

1. Corporate information

Korado-Bulgaria AD is a joint-stock company, registered with the Veliko Tarnovo District Court under UIC 814190902, with registered address and address of management in the town of Strazhitsa, Veliko Tarnovo Region, 28 Gladstone Street.

The main scope of activity of the Company includes: manufacture and sale of heating equipment.

At 31 Desember 2017 the Company's shareholders are:

-	Korado a.s., Check Republic	83.67%
-	Individuals and legal entities	16.33%

The ultimate parent company is Korado a.s., Czech Republic. None of the owners of the ultimate parent company owns more than 35% of the parent's shares.

The Company's management consists of Management Board. Those charged of governance are represented by the Supervisory Board and the Audit Committee of the Company.

According to the Bulgarian legislation, a decision of the General Meeting for approval of these annual financial statements can be subsequently revoked (by applying the relevant procedure) and in case it is considered appropriate, new revised financial statements can be prepared and issued for the same financial year.

2.1 Basis of preparation

Statement of compliance

The financial statements of Korado-Bulgaria AD have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS as adopted by the EU). The reporting framework "IFRS as adopted by the EU" is essentially the defined national basis of accounting "IAS, as adopted by the EU", specified in the Bulgarian Accountancy Act and defined in paragraph 8 of its Additional Provisions.

The financial statements have been prepared on a historical cost and going concern basis.

The financial statements have been prepared in Bulgarian leva and all amounts have been rounded off to the nearest thousand (BGN'000), unless otherwise stated.

2.2 Summary of significant accounting policies

a) Foreign currency translation

The financial statements are presented in Bulgarian leva, which is also the functional and presentation currency of the Company. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated on a monthly basis by applying the exchange rate published by the Bulgarian National Bank for the last working day of the respective month. All exchange differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as of the date of initial transaction (acquisition).

2.2 Summary of significant accounting policies (continued)

b) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or due, excluding discounts, rebates, and other sales taxes or duties. The Company analyses its sales arrangements according to specific criteria in order to determine whether it acts as a principal or agent. It has reached the conclusion that it acts as a principal in relation to all such arrangements.

The following specific recognition criteria must also be met before revenue is recognised:

Sales of finished products and goods

Revenue from sales of finished products and goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on dispatch of the goods.

c) Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date. Management analyses the individual items of the tax return for which the applicable tax provisions are subject to interpretation and recognises provisions where appropriate.

Current income tax is recognised directly in the equity or in other comprehensive income (and not in profit or loss) where the tax relates to items that have been recognised directly in the equity.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of goodwill or 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 taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except where the deferred income tax asset relating to the deductible temporary difference 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 taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred taxes relating to items recognised outside profit and loss are recognised out of profit and loss. Deferred taxes are recognised depending on the transaction they relate to in other comprehensive income, or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

2.2 Summary of significant accounting policies (continued)

c) Taxes (continued)

Value added tax (VAT)

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

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

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

d) Financial instruments - initial recognition and subsequent measurement

• Financial assets

Initial recognition

Financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets upon initial recognition.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade (transaction) date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and cash equivalents, and trade and other receivables.

Subsequent measurement

The subsequent measurement of the financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of comprehensive income. Losses arising from impairment are recognised in profit and loss.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The contractual rights to receive cash flows from the asset have expired;
- The Company has retained its contractual rights to receive cash flows from the financial asset, but has assumed a contractual obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; where the Company has transferred its contractual rights to receive cash flows from the asset and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.2 Summary of significant accounting policies (continued)

d) Financial instruments - initial recognition and subsequent measurement (continued)

- **Financial assets (continued)**

When the Company has transferred its contractual rights to receive cash flows from a financial asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the financial asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

The Company assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy/insolvency or other financial reorganisation and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan bears a floating rate, the discount rate used for assessing the impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income is recorded as part of finance income in the statement of comprehensive income. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the profit and loss.

2.2 Summary of significant accounting policies (continued)

d) Financial instruments - initial recognition and subsequent measurement (continued)

- **Financial liabilities**

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings. The Company determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognised initially at fair value and in the case of loans and borrowings.

The Company's financial liabilities include trade and other payables, and interest-bearing borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

Subsequent to initial recognition, loans and borrowings are measured at amortised cost using the EIR method. Gains and losses are recognised in the profit and loss when the liabilities are derecognised as well as through the amortisation process.

Amortised cost is calculated by taking into account any discounts or premiums on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the profit and loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit and loss.

e) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

f) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

2.2 Summary of significant accounting policies (continued)

f) Fair value measurement (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are measured at fair value in the financial statements on a recurring basis, the Company determines whether transfer(s) have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

As of 31 December 2017 and 2016 all financial instruments are measured at amortized cost. The carrying amounts of the short term trade receivables, trade payable and borrowings approximates their fair value. The fair value is classified at level 2 and it is determined based on the discounted cash flows (the discount rate reflects the current market interest rate for the similar instruments). The Company has no financial instruments at fair value.

g) Share capital

The share capital is presented at the par value of shares issued (or subscribed) and paid. Any proceeds from shares issued over their nominal value are stated as share premiums.

h) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses. Cost comprises all expenses directly related to the acquisition of the asset. Such cost includes also the cost of replacing parts of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When a major inspection of an item of plant and/or equipment is performed, its cost is recognised in the carrying amount of the respective assets as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the profit and loss for the period in which they were incurred.

