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 2020 the Company's shareholders are:

-	Korado a.s., Check Republic	82,15 %
-	Individuals and legal entities	17,85 %

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.

1.1. Basis of preparation

Statement of compliance

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

Historical cost convention

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

- Retirement benefit obligations

The financial statements have been prepared on a 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.

1.2. 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).

1.2 Summary of significant accounting policies (continued)

b) Revenue from contracts with customers

Sales are recognised when control of the products (finished goods and goods for resale) has transferred, being when the products are delivered to the client, the client has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the client's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the client, and either the client has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

The products are often sold with retrospective volume discounts based on aggregate sales over a 12 months period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales are made with a credit term of 30-60 days, which is consistent with market practice. The Company's obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

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.

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 recognized 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 recognized 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.

1.2 Summary of significant accounting policies (continued)

c) Taxes (continued)

Deferred income tax (continued)
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. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized 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 realized 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 recognized outside profit and loss are recognized out of profit and loss. Deferred taxes are recognized 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.

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

(d.1.) Investments and other financial assets

Debt instruments

(i) Classification

From 1 January 2018, the company classifies its financial assets in the following measurement categories:
- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The company reclassifies debt investments when and only when its business model for managing those assets changes.

1.2 Summary of significant accounting policies (continued)

d) Financial instruments (continued)

(d.1.) Investments and other financial assets (continued)

Debt instruments (continued)

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership.

(iii)Measurement

At initial recognition, the company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit and loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of debt instruments depends on the company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the company classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(Iosses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value at other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- Assets that do not meet the criteria for amortised cost or fair value in other comprehensive income are measured at fair value in profit and loss. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

1.2 Summary of significant accounting policies (continued)

d) Financial instruments (continued)

(d.1.) Investments and other financial assets (continued)

Equity instruments

The company subsequently measures all equity investments at fair value. Where the company's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the company's right to receive payments is established.

Changes in the fair value of financial assets at fair value in profit and loss are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value in other comprehensive income are not reported separately from other changes in fair value.

(iv) Impairment

From 1 January 2018, the company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and fair value in other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(d.2.) Financial liabilities

Initial recognition and measurement

Financial liabilities 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.

1.2 Summary of significant accounting policies (continued)

d) Financial instruments (continued)

(d.2.) Financial liabilities (continued)

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. 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.

1.2 Summary of significant accounting policies (continued)

f) Fair value measurement (continued)

As of 31 December 2019 and 31 December 2018 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.

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:

	2020	2019
Buildings	10-50 years	10-50 years
Plant and equipment	3-30 years	3-30 years
Hardware	4-7 years	4-7 years
Mtor 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 Company as a lessee

Accounting policies applied from 1 January 2019

Until the 2018 financial year payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

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

1.2 Summary of significant accounting policies (continued)

i) Lease – the Company as a lessee (continued)

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

The right-of-use asset is presented in property, plant and equipment line item in the statement of financial position.

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

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

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

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

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

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

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

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

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

- right of use for vehicles 7-15 years

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

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

1.2 Summary of significant accounting policies (continued)

i) Lease – the Company as a lessee (continued)

Accounting policies applied until 31 December 2018

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 theprofit 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. 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:

	2020	2019

Licenses	5-10years	5-10years
Software	5-10years	5-10years

1.2 Summary of significant accounting policies (continued)

l) Intangible assets (continued)

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, labor 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.

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 calculates 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.

1.2 Summary of significant accounting policies (continued)

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 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 a 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.

Long-term benefits
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, of 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.

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:

Share based payment plans
Payments for share based plans to employees are valued at the fair of the equity instrument at the date, when the shares are provided. Remuneration for conditional share based payment plans, which have not vested is measured at the he fair value at the grant date of the share based payment reflecting these conditions and having no difference between the expected and actual results.

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.

1.3. Changes in accounting policy and disclosures

1.3.1 New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing on 1 January 2019:

- **IFRS 16 "Leases"** (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019)
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019)
- **Prepayment Features with Negative Compensation - Amendments to IFRS 9** (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 IAS 28** (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019)
- **Annual Improvements to IFRSs 2015-2017 cycle - 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)
- **Plan Amendment, Curtailment or Settlement - Amendments to IAS 19** (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019)

The Company has adopted IFRS 16 Leases from 1 January 2019. No changes in the comparative information has been made as a result of the adoption, as the Company does not have operating lease contracts. The right of use and lease liabilities are disclosed in details in Note 7 and 13.

