CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2018

(Unofficial translation of the original in Bulgarian)

CONTENTS:

CONSOLIDATED ANNUAL REPORT ON THE ACTIVITY ..... *PAGE 3*
INDEPENDENT AUDITOR'S REPORT ..... *PAGE 10*
CONSOLIDATED INCOME STATEMENT ..... *PAGE 16*
CONSOLIDATED BALANCE SHEET ..... *PAGE 17*
CONSOLIDATED EQUITY STATEMENT ..... *PAGE 18*
CONSOLIDATED CASH FLOW STATEMENT ..... *PAGE 19*
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ..... *PAGE 20*

Name of the Company:	**FILKAB AD**
Unified Identification Code:	**BG115328801**
Registered Office:	**92 Komatevsko shosse Str., Plovdiv**
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CONSOLIDATED ANNUAL REPORT ON THE ACTIVITY

Contents

1. Group's Profile
2. Share Capital of the Parent Company
3. Group's Structure (branch network, subsidiary companies)
4. Parent Company Management Bodies Information
5. Financial Position
6. Future Development Prospects for the Group
7. Environment Protection and Healthy and Safety Working Conditions
8. Management Responsibilities

1. Group's Profile

FILKAB AD (Parent company) is a joint-stock company, founded in 1999 and entered in the Commercial Register at the Registry Agency. Main activity of the Parent company and its subsidiary entities (the Group) is trade in cables and wires, electrical and automation equipment, medium-voltage electrical equipment, cable accessories, lighting fixtures, and electrical installation materials. The Group designs and manufactures lighting fixtures, electrical LV-switchboards, complete distribution systems 24kV, concrete complete transformer substations (CCTS).

In the country and the region the Parent company is a leader with its main activity – trade in cables and wires, electrical and automation equipment, medium-voltage electrical equipment, cable accessories, lighting fixtures, and electrical installation materials.

FILKAB Group offers engineering services and performs overall activities – design, manufacturing, delivery, installation, and commissioning of complete electrical and automation projects, builds substations 110kV (alone or through its subsidiary company Engineering EAD).

Among the clients and partners of the Group, there are companies operating in the sphere of electricity generation, transmission and distribution, of the telecommunications sector, companies performing electrical installation, construction, and trade activities, etc. Among those of particular importance are investors and general contractors of substantial and key projects, Bulgarian investors from small and medium-sized businesses, state companies and public associations. In 2015, Filkab AD completed the process of substantial structural change by separataing the production and design activities in two subsidiaries:

- Engineering EAD, which performs the design, manufacturing, supply, installation and commissioning of complete electrical and automation projects, as well as the design and manufacturing of metal cabinets, lighting fixtures, electrical LV-switchboards, complete distribution systems 24kV, and concrete complete transformer substations;

- FILKAB Solar Ltd., which offers engineering services, supply and construction of photovoltaic (PV) systems in various configurations – connected to the grid, autonomous and hybrid, as well as for self-consumption. The systems can be ground- or building mounted – on facades, on horizontal or inclined roofs.

In 2018 the subsidiary in Turkey, FİLKAB Solar Enerji A.Ş., in partnership with the Korean manufacturer of PV modules Hanwha Q CELLS Co., Ltd. (NASDAQ:HQCL), completed the work on several photovoltaic projects in the Republic of Turkey. PV power plant Elazig 02 (7.67 MW), Elazig 03 (5.9 MW) and Elazig 04 (8.13 MW), are located in the Elazig District, and cover an area of over 400 decares. The team of FILKAB Solar Enerji A.Ş.was responsible for the supply of materials and the construction of the electrical part of the projects.

Through its subsidiary companies (Engineering EAD, FILKAB Solar Ltd., MAKKAB DOOEL – Macedonia, and FİLKAB Solar Enerji A.Ş. – Turkey), as well as individually, FILKAB continues to develop actively its activities in the field of renewable energy sources (RES) not only providing equipment and services, but also as an EPC-contractor, offering turnkey solutions for big-scale PV projects. So far, the Parent company has participated as a main contractor and/or subcontractor in a considerable number of projects regarding energy generation from PV sources in Bulgaria, Greece, Romania, Macedonia, Cyprus, Turkey and Hungary.

