

**Sidma Bulgaria EAD**  
**Annual Report of the Management for the Activities of the**  
**Company**  
**and**  
**Financial Statements**  
**For the year ended 31 December 2016**  
**With Independent Auditor's Report**



## INDEPENDENT AUDITOR'S REPORT

**To the shareholders of SIDMA BULGARIA EAD  
Sofia, Ilentsi, Voenna Rampa RMZ**

### **Opinion**

We have audited the financial statements of SIDMA BULGARIA EAD (the Company), which comprise the statement of financial position as at 31 December, 2016 and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows, for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements gives a true and fair view of the financial position of the Company as at 31 December 2016 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU.

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent from the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements of Bulgarian Independent Financial Audit Act, and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Emphasis of matter Paragraph*

We emphasize the disclosure in p.2 Basis of accounting of the Financial statement, particularly – paragraph Going concern, which can be found on p.12, where it is stated that as of December 31, 2016 the total equity (equal to the net assets of the Company) is lower than the registered share capital of the Company by BGN 4,919 thousand (31 December 2015: BGN 4,977 thousand). The Company does not have executable monetary obligations to non-related parties and has the continued commitment of the ultimate parent company Sidma S.A. for financial support, if necessary

Our opinion is not modified in this regard.





## **INDEPENDENT AUDITOR'S REPORT**

### **Information Other than the Financial Statements and Auditor's Report Thereon**

Management is responsible for the other information. The other information comprises the annual management report, prepared in accordance with Bulgarian Accountancy Act, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

### **Report on Other Legal and Regulatory Requirements**

In addition to our responsibilities for reporting under ISAs, regarding annual management report, we have performed the additional procedures contained in the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria - Institute of Certified Public Accountants (ICPA), issued on 29 November 2016 /approved by its Management board on 29.11.2016/. The procedures on the existence, form and contents of the other information have been carried out in order to state whether the other information includes the elements and disclosures in accordance with Chapter Seven of Bulgarian Accountancy Act.

#### *Statement Pursuant to Article 37, Paragraph (6) of Bulgarian Accountancy Act*

Based on the procedures performed, we describe the outcome of our work:

- (a) the information in the management report is consistent with the financial statements for the same reporting period;
- (b) the management report is prepared in accordance with Chapter Seven of Bulgarian Accountancy Act

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), as





## **INDEPENDENT AUDITOR'S REPORT**

adopted by the EU and Bulgarian legislation, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a





## INDEPENDENT AUDITOR'S REPORT

material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

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

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

**Registered auditor, responsible for the engagement**  
**Ofelia Slavkova, CPA with certificate № 0613**

**Managing associate**  
**Ofelia Slavkova**

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e-mail: office@audit-advisers.com

**Auditing company**  
**„Audit advisers“ LTD №152**



19.06.2017  
Bulgaria, Sofia

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## **Annual Report of the Management for the Activities of Sidma Bulgaria EAD**

The Management presents the report and the financial statements of SIDMA BULGARIA EAD (hereinafter "the Company") as of 31 December 2016 and for the year then ended, prepared in accordance with the International Financial Reporting Standards ("IFRS"), as adopted for use in the European Union ("EU").

### **General information**

The Company was registered in the Republic of Bulgaria as a joint-stock company as per court decision № 1 from 10 August 2005 of the Sofia City Court, company file 8443/ 2005.

The Company does not have registered branches.

### **Business activity**

The main activity of the Company is production and trading with steel products. SIDMA BULGARIA EAD focuses on iron trade, through the operation of its integrated Steel Service Center in Sofia. The Company's trading and processing activity focuses on three main product categories, distinguished by shape: flat products, long products and wire products.

The main risks, which the Company is facing are credit, liquidity and market risk, which are disclosed in p.22 of the explanatory notes to the Financial statements.

### **Review of the current year**

For the financial year 2016 the Company's net profit is BGN 25 thousand (2015: net loss of BGN 351 thousand) as described in the Statement of Comprehensive Income and the notes to the financial statements. Sales volumes were increased by 6% whereas the average selling price was decreased considerably. This resulted in the slightly lower revenue - 0.8%. Cost of sales decreased by 2.3% due to the increase in volumes but at a lower average purchase price, resulting at an improved gross margin (from 8.6% to 9.9%) and an improvement of the gross profit by 15.3% (from BGN 2,743 thousand to BGN 3,163 thousand). The increase of the gross profit amount resulted in a positive operating result at BGN 867 thousand (2015: operating profit of BGN 580 thousand). The above together with the reduction of the finance costs by 12.8%, resulted in a net profit for the period at 25 thousand (2015: - net loss 351 thousand).

### **Share capital structure**

	<b>Sole shareholder</b>	<b>Number of shares</b>	<b>Nominal value (BGN)</b>
Issued capital	SIDMA S.A. – Greece	5,990,311	1
Share premium	SIDMA S.A. – Greece	-	7,819,490

**Information in accordance with the requirements of the Commercial Act**

- a) The Board of Directors was given no share-based payments for the financial years 2016 and 2015.
- b) In the financial years 2016 and 2015 the members of the Board of Directors neither acquired, nor held or transferred shares of the Company, or had the right to acquire such shares. All the shares of the Company are an exclusive property of their holders. The Company has not issued debentures.
- c) None of the members of the Board of Directors signed contracts in the financial years 2016 and 2015 in accordance with the provisions of Art. 240 b of the Commercial Act.
- d) In 2016 and 2015 the Company has not repurchased its own shares.

**Personnel**

As at 31 December 2016 the Company had 29 employees (31 December 2015: 27 employees).

**Events after the reporting date**

The Company has finalized the negotiations with the banks for obtaining a syndicated loan and the respective agreement has been signed on 14 June 2017. Apart from the above, there are no other events subsequently to the Financial Statements reporting date that would have a significant effect on the financial statements or operations of the Company

**Objectives for 2017**

The Company's management set the following objectives and targets for 2017:

Increase of sales' volume by approximately 19% through a. the increase of the Company's market share and b. the introduction of a new product category (Re-bars).

**Management**

The Company is represented by Mrs. Malina Pelitova, General Manager.

**Management responsibilities**

Management is required by Bulgarian law to prepare financial statements each financial year that give a true and fair view of the financial position of the Company as at year end and of its financial performance and its cash-flows for the year.

Management confirms that appropriate accounting policies have been applied and the financial statements are prepared using the prudence concept for the recognition and valuation of the assets, liabilities, income and expenses. The financial statements are prepared based on the going concern concept.