2.2 Summary of significant accounting policies (continued)

h) Property, plant and equipment (continued)

Depreciation is calculated on a straight line basis over the estimated useful life of the assets, determined for the current and previous period as follows:

	<u>2017</u>	<u>2016</u>
Buildings	10-50 years	10-50 years
Plant and equipment	3-30 years	3-30 years
Hardware	4-7 years	4-7 years
Motor vehicles	7-15 years	7-15 years
Fixtures and fittings	5-10 years	5-10 years

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 and the carrying amount of the asset) is included in the statement of comprehensive income for the period in which the asset is derecognised.

The assets residual values, useful lives and methods of depreciation are reviewed at each financial year end, and if the expectations differ from the estimates, the latter are adjusted prospectively.

i) Lease

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

The Company as a lessee

The Company classifies a lease contract as a finance lease if it transfers to the Company substantially all the risks and benefits incidental to ownership of the leased item. Finance leases are recognised at the commencement of the lease as an asset or a liability in the statement of financial position in an amount which at the inception of the lease contract is equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised directly in the profit and loss.

Assets acquired under finance leases are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

j) Borrowings costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

k) Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss for the period, subject to distribution among the shareholders, to the weighted average number of ordinary shares held for the period.

2.2 Summary of significant accounting policies (continued)

k) Earnings per share (continued)

The weighted average number of shares is the number of ordinary shares held in the beginning of the period, adjusted by the number of redeemed ordinary shares and the shares newly issued over the period, multiplied by the time-weighting factor. This factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period. In case of capitalization of reserves, bonus issues, etc., which do not result in change in the Company's resources, the number of the ordinary shares before the transaction is adjusted proportionately to their change as if the transaction has been carried out at the earliest period presented. As a result, the number of ordinary shares is recalculated and respectively, the earnings per share for the comparative period.

l) Intangible assets

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and/ or any accumulated impairment losses, if any.

The useful lives of intangible assets are assessed to be finite, and are estimated as follows:

	<u>2017</u>	<u>2016</u>
Licences	5-10 years	5-10 years
Software	5-10 years	5-10 years

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profits and losses when the asset is derecognised.

m) Inventories

Inventories are measured at the lower of cost and net realisable value.

Costs incurred in bringing each item of inventory to its present location and condition, are accounted for as follows:

Materials and goods	– acquisition cost determined under the weighted average value method
Finished products and work in progress	– cost of direct materials used, labour and overheads allocated based on the normal production capacity, excluding borrowing costs, determined under the weighted average value method

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

2.2 Summary of significant accounting policies (continued)

n) Impairment of non-financial assets

The Company assesses at each reporting date whether there are indications that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs of disposal, recent market transactions, if any, are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiple and other available sources of fair values of assets or CGUs.

The Company bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Company's cash-generating units to which individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth index is calculated and applied to future cash flows after the fifth year.

Impairment losses are recognized as other expenses in the statement of comprehensive income.

An assessment is made by the Company at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profits and losses.

o) Cash and cash equivalents

Cash and short term deposits in the statement of financial position comprise cash in bank accounts and in hand, and short-term deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

p) Retirement benefits

Short-term employee benefits include salaries, wages, interim and annual bonuses, social security contributions and paid annual leave of current employees expected to be settled wholly within twelve months after the end of the reporting period. When the Company receives the service they are recognised as an employee benefit expense in profit or loss or capitalised to the asset's value. Short-term employee benefits are measured at the undiscounted amount of the expected cost of benefits. See Note 5.3. for further details.

The Company operates a defined benefit plan arising from the requirement of the Bulgarian labour legislation and the Collective Labour Agreement to pay a certain number of gross monthly salaries to its employees upon retirement, depending on the length of their service. If an employee has worked for Korado-Bulgaria AD for 10 years, the retirement benefit amounts to six gross monthly salaries upon retirement, if he/she has worked for the Company from 5 to 10 years – four gross monthly salaries, and if he/she has worked for less than five years - two gross monthly salaries. Besides, if an employee has worked for Korado-Bulgaria AD for more than twenty years, he/she received eight gross monthly salaries upon retirement. These retirement benefits are unfunded.

2.2 Summary of significant accounting policies (continued)

p) Retirement benefits (continued)

The cost of providing benefits under the retirement benefit plan is determined by the Company using the projected unit credit method. Re-measurements, comprising of actuarial gains and losses, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Interest expense is calculated by applying the discount rate to the defined benefit liability. The Company recognises the following changes in the defined benefit obligation in profit or loss for the period:

q) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The Board of Directors assesses the financial performance and position of the company and makes strategic decisions. The Board of Directors has been identified as being the chief operating decision maker and consists of the chief executive officer, chief accountant and financial officer of the Group.

2.3. Changes in accounting policy and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year. The following amendments to standards have been adopted by the Company as of 1 January 2017:

- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7 Disclosure initiative
- Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 12

3. Significant accounting judgments, estimates and assumptions

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

Estimates and assumptions

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

Net realisable value of inventories

Inventories are written-down in accordance with the accounting policy of Korado Group based on the estimated sale / turnover of goods. The written-down of goods is presented as other expenses in the statement of comprehensive income. The Company's management believes that the carrying amount of goods written-down is the best estimate of their net realizable value as of the balance sheet date in compliance with the requirements of IAS 2 Inventories. There were no inventory write offs as at 31 December 2017 and 2016. For further details, see Note 11.

4. Standards issued but not yet effective and not early adopted

Standards issued but not yet effective and not early adopted up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt those standards when they become effective.

IFRS 9 Financial Instruments (issued on 24 July 2014 and effective for annual periods beginning on or after 1 January 2018). IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income (FVOCI), contract assets under IFRS 15 *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Company does not expect material increase in the loss allowance for trade creditors, as the company does not have significant overdue receivables and default payments.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016) is effective as of 1 January 2018 and endorsed by EU. The amendment is not expected to have an impact on the financial statements, as the Company does not have insurance contracts.