In mid 2018, the Parent company registered a subsidiary on the territory of Hungary - FILKAB Solar HU Kft, Budapest. Within just half a year since its foundation, the Hungarian company has realized its first major deals on the local market, including design, delivery and installation of concrete transformer substations and medium voltage substations, as well as complete supplies of electrotechnical materials for photovoltaic projects. FILKAB Solar HU Kft aims to participate actively on the Hungarian PV market in the role of EPC contractor, subcontractor and/or supplier of electrical equipment and materials.

Also in the reporting period 2018, the Group performed a significant complex supply of electrical materials for a large PV project in Myanmar. This transaction marks the beginning of a new export-oriented business initiative of Filkab - complete deliveries of electrical equipment under significant PV projects.

As at the date of preparation of this report, completed is a project for construction of a new underground high voltage cable line (110kV) in the town of Stara Zagora. The Group participates in this project in a partnership under the Obligations and Contracts Act with another two Bulgarian entities.

The economic situation in 2019 will continue to cause changes in the industry, in which the economic group of FILKAB AD operates. The economic growth model for 2018 is dominated by the export – i.e. sales abroad were the main reason for the growth during the year. That was also the main reason, to a certain extent, in 2015, FILKAB AD to establish FILKAB MIG d.o.o. – a subsidiary company in Serbia through which to operate on the Serbian market. In an effort to expand its activities on the foreign markets and to invest in neighboring countries, completed was the new commercial - warehouse centre on the territory of Macedonia. The investment is carried out by the subsidiary of FILKAB AD in Macedonia – MAKKAB DOOEL.

According to the forecasts of the Ministry of Finance, the GDP rate in the country for 2019 will reach growth of 3,7%. In this regard, the Company should continue its activities on the diversification of offered products and services from the rapidly growing new areas – energy efficiency solutions, new efficient lighting sources and renewable energy sources: wind, water, sun, bioenergy. FILKAB AD is developing in this direction through its participation in projects as a main contractor or subcontractor, thus obtaining know-how, establishing contacts and partnerships with external companies and organisations, working with research institutes, participating in joint manufacturing activities with them, applies with already completed projects for grants from Structural Funds and others.

The Company does not perform research and development activities.

2. Share Capital of the Parent Company

As of December 31, 2018 the registered share capital of the Parent company is at the total amount of BGN 20 000 thousand and is distributed in 2 000 000 ordinary shares at nominal value of BGN 10 per share. Shareholders are nine individuals. In 2018 transferred were shares at nominal value from two individuals to a new shareholder and eight present shareholders, also individuals, and no new shares were issued. As of December 31, 2018, the net assets of the Group are at the amount of BGN 40 766 thousand (2017: BGN 41 741 thousand).

3. Group's Structure (branch network, subsidiary companies)

The Parent company has its own branch network across the country. The headquarters and the main warehouse are located in Plovdiv. In Burgas, Varna, Sofia, Sliven and Ruse, the Parent company has representations with large showrooms and warehouses, and in the towns of Veliko Tarnovo and Plovdiv it has its own stores as well.

The Parent company holds shares in the following companies:

№	Name of company of investment based on latest legal registration	Number of shares	Carrying amount of the investment in thousands of BGN	% of equity participation
1	ENGINEERING EAD, Plovdiv	10 000	139	100.00%
2	FILKAB SOLAR OOD, Plovdiv	3 500	35	70.00%
3	MAK KAB DOOEL, Macedonia	600 000	1 168	100.00%
4	FILKAB DISTRIBUTIE S.R.L, Romania	88 000	1 222	71.40%
5	FILKAB SOLAR ENERJI A.Ş., Turkey	100 000	71	100.00%
6	FILKAB MIG DOO, Serbia	5 000	50	51.00%
7	GESPRO GREEN ENERGY S.R.L., Romania	4 500	19	100.00%
8	SOLAR REMUS S.R.L., Romania	4 498	19	99.80%
9	FILKAB SOLAR KFT, Hungary	585	38	75%
10	OTHER	-	7	4.00%-5.00%
		Total:	**2 768**	

4. Parent Company Management Bodies Information

Management bodies of the Parent company are the General Meeting of Shareholders and the Board of Directors (BoD). The Parent company is represented by an Executive Director.

As of December 31, 2018, the Board of Directors of the Parent company consists of six members, as follows:

1. Nikola Todorov Avramov, Chairman of the BoD;
2. Vasil Nikolov Madanski, member of the BoD;
3. Rumen Hristov Tsankov, member of the BoD;
4. Margarit Stefanov Georgiev, member of the BoD;
5. Lachezar Manolov Manolov, member of the BoD;
6. Atanas Ivanov Tanchev, member of the BoD - Executive Director.