All other changes of the adopted standards listed above have no impact on the amounts recognized in previous periods and it is not expected to have a significant effect on current or future periods.

1.3.2 New standards and interpretations not yet adopted by the Company

Certain new accounting standards and interpretations that are not mandatory for the reporting period at 31 December 2019 and have not been previously adopted by the Company have been published. The Company's assessment of the impact of these new standards and interpretations is set out below.

- **Amendments to the Conceptual Framework for Financial Reporting** (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020)
- **Definition of materiality – Amendments to IAS 1 and IAS 8** (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020)
- **Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7** (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020)

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

1.3.3 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)
- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - 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)
- **IFRS 17 "Insurance Contracts"** (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021)

- **Definition of a business – Amendments to IFRS 3** (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020)
- **Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current** (issued on 23 January 2020)

2. 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. They are 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 are 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 2020 and 31 December 2019.

Impairment of receivables

Based on the available information the management has assessed the future cash flows of the receivables from clients and has not recognised impairment as at 31 December 2020 and 31 December 2019, as the amount is considered to be immaterial. Additional information is presented in Note 19.

3. Income and expenses

3.1 Revenue from contracts with customers and segment information

Revenue from clients

a) Geographic information	**31.12.2020**	**31.12.2019**
	BGN'000	*BGN'000*
Bulgaria	1,192	1,111
Other countries:		
Czech Republic	27,314	25,872
Romania	4,557	5,487
Ukraine	3,311	3,768
Hungary	1,673	3,469
Russia	96	1,992
Greece	953	238
France	149	202
Tunisia	44	108
Estonia	-	34
Bosnia and Herzegovina	-	-
	39,289	**42,281**

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	**31.12.2020**	**31.12.2019**
	BGN'000	*BGN'000*
Customer 1	27,314	25,872
Customer 2	4,557	5,487
Customer 3	3,311	3,768
Customer 4	1,673	3,469
Customer 5	953	238

3.2 Other income

	31.12.2020	**31.12.2019**
	BGN'000	*BGN'000*
Income from sale of materials	230	196
Income from sale of assets	21	
Other	16	52
	267	**248**

3.3 Employee benefit expense

	31.12.2020	**31.12.2019**
	BGN'000	*BGN'000*
Salaries	(4,727)	(4,729)
Social security contributions	(868)	(906)
Retirement benefits (Note 14)	(15)	(42)
	(5,610)	**(5,677)**

3. Income and expenses (continued)

3.4 Expenses for hired services

	31.12.2020	31.12.2019
	BGN'000	*BGN'000*
Management services from related parties	(271)	(422)
Insurances	(222)	(207)
Consulting services	(148)	(196)
Security	(209)	(180)
Transport costs	(124)	(153)
Repair and maintenance	(106)	(122)
Commissions	(115)	(86)
Advertising	(48)	(67)
Taxes and charges	(70)	(62)
Legal services	(34)	(35)
Telephone charges	(42)	(35)
Training	(4)	(7)
Other	(79)	(76)
	(1,472)	**(1,648)**

In 2020 consulting services include services provided by the assigned independent auditor related to review of the interim financial statements of the Company.

3.5 Other expenses

	31.12.2020	31.12.2019
	BGN'000	*BGN'000*
Carrying value of goods for resale sold	(440)	(666)
Carrying value of materials sold	(211)	(167)
Carrying value of assets sold	(24)	
Business trips	(39)	(84)
Scrap of assets	(20)	(28)
Entertainment expenses	(8)	(12)
VAT on scrap and unrecognized VAT	(4)	(6)
Expenses of provision	(98)	
Other	(-)	(59)
	(844)	**(1,022)**

3.6 Finance costs

	31.12.2020	31.12.2019
	BGN'000	*BGN'000*
Interest expenses on borrowings	(69)	(65)
Expenses on charges and commission fees	(17)	(5)
	3	(33)
Foreign currency losses	(5)	(10)
	(88)	**(113)**

4. Income tax

The major components of the income tax expense for the periods ended 31December 2020 and 31 December 2019 are:

	31.12.2020	31.12.2019
	BGN'000	*BGN'000*
Current income tax expense	(508)	(452)
Deferred tax expense	-	(25)
Income tax expense recognized in profit or loss	**(508)**	**(477)**
Deferred tax on actuarial gains and losses	-	10
Income tax credit recognized in other comprehensive income	**-**	**10**

The applicable tax rate in 2020 and 2019 is 10%. A reconciliation between the income tax expense and the accounting profit at the applicable tax rate for the periods ended 31 December 2020 and 31 December 2019 are:

	31.12.2020	31.12.2019
	BGN'000	*BGN'000*
Profit before taxes	5,104	4,739
Income tax expense at the applicable tax rate of 10% for 2020 and 2019	(508)	(474)
Non-deductible expenses	-	(3)
Income tax expense at an effective tax rate of 10 %	**(508)**	**(477)**

As at31 December 2020and 31 December 2019 deferred taxes are related to the following:

	Statement of financial position		**Profits and losses**	
	2020	**2019**	**2020**	**2019**
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
Deferred tax assets				
Accelerated depreciation	(37)	(37)	(37)	(37)
Unused paid leave	18	18	18	18
Remuneration of personnel	2	2	2	2
Impairment	5	5	5	5
Retirement benefits liability	45	45	45	45
Deferred tax assets, net	**33**	**33**	**33**	**33**

Reconciliation of deferred taxes, net

	2020	2019
	BGN'000	*BGN'000*
At 1 January	48	48
Deferred taxes recognized in profit or loss for the period	(25)	(25)
Deferred taxes recognized in other comprehensive income	10	10
At 31 December	**33**	**33**

5. 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 2020

Fair value measurement using significant observable inputs (Level 2)	**2020**	**2019**
	BGN'000	*BGN'000*
Liabilities for which fair values are disclosed:		
Finance lease liabilities	213	95
Interest-bearing loans	3,716	3,716

There have been no transfers between the fair value hierarchy levels during 2020 and 2019.

6. Earnings per share

Basic earnings per share are calculated by dividing the profit for the period 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:

	31.12.2020	**31.12.2019**
	BGN'000	*BGN'000*
Net profit for the year (in BGN'000)	4.596	4,262
Weighted average number of ordinary shares held for the period (in thousand)	13,169	13,169
Basic earnings per share (in BGN)	**0.35**	**0.32**

7. Property, plant and equipment

As at 31 December 2020 the carrying value of the right of use assets (vehicles previously presented as finance lease liabilities) is BGN 320 thousand (31 December 2019: BGN 194 thousand). Additional information is presented in Note 13.

The carrying value of the right of use asset could be analysed as follows:

Vehicles	**2020 г.**	**2019 г.**
	BGN'000	*BGN'000*
Carrying value		
At 1 January	194	341
Additions – new lease contracts	216	11
Termination of lease contracts	(82)	(96)
Depreciation for the year	(19)	(62)
At 31 December	**309**	**194**

7. Property, plant and equipment (continued)

	Land (terrains)	Buildings, installations and outdoor equipment	Plant, equipment, fixtures and fittings	Motor vehicles	Assets under construction	Total
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
At 1 January 2019	407	4,940	19,044	1,066	637	26,094
Additions	-	7	90	21	283	401
Disposals	-	-	(22)	-	-	(22)
Transferred from right of use of assets	-	-	-	-	-	-
Impairment	-	-	-	-	(54)	(54)
Transfers			46	-	(46)	
At 31 December 2019	**407**	**4,947**	**19,158**	**1,087**	**820**	**26,419**
At 1 January 2020	407	4,947	19,158	830	820	26,419
Additions	-	45	99	221	671	1,036
Disposals	-	-	(64)	(119)	-	(183)
Transferred from right of use of assets	-	-	-	-	-	-
Impairment	-	-	-	-	(54)	(54)
Disposals	-	26	37	12	(75)	-
At 31 December 2020	**407**	**5,018**	**19,230**	**1,201**	**1,362**	**27,218**
Accumulated depreciation:						
At 1 January 2019	-	2,820	7,695	516	-	10,930
Depreciation charge for the period	-	165	866	68	-	1,099
Transferred from right of use of assets	-	-	-	-	-	-
Disposals	-	-	(22)	-	-	(22)
At 31 December 2019	**-**	**2,985**	**8,539**	**584**	**-**	**12,108**
At 1 January 2020	-	2,985	8,539	584	-	12,108
Depreciation charge for the period	-	164	863	81	-	1,108
Transferred from right of use of assets	-	-	-	-	-	-
Disposals	-	-	(64)	(95)	-	(159)
At 31 December 2020	**-**	**3,419**	**11,349**	**550**	**-**	**13,057**
Carrying value						
At 1 January 2019	**407**	**2,120**	**11,349**	**550**	**637**	**15,063**
At 31 December 2019	**407**	**1,962**	**10,619**	**503**	**820**	**14,311**
At 31 December 2020	**407**	**1,869**	**9,892**	**631**	**1,362**	**14,161**