IFRS 15 Revenue from Contracts with Customers (issued on 24 July 2014 and effective for annual periods beginning on or after 1 January 2018) The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. Management has assessed the effects of applying the new standard on the Company's financial statements and expect no significant impact resulting from the adoption of IFRS 15 on 1 January 2018.

Amendment of IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2018 and effective for annual periods beginning on or after 1 January 2018) The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied.

IFRS 16 Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short term and low-value leases. As at the date of reporting the Company does not have non-cancellable operating lease liabilities and does not expect the standard to have impact on the financial performance or results of the Company.

Annual Improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018) The amendments will not have impact on the financial statements of the Company

4. Standards issued but not yet effective and not early adopted

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

- **IFRS 14, Regulatory Deferral Accounts** (issued on 30 January 2014 and effective for annual periods beginning on or after 1 January 2016).
- **Amendments to IFRS 10 and IAS 28** (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB) - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- **Amendments to IFRS 2, Share-based Payment** (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018)
- **IFRIC 22 - Foreign Currency Transactions and Advance Consideration** (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018)
- **Amendments to IAS 40** (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018) - Transfers of Investment Property
- **IFRS 17 Insurance Contracts** (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- **IFRIC 23 Uncertainty over Income Tax Treatments** (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019)
- **Amendments to IFRS 9** (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019) - Prepayment Features with Negative Compensation
- **Amendments to IAS 28** (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019) Long-term Interests in Associates and Joint Ventures
- **Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23** (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019) Annual Improvements to IFRSs 2015-2017 cycle.
- **Amendments to IAS 19** (issued on 7 February 2017 and effective for annual periods beginning on or after 1 January 2019)

5. Income and expenses

5.1 Revenue from sale of products and goods and segment information

Revenue from external clients

a) Geographic information

	<u>2017</u>	<u>2016</u>
	<i>BGN' 000</i>	<i>BGN' 000</i>
Bulgaria	1,622	1,510
Other countries:		
Check Republic	27,095	22,496
Romania	6,910	4,180
France	219	126
Ukraine	3,422	3,494
Bosna	110	46
Hungary	3,009	755
	<u>42,387</u>	<u>32,607</u>

For the purposes of management, the Company has only one operating segment. The geographic information on the revenue from sales of products is based on the customers' location.

b) Information by key accounts

	<u>2017</u>	<u>2016</u>
	<i>BGN' 000</i>	<i>BGN' 000</i>
Customer 1	27,095	22,496
Customer 2	6,910	4,180
Customer 3	3,422	3,494

5.2 Other income

	<u>2017</u>	<u>2016</u>
	<i>BGN' 000</i>	<i>BGN' 000</i>
Income from sale of materials	198	115
Income from sale of plant and equipment	14	-
Other	31	39
	<u>243</u>	<u>154</u>

5.3 Employee benefit expense

	<u>2017</u>	<u>2016</u>
	<i>BGN' 000</i>	<i>BGN' 000</i>
Salaries	(3,769)	(3,278)
Social security contributions	(686)	(565)
Retirement benefits (Note 16)	(33)	(31)
	<u>(4,488)</u>	<u>(3,874)</u>

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5.4 Expenses for hired services

	<u>2017</u>	<u>2016</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Management services from related parties	(456)	(457)
Insurances	(214)	(186)
Security	(141)	(132)
Repair and maintenance	(122)	(163)
Transport costs	(116)	(42)
Commissions	(91)	(68)
Consulting services	(76)	(101)
Taxes and charges	(61)	(57)
Legal services	(52)	(14)
Advertising	(35)	(31)
Telephone charges	(30)	(34)
Training	(10)	(17)
Other	(52)	(44)
	<u>(1,456)</u>	<u>(1,346)</u>

Total value of services related to independent audit of the financial statements for the year ended 31 December 2017 is BGN 41 thousand (2016: BGN 36 thousand).

5.5 Other expenses

	<u>2017</u>	<u>2016</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Carrying value of goods for resale sold	(501)	(402)
Carrying value of materials sold	(171)	(99)
Business trips	(77)	(87)
Carrying value of plant and equipment sold	(20)	-
Scrap of assets	(18)	(34)
Entertainment expenses	(9)	(11)
VAT on scrap and unrecognized VAT	(3)	(7)
Other	(36)	(5)
	<u>(835)</u>	<u>(645)</u>

5.6 Finance costs

	<u>2017</u>	<u>2016</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Interest expenses on borrowings	(74)	(70)
Expenses on charges and commission fees	(28)	(21)
Foreign currency losses	(9)	(7)
	<u>(111)</u>	<u>(98)</u>

6. Income tax

The major components of the income tax expense for the years ended 31 December 2017 are:

	<u>2017</u>	<u>2016</u>
	<i>BGN' 000</i>	<i>BGN' 000</i>
Current income tax expense	(521)	(331)
Deferred tax credit/(expense)	(12)	5
Income tax expense recognized in profit or loss	<u>(533)</u>	<u>(326)</u>
Deferred tax on actuarial gains and losses	7	3
Income tax credit recognized in other comprehensive income	<u>7</u>	<u>3</u>

The applicable tax rate in 2017 is 10% (2016: 10%).