The operational management of the Parent company is carried out by:

1. Executive Director;
2. Department Directors;
3. Unit Managers;
4. Analytical Specialists and Administration.

The activity of the Parent company is divided into the following three areas:

1. Trade activity – which is of key importance to the company and is 80% of the total volume;
2. Production and project activity – covering 20% of the total volume;
3. General operations.

5. Financial Position of the Group

	December 31, 2018	December 31, 2017	Change
Revenue	84 824	84 497	0.4%
Profit/(loss) from operating activities, net	53	621	-91.5%
Assets	88 074	83 885	5.0%
Liabilities	47 308	42 144	12.3%
Equity	40 766	41 741	-2.3%
Current assets	57 137	52 208	9.4%
Current liabilities	44 721	39 144	14.2%
Current liquidity ratio	1.28	1.34	-4.5%
Quick ratio	0.54	0.58	-6.9%
Capital utilization	46.00%	50.00%	-8.0%
Return on assets	0.06%	0.74%	-91.9%
Equity profitability ratio	0.13%	1.49%	-91.3%
Equity to debt ratio	0.46	0.50	-8.0%
Debt to equity ratio	2.16	2.00	8.0%
Assets turnover	0.96	1.00	-4.0%
Working capital, net	12 416	13 064	-5.0%
Profit margin (net profit/ net revenue)	0.001	0.007	-91.5%

6. Financial Instruments, Financial Risk Management

The Company's activities expose it to a variety of financial risks – market risk (comprising currency risk, interest rate risk and price risk); credit risk and liquidity risk. The Group does not use derivative financial instruments to manage financial risks.

Market risk

Currency risk

The Group performs transactions denominated in foreign currency primarily originated in EUR. As the EUR is fixed to the Bulgarian Lev, the Group is not exposed to currency risk. Taking into account the low volume of foreign currency transactions, the risk is minimal.

Interest rate risk

As the Group has no significant interest bearing assets, the incomes and operating cash flows of the Group are not affected from the changes in market interest rates. Financial instruments that potentially expose the Group to interest rate risk are primarily the bank loans and finance lease contracts. As the contracted interest rate of the utilized loans is with a fixed markup over EURIBOR or SOFIBOR, the Group is potentially exposed to cash flow risk.

Price risk

The Group does not own any assets, the prices of which are dependent on the international market prices, so it is not exposed to price risk.

Credit risk

Financial assets that potentially expose the Group to credit risk are primarily its trade receivables. The Group has a significant concentration of credit risk in certain clients. Basically, the Group is exposed to credit risk, in case the clients do not meet their payment obligations. The Group's policy is directed to sales of goods on deferred payment to customers having favorable credit reputation, based on assessment of the customer's credit history and creditworthiness, expected sales volumes to the client, client's reputation, reference from contactors and others. For clients on deferred payment credit limits are defined, within which the clients are entitled to purchase goods on deferred payment. The credit limits are monitored by the Group's trade directorate on an ongoing basis.

Liquidity risk

Liquidity risk is the risk that the Group may have difficulties in paying its financial obligations. To manage this risk the management keeps an optimal level of quick liquid assets (cash and receivables), as well as the potential opportunity to demand additional credit line.

7. Future Development Prospects for the Group

Maintaining and expanding the Group's positions on the markets can be achieved by focused work in the following areas:

1. Identifying new potential customers in and out of the country. Attracting new loyal customers, as well as keeping the current ones;
2. Increasing sales through large construction and engineering companies and organisations. Cooperation and joint participation in the implementation of infrastructure and energy projects (water treatment plants, energy projects, new renewable energy sources, public infrastructure and others);
3. Maintaining consistent policy with trade companies, loyal to the Group and positioned in key regions, and taking targeted action to assist them;
4. Research, establishment of initial contact and initiation of regular deliveries to investors and contractors in projects financed under the Operational Programmes of the European Structural Funds;
5. Validating a new organisational structure and increasing the efficiency of business processes by fully exploiting the opportunities of the new ERP-system to gain competitive advantage in our business sphere;
6. Work permanently on the discovery and implementation of new products and solutions in the trade activities with high profit margins, outstripping competitors on the market;
7. Expanding the region presence of the Group.