Management is responsible for the proper maintaining of the Company's financial records, for the proper use and safeguarding of the assets and for taking proper measures to avoid any mistakes and fraud.

**Board of Directors**

As at 31 December 2016 the Board of Directors consists of the following members:



1. Daniil David Benardout
2. Ilias-Daniil Rafail Mousis
3. Antonios Karadeloglou
4. Anton Kirilov Petrov

  
Malina Pelitova

General Manager



  
Антон Петров

Sofia


14 June 2017

## **INDEPENDENT AUDITOR'S REPORT**






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**INDEPENDENT AUDITOR'S REPORT  
(CONTINUED)**

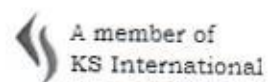


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**INDEPENDENT AUDITOR'S REPORT**  
**(CONTINUED)**





**INDEPENDENT AUDITOR'S REPORT**  
***(CONTINUED)***

## Statement of Financial Position

In BGN thousand

	Notes	31 December 2016	31 December 2015
<b>Assets</b>			
Property, plant and equipment	13	10,253	10,416
Intangible assets		1	1
<b>Non-current assets</b>		10,254	10,417
Inventory	15	3,281	4,209
Trade and other receivables	16	4,395	3,775
Related party receivables	25	40	40
Cash and cash equivalents	17	1,258	1,625
<b>Current assets</b>		8,974	9,649
<b>Total assets</b>		19,228	20,066
<b>Equity</b>			
Share capital	18	5,990	5,990
Share premium	18	7,819	7,819
Other reserves	18	(5)	(4)
Revaluation reserve	13	3,773	3,773
Retained losses		(16,506)	(16,565)
<b>Total equity</b>		1,071	1,013
<b>Liabilities</b>			
Defined retirement employee benefit liability	20	53	42
Deferred tax liabilities	14	304	338
<b>Non-current liabilities</b>		357	380
Loans and borrowings	19	13,931	13,936
Trade and other payables	21	575	476
Related party payables	25	3,294	4,261
<b>Current liabilities</b>		17,800	18,673
<b>Total liabilities</b>		18,157	19,053
<b>Total equity and liabilities</b>		19,228	20,066

The notes on pages 12 to 38 are an integral part of these financial statements.

Approved by:  
DirectorApproved by:  
Director  
Date:Audited according to auditor's report dated 19.06.2017  
Specialized auditing company Audit Advisers No.152  
Managing partner and C.P.A. responsible for the engagement  
Ofelia SlavkovaPrepared by:  
KPMG Advisory EOOD  
(Rayka Mirkova, Director)



## Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December

In BGN thousand

	Notes	2016	2015
Revenue	5	31,699	31,974
Cost of sales	10	(28,536)	(29,231)
<b>Gross profit</b>		<b>3,163</b>	<b>2,743</b>
Other income	6	29	7
Selling and distribution expenses	7	(1,410)	(1,335)
Administrative expenses	8	(878)	(794)
Other expenses	9	(37)	(41)
<b>Operating profit</b>		<b>867</b>	<b>580</b>
Finance income		1	7
Finance costs		(843)	(973)
<b>Net finance costs</b>	12	<b>(842)</b>	<b>(966)</b>
<b>Profit/(Loss) before income tax</b>		<b>25</b>	<b>(386)</b>
Income tax	14	34	35
<b>Net profit/(loss) for the year</b>		<b>59</b>	<b>(351)</b>
<b>Other comprehensive income</b>			
<i>Items that are or may be reclassified to profit or loss:</i>		-	-
<i>Items that will never be reclassified to profit or loss:</i>			
Remeasurements of defined employee benefit liability	20	(1)	(7)
<b>Other comprehensive income for the year, net of tax</b>		<b>(1)</b>	<b>(7)</b>
<b>Total comprehensive income for the year</b>		<b>58</b>	<b>(358)</b>

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Director  
Date:Audited according to auditor's report dated 19.06.2017  
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KPMG Advisory EOOD  
(Rayka Mirkova, Director)

## Statement of Changes in Equity

<i>In BGN thousand</i>	<i>Notes</i>	Share capital	Share premium	Revaluation reserve	Other reserves	Retained losses	Total equity
<b>Balance at 1 January 2016</b>		5,990	7,819	3,773	(4)	(16,565)	1,013
<b>Comprehensive income</b>							
Net profit for the year		-	-	-	-	59	59
Other comprehensive income/(loss)	13,20	-	-	-	(1)	-	(1)
<b>Total comprehensive income</b>				-	(1)	59	58
<b>Transactions with owners of the Company</b>		-	-	-	-	-	-
<b>Balance at 31 December 2016</b>		5,990	7,819	3,773	(5)	(16,506)	1,071
<b>Balance at 1 January 2015</b>		5,990	7,819	3,773	3	(16,214)	1,371
<b>Comprehensive income</b>							
Net loss for the year		-	-	-	-	(351)	(351)
Other comprehensive income / (loss)	13,20	-	-	-	(7)	-	(7)
<b>Total comprehensive income</b>		-	-	-	(7)	(351)	(358)
<b>Transactions with owners of the Company</b>		-	-	-	-	-	-
<b>Balance at 31 December 2015</b>		5,990	7,819	3,773	(4)	(16,565)	1,013

The notes on pages 12 to 38 are an integral part of these financial statements.

Approved by:  
Director



Prepared by:  
KPMG Advisory EOOD  
(Rayka Mirkova, Director)



Approved by:  
Director

Date:

Audited according to auditor's report dated 19.06.2017  
Specialized auditing company Audit Advisers No.152  
Managing partner and C.P.A. responsible for the engagement  
Ofelia Slavkova





## Statement of Cash Flows

For the year ended 31 December

In BGN thousand

	Notes	2016	2015
<b>Cash flows from operating activities</b>			
Profit/(Loss) before tax		25	(386)
Adjustments for:			
Depreciation and amortisation		335	342
Impairment loss on trade receivables		-	(1)
Other non-cash expenses		1	2
Net finance costs	12	842	966
		1,203	923
Changes in:			
- Inventories		928	(721)
- Trade and other receivables		(620)	(49)
- Trade and other payables		(868)	1,005
- Employee benefits	11,20	9	7
<b>Cash generated from operating activities</b>		651	1,165
Interest paid		(837)	(992)
Interest received	12	1	7
<b>Net cash (used in)/from operating activities</b>		(169)	179
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment and intangible assets	13	(172)	(16)
<b>Net cash used in investing activities</b>		(172)	(16)
<b>Cash flows from financing activities</b>			
Proceeds from new borrowings		479	2,890
Repayment of borrowings		(490)	(3,245)
<b>Net cash used in financing activities</b>		(11)	(355)
<b>Net change in cash and cash equivalents</b>		(367)	(191)
Cash and cash equivalents at 1 January	17	1,625	1,816
<b>Cash and cash equivalents at 31 December</b>	17	1,258	1,625

The notes on pages 12 to 38 are an integral part of these financial statements.