A reconciliation between the income tax expense and the accounting profit at the applicable tax rate for the years ended 31 December 2017 and 31 December 2016 is as follows:

	<u>2017</u>	<u>2016</u>
	<i>BGN' 000</i>	<i>BGN' 000</i>
Profit before taxes	5,311	3,253
Income tax expense at the applicable tax rate of 10% for 2017 (2016: 10%)	(531)	(325)
Non-deductible expenses	(2)	(1)
Income tax expense at an effective tax rate of 10.02% (2016: 10.2%)	<u>(533)</u>	<u>(326)</u>

As at 31 December 2017 deferred taxes are related to the following:

	Statement of financial position		Profits and losses	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	<i>BGN' 000</i>	<i>BGN' 000</i>	<i>BGN' 000</i>	<i>BGN' 000</i>
<i>Deferred tax assets</i>				
Accelerated depreciation for accounting purposes	(11)	4	(15)	4
Unused paid leave	12	9	3	3
Retirement benefits liability	39	32	7	1
Impairment of inventories	-	-	-	-
	<u>40</u>	<u>45</u>	<u>(5)</u>	<u>8</u>
Deferred tax (expense)/credit			<u>(5)</u>	<u>8</u>
Deferred tax assets, net	<u>40</u>	<u>45</u>		

Reconciliation of deferred taxes, net

	<u>2017</u>	<u>2016</u>
	<i>BGN' 000</i>	<i>BGN' 000</i>
At 1 January	45	37
Deferred taxes recognized in profit or loss for the period	(12)	5
Deferred taxes recognized in other comprehensive income	7	3
At 31 December	<u>40</u>	<u>45</u>

7. Fair value hierarchy

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities.

Quantitative disclosures of fair value measurement hierarchy as of 31 December 2017

	Date of valuation	Fair value measurement using			
		Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		<i>BGN'00</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Liabilities for which fair values are disclosed:					
Finance lease liabilities	31.12.2017	218	-	218	-
Interest-bearing loans	31.12.2017	3,716	-	3,716	-

Quantitative disclosures of fair value measurement hierarchy as of 31 December 2016

	Date of valuation	Fair value measurement using			
		Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		<i>BGN'00</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Liabilities for which fair values are disclosed:					
Finance lease liabilities	31.12.2016	236	-	236	-
Interest-bearing loans	31.12.2016	3,716	-	3,716	-

There have been no transfers between the fair value hierarchy levels during 2017 and 2016.

8. Earnings per share

Basic earnings per share are calculated by dividing the profit for the year to the weighted average number of ordinary shares held for the period.

The Company's basic earnings per share are calculated by using the following data:

	<u>2017</u>	<u>2016</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Net profit for the year (in BGN'000)	4,778	2,927
Weighted average number of ordinary shares held for the period (in thousand)	10,523	8,779
Basic earnings per share (in BGN)	<u>0,45</u>	<u>0,33</u>

9. Property, plant and equipment

	Land (terrains) <i>BGN' 000</i>	Buildings, installations and outdoor equipment <i>BGN' 000</i>	Plant, equipment, fixtures and fittings <i>BGN' 000</i>	Motor vehicles <i>BGN' 000</i>	Assets under construction <i>BGN' 000</i>	Total <i>BGN' 000</i>
Cost:						
At 1 January 2016	240	3,936	13,752	746	2,954	21,628
Additions	-	-	334	113	2,183	2,630
Transfers	-	253	4,505	-	(4,758)	-
Disposals	-	(48)	(74)	(4)	-	(126)
At 31 December 2016	240	4,141	18,517	855	379	24,132
Additions	167	127	227	121	610	1,252
Transfers	-	467	159	-	(626)	-
Disposals	-	-	(29)	(63)	-	(92)
At 31 December 2017	407	4,735	18,874	913	363	25,292
Accumulated depreciation :						
At 1 January 2016	-	2,336	5,386	390	-	8,112
Depreciation charge for the year	-	172	782	54	-	1,008
Disposals	-	(46)	(65)	(4)	-	(115)
At 31 December 2016	-	2,462	6,103	440	-	9,005
Depreciation charge for the year	-	182	862	60	-	1,104
Disposals	-	-	(31)	(43)	-	(74)
At 31 December 2017	-	2,644	6,934	457	-	10,035
Carrying value:						
At 1 January 2016	240	1,600	8,366	356	2,954	13,516
At 31 December 2016	240	1,679	12,414	415	379	15,127
At 31 December 2017	407	2,091	11,940	456	363	15,257

Impairment of property, plant and equipment

Based on the impairment testing of fixed tangible assets conducted at 31 December 2017 and 31 December 2016, the Company's management did not find any indications that the assets' carrying amounts might exceed their recoverable amounts. Based on the review of the tangible fixed assets, the Company's management has not found indicators that the book value of the assets exceed their recoverable amount. Therefore, no impairment of property, plant and equipment has been recognized at 31 December 2017 (31 December 2016: Nil).

Assets under construction

At 31 December 2017 assets under construction progress related to the completion of the third stage of the production facilities' renovation.

9. Property, plant and equipment (continued)

Fully depreciated assets

At 31 December 2017 the Company held assets with a cost of BGN 3,537 thousand (31 December 2016: BGN 3,071 thousand), which were fully depreciated but still in use. These included: production equipment of BGN 3,255 thousand (2016: BGN 2,794 thousand), motor vehicles of BGN 166 thousand (2016: BGN 163 thousand), fixture and fittings of BGN 70 thousand (2016: BGN 74 thousand), hardware of BGN 38 thousand (2016: BGN 37 thousand), and other equipment of BGN 8 thousand (2016: BGN 3 thousand).

Other disclosures

The carrying amount of plant and equipment held under finance lease contracts at 31 December 2017 amounts to BGN 441 thousand and at 31 December 2016: BGN 372 thousand. Items of property, plant and equipment has not been mortgaged by the Company.

Geographic information

All items of property, plant and equipment are located in the territory of Bulgaria.