8. Environment Protection and Healthy and Safety Working Conditions

The Group has implemented an integrated system for management of quality, environment and healthy and safety working conditions for which the Parent company has the following certificates: ISO 9001:2015; ISO 14001:2015 and BS OHSAS 18001:2007, issued by the Bureau Veritas Certification.

9. Disclosure of information pursuant to the Commerce Act

In 2018 Filkab AD has no contracts under Art. 240b of the Commerce Act..

As of December 31, 2018, members of the Board of Directors posses Company's shares, as follows:

- Rumen Hristov Tsankov – 352 638 shares;
- Lachezar Manolov Manolov – 382 876 shares;
- Vasil Nikolov Madanski – 102 126 shares;
- Margarit Stefanov Georgiev – 102 126 shares;
- Nikola Todorov Avramov – 57 427 shares.

In 2018 members of the Board of Directors have transferred the following number of shares:

- Rumen Hristov Tsankov – 200 000 shares;

As at December 31, 2018 the participation of members of the Board of Directors in companies as general partners, having more than 25 percent of the capital of another company, as well as their participation in the management of other companies or cooperatives as procurators, managers or members of management bodies is, as follows:

- Rumen Hristov Tsankov – "Filkom 4" EOOD - participation in the capital with more than 25% and Managing Director;
- Lachezar Manolov Manolov – "Nilex – 2" Ltd. - participation in the capital with more than 25% and Managing Director;
- Vasil Nikolov Madanski – "Electrum" EOOD - participation in the capital with more than 25%;
- Margarit Stefanov Georgiev – "Fenix Sporting Goods" Ltd. - participation in the capital with more than 25% and Managing Director;
- Atanas Ivanov Tanchev – "Electro Ins" Ltd. - participation in the capital with more than 25% and Managing Director, "Engineering" EAD – member of the Board of Directors.

10. Events after the date of preparation of the annual financial statements

As at the date of preparation of these consolidated financial statements, renegotiated were the maturity terms for repayment of revolving credit line from a Bulgarian bank at the total limit of EUR 1 812 thousand from February - May 2019 to February - May 2020.

11. Management Responsibilities

Management acknowledges that an adequate and consistent accounting policy has been applied and that the financial statements as of December 31, 2018 are prepared following the prudence principle in the valuation of assets, liabilities, income and expenses. Management is responsible for the accuracy of its books of account, for the safekeeping of assets and for the prevention and detection of fraud and other errors.

Atanas Tanchev
Executive Director
June 20, 2019
Plovdiv

INDEPENDENT AUDITOR'S REPORT

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This document is a translation of the original in Bulgarian, in case of divergence the Bulgarian original is prevailing.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
FILKAB JSC

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of FILKAB JSC and its subsidiary companies (the Group), which comprise the consolidated balance sheet as at 31 December 2018, and the consolidated income statement, consolidated equity statement and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with National Accounting Standards (NAS) applicable in Bulgaria.

Basis for Opinion

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

Emphasis of Matter

We draw attention to note 2.1.1 to the consolidated financial statements, which describes changes in the financial reporting framework. Until 31 December 2017, the Group had prepared its financial statements in accordance with International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB) and adopted by the European Union Commission. As of January 1, 2008, according to a decision of the Group's management, the financial reporting framework was changed from IFRSs to NAS, as the effective date for transition to NAS is 1 January 2017.

Our opinion is not qualified in respect of this matter.

A member of Nexia International

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

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with NAS applicable in Bulgaria and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Groups ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the management report, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines of the professional organization of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act applicable in Bulgaria.

Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

a) The information included in the management report referring to the financial year for which the consolidated financial statements have been prepared is consistent with those consolidated financial statements.
b) The management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Anda Consulting Ltd.

Dimitar Bazlyankov
Registered auditor
Managing Director

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 128
АНДА КОНСУЛТИНГ ООД

June 20, 2019
Sofia

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2018

CONSOLIDATED INCOME STATEMENT
for the year ended December 31, 2018
All amounts are in thousands of BGN, unless otherwise stated

	Note №	December 31, 2018	December 31, 2017
Revenue			
Revenue from sales	*5*	84 824	84 497
Other operating income	*6*	442	573
Total operating revenue		85 266	85 070
Finance income	*13*	155	50
Total revenue		85 421	85 120
Expenses			
Change in finished goods and work in progress		937	(561)
Materials expenses	*7*	(10 990)	(11 283)
Hired services	*8*	(4 508)	(2 864)
Personnel expenses	*9*	(7 003)	(6 530)
Depreciaition and amortization expenses	*10*	(1 960)	(1 851)
Cost of goods sold	*11*	(59 992)	(59 252)
Other expenses	*12*	(888)	(872)
Total operating expenses		**(84 404)**	**(83 213)**
Finance costs	*13*	(855)	(1 120)
Total expenses	*13*	(85 259)	(84 333)
Accounting profit		**162**	**787**
Income tax expense	*14*	(109)	(166)
Profit for the period		53	621
Profit for the period, atributable to:			
Equity holders of the Parent company		30	608
Minority interest		23	13
		53	621

Approved for issuance on June 20, 2019.