7. Property, plant and equipment(continued)

Assets under construction
At 31 December 2020 and 31 December 2019 assets under construction progress related to the completion of the production facilities' renovation.

Impairment of property, plant and equipment
Based on the impairment testing of fixed tangible assets conducted at 31 December 2020 and 31 December 2019, 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 2020 and 31 December 2019.

Fully depreciated assets
At 31 December 2020 the Company held assets with a cost of BGN 3,974 thousand(31 December 2019: BGN4,227 thousand),which were fully depreciated but still in use. These included: buildings of BGN 484 thousand (31 December 2019: BGN 615 thousand),production equipment of BGN 3,226 thousand (31 December 2019: BGN 3,248thousand), motor vehicles of BGN 130 thousand (31 December 2019: BGN 191thousand), fixture and fittings of BGN 46 thousand (31 December 2019: BGN 74 thousand), hardware of BGN 79 thousand (31 December 2019: BGN 84 thousand), and other equipment of BGN 9 thousand (31 December 2019: BGN 15 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.

8.Intangible assets

	Software
	BGN'000
Cost:	
At 1 January 2019	75
Additions	6
At 31 December 2019	**81**
At 1 January 2020	81
Additions	16
	(1)
At 31 December 2020	**96**
Accumulated amortisation	
At 1 January 2019	67
Amortisation charge for the period	6
At 31 December 2019	**73**
At 1 January 2020	73
Amortisation charge for the period	7
	(1)
At 31 December 2020	**79**
Carrying value	
At 1 January 2019	**8**
At 31 December 2019	**8**
At 31 December 2020	**17**

8.Intangible assets (continued)

Impairment of intangible assets
The Company performed an impairment testing of intangible assets at 31 December 2020 and 31 December 2019. No indications were found out that the assets' carrying amounts might exceed their recoverable amounts and therefore, no impairment loss was recognized in the financial statements.

Fully amortised intangible assets
At 31 December 2020 the Company held software with a cost of BGN 29 thousand (31 December 2019: BGN 30 thousand),which were fully amortised but still in use.

9.Inventories

	31.12.2020	31.12.2019
	BGN'000	*BGN'000*
Raw materials (at cost)	4,231	6,278
Finished goods (at cost)	774	966
Goods for resale (at cost)	170	139
Work in progress (at cost)	188	181
	5,363	**7,564**

10.Trade and other receivables

	31.12.2020	31.12.2019
	BGN'000	*BGN'000*
Trade receivables	680	744
VAT refundable	297	119
Other receivables	62	22
	1,039	**885**

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

As at 31 December 2020 and 31 December 2019 the ageing analysis of trade receivables that have not been impaired is presented in the table below:

			Overdue, but not impaired				
	Total	Neither overdue, nor impaired	< 30 days	30-60 days	60-90 days	90-120 days	>120 days
31.12.2020	680	680	-	-	-	-	-
31.12.2019	744	744	-	-	-	-	-

As at 31 December 2020 trade and other receivables of BGN 662 thousand (31 December 2019: BGN 736 thousand) are denominated in Euro and BGN 377 thousand (31 December 2019: 149 thousand) are denominated in Bulgarian leva.

11. Cash and short-term deposits

	31.12.2020	31.12.2019
	BGN'000	*BGN'000*
Cash in bank accounts	3,611	2,918
Cash on hand	9	14
	3,620	**2,932**

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

As at 31 December 2020 cash and cash equivalents of BGN 3,082 thousand (31 December 2019: BGN 2,446 thousand) are denominated in Euro and BGN 538 thousand (31 December 2019: 486 thousand) are denominated in Bulgarian leva.

12. Share capital and reserves

12.1 Share capital

	number	*BGN'000*
1 January 2018	13,168,614	13,169
At 31 December 2018	**13,168,614**	**13,169**
At 31 December 2019	**13,168,614**	**13,169**

All subscribed shares were paid at 31 December 2020 and 31 December 2019.