10. Intangible assets

	<u>Software</u> <i>BGN'000</i>
Cost:	
At 1 January 2016	66
Additions	<u>2</u>
At 31 December 2016	68
Additions	<u>3</u>
At 31 December 2017	71
Amortization :	
At 1 January 2016	54
Amortization charge for the year	<u>5</u>
At 31 December 2016	59
Amortization charge for the year	<u>4</u>
At 31 December 2017	63
Carrying value:	
At 1 January 2016	12
At 31 December 2016	9
At 31 December 2017	8

Impairment of intangible assets

The Company performed an impairment testing of intangible assets at 31 December 2017. No indications were found out that the assets' carrying amounts might exceed their recoverable amounts and therefore, no impairment loss was recognised in the financial statements.

Fully amortised intangible assets

At 31 December 2017 the Company held software with a cost of BGN 29 thousand (31 December 2016: BGN 29 thousand), which were fully amortised but still in use.

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11. Inventories

	<u>2017</u>	<u>2016</u>
	<i>BGN' 000</i>	<i>BGN' 000</i>
Raw materials (at cost)	4,623	4,031
Finished goods (at cost)	533	579
Goods for resale (at cost)	136	156
Work in progress (at cost)	122	131
Total inventories at the lower of cost and net realizable value	<u>5,414</u>	<u>4,897</u>

12. Trade and other receivables

	<u>2017</u>	<u>2016</u>
	<i>BGN' 000</i>	<i>BGN' 000</i>
Trade receivables	111	905
VAT refundable	116	544
Other receivables	15	40
	<u>242</u>	<u>1,489</u>

Trade receivables are not interest-bearing and are normally settled within 0 - 60 days.

As at 31 December 2017 and 31 December 2016 the ageing analysis of trade receivables that have not been impaired is presented in the table below:

	Total	Neither overdue, nor impaired	Overdue, but not impaired				
			< 30 days	30-60 days	60-90 days	90-120 days	>120 days
2017	111	14	45	47	5	-	-
2016	905	741	38	51	75	-	-

As at 31 December 2017 trade and other receivables of BGN 79 thousand (2016: BGN 861 thousand) are denominated in Euro and BGN 163 thousand (2016: 628 thousand) are denominated in Bulgarian leva.

13. Cash and short-term deposits

	<u>2017</u>	<u>2016</u>
	<i>BGN' 000</i>	<i>BGN' 000</i>
Cash in bank accounts	1,479	2,289
Cash on hand	9	12
	<u>1,488</u>	<u>2,301</u>

Cash at banks accrue interest at floating interest rates based on the intraday interest rates on bank deposits.

As at 31 December 2017 cash and cash equivalents of BGN 1,067 thousand (2016: BGN 1,981 thousand) are denominated in Euro and BGN 421 thousand (2016: 320 thousand) are denominated in Bulgarian leva.

14. Share capital and reserves

14.1 Share capital

	<i>number</i>	<i>BGN' 000</i>
1 January 2017	8,779,076	8,779
At 31 December 2016	8,779,076	8,779
Subscribed ordinary shares	4,389,538	4,390
At 31 December 2017	13,168,614	13,169

All subscribed shares were paid at 31 December 2017 and 31 December 2016.

At the General Meeting of Shareholders (GMS) held on 11 June 2014 and on the grounds of article 221, item 2 of the Commercial Act, article 112 et.seq. of the Public Offering of Securities Act (POSA), and in accordance with article 18 of the Company's Article of Association, a decision was passed to increase the Company's capital through the issue of a new issue of 2,884,786 dematerialised ordinary voting shares with nominal amount of BGN 1 (one) each and issue value of BGN 2.75 each. The procedure on the capital increase was carried out under the conditions of public offering of the newly issued shares, after the publication of Prospectus, confirmed by the Financial Supervision Commission, prepared in compliance with the regulatory requirements.

The initial date of the trading of rights at the Bulgarian Stock Exchange (BSE) commenced on 06 November 2014.

On 9 August 2017 the General Meeting of Shareholders has taken a decision to increase the share capital by BGN 4,390 thousand using own funds from the share premium. The increase is effected by issuing a new issue of 4 389 838 dematerialized ordinary shares each, entitled to one vote and a nominal value of 1 (one) BGN. The distribution of the new shares will be made exclusively between the shareholders of the Company in proportion to their participation in the share capital, at a ratio of 2: 1.

The procedure for the capital increase was made by admitting the Company to trading on BSE Main Market, Standard equities segment.

Date of listing on the Bulgarian Stock Exchange: 25 September 2017.

As at 31 December 2017, the paid-in capital of the Company amounted to BGN 13,169 thousand.

14.2. Share premium

In connection with the decision of the General Meeting of Shareholders held on 11 June 2014 and the public offering of securities carried out at the Bulgarian Stock Exchange, the payments due for all publicly traded shares with issue value of BGN 2.75 each, amounting to BGN 7,086 thousand, were received as at 30 June 2015, and as at 31 December 2014 it was received the payment for 278,536 shares with issue value of BGN 2.75 each. The excess over the issue value amounting to BGN 4,022 thousand was accounted for as share premium. The share premium as at 31 December 2015 amounted to BGN 4,509 thousand and as at 31 December 2016 it amounted to BGN 4,509 thousand. The share premium is used to cover losses and to increase the share capital after the statutory requirements stipulated in article 246 of the Commercial Act have been complied with.

By decision of the General Meeting held on 09 August 2017, the share capital was increased from the proceeds of the share premium account, amounting to BGN 4,390 thousand.

As at 31 December 2017 the share premium is amounting to BGN 119 thousand.