Atanas Ivanov Tanchev
Executive Director

Silviya Vasileva Kostova
Compiler

Dimitar Bazlyankov
Registered Auditor
Managing Director
Anda Consulting Ltd
June 20, 2019, Sofia

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 128 АНДА КОНСУЛТИНГ ООД

(The accompanying notes from page 20 to page 57 are an integral part of these financial statements)

CONSOLIDATED BALANCE SHEET
for the year ended December 31, 2018
All amounts are in thousands of BGN, unless otherwise stated

	Note №	December 31, 2018	December 31, 2017
ASSETS			
Non-current assets			
Tangible fixed assets	*15*	30 557	31 398
Intangible assets	*16*	307	220
Investments in entities	*17*	7	7
Deferred tax assets	*14*	66	52
		30 937	**31 677**
Current assets			
Inventories, net	*19*	32 466	29 085
Trade and other receivables	*20*	23 085	21 759
Green certificates	*27*	301	301
Cash	*21*	1 273	1 050
Income tax recoverable	*22*	12	13
		57 137	**52 208**
TOTAL ASSETS		**88 074**	**83 885**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	*28*	20 000	20 000
Reserves	*29*	8 556	8 760
Retained earnings		11 749	11 981
Profit for the period		30	608
		40 335	**41 349**
Minority interest	*30*	**431**	**392**
Total equity		**40 766**	**41 741**
Non-current liabilities			
Trade and other liabilities	*23*	422	423
Bank loans	*24*	1 608	2 089
Finance lease liabilities	*25*	266	225
Retirement benefits obligation	*26*	291	263
		2 587	**3 000**
Current liabilities			
Trade and other payables	*23*	18 079	15 607
Bank loans	*24*	26 080	22 975
Finance lease liabilities	*25*	254	158
Income tax liabilities	*22*	7	103
Deferred income	*27*	301	301
		44 721	**39 144**
TOTAL EQUITY AND LIABILITIES		**88 074**	**83 885**

Approved for issuance on June 20, 2019.

Atanas Ivanov Tanchev
Executive Director

Silviya Vasileva Kostova
Compiler

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 128 АНДА КОНСУЛТИНГ ООД

Dimitar Bazlyankov
Registered Auditor
Managing Director
Anda Consulting Ltd
June 20, 2019, Sofia

(The accompanying notes from page 20 to page 57 are an integral part of these financial statements)

CONSOLIDATED EQUITY STATEMENT
for the year ended December 31, 2018
All amounts are in thousands of BGN, unless otherwise stated

	Equity attributable to equity holders of the Parent company				Minority interest	Total equity
	Share capital	Reserves	Accumulated profit	Total		
Balance at January 1, 2017	**20 000**	**8 927**	**12 612**	**41 539**	**350**	**41 889**
Changes in equity for 2017						
Profit for the period	-	-	608	**608**	13	**621**
Foreign currency translations	-	(198)	-	**(198)**	42	**(156)**
Reserves	-	31	(31)	-	-	-
Dividend distribution	-	-	(600)	**(600)**	(13)	**(613)**
Balance at December 31, 2017	**20 000**	**8 760**	**12 589**	**41 349**	**392**	**41 741**
Changes in equity for 2018						
Profit for the period	-	-	30	**30**	23	**53**
Foreign currency translations	-	(244)	-	**(244)**	23	**(221)**
Reserves	-	40	(40)	-	-	-
Dividend distribution	-	-	(800)	**(800)**	(7)	**(807)**
Balance at December 31, 2018	**20 000**	**8 556**	**11 779**	**40 335**	**431**	**40 766**

Approved for issuance on June 20, 2019.

