5 972	532	6 381	309
	(278 990)	**(8 935)**	**14 096**	**7 380**
Derivatives (nominal value)	-	-	**(15 298)**	**(7 427)**
Total exposure to FX rate risk	**(278 990)**	**(8 935)**	**(1 202)**	**(47)**

2020

In thousands BGN	**EUR**	**BGN**	**USD**	**GBP**
Trade and other receivables	23 473	195	10 125	6 211
Interest-bearing loans received	(165 446)	(3 803)	-	-
Lease liabilities	-	(1 326)	-	-
Trade and other payables	(82 483)	(21 096)	(3 185)	59
Contract liabilities	(3 483)	-	(1 054)	-
Cash and cash equivalents	11 634	748	5 195	148
	(216 305)	**(25 282)**	**11 081**	**6 418**
Derivatives (nominal value)	-	-	**(12 246)**	**(6 613)**
Total exposure to FX rate risk	**(216 305)**	**(25 282)**	**(1 165)**	**(195)**

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

Market risks (continued)

Foreign currency risk (continued)

The following significant exchange rates applied during the year:

	Average FX rate		FX rate at the reporting period-end date	
	2021	**2020**	**2021**	**2020**
USD 1	1.653	1.716	1.655	1.594
GBP 1	2.300	2.200	2.327	2.175
CHF 1	1.843	1.806	1.928	1.811

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

	Increase / (decrease) of the exchange rate of the US dollar against the BGN	**Effect on profit before tax**	**Effect on equity**
	%	*In thousands BGN*	*In thousands BGN*
2021	10%	(119)	-
	-10%	119	-
2020	10%	(86)	-
	-10%	86	-

	Increase / (decrease) of the exchange rate of the British pound against the BGN	**Effect on profit before tax**	**Effect on equity**
	%	*In thousands BGN*	*In thousands BGN*
2021	10%	(5)	-
	-10%	5	-
2020	10%	(29)	-
	-10%	29	-

	Increase / (decrease) of the exchange rate of the Swiss franc against the BGN	**Effect on profit before tax**	**Effect on equity**
	%	*In thousands BGN*	*In thousands BGN*
	10%	-	-
2021	-10%	-	-
2020	10%	-	-
	-10%	-	-

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 and the Company is following its policy of hedging this risk. The Company agrees both purchase and selling prices with reference to the prices quoted on the London Metal Exchange (LME) at specified dates.

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

Market risks (continued)

Price risk (continued)

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

Credit risk

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

Trade and other receivables

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

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

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

The Company manages its exposure to credit risk through consistent application of the following policies. A part of its receivables is assigned to factoring companies under non-recourse factoring agreements. The Company follows a policy to insure all sales to customers that are not related parties. The maximum credit exposure of the Company arising from the financial assets it has recognised equals their carrying amount as per the statement of financial position – BGN 81 621 thousand as of 31 December 2021 (31 December 2020: BGN 40 004 thousand).

The Company reports impairment, which represents the expected losses in respect of trade and other receivables and investments. 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 31.12.2021 at the amount BGN 13 194 thousand (2020: BGN 17 725 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:

In thousands BGN	**Notes**	**31.12.2021**	**31.12.2020**
Trade and other receivables	8	81 621	40 004
Cash and cash equivalents	10	13 194	17 725
Derivative financial instruments	9	5 896	4 025
		100 711	**61 754**

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

Market risks (continued)

Cash and cash equivalents (continued)

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

In thousands BGN	**Notes**	**31.12. 2021**	**31.12.2020**
Third parties		41 502	20 043
Related parties	20	40 119	19 961
		81 621	**40 004**

Liquidity risk

The Company manages its liquidity risk through a maturity analysis if 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:

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 borrowings	219 129	126 594	28 154	73 304	-	228 052
Lease liabilities	1 698	648	564	546	-	1 758
Contract liabilities	1 423	1 423	-	-	-	1 423
Trade and other payables	139 014	139 014	-	-	-	139 014
	361 264	**267 679**	**28 718**	**73 850**	**-**	**370 247**

The year ended 31 December 2020

	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 borrowings	169 249	56 834	53 005	73 146	-	182 985
Lease liabilities	1 327	632	356	413	-	1 401
Contract liabilities	4 537	4 537	-	-	-	4 537
Trade and other payables	106 705	106 705	-	-	-	106 705
	281 818	**168 708**	**53 361**	**73 559**	**-**	**295 628**

Equity management

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

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

22. Fair values of financial instruments

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

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

31 December 2021		**Carrying amount**					**Fair Value**			
In thousands BGN	***Note***	**hedging instruments at FV**	**Financial assets at fair value**	**Financial assets at amortised cost**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value										
Trade and other receivables	8	-	9 676	-	-	9 676	-	9 676	-	9 676
Derivative financial instruments	9	5 896	-	-	-	5 896	5 896	-	-	5 896
		5 896	**9 676**	**-**	**-**	**15 572**	**5 896**	**9 676**	**-**	**15 572**
Financial assets not measured at fair value										
Trade and other receivables	8	-	-	71 945	-	71 945				
Cash and cash equivalents	10	-	-	13 194	-	13 194				
		-	**-**	**85 139**	**-**	**85 139**				
Financial liabilities measured at fair value										
Interest bearing loans and borrowings	13	-	-	-	(219 129)	(219 129)				
Lease liabilities	14				(1 698)	(1 698)				
Trade payables	17	-	-	-	(139 014)	(139 014)				
		-	**-**	**-**	**(359 841)**	**(359 841)**				

22. Fair values of financial instruments (continued)

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

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

On February 24, 2022, the Russian Federation launched hostilities against Ukraine. In response, the EU, the United States, Canada, Japan, the United Kingdom and other countries have imposed unprecedented economic sanctions on Russia. As of the date of these financial statements the situation is still developing, the Company is not able to assess its impact on the future financial condition and financial results of operations.

Management has performed an additional assessment of the potential future impact on the valuation of assets and liabilities and we do not believe that such a direct impact exists at this stage.

No other significant events have occurred after the reporting date, which require additional adjustments and/or disclosures in the financial statements of the Company for the year ended 31 December 2021.