Approved by:  
DirectorApproved by:  
Director

Date:

Audited according to auditor's report dated 19.06.2017  
Specialized auditing company Audit Advisers No.152  
Managing partner and C.P.A. responsible for the engagement  
Ofelia SlavkovaPrepared by:  
KPMG Advisory EOOD  
(Rayka Mirkova, Director)



## **Notes to the financial statements**

### **1. Reporting entity**

Sidma Bulgaria EAD (the "Company") is a company domiciled in Bulgaria. The Company is registered with the Commercial Register at the Bulgarian Registry Agency with ID code 131467191. The address of the Company's registered office is Sofia, Ilievtzi, Voenna Rampa RMZ. Sole owner of the equity of Sidma Bulgaria EAD is Sidma Worldwide S.A., Cyprus, whereas the ultimate controlling party is Sidma S.A., Greece whose shares are listed and traded on the Athens Stock Exchange. The Company is primarily involved in processing of and trading with steel and other metal products.

### **2. Basis of accounting**

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

The financial statements were authorized for issue by the Board of Directors on 14.06.2017. These financial statements are subject to approval by the sole owner of the Company.

Details of the Company's accounting policies, including changes during the year, are included in Notes 27-29.

#### ***Going concern***

The financial statements have been prepared on a going concern basis assuming that the Company is able to continue its operations in the foreseeable future.

The management has a reasonable expectation that the existing capital resources, through renegotiation and extension of the existing bank loans and the commitment of Sidma S.A. to provide adequate financial support, if necessary, at least for the next 12 months, will be sufficient for the liquidity and investment needs during 2017.

The Company is registered as a joint-stock company. As such, it has an obligation to maintain the amount of net assets above its registered share capital, in accordance to the Commerce Act. As of 31 December 2016 the total equity (equal to the net assets of the Company) is lower than the registered share capital of the Company by BGN 4,919 thousand (31 December 2015: BGN 4,977 thousand). The Company does not have executable monetary obligations to non-related parties and has the continued commitment of the ultimate parent company Sidma S.A. for financial support, if necessary. Therefore the management considers that steps shall be undertaken in order to establish compliance with the requirements of the commercial legislation for capital adequacy.

### **3. Functional and presentation currency**

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

## Notes to the financial statements

### 4. Use of judgments and estimates

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

#### (a) Judgments

Information about judgments made in applying accounting policies that have significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 13 *Property, plant and equipment*- impairment of property, plant and equipment.

#### (b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2017 is included in the following notes:

- Note 13 – revalued amount of land and equipment and useful lives of property, plant and equipment;
- Note 14 – recognition of deferred tax assets: availability of future taxable profits against which tax losses carried forward can be utilized;
- Note 15 – assessment of the net realizable value of inventory; and
- Note 20 – measurement of defined retirement employee benefit liability.
- Note 22 – impairment of receivables.

#### Measurement of fair values

Currently there are no accounting policies and disclosures that 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 categorized 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 categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized 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 recognizes 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 13 *Property, plant and equipment* and
- Note 22 *Financial instruments*.



Notes to the financial statements

5. Revenue

In BGN thousand

Sales of products  
Sales of goods  
Rendering of services

2016	2015
11,666	10,065
19,074	20,972
959	937
<b>31,699</b>	<b>31,974</b>

6. Other income

In BGN thousand

Indemnity from insurance  
Written off supplier balances

2016	2015
25	7
4	-
<b>29</b>	<b>7</b>

7. Selling and distribution expenses

In BGN thousand

Employee benefit expenses  
Materials and consumables used  
Transportation services  
Insurance costs  
Other hired services  
Depreciation and amortization  
Other expenses

2016	2015
443	389
60	55
401	350
170	199
85	97
241	231
10	14
<b>1,410</b>	<b>1,335</b>

8. Administrative expenses

In BGN thousand

Employee benefit expenses  
Materials and consumables used  
Hired services  
Depreciation and amortization  
Other expenses

2016	2015
320	304
53	65
388	321
23	26
94	78
<b>878</b>	<b>794</b>

9. Other expenses

Other expenses represent general production expenses not included in cost of sales.



## Notes to the financial statements

## 10. Expenses by nature

In BGN thousand

	Note	2016	2015
Cost of sales		28,536	29,231
Raw materials and consumables used		131	140
Employee benefit expense	11	890	802
Depreciation and amortization expense		335	342
Hired services		1,047	976
Other expenses		97	86
Less production expenses included in cost of sales		(175)	(176)
<b>Total cost of sales and operating expenses</b>		<b>30,861</b>	<b>31,401</b>

Cost of sales include cost of purchased materials and goods, depreciation, payroll and overhead expenses related to the sold products and goods.

These individual financial statements are audited by audit company "Audit advisers" LTD and CPA and manager Ofelia Slavkova. The remuneration of the CPA is for independent financial audit of the financial statements. During the year the registered auditor has not provided other services. This disclosure is in compliance with the requirements of art.38 para 5 of the Accountancy Law.

## 11. Employee benefits

In BGN thousand

	Note	2016	2015
Wages and salaries		778	701
Compulsory social security contributions		103	94
Expenses related to defined retirement employee benefit liability	20	9	7
		<b>890</b>	<b>802</b>

The average number of employees in 2016 is 29 (2015: 27).