12.2 Share premium

As at 31 December 2020 and 31 December 2019 the share premium is amounting to BGN 119 thousand.

12.3 Treasury shares

In 2019 the Company acquired 12,000 treasury shares at the total amount of BGN 66 thousand. During the year 945 treasury shares were sold at the amount of BGN 5 thousand.

The shareholders approved a decision for purchase of 12,000 treasury shares to be provided to employees in the form of an additional one off compensation to all individuals employed by the Company for more than 1 year under a labour or management contract. The shares are allocated to 213 qualifying employees based on a step rate depending on the number of years of employment.

12.4 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.

12. Share capital and reserves (continued)

12.4. Statutory reserves (continued)

At the General Meeting of Shareholders held on20 May 2020, a decision for distribution of the 2019 profit amounting to BGN 4,262 thousand was taken, as follows:

-to retained earnings carried forward: BGN 443 thousand
- to Statutory reserve/10%/ - BGN 0 thousand
- as dividends: BGN 3,819 thousand split into13,168,614shares x BGN 0.29 each

The statutory reserves at 31 December 2020 amounts to BGN1,317 thousand (31 December2019: BGN 1,317 thousand).

12.5. Dividends

Dividends distributed in 2020
On 20 May 2020 the General Meeting of Shareholders approved distribution of dividends amounting to BGN 2,502 thousand or a dividend of BGN 0.19.

On 16 September 2020 the General Meeting of Shareholders approved distribution of interim dividends amounting to BGN 1,317 thousand or a dividend of BGN 0.10 per share .

Dividends distributed in 2019
On 15 May 2019 the General Meeting of Shareholders approved distribution of dividends amounting to BGN 2,502 thousand or a dividend of BGN 0.19 per share.

On 18 September 2019 the General Meeting of Shareholders approved distribution of interim dividends amounting to BGN 1,317 thousand or a dividend of BGN 0.10 per share.

13. Lease liabilities

The Company concluded lease contracts for vehicles. For leases previously classified as finance lease, the Company recognised the carrying value of the leased asset and lease liability before the adoption of IFRS 16 and as carrying value the right of use asset and lease liability as at the date of initial adoption..

As at 31 December 2020 the lease liability amounts to BGN 213 thousand and as at 31 December 2019 amounts to BGN 95 thousand.

		31.12.2020		**31.12.2019**
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
Within one year	79	75	56	52
From one to five years	145	138	47	43
Total minimum lease payments	**224**	**213**	**103**	**95**
Less finance charges	(11)	-	(8)	-
Present value of minimum lease payments	**213**	**213**	**95**	**95**

14. 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 whohas 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.

The components of the expenses for retirement benefits recognised in the statement of comprehensive income and the liabilities recognised in the statement of financial position as at 31 December 2019 are as follows:

Expenses for retirement benefits

	2020	**2019**
	BGN'000	*BGN'000*
Interest expense	3	4
Current service costs	41	38
Expenses for retirement benefits, recognised in profit and loss (Note 5.3.)	**44**	**42**
Actuarial losses recognised in other comprehensive income	**77**	**104**

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

	2020	**2019**
	BGN'000	*BGN'000*
At 1 January	453	
Interest expense	3	510
Current service costs	41	4
Benefits paid	(15)	38
Actuarial losses	77	(203)
31 December 2020	**558**	104

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

	31.12.2020	**31.12.2019**
Discount rate	0.6%	1.00%
Future salary increases	3-10%	3-10%

The tables below contain a quantitative sensitivity analysis of the retirement benefit liability as at 31 December2020:

Assumptions 2020	**Interest rate**		**Salary growth**	
Sensitivity level	Increase by 1%	Decrease by 1%	Increase by 1%	Decrease by 1%
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
Effect on the pension liability increase/(decrease)	(44)	51	48	(42)

Assumptions 2019	**Interest rate**		**Salary growth**	
Sensitivity level	Increase by 1%	Decrease by 1%	Increase by 1%	Decrease by 1%
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
Effect on the pension liability increase/(decrease)	(32)	37	40	(36)

15. Trade and other payables

	31.12.2020	**31.12.2019**
	BGN'000	*BGN'000*
Payables to suppliers	2,540	2,353
Payables to personnel	314	312
Payables for social securities	204	179
Other tax liabilities	172	-
Unused leave	-	181
Other	112	37
	3,342	**3,062**

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 2020 trade and other payables of BGN 1,861 thousand (31 December 2019: BGN 2,004 thousand) are denominated in Euro and BGN 1,481 thousand (31 December 2019: 1,458 thousand) are denominated in Bulgarian leva.