14. Share capital and reserves (continued)

14.3. Statutory reserves

Statutory reserves are formed by joint-stock companies, such as Korado-Bulgaria AD, through distribution of profits on the grounds of article 246 of the Commercial Act. They are set aside until they reach one-tenth or more of the capital. Sources of statutory reserves are at least one-tenth of the net profit, share premiums and funds, stipulated in the Articles of Association or approved by decision of the General Meeting of Shareholders. The statutory reserves may only be used to cover losses of the Company from the current and previous reporting periods.

At the General Meeting of Shareholders held on 23 May 2017, a decision for distribution of the 2016 profit amounting to BGN 2,927 thousand was taken, as follows:

- to retained earnings carried forward: BGN 531 thousand
- to Statutory reserve /10%/ - BGN 113 thousand
- as dividends: BGN 2,283 thousand split into 8,779,076 shares x BGN 0.26 each

The statutory reserves at 31 December 2017 amounts to BGN 878 thousand (31 December 2016: BGN 765 thousand).

At 31 December 2017 the amount payable as dividends for 2016 is entirely paid.

14.4. Dividends

In 2017 the General Meeting of Shareholders approved distribution of dividends amounting to BGN BGN 2,283 thousand (2016: BGN 1,580 thousand) or a dividend of BGN 0.26 per share (2016: BGN 0.18 per share).

15. Finance lease liabilities

The Company concluded finance lease contracts for automobiles.

The lease at 31 December 2017 amounts to BGN 218 thousand and at 31 December 2016 it amounted to BGN 236 thousand.

	<u>Minimum payments</u> <i>BGN' 000</i>	2017 Present value of <u>payments</u> <i>BGN' 000</i>	<u>Minimum payments</u> <i>BGN' 000</i>	2016 Present value of <u>payments</u> <i>BGN' 000</i>
Within one year	132	124	97	92
From one to five years	98	94	154	144
Total minimum lease payments	230	218	251	236
Less finance charges	(12)	-	(15)	-
Present value of minimum lease payments	218	218	236	236

16. Retirement benefits

Pursuant to the requirement of the Bulgarian labour legislation and the Collective Labour Agreement, the Company is obliged to pay two to six gross monthly salaries to its employees upon retirement, depending on the length of their service in the company. If an employee has worked for Korado-Bulgaria AD for 10 years or more, the retirement benefit amounts to six gross monthly salaries upon retirement, if he/she has worked for the Company from 5 to 10 years – four gross monthly salaries, and if he/she has worked for less than five years - two gross monthly salaries. An employee who has worked for Korado-Bulgaria AD for more than twenty years, shall be entitled to receive eight gross monthly salaries upon retirement. These retirement benefits are unfunded.

Below are summarized the components of retirement benefit expenses recognized in the statement of comprehensive income and the liabilities recognized in the statement of financial position as at 31 December 2017:

Retirement benefit expenses

	<u>2017</u>	<u>2016</u>
	<i>BGN' 000</i>	<i>BGN' 000</i>
Current service costs	25	22
Interest expenses	8	9
Retirement benefit expenses recognized in the income statement (Note 5.3)	33	31
Actuarial losses recognized in other comprehensive income	73	31

The changes in the present value of the employee retirement benefit liability are as follows:

	<u>2017</u>	<u>2016</u>
	<i>BGN' 000</i>	<i>BGN' 000</i>
At 1 January	322	308
Interest expenses	8	9
Current service costs	25	22
Employee benefits paid	(43)	(48)
Actuarial losses	73	31
At 31 December	385	322

The key assumptions used in determining the retirement benefit liability are stated in the table below:

	<u>2017</u>	<u>2016</u>
Discount rate	1.40%	2.50%
Future salary increases	3%	3%
Staff turnover	8.20%	8.20%

The tables below contain a quantitative sensitivity analysis of the retirement benefit liability as at 31 December 2017 and 31 December 2016:

Assumptions 2017

Sensitivity level	Interest rate		Salary growth	
	Increase by 1%	Decrease by 1%	Increase by 1%	Decrease by 1%
	<i>BGN' 000</i>	<i>BGN' 000</i>	<i>BGN' 000</i>	<i>BGN' 000</i>
Effect on the pension liability increase/(decrease)	(23)	26	30	(26)

16. Retirement benefits (continued)

Assumptions 2016

Sensitivity level	Interest rate		Salary growth	
	Increase by 1%	Decrease by 1%	Increase by 1%	Decrease by 1%
	<i>BGN' 000</i>	<i>BGN' 000</i>	<i>BGN' 000</i>	<i>BGN' 000</i>
Effect on the pension liability increase/(decrease)	(19)	21	21	(19)

The average time of the retirement benefit liability at the end of the current period is 25 years (2016: 25 years) .

17. Trade and other payables

	2017	2016
	<i>BGN' 000</i>	<i>BGN' 000</i>
Payables to suppliers	1,528	3,163
Payables to personnel	234	242
Payables for social securities	109	101
Unused leave	104	80
Other tax liabilities	35	28
Other	144	9
	2,154	3,623

Terms and conditions of the financial liabilities, set out in the table above, are as follows:

- Trade payables are non-interest bearing and are normally settled on 30-60 day's term;
- Tax payables are non-interest bearing and are settled within the legal deadlines;
- Other payables are non-interest bearing and are normally settled on 30 day's term.

As at 31 December 2017 trade and other payables of BGN 1,020 thousand (2016: BGN 2,326 thousand) are denominated in Euro and BGN 1,134 thousand (2016: 1,297 thousand) are denominated in Bulgarian leva.

18. Related party disclosures

Ultimate parent company

The ultimate parent company is Korado a.s., Czech Republic.