## 12. Net finance costs

## Recognized in profit or loss

In BGN thousand

	2016	2015
Interest income on bank deposits	1	7
<b>Finance income</b>	<b>1</b>	<b>7</b>
Interest expense on financial liabilities measured at amortized cost	(788)	(848)
Interest expense on defined retirement employee benefit liability	(1)	(1)
Net foreign exchange loss	(18)	(20)
Other finance costs – bank charges	(36)	(104)
<b>Finance costs</b>	<b>(843)</b>	<b>(973)</b>
<b>Net finance costs recognized in profit or loss</b>	<b>(842)</b>	<b>(966)</b>

## Notes to the financial statements

## 13. Property, plant and equipment

## (a) Reconciliation of the carrying amount

In BGN thousand

	Land	Buildings	Plant and equipment	Vehicles	Total
<b>Cost</b>					
Balance at 1 January 2015	4,597	4,559	1,821	185	11,162
Additions	-	-	14	-	14
<b>Balance at 31 December 2015</b>	<b>4,597</b>	<b>4,559</b>	<b>1,835</b>	<b>185</b>	<b>11,176</b>
Balance at 1 January 2016	4,597	4,559	1,835	185	11,176
Additions	-	-	163	24	187
Disposals	-	(16)	-	-	(16)
<b>Balance at 31 December 2016</b>	<b>4,597</b>	<b>4,543</b>	<b>1,998</b>	<b>209</b>	<b>11,347</b>
<b>Depreciation and impairment losses</b>					
Balance at 1 January 2015	-	-	(236)	(185)	(421)
Depreciation for the year	-	(176)	(163)	-	(339)
<b>Balance at 31 December 2015</b>	<b>-</b>	<b>(176)</b>	<b>(399)</b>	<b>(185)</b>	<b>(760)</b>
Balance at 1 January 2016	-	(176)	(399)	(185)	(760)
Depreciation for the year	-	(163)	(169)	(3)	(335)
Disposals	-	1	-	-	1
<b>Balance at 31 December 2016</b>	<b>-</b>	<b>(338)</b>	<b>(567)</b>	<b>(188)</b>	<b>(1,094)</b>
<b>Carrying amounts</b>					
At 1 January 2015	4,597	4,559	1,585	-	10,741
At 31 December 2015	4,597	4,383	1,436	-	10,416
<b>At 31 December 2016</b>	<b>4,597</b>	<b>4,205</b>	<b>1,430</b>	<b>21</b>	<b>10,253</b>

## (b) Impairment

The management considers that there are no indications for impairment of the property, plant and equipment of the Company as at 31 December 2016. Respectively, no impairment test has been performed.

## (c) Subsequent measurement of land, buildings and equipment

In the end of 2014 the management decided to change the accounting policy of the Company regarding the subsequent measurement of its land, buildings and equipment by adopting the revaluation model of IAS 16 Property, plant and equipment. The revaluation of land and equipment was based on a valuation report of an independent licensed valuer. The effective date of the valuation and respectively of the revaluation of assets was 31 December 2014. The valuation is based on a combination of the following methods:

- Reference to market prices for similar assets;
- The depreciated replacement cost method.

The total amount of the revaluation of land, buildings and equipment as at 31 December 2014 is BGN 4,192 thousand, increase of their value against revaluation reserve. There was no revaluation surplus regarding the Company's buildings due to the fact that they were completed recently and their market value (based on the depreciated replacement cost method) was estimated very close to the previous carrying amount. As at 31 December 2016 there is no change in the valuation of the assets.

If the Company had not changed its accounting policy and had not revalued its land, buildings and equipment their carrying amounts as at 31 December 2016 would be BGN 819 thousand, BGN 4,166 thousand and BGN 928 thousand, respectively and as at 31 December 2015 - BGN 819 thousand, BGN 4,363 thousand and BGN 1,038 thousand, respectively.



## Notes to the financial statements

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

## (d) Security

The property, plant and equipment of the Company is not pledged or used in any other way as security of loans or borrowings.

## 14. Income tax

## (a) Income tax recognized in profit or loss

In BGN thousand

## Movement of deferred taxes

Deferred tax (expense) / benefit

Total income tax (expense) / benefit recognized in profit or loss

	2016	2015
Deferred tax (expense) / benefit	34	35
Total income tax (expense) / benefit recognized in profit or loss	34	35

## (b) Reconciliation of the effective tax rate

In BGN thousand

	2016	2016	2015	2015
Net profit/(loss) for the year		59		(351)
Income tax		34		35
<b>Profit/(Loss) before income tax</b>		<b>25</b>		<b>(386)</b>
Income tax using the Company's domestic tax rate	10.00%	(3)	10.00%	39
Non-deductible expenses	(4%)	(1)	(0.4%)	(2)
Effect of deferred tax assets not recognized for the year	(76%)	(19)	(12.92%)	(50)
Utilization of tax loss for which no deferred tax assets has been recognized previously	224%	56	12%	48
<b>Effective tax rate</b>	<b>154%</b>	<b>34</b>	<b>8.68%</b>	<b>35</b>

The respective tax periods of the Company may be subject to inspection by the tax authorities until the expiration of 5 years from the end of the year in which a declaration was submitted, or should have been submitted, and additional taxes or penalties may be imposed in accordance with the interpretation of the tax legislation. The Company's management is not aware of any circumstances which may give rise to a contingent additional liability in this respect. No corporate income tax inspections of the Company have been carried out in the last 5 years.



## Notes to the financial statements

## 14. Income tax (continued)

## (c) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

*In BGN thousand, tax effect*

	2016	2015
Non-deductible interest expenses (thin capitalization rule)	346	328
Tax losses carried forward	156	302
<b>Total deferred tax asset not recognized</b>	<b>502</b>	<b>630</b>

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

The right to utilize the temporary tax differences related to non-deductible interest expenses expire in 5-year period. Tax losses in Bulgaria expire in 5-year period.

*In BGN thousand, tax loss*

Tax losses originated in:

		Expiring in:
2011	1,455	2016
2012	1,317	2017
2013	246	2018
2014	-	
2015	-	
Available tax loss as at 31.12.2015:	3,018	
2016	(894)	Expired tax losses from 2011
2016	(561)	Utilized tax loss in 2016
Available tax loss as at 31.12.2016:	1,563	

## (d) Recognized deferred tax assets and liabilities

Recognized deferred tax assets and liabilities are attributable to the following items:

*In BGN thousand*

	(Assets)		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
Property, plant and equipment	(97)	(63)	419	419	322	356
Employee benefits	(5)	(5)	-	-	(5)	(5)
Impairment of trade receivables	(13)	(13)	-	-	(13)	(13)
<b>Tax (assets) liabilities</b>	<b>(115)</b>	<b>(81)</b>	<b>419</b>	<b>419</b>	<b>304</b>	<b>338</b>
Set off of tax	115	81	(115)	(81)	-	-
<b>Net tax (assets) liabilities</b>	<b>-</b>	<b>-</b>	<b>304</b>	<b>338</b>	<b>304</b>	<b>338</b>

## (e) Movement in deferred tax balances during the year

*In BGN thousand*

	Balance 1.1.2015	Recognised in P&L	Balance 31.12.2015	Recognised in P&L	Balance 31.12.2016
Property, plant and equipment	391	(35)	356	(34)	322
Employee benefits	(4)	(1)	(5)	-	(5)
Impairment of trade receivables	(14)	1	(13)	-	(13)
<b>Deferred tax (assets) liabilities</b>	<b>373</b>	<b>(35)</b>	<b>338</b>	<b>(34)</b>	<b>304</b>

## Notes to the financial statements

## 15. Inventory

In BGN thousand

Raw materials  
Production  
Goods  
Spare parts

2016	2015
1,596	2,222
587	449
1,042	1,482
56	56
<b>3,281</b>	<b>4,209</b>

All inventories are kept at cost. As at 31 December 2015 and 2016 there is no recognized write down on inventory to net realizable value.