16. 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 2020, 82,15 % of the shares of Korado-Bulgaria AD are held by Korado a.s., Czech Republic. The remaining 17,85%of the shares are held by legal entities and individuals.

Besides with the parent company, Korado a.s., Czech Republic, in 2020 and 2019 the Company concluded transactions with other related companies as well, namely Licon Heat s.r.o., Czech Republic (a subsidiary of Koradoa.s., Czech Republic).

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

	Nature	**31.12.2020**	**31.12.2019**
		BGN'000	*BGN'000*
Purchases from related parties			
Ultimate parent company			
Korado a.s. Czech Republic	Purchase of materials and goods	938	1,186
	Purchase of services	285	456
	Purchase of plant and equipment	23	3
	Interest on loan	65	65
Licon Heat s.r.o. Czech Republic	Purchase of materials and goods	62	99
		1,373	**1,809**

16. Related party disclosures (continued)

		31.12.2020	31.12.2019
		BGN'000	*BGN'000*
Sales to related parties			
Ultimate parent company			
Korado a.s. Czech Republic	Sales of products	27,315	25,872
	Sales of materials	86	7
	Other	-	7
		27,401	**25,886**

		31.12.2020	31.12.2019
		BGN'000	*BGN'000*
Related party receivables			
Ultimate parent company			
Korado a.s. Czech Republic	Trade receivables	5,313	2,752
		5,313	**2,752**

Payables to related parties		31.12.2020	31.12.2019
		BGN'000	*BGN'000*
Ultimate parent company			
Korado a.s. Czech Republic	Interest-bearing loan	3,716	3,716
Korado a.s. Czech Republic	Trade payables	115	207
Licon Heat s.r.o. Czech Republic	Trade payables	17	19
		3,848	**3,942**

A portion of trade receivables amounting to BGN 1,403 thousand (31 December 2019: BGN 1,542 thousand) due from related parties were settled net against trade payables of BGN 1,338 thousand (31 December 2019: BGN 1,477 thousand) and interest payable of BGN 65 thousand (31 December 2019: BGN 65 thousand and interest payable) due to the same counterparties.

There was no impairment of doubtful and bad related party receivables accrued as at 31 December 2020 and 31 December 2019. As at 31 December 2020 receivables from related parties of BGN 0 thousand (31 December 2019: BGN 0 thousand) are overdue within 30 days.

All receivables and payables to related parties as at 31 December 2020 and 31 December 2019 are denominated in euro.

Interest-bearing loan and borrowings from a related party

The first tranche of BGN 1,173 thousand of a loan from Korado a.s. Chech 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%.

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 2020 and 31 December 2019.

16. Related party disclosures (continued)

	31.12.2020	31.12.2019
	BGN'000	*BGN'000*
Borrowings from related parties		
Ultimate parent company		
Korado a.s. Czech Republic	3,716	3,716

	3,716	**3,716**

Changes in borrowings is as follows:

	2020	**2019**
	BGN'000	*BGN'000*
Beginning of the year	3,716	3,716
Interest expense	65	65
Interest offset to trade receivables.	(65)	(65)
	3,716	**3,716**

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 2020 and 31 December 2019. 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

	31.12.2020	**31.12.2019**
	BGN'000	*BGN'000*
Short-term benefits	129	129
	129	**129**

17. 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:

- Corporateincome tax –until 31 December 2010;
- VAT –until 31July 2008;
- Personal income tax –until 31 December 2007;
- Social security – until 31 January 2012;30 September 2009
- 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 2020.

18. 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:

	Book value		***Fair value***	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
Financial assets				
Trade and other receivables	680	744	680	744
Related party receivables	5,313	2,752	5,313	2,752
Cash and short-term deposits	3,620	2,932	3,620	2,932

	Book value		Fair value	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
Financial liabilities				
Interest-bearing borrowings to related parties	3,716	3,716	3,716	3,716
Finance lease liabilities	213	95	213	95
Trade and other payables	2,540	2,498	2,540	2,498
Payables to related parties	132	226	132	226

The fair value of the financial instruments of the Company is is determined as the price at which a financial asset could be sold or a financial liability could be transferred in an arm's lenght 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 2020 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 operation. As of 31 December 2020 and 31 December 2019 the Company neither held nor traded in derivative financial instruments.