Entities with controlling interest in the Company

At 31 December 2017, 83.67 % of the shares of Korado-Bulgaria AD are held by Korado a.s., Czech Republic. The remaining 16.33 % of the shares are held by legal entities and individuals.

Besides with the parent company, Korado a.s., Czech Republic, in 2017 and 2016 the Company concluded transactions with other related companies as well, namely Likon, Czech Republic (a subsidiary of Korado a.s., Czech Republic).

18. Related party disclosures (continued)

The following table provides the total amount of related party transactions and the outstanding balances for the current and previous reporting period:

	<u>Nature</u>	<u>2017</u> <i>BGN' 000</i>	<u>2016</u> <i>BGN' 000</i>
Purchases from related parties			
<i>Ultimate parent company</i>			
Korado a.s. Czech Republic	Purchase of materials and goods	5,825	6,568
	Purchase of services	541	539
	Purchase of plant and equipment	72	63
	Interest on loan	65	61
Likon Czech Republic	Purchase of materials and goods	52	47
		<u>6,555</u>	<u>7,278</u>
Sales to related parties			
<i>Ultimate parent company</i>			
Korado a.s. Czech Republic	Sales of products	27,095	22,496
	Sales of materials	37	15
	Other	11	-
		<u>27,143</u>	<u>22,511</u>
Related party receivables			
<i>Ultimate parent company</i>			
Korado a.s. Czech Republic	Trade receivables	4,258	1,662
		<u>4,258</u>	<u>1,662</u>
Payables to related parties			
<i>Ultimate parent company</i>			
Korado a.s. Czech Republic	Interest-bearing loan	3,716	3,716
Likon Czech Republic	Trade payables	2	9
		<u>3,718</u>	<u>3,725</u>

A portion of trade receivables amounting to BGN 6,443 thousand (2016: BGN 8,217 thousand) due from related parties were settled net against trade payables of BGN 6,378 thousand (2016: BGN 7,178 thousand) and interest payable of BGN 65 thousand (2016: borrowings payable of BGN 978 thousand and interest payable of BGN 61 thousand) due to the same counterparties.

There was no impairment of doubtful and bad related party receivables accrued as at 31 December 2017 and 31 December 2016.

There was no overdue related party receivables as at 31 December 2017 and 31 December 2016.

Interest-bearing loan and borrowings from a related party

The first tranche of BGN 1,173 thousand of a loan from Korado a.s. Check Republic was received in February 2016, and in April 2016 the second tranche of BGN 3,521 thousand. The loan amounts to BGN 4,694 thousand. The main purpose of these funds is to finance the acquisition and implementation of a production line for tube heating units and renovation of production facilities. The loan is long-term and matures in 2021. The agreed interest rate is 1 M EURBOR+ a fixed margin of 1.65%.

18. Related party disclosures (continued)

Interest-bearing loan and borrowings from a related party (continued)

A portion of the loan amounting to BGN 978 thousand was settled net against trade receivables due from the same counterparty in October 2016 and thus, the amount of the loan from the parent company amounted to BGN 3,716 thousand as at 31 December 2017 and 31 December 2016

	<u>2017</u>	<u>2016</u>
	<i>BGN' 000</i>	<i>BGN' 000</i>
Borrowings from related parties		
<i>Ultimate parent company</i>		
Korado a.s. Czech Republic	3,716	3,716
	<u>3,716</u>	<u>3,716</u>

Changes in borrowings is as follows:

	<u>2017</u>	<u>2016</u>
	<i>BGN' 000</i>	<i>BGN' 000</i>
Beginning of the year	3,716	-
Borrowings received	-	4,694
Borrowings offset to trade receivables	-	(978)
Interest expense	65	61
Interest offset to trade receivables.	(65)	(61)
	<u>3,716</u>	<u>3,716</u>

Terms of the transactions with related parties

The outstanding trade payables and receivables at year end are unsecured, interest-free (except for loans) and their settlement is done with cash. For the payables or receivables from related parties, there are no guarantees received or issued. The Company did not impair its related party receivables as of 31 December 2017 and 31 December 2016. A review for impairment of the related party receivables is performed at the end of each year and is based on the financial performance of the related party and the market it operates on.

Remuneration to key management staff

	<u>2017</u>	<u>2016</u>
	<i>BGN' 000</i>	<i>BGN' 000</i>
Short-term benefits	114	94
	<u>114</u>	<u>94</u>

19. Commitments and contingencies

Legal claims

No material legal claims have been brought against the Company.

Other

The last tax audit by the tax administration authorities covered the following types of liabilities, by periods:

- Corporate income tax – until 31 December 2010;
- VAT – until 31 July 2008;
- Personal income tax – until 31 December 2007;
- Social security – until 31 January 2012; 30 September 2009

19. Commitments and contingencies (continued)

- Local taxes and charges – until 31 December 2006;
- Income tax foreign legal entities - until 31 December 2013.

The audit covering CITA in 2009 and 2010, and DTT in 2013, was completed at 31 December 2015 and a tax revision act dated 02 November 2015 was issued, assessing no additional liabilities.

The Company's management believes that no material risks exist as a result of the dynamic fiscal and regulatory environment in Bulgaria, which might require adjustments in the financial statements for the period ended 31 December 2017.