## 16. Trade and other receivables

In BGN thousand

Trade receivables from third parties  
Impairment of trade receivables  
Carrying amount of trade receivables

Note	2016	2015
	4,151	3,770
22	(134)	(134)
	<b>4,017</b>	<b>3,636</b>
Other receivables	67	131
Advance payments	311	8
	<b>4,395</b>	<b>3,775</b>

The trade receivables of the Company are not interest bearing. The Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables are disclosed in note 22.

## 17. Cash and cash equivalents

In BGN thousand

Cash in hand  
Bank balances  
Call deposits  
Cash and cash equivalents in the statement of cash flows

2016	2015
1	1
817	914
440	710
<b>1,258</b>	<b>1,625</b>

The cash balances at bank accounts are with floating interest rates depending on the bank offered rates. The call deposits are with one month maturity terms and with fixed interest rates. The Company's exposure to credit, currency and interest rate risks, related to cash and cash equivalents are disclosed in note 22.

## 18. Share capital and share premium reserve

## (a) Share capital

In BGN thousand

In issue at 1 January

## On issue at 31 December – fully paid

Par value BGN 1 each

Total par value in BGN thousand

Ordinary shares	
2016	2015
5,990	5,990
<b>5,990</b>	<b>5,990</b>
<b>5,990</b>	<b>5,990</b>

## Notes to the financial statements

## 18. Share capital and share premium reserve (continued)

## (b) Share premium reserve

*In BGN thousand*

As at 1 January

As at 31 December

Share premium reserve	
2016	2015
7,819	7,819
7,819	7,819

## (c) Ordinary shares

All shares rank equally with regard to the Company's residual assets.

There are no changes in the share capital in 2016.

## (d) Nature and purpose of reserves

## (i) General reserves

General reserve is distributed in compliance with the Commercial Act and the Company's articles of incorporation. As at 31 December 2015 and 2016 no general reserves have been distributed as the Company has not reported profits.

## (ii) Other reserves and share premium reserve

Other reserves comprise the cumulative net change in the actuarial gains and losses related to the defined retirement benefit obligation recognized through OCI. Additional information is presented in Note 20.

The revaluation reserve is recognized in 2014 as a result of revaluation of land and equipment of the Company and is presented net of respective deferred tax liability. Additional information is presented in Notes 13 & 14.

## 19. Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see Note 22.

*In BGN thousand*

## Current liabilities

Short-term part of bank loans, principal  
Interest payable

## Total loans and borrowings

2016	2015
13,787	13,798
144	139
13,931	13,937
13,931	13,937



## Notes to the financial statements

## 19. Loans and borrowings (continued)

The terms and conditions of the outstanding loans are as follows:

In BGN thousand

	Currency	Year of maturity	31 December 2016		31 December 2015	
			Face value	Carrying amount	Face value	Carrying amount
Loan 1, Bank 1	BGN	2017	5,626	5,626	5,626	5,626
Loan 2, Bank 1	EUR	2017	244	244	244	244
Loan 1, Bank 2	EUR	2017	3,422	3,422	3,179	3,179
Loan 2, Bank 2	EUR	2017	2,347	2,347	2,835	2,835
Loan Bank 3	EUR	2016	978	1,122	978	1,117
Overdraft Bank 4	EUR	2017	1,171	1,171	935	935
<b>Total interest-bearing liabilities</b>			<b>13,787</b>	<b>13,931</b>	<b>13,797</b>	<b>13,936</b>

The weighted average effective interest rate on the bank loans in 2016 is 5.7% (2015: 6.1%).

The bank loans are secured by letters of comfort or corporate bank guarantees issued by Sidma S.A., Greece.

The Company is in the process of negotiations with the banks for extending the maturity of the loans for another year. The Company has also finalized the negotiations with the banks for obtaining a syndicated loan. Considering the continuing support of Sidma group, the management is confident that the maturity of all loans will be extended. The Company has pledged as security on the current loans a part of its existing and future trade receivables in favor of two of the banks creditors. The amount of the pledged receivables as at 31 December 2016 is BGN 3,456 thousand (31 December 2015: BGN 3,456 thousand).

## 20. Other employee benefits

In BGN thousand

Obligation for compensation of employees upon retirement

**Total other employee benefit liabilities**

	2016	2015
Obligation for compensation of employees upon retirement	53	42
<b>Total other employee benefit liabilities</b>	<b>53</b>	<b>42</b>

**Obligations for defined benefit retirement compensations**

The Company has an obligation to pay certain amounts to each employee who retires with the Company in accordance with Art. 222, § 3 of the Labor Code (LC) in Bulgaria. According to these regulations in the LC, when a labor contract of an employee, who has acquired a pension right, is ended, the employer is obliged to pay to the employee compensations in the amount of two gross monthly salaries. In case the employee's length of service in the company equals to or is greater than 10 years, as at the retirement date, then the compensation amounts to six gross monthly salaries (2 gross monthly salaries for 5 years of experience as at the retirement date).

The estimated amount of the obligation as at each reporting date and the expenses for retirement compensations recognized are based on an actuarial report (see below information on actuarial assumptions).

The defined benefit plan (obligation for compensation upon retirement) is an unfunded plan.

## Notes to the financial statements

## 20. Other employee benefits (continued)

*Movement in the present value of the defined benefit obligation**In BGN thousand*

	2016	2015
Defined retirement benefit liability at 1 January	42	27
Benefits paid in the period	-	-
Settlement/termination loss/(gain)	-	-
Current service costs	9	7
Interest cost	1	1
Remeasurements:		
Actuarial (gains) losses from changes in financial assumptions	1	7
<b>Defined retirement benefit liability at 31 December</b>	<b>53</b>	<b>42</b>

*Expense recognized in profit or loss**In BGN thousand*

	2016	2015
Current service costs	9	7
Interest on unwinding of the obligation	1	1
	<b>10</b>	<b>8</b>

*Remeasurements recognized in OCI**In BGN thousand*

	2016	2015
Actuarial (gains) losses from changes in financial assumptions	1	7
<b>Total actuarial gain/(loss) recognized in OCI</b>	<b>1</b>	<b>7</b>

*Actuarial assumptions*

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages)

	2016	2015
Discount rate at 31 December	1.90%	2.36%
Future salary increases (equal to the inflation rate)	1.00%	2.00%
Price inflation	1.80%	2.00%
Plan duration in years	25.13	20.90

## Notes to the financial statements

## 21. Trade and other payables

In BGN thousand

	2016	2015
Trade payables due to third parties	277	239
Advance payments from clients	123	138
VAT payable	135	39
Accruals	12	35
Other payables	28	25
<b>Trade and other payables</b>	<b>575</b>	<b>476</b>

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 22.