Atanas Ivanov Tanchev
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ОДИТОРСКО ДРУЖЕСТВО София Рег. № 128 АНДА КОНСУЛТИНГ ООД

(The accompanying notes from page 20 to page 57 are an integral part of these financial statements)

CONSOLIDATED CASH FLOW STATEMENT
for the year ended December 31, 2018
All amounts are in thousands of BGN, unless otherwise stated

	December 31, 2018	December 31, 2017
A. Cash flows from operating activities (note 31)	**553**	**2 611**
Income taxes paid	(218)	(98)
Net cash, generated from operating activities:	**335**	**2 513**
B. Cash flows from investing activities		
Purchase of tangible fixed assets	(745)	(473)
Purchase of intangible fixed assets	(225)	(36)
Proceeds from sale of tangible fixed assets	2	108
Net cash, used in investing activities:	**(968)**	**(401)**
C. Cash flows from financing activities		
Proceeds from borrowings	3 643	1 592
Repayments of borrowings	(1 019)	(1 945)
Payments on a finance lease	(244)	(170)
Interest paid, net	(607)	(709)
Payments of bank charges, commissions and others	(157)	(165)
Dividends paid	(760)	(570)
Net cash, used in financing activities:	**856**	**(1 967)**
Net increase in cash and cash equivalents for the period	**223**	**145**
Foreign currency recalculations differences	-	-
Cash and cash equivalents at the beginning of the period	**1 050**	**905**
Cash and cash equivalents at the end of the period (note 21)	**1 273**	**1 050**

Approved for issuance on June 20, 2019.

Atanas Ivanov Tanchev
Executive Director

Silviya Vasileva Kostova
Compiler

Dimitar Bazlyankov
Registered Auditor
Managing Director
Anda Consulting Ltd
June 20, 2019, Sofia

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 128 АНДА КОНСУЛТИНГ ООД

(The accompanying notes from page 20 to page 57 are an integral part of these financial statements)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

1. Legal status and business activity

FILKAB AD (the Parent company) is a joint-stock company, registered and settled in the Republic of Bulgaria, Unified Identification Code 115328801. The seat and registered office of the Parent company is 92, Komatevsko shosse Str., Plovdiv 4004. As of December 31, 2018 shareholders in the Parent company are nine individuals.

Main activity of the Parent company and the subsidiary entities (the Group) is trade in cables and wires, electrical and automation equipment, medium voltage electrical equipment, cable accessories, lighting fixtures and electrical installation materials. The Group offers services for design and manufacture of lighting fixtures, low-voltage electrical switchboards, complete distribution systems 24kV (CDS) and concrete complete transformer stations (CCTS). The Group continues to actively develop its activities in the field of renewable energy sources (RES) not only providing equipment, but also in the complete construction of photovoltaic power plants, including own development designs for constructions, invertor stations and others.

These financial statements have been approved for issuance by the management of the Group on June 20, 2019.

2. Basis for preparation of the financial statements and accounting principles

2.1. General

The Group keeps its accounting records and prepares its financial statements in accordance with the requirements of the Bulgarian trade and accounting legislation. Since the beginning of 2005 National Standards for Financial Reporting of Small and Medium-sized Enterprises are enforceable in Bulgaria, enacted by Ordinance of the Council of Ministers № 46 dated March 21, 2005, amended and supplemented in October, 2007. By Ordinance № 394 from December 30, 2015, adopted are changes in the name of the standards, the wording "Standards for Financial Reporting of Small and Medium-sized Enterprises" is replaced with "Accounting Standards". By the ordinance introduced are the provisions of Directive 2013/34/EU dated June 26, 2013 of the European Parliament and the Council regarding annual financial statements, consolidated financial statements and related reports of certain types of companies and regarding amendments to Directive 2006/43/EC of the European Parliament and the Council repealing Directives 78/660/EEC and 83/349/EEC. The National Accounting Standards (NAS) are enforceable from January 1, 2016.

These financial statements are prepared in accordance with NAS, applicable as of the balance sheet date.

Some items names, as well as the order of presentation of items in the balance sheet and the income statement have been changed in order to better the presentation of the Group's activity and operating results.

These financial statements are consolidated financial statements, prepared in accordance with the accounting legislation in the Republic of Bulgaria and *Accounting Standard № 27 - Consolidated Financial Statements and Accounting for Investments in Subsidiaries* (AS 27).

These consolidated financial statements are prepared for general purpose and provide information for the financial position, results and cash flows, generated by the Group for the year ended December 31, 2018.

These consolidated financial statements are prepared on the historical cost basis.