20. Fair value of financial instruments

Set out below is a comparison by class of carrying amounts and fair values of all of the Company's financial instruments that are carried in the financial statements:

	<i>Book value</i>		<i>Fair value</i>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	<i>BGN' 000</i>	<i>BGN' 000</i>	<i>BGN' 000</i>	<i>BGN' 000</i>
<i>Financial assets</i>				
Trade and other receivables	126	945	126	945
Related party receivables	4,258	1,662	4,258	1,662
Cash and short-term deposits	1,488	2,301	1,488	2,301
	<i>Book value</i>		<i>Fair value</i>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	<i>BGN' 000</i>	<i>BGN' 000</i>	<i>BGN' 000</i>	<i>BGN' 000</i>
<i>Financial liabilities</i>				
Interest-bearing borrowings to related parties	3,716	3,716	3,716	3,716
Finance lease liabilities	218	236	218	236
Trade and other payables	1,776	3,172	1,776	3,172
Payables to related parties	2	9	2	9

The fair value of the financial instruments of the Company is determined as the price at which a financial asset could be sold or a financial liability could be transferred in an arm's length transaction between market participants at the date of the valuation. The following methods and assumptions were used to estimate the fair values:

- Trade receivables, trade payables, and other current assets and liabilities approximate - their fair values approximate their book values due to the short-term maturities of these instruments;
- Interest-bearing loans and borrowings - the fair value is estimated by applying the DCF model and using a discount factor based on the interest rates for debt instruments of similar terms and remaining maturities. The own non-performance risk as of 31 December 2017 was assessed to be insignificant.

The Company's principal financial liabilities comprise interest-bearing loans and borrowings, and trade payables. The main objective of these financial instruments is to secure financing for the Company's operations. The Company holds financial assets such as trade receivables, cash and short-term deposits, which arise directly as a result of its operations.

As of 31 December 2017 and 31 December 2016 the Company neither held nor traded in derivative financial instruments.

21. Financial risk management objectives and policy

The major risks arising from the Company's financial instruments are liquidity risk, foreign currency risk and credit risk. The risk management policy the Company's management implemented to manage these risks is summarised below.

Interest rate risk

The Company is exposed to the risk of changes in market interest rates primarily to its short-term and long-term financial liabilities bearing floating (variable) interest rates. It is a policy of the Company to manage its interest expenses by using financial instruments with fixed and variable rates.

The following table demonstrates the sensitivity to possible changes in interest rates of the Company's profit before tax (through the effect on variable rate loans and borrowings), with all other variable held constant. There is no effect on other equity components of the Company.

	Increase/ Decrease in interest rates	Effect on the pre- tax profit
		<i>BGN' 000</i>
2017		
In EUR	+1%	(37)
In EUR	-1%	37

	Increase/ Decrease in interest rates	Effect on the pre- tax profit
		<i>BGN' 000</i>
2016		
In EUR	+1%	(35)
In EUR	-1%	35

Liquidity risk

The effective management of the Company's liquidity presumes that sufficient working capital will be ensured mainly through maintenance of unutilised but approved credit lines and short-term financing from related parties.

At 31 December 2017 and 31 December 2016 the maturity structure of the Company's financial liabilities, based on the agreed undiscounted payments, is presented below:

At 31 December 2017

	On demand	< 3 months	3-12 months	1-5 year	> 5 years	Total
	<i>BGN' 000</i>	<i>BGN' 000</i>	<i>BGN' 000</i>	<i>BGN' 000</i>	<i>BGN' 000</i>	<i>BGN' 000</i>
Finance lease liabilities	-	-	124	94	-	218
Trade and other payables	-	2,022	-	-	-	2,022
Payables to related parties	-	2	-	-	-	2
Interest-bearing loans and borrowings	-	-	-	3,961	-	3,961

21. Financial risk management objectives and policy (continued)

Liquidity risk (continued)

At 31 December 2016

	On demand	< 3 months	3-12 months	1-5 year	> 5 years	Total
	BGN' 000	BGN' 000	BGN' 000	BGN' 000	BGN' 000	BGN' 000
Finance lease liabilities	-	-	92	144	-	236
Trade and other payables	-	3,172	-	-	-	3,172
Payables to related parties	-	-	9	-	-	9
	-	-	-	-	4,052	4,052

Currency risk

The Company performs purchases, sales, and receives loans in foreign currencies – EUR. Since the exchange rate BGN/EUR is fixed at ratio of EUR 1:BGN 1.95583, the currency risk relating to the EUR exposures of the Company is immaterial.

Credit risk

The Company trades only with recognised, creditworthy contractors. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Moreover, the trade receivable balances are monitored currently, and as a result of that the Company's exposure to bad and doubtful debts is insignificant. There are no significant concentrations of credit risk within the Company. With respect to credit risk arising from the other financial assets of the Company, which comprise cash and other financial assets, the Company's credit exposure arises from default of its counterparties.

The maximum credit exposure of the Company in relation to the recognised financial assets equals their respective carrying amount as per the separate balance sheet as at 31 December 2017.

Cash transactions are made only with financial institutions with high credit ratings. Cash and cash equivalents are held with banks having a credit rating of BBB or higher. Approximately 78% (31 December 2016: 91%) of the cash and cash equivalents are concentrated in one bank.

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	<u>2017</u>	<u>2016</u>
	BGN' 000	BGN' 000
Existing customers		
Trade receivables	111	905
Receivables from related parties	4,258	1,662
Cash and cash equivalents		
BBB-	1,479	2,289

21. Financial risk management objectives and policy (continued)

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximise owner's value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the payment of dividends to the shareholders, to redeem its treasury shares, to increase or decrease its share capital, by decision of the shareholders. No changes were made in the objectives, policies or processes for managing the Company's capital during 2017 and 2016.

The Company monitors its equity through the realised financial result for the reporting period of 2017 and as at 31 December 2016, as follows:

	<u>2017</u>	<u>2016</u>
	<i>BGN' 000</i>	<i>BGN' 000</i>
Net profit	4,778	2,927

22. Events after the reporting date

No events have occurred after the reporting date, which require additional adjustments and/or disclosures in the Company's financial statements.