## 22. Financial instruments

## (a) Accounting classifications and fair values

The following table shows the carrying amounts of the financial assets and financial liabilities of the Company. The Company has no financial assets and financial liabilities measured at fair value. The table does not include fair value information for financial assets and financial liabilities not measured at fair value as their carrying amount is a reasonable approximation of their fair value.

In BGN thousand

**Financial assets not measured at fair value**

	Notes	2016	2015
Receivables from related parties	25	40	40
Trade receivables	16	4,395	3,636
Cash and cash equivalents	17	1,258	1,625
		<b>5,693</b>	<b>5,301</b>

**Financial liabilities not measured at fair value**

		2016	2015
Related party payables	25	3,294	4,261
Trade payables	21	277	239
Loans	19	13,931	13,936
		<b>17,502</b>	<b>18,436</b>

## (b) Financial risk management

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

- credit risk
- liquidity risk
- market risk.

## (i) Risk management framework

The management 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 analyze 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.



## Notes to the financial statements

## 22. Financial instruments (continued)

## (b) Financial risk management (continued)

## (ii) Credit risk

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

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

*In BGN thousand*

	Carrying amount	
	2016	2015
Receivables from related parties	40	40
Trade receivables	4,395	3,636
Cash and cash equivalents, less cash in hand	1,257	1,624
	<u>5,692</u>	<u>5,300</u>

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. There is no concentration of credit risk in one or few individual clients. The Company gives credit terms only to well known and creditworthy clients with which the Company has long experience of trading. In order to mitigate its credit risk the Company insures its trade receivables from third parties up to 90% of the value of these receivables.

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

Impairment

Receivables from related parties are not considered for impairment as there are no such past due as of 31 December 2016.

The aging of trade receivables from third parties at the reporting date was as follows:

*In BGN thousand*

	2016	2015
Past due 0 – 120 days	3,953	3,203
Past due 120 – 180 days	16	175
Past due over 180 days	182	392
Impairment of trade receivables	(134)	(134)
	<u>4,017</u>	<u>3,636</u>

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

*In BGN thousand*

	Individually impaired
Balance at 1 January 2015	136
Amounts written off	(2)
<b>Balance at 31 December 2015</b>	<u>134</u>
Amounts written off	-
<b>Balance at 31 December 2016</b>	<u>134</u>

## Notes to the financial statements

## 22. Financial instruments (continued)

## (b) Financial risk management (continued)

## (ii) Credit risk (continued)

Cash and cash equivalents

The Company held cash and cash equivalents of BGN 1,257 thousand at 31 December 2016 (2015: BGN 1,624 thousand), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with financial institution counterparties, which are rated B+ to BBB-, based on rating agency Fitch's ratings.

## (iii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

<i>In BGN thousand</i>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>6 months or less</b>	<b>6 – 12 months</b>	<b>1 – 2 years</b>	<b>2 – 5 years</b>	<b>More than 5 years</b>
<b>31 December 2016</b>							
<b>Non-derivative financial liabilities</b>							
Bank loans	12,760	(13,536)	(144)	(13,392)	-	-	-
Bank overdraft	1,171	(1,171)	(1,171)	-	-	-	-
Related party payables	3,294	(3,294)	(3,294)	-	-	-	-
Third party trade payables	277	(277)	(277)	-	-	-	-
	<b>17,502</b>	<b>(18,278)</b>	<b>(4,886)</b>	<b>(13,392)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>31 December 2015</b>							
<b>Non-derivative financial liabilities</b>							
Bank loans	13,001	(13,798)	(139)	(13,659)	-	-	-
Bank overdraft	935	(935)	(935)	-	-	-	-
Related party payables	4,261	(4,261)	(4,261)	-	-	-	-
Third party trade payables	239	(239)	(239)	-	-	-	-
	<b>18,436</b>	<b>(19,233)</b>	<b>(5,574)</b>	<b>(13,659)</b>	<b>-</b>	<b>-</b>	<b>-</b>

The gross outflows disclosed in the previous table represent the contractual undiscounted cash flows relating to the respective financial liabilities. Except for these financial liabilities, it is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.



## Notes to the financial statements

## 22. Financial instruments (continued)

## (b) Financial risk management (continued)

## (iv) Market risk

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

Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Company - the BGN. The currencies in which these transactions primarily are denominated are BGN, Euro and only rarely USD. Effective since 1999, the Bulgarian Lev (BGN) rate is fixed to the Euro (EUR). The applicable exchange rate is BGN 1.95583 / EUR 1.0.

The management considers the currency risk for the Company as very limited. The Company does not use derivative financial instruments to hedge its currency risk.

As at 31 December 2016 the financial assets and liabilities of the Company have been denominated mainly in BGN or EUR and therefore the Company was not exposed to currency risk with respect to these currencies. The Company's exposure to currency risk is also in terms of current bank accounts denominated in USD

The summary of quantitative data about the Company's exposure to foreign currency risk provided to management of the Company based on its risk management policy was as follows:

*In thousands of*

	BGN	EUR	USD	BGN	EUR	USD
	31 December 2016			31 December 2015		
Trade receivables from third parties	4,151	-	-	3,770	-	-
Related party receivables	8	32	-	31	9	-
Cash and cash equivalents	1,103	138	16	1,342	279	3
Loans and borrowings	(5,626)	(8,161)	-	(5,626)	(8,172)	-
Trade payables	(202)	(75)	-	(218)	(20)	-
Related party payables	(3,283)	(11)	-	(4,224)	(37)	-
<b>Net statement of financial position exposure</b>	<b>(3,849)</b>	<b>(8,077)</b>	<b>16</b>	<b>(4,925)</b>	<b>(7,941)</b>	<b>3</b>

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2016	2015	2016	2015
BGN				
USD 1	1.76833	1.76441	1.85545	1.79007

Interest rate risk

The policy of the Company is to not hedge its interest rate risk. The Company is not using any derivative financial instruments for hedging.