19. 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 summarized 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.

19. Financial risk management objectives and policy (continued)

Interest rate risk (continued)
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
		BGN'000
31 December 2020		
In EUR	+0.5%	(19)
In EUR	-1%	37

	Increase/ Decrease in interest rates	Effect on the pre-tax profit

		BGN'000
31 December 2019		
In EUR	+0.5%	(19)
In EUR	-1%	37

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 2020 and 31 December 2019 the maturity structure of the Company's financial liabilities, based on the agreed undiscounted payments, is presented below:

At 31 December 2020

	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	-	-	75	138	-	213
Trade and other payables	-	2,450	-	-	-	2,450
Payables to related parties	-	132	-	-	-	132
Interest-bearing loans and borrowings	-	-	-	3,812	-	3,812

19. Financial risk management objectives and policy (continued)

Liquidity risk (continued)

At 31 December 2019

	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	-	-	56	47	-	103
Trade and other payables	-	3,062	-	-	-	3,062
Payables to related parties	-	43	-	-	-	43
	226	-	-	3,900	-	226
Interest-bearing loans and borrowings	-	-	-	3,844	-	3,844

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 significantconcentrations of credit risk withing 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 2020.

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 90% (31 December 2019: 99) 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:

	31.12.2020	31.12.2019
	BGN'000	*BGN'000*
Existing customers		
Trade receivables	680	744
Receivables from related parties	5,313	2,752
Cash and cash equivalents		
BBB	3,620	2,932

19. Financial risk management objectives and policy (continued)

Impairment of financial assets

The Company has the following financial assets, which are subject to the expected credit loss model:

- Trade receivables for sales of inventories
- Cash and cash equivalents

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables and contract assets have been analysed on an individual basis. The expected loss rates are based on the payment profiles of sales over a period of 24 month before 31 December 2020 or 31 December 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Based on this analysis, the Company concluded that all trade receivables are paid within 60 days and no receivables were written off in the period analysed. As a result the Company has not recognised any expected credit loss from clients as at 31 December 2020 and 1 January 2021.

Cash and cash equivalents are also subject to the impairment requirements of IFRS 9, but the impairment loss was immaterial.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 120 days past due. Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

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 2020 and 2019.

The Company monitors its equity through the realized financial result for the reporting period as at 31 December 2020 and as at 31 December 2019, as follows:

	31.12.2020	**31.12.2019**
	BGN'000	*BGN'000*
Net profit	**4,596**	**4,262**

20. Reconciliation of the movements in liabilities the cash flows of which are presented in financing activity

	Borrowings	**Lease liabilities**	**Treasury shares**	**Retained earnings**	**Total**
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
At 1 January 2019	**3,716**	**195**	**-**	**6,216**	**10,127**
Cash flows	-	(105)	(61)	(3,819)	(3,985)
Interest expense	65	5	-	-	70
Profit for the year	-	-	-	4,262	4,262
Non-cash transactions	(65)	-	71	-	6
At 31 December 2019	**3,716**	**95**	**10**	**6,659**	**10,480**
At 1 January 2020	**3,716**	**95**	**10**	**6,659**	**10,480**
Cash flows	-	(98)	-	(3,822)	(3,920)
New leasing contracts		216			216
Interest expense	65	-	-	-	65
Profit for the year	-	-	-	4,596	4,596
Non-cash transactions	(65)	-	71	-	(65)
At 31 December 2020.	**3,716**	**213**	**10**	**7,433**	**11,372**

21. Events after the reporting date

Late in 2019 news first emerged from China about the COVID-19 (Coronavirus). The situation at year end, was that a limited number of cases of an unknown virus had been reported to the World Health Organization. In the first few months of 2020 the virus had spread globally and its negative impact has gained momentum. Management considers this outbreak to be a non-adjusting post balance sheet event. While this is still an evolving situation at the time of issuing these financial statements, to date there has been limited impact on the Company's sales or supply chain, however the future effects cannot be predicted. Management will continue to monitor the potential impact and will take all steps possible to mitigate any effects.

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