Notes to the financial statements

22. Financial instruments (continued)

(b) Financial risk management (continued)

(iv) Market risk (continued)

Exposure to interest rate risk

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

In BGN thousand

**Fixed rate instruments**

Financial assets

Financial liabilities

**Variable rate instruments**

Financial assets

Financial liabilities

Face value	
2016	2015
817	914
(1,171)	(935)
(354)	(21)
440	710
(12,616)	(12,863)
(12,176)	(12,153)

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A change of 10 basis points in interest rates at the reporting date would increase (decrease) 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 2015.

Effect in thousands of BGN

**31 December 2016**

Variable rate instruments

**Cash flow sensitivity (net)**

**31 December 2015**

Variable rate instruments

**Cash flow sensitivity (net)**

Profit or loss		Equity	
10 bp increase	10 bp decrease	10 bp increase	10 bp decrease
(12)	12	-	-
(12)	12	-	-
(12)	12	-	-
(12)	12	-	-

## Notes to the financial statements

## 23. Operating lease

## Leases as lessee

The non-cancellable operating lease payables are as follows:

*In BGN thousand*

Less than one year

	2016	2015
	23	15
	<u>23</u>	<u>15</u>

The Company leases on operating lease cars for the sales staff and the management.

During the year an amount of BGN 50 thousand was recognised as an expense in profit or loss in respect of operating leases (2015: BGN 54 thousand).

## 24. Commitments and contingent liabilities

As at 31 December 2016 the Company has not assumed any commitments and is not facing any contingent liabilities.

## 25. Related parties

## (a) Parent company and ultimate controlling party

The parent company of Sidma Bulgaria EAD is Sidma Worldwide S.A., Cyprus.

The ultimate parent company is Sidma S.A., Greece. The ultimate parent company Sidma S.A. is an associate company of the Viohalco group with ultimate controlling party – Viohalco S.A., Belgium.

## (b) Other related parties

The Company is a related party with all companies from the Sidma group and the Viohalco group. The companies with which it most commonly has trading relations are:

- Sidma S.A, Greece – ultimate parent;
- Stomana Industries AD, Bulgaria – subsidiary from Viohalco group;
- Sidma Romania S.A. – under common control;
- Etem Bulgaria AD, Bulgaria – subsidiary from Viohalco group;
- Prosal Tubes S.A., Greece – subsidiary from Viohalco group.

## (c) Transactions with key management personnel

## Key management personnel compensation

The Company is also a related party with its key management personnel, including its Directors.

Key management personnel compensation comprised:

*In BGN thousand*

Short-term employee benefits

	2016	2015
	230	216
	<u>230</u>	<u>216</u>

## Notes to the financial statements

## 25. Related parties (continued)

## (d) Transactions with other related parties

In BGN thousand

In BGN thousand		Transaction value for the year ended 31 December		Balance outstanding as at 31 December – Receivable/(Payable)	
		2016	2015	2016	2015
<b>Sale of goods and services</b>					
Sidma S.A., ultimate parent	<i>Sale of goods</i>	26	773	8	14
Sidma Romania S.A	<i>Sale of goods</i>	19	37	-	17
Stomana Industries AD	<i>Commission income</i>	529	573	-	-
Stomana Industries AD	<i>Other income</i>	188	156	-	-
Prosal Tubes SA	<i>Sale of goods</i>	28	2	3	2
Etem Bulgaria AD	<i>Sale of goods</i>	115	123	18	-
Sigma-IS AD	<i>Sale of goods</i>	87	117	10	7
Sofia Med AD	<i>Sale of goods</i>	63	59	1	-
				40	40
<b>Purchases of goods and services</b>					
Sidma S.A. ultimate parent	<i>Purchase of goods</i>	64	138	(11)	(27)
Sidma S.A. ultimate parent	<i>Purchase of services</i>	11	2	-	-
Sidma Romania S.A	<i>Purchase of goods</i>	11	144	-	-
Stomana Industries AD	<i>Purchase of goods</i>	13,140	14,317	(3,274)	(4,215)
Prosal Tubes SA	<i>Purchase of goods</i>	16	45	(3)	(9)
Etem Bulgaria EAD	<i>Purchase of goods</i>	2	-	-	-
Corinth Pipeworks SA	<i>Purchase of goods</i>	447	118	-	(9)
Panelco S.A.	<i>Purchase of goods</i>	-	20	-	-
Teka Systems	<i>Purchase of services</i>	15	13	(6)	(1)
				(3,294)	(4,261)

## 26. Subsequent events

The Company has finalized the negotiations with the banks for obtaining a syndicated loan and the respective agreement has been signed on 14 June 2017. Apart from the above, no other subsequent events, that require adjustments or disclosures in the financial statements, have occurred during the period from the reporting date to the date the financial statements were authorised for issue by the Board of Directors.

## 27. Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items, which are measured on an alternative basis:

Items	Measurement basis
Land and equipment	Revalued amount (fair value at the date of revaluation less subsequent depreciation and any impairment loss)
Defined benefit liability	Present value of the defined benefit obligation



## **Notes to the financial statements**

### **28. Significant accounting policies**

The Company has consistently applied the following accounting policies to all periods presented in these financial statements.

#### **(a) Revenue**

##### **(i) Sale of goods**

Revenue is recognized when significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts and volume rebates.

The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement. For sales of metal products, usually transfer occurs when the product is received at the customer's warehouse; however, for some international shipments transfer occurs upon loading the goods onto the relevant carrier vehicles. Generally, for such products the customer has no right of return.

##### **(ii) Rendering of services**

The Company is involved in cutting and tailoring orders of metal products to clients and transportation to clients' premises if necessary. When the services under a single arrangement are rendered in different reporting periods, the consideration is allocated on a relative fair value basis between the services.

The Company recognizes revenue from rendering of services in proportion to the stage of completion of the transaction at the reporting date.

##### **(iii) Commissions**

If the Company acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognized is the net amount of commission made by the Company. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements.

#### **(b) Finance income and finance costs**

The Company's finance income and finance costs include:

- interest income;
- interest expense;
- foreign currency gain or loss on financial assets and financial liabilities.

Interest income or expense is recognized using the effective interest rate method.

#### **(c) Foreign currency**

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

Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognized in profit or loss and presented on a net basis. Non-monetary items that are measured based on historical cost in a foreign currency are not retranslated.

## Notes to the financial statements

**28. Significant accounting policies (continued)****(d) Employee benefits****(i) 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 recognized 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 due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

**(ii) Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods and that amount is discounted.

The Company has obligation to pay certain amounts to each employee who retires with the Company in accordance with Art. 222, § 3 of the Labor Code in Bulgaria. According to these regulations, when a labor contract of a company's employee, who has acquired a pension right, is ended, the employer is obliged to pay him compensations amounted to two gross monthly salaries. In case the employee's length of service in the company equals to or is greater than 10 or more years, as at retirement date, then the compensation amounts to six gross monthly salaries (two gross salaries for length of service between 5 and 10 years).

The calculation of the obligation is performed annually by a qualified actuary using the projected unit credit method. The Company determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses and are recognized in OCI. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

**(iii) Short-term employee benefits**

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

**(e) Income tax**

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in OCI.

**(i) Current tax**

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years.



## Notes to the financial statements

**28. Significant accounting policies (continued)****(e) Income tax (continued)****(ii) Deferred tax**

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

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

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

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

**(f) Inventory**

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average principle. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

**(g) Property, plant and equipment****(i) Recognition and measurement**Initial recognition

Items of property, plant and equipment are measured initially at cost less accumulated depreciation and any accumulated impairment losses.

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.

Subsequent measurement

Effective from 2014 the Company applies the revaluation model of IAS 16 *Property, plant and equipment* for subsequent measurement of its land, buildings and equipment. As a result land, buildings and equipment are presented at revalued amounts, equal to their fair value at the date of revaluation less subsequent depreciation and impairment loss. All other non-current assets, different from land, buildings and equipment, are presented in the statement of financial position at their historical cost less accumulated depreciation and impairment losses.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

**(ii) Subsequent costs**

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Company.



## Notes to the financial statements

**28. Significant accounting policies (continued)****(g) Property, plant and equipment (continued)****(iii) Depreciation**

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of property, plant and equipment are as follows:

- |                         |               |
|-------------------------|---------------|
| • buildings             | 20 - 33 years |
| • plant and equipment   | 5 – 14 years  |
| • fixtures and fittings | 4 – 7 years   |
| • vehicles              | 5 – 7 years.  |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**(h) Intangible assets****(i) Recognition and measurement**

Intangible assets, acquired by the Company, which have finite useful lives, are measured at acquisition cost less accumulated amortization and any accumulated impairment losses.

**(ii) Subsequent expenditure**

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

**(iii) Amortization**

Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss.

**(i) Financial instruments**

The Company classifies non-derivative financial assets into the following categories: loans and receivables and cash and cash equivalents.

The Company classifies non-derivative financial liabilities into the other financial liabilities category.

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

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

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

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

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

Notes to the financial statements

**28. Significant accounting policies (continued)**

**(i) Financial instruments (continued)**

**(ii) Non-derivative financial assets – measurement**

Loans and receivables

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

Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents includes bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

**(iii) Non-derivative financial liabilities – measurement**

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

**(iv) Compound and derivative financial instruments**

The Company has no compound financial instruments. The Company does not use any derivatives for hedging or any other purposes.

**(v) Share capital**

Ordinary shares

Issued capital represents the par value of shares issued and paid by the shareholders. Any proceeds in excess of par value are recorded in share premium. Associated costs are accounted for against the amounts raised. Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognized as a deduction from equity.

**(j) Impairment**

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

Financial assets not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of debtors;
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

**28. Significant accounting policies (continued)**



## Notes to the financial statements

### (j) Impairment (continued)

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

##### Financial assets measured at amortized cost

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

In assessing collective impairment the Company uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss.

#### (ii) Non-financial assets

The carrying amounts of the Company's non-financial assets (other than inventories and deferred tax assets) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets that have indefinite useful lives or that are not yet available for use are tested annually for impairment. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are 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. 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.

Impairment losses are recognized in profit or loss for non-revalued assets. Impairment losses on a revalued asset is recognized in OCI to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. Such an impairment loss on a revalued asset reduces the revaluation surplus for that asset. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

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.

## 28. Significant accounting policies (continued)

### (k) Provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the



**Notes to the financial statements**

discount is recognized as finance cost.

**(i) Restructuring**

A provision for restructuring is recognized when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

**(ii) Onerous contracts**

A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

**(l) Leases**

**(i) Determining whether an arrangement contains a lease**

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease.

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

**(ii) Leased assets**

Assets held by the Company under leases which transfer to the Company substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the Company's statement of financial position.

**Notes to the financial statements****29. New standards and interpretations not yet adopted**

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 and earlier application is permitted, although they are not yet mandatory until a later period; however, the Company has not early adopted the following new or amended standards in preparing these financial statements.

***Standards, Interpretations and amendments to published Standards that have not been early adopted – endorsed by the EC*****(a) IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Company's financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Company's financial statements. The timing and measurement of the Company's revenues are not expected to change under IFRS 15 because of the nature of the Company's operations and the types of revenues it earns.

**(b) IFRS 9 Financial Instruments**

This Standard replaces IAS 39, *Financial Instruments: Recognition and Measurement*. Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Company currently plans to apply IFRS 9 initially on 1 January 2018.

The Company does not expect IFRS 9 to have material impact on the financial statements. The classification and measurement of the Company's financial instruments are not expected to change under IFRS 9 because of the nature of the Company's operations and the types of financial instruments that it holds. However the company believes that impairment losses are likely to increase and become more volatile for assets in the scope of expected credit loss impairment model. The company has not yet finalised the impairment methodologies that it will apply under IFRS 9.

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

The Company does not expect that the amendments, when initially applied, will have material impact on the financial statements as the Company has no subsidiaries, associates or joint ventures.



Notes to the financial statements

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

*IASB/IFRIC documents not yet endorsed by EC:*

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

**(a) Disclosure Initiative (Amendments to IAS 7)**

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. To satisfy the new disclosure requirements, the Company intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

**(b) IFRS 16 Leases**

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard- i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Company has started an initial assessment of the potential impact on its financial statements. The Company has not yet quantified the impact on its reported assets and liabilities of adoption of IFRS 16. The quantitative effect will depend on, inter alia, the transition method chosen, the extent to which the Company uses the practical expedients and recognition exemptions, and any additional leases that the Company enters into. The Company expects to disclose its transition approach and quantitative information before adoption.

**(c) Other amendments**

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

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)*
- *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)*
- *Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
- *Amendments to IAS 40 Transfers of Investment Property*
- *IFRIC 22 Foreign Currency Transactions and Advance Consideration*
- *Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016*