2.1.1. Changes in financial reporting framework

Until December 31, 2017, the Group had prepared its financial statements as such for the purposes of annual financial statements in accordance with the Accountancy Act (AA) and International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB) and adopted for application by the European Union Commission. IFRSs comprise IFRSs, IASs, Interpretations of the Standard Interpretations Committee and Interpretations of the IFRS Interpretations Committee.

As of January 1, 2008, according a decision of the Group's management, the financial reporting framework was changed from IFRSs to NAS, as the effective date for transition to NAS is January 1, 2017. As the financial statements as at December 31, 2017 are the most recent financial statements prepared under IFRS, pursuant to *AS № 42 - First-time Adoption of National Accounting Standards*, a reconciliation of the balance sheet items and the items in the income statement and the statement of changes in equity between the financial statements for 2017, prepared under the two financial reporting frameworks, is presented in note 34 below.

2.2. Subsidiary companies and consolidation

These financial statements are consolidated financial statements, prepared in accordance with the accounting legislation in the Republic of Bulgaria. The Parent company has control over other entities, therefore pursuant to the Accountancy Act in the Republic of Bulgaria and based on AS 27 it should prepare consolidated financial statements.

A subsidiary is an entity controlled by another company. Control is presumed to exist when the investor has the right to manage the subsidiary's activity in odred to obtain economic benefits. The control could be (i) direct, through ownership of more than half of the voting shares from the share capital of another entity, and (ii) indirect, through ownership of more than half of the voting shares of another entity, realized jointly or through subsidiaries and/or under contractual and/or factual arrangements for the control realization.

The acquisition of subsidiaries is accounted for using the purchase method. At their acquisition, the identifiable assets and liabilities of the respective subsidiaries are measured at their fair values at the acquisition date. The difference between the initial cost of the acquisition (the cost of the investment in the subsidiary) and the parent company's interest in the fair value of the net assets (identifiable assets less identifiable liabilities) of the subsidiary as at the date of acquisition is recognized as positive or negative goodwill (see also note 2.3).

When determining the fair values of the acquired identifiable assets and liabilities, the valuation principle according to the requirements of *AS № 22 - Reporting of Business Combinations* is applied.

2.2. Subsidiary companies and consolidation (continued)

As of December 31, 2018 and 2017 the Group includes the following subsidiary companies, which financial statements are consolidated:

Subsidiary	Activity	Share as of December 31, 2018 %	Share as of December 31, 2017 %
Engineering EAD	Installation	100.00%	100.00%
Filkab Solar OOD	Design and construction of electrical equipment	70.00%	70.00%
Mak Kab DOOEL, Macedonia	Trade	100.00%	100.00%
Filkab Distribution S.R.L, Romania	Trade	71.43%	71.43%
Filkab Solar Energy AS, Turkey	Design and construction of electrical equipment	100.00%	100.00%
Filkab MIG DOO, Serbia	Trade	51.00%	51.00%
Gespro Green Energy S.R.L, Romania	Maintenance of PV park	100.00%	100.00%
Solar Remus S.R.L, Romania	Maintenance of PV park	99.80%	99.80%
Filkab Solar KFT, Hungary	Installation	75.00%	-

In 2018, registered is a new subsidiary company – Filkab Solar KFT, Hungary.

Foreign subsidiaries in the Group prepare and present their financial statements in accordance with their national accounting standards. In case of identified differences between reporting of transactions in accordance with NAS and the applicable national standards, appropriate consolidation adjustments and reclassifications for unification of the accounting policies are performed.

The financial statements of foreign subsidiaries are translated into the presentation currency of the Parent company in accordance with *AS № 21 - Effects of Changes in Foreign Exchange Rates* (see also note 2.4). For the purposes of consolidation the financial statements of the subsidiaries and the separate financial statements of the Parent company are combined on a line by line basis for assets, liabilities, equity, income and expenses.

For the purposes of consolidation eliminated are all intragroup balances as at December 31, 2018 and 2017, transactions performed within the Group, as well as intragroup profits and losses including the unrealized ones. Eliminated is the share owned by the Parent company in the share capital of the subsidiaries with the carrying amount of the investment in the respective company.

2.2. Subsidiary companies and consolidation (continued)

The results of operations of the subsidiary companies, acquired or left during the respective period are included in the consolidated income statement since the acquisition date and to the date on when the control is lost.

The minority interests, presented in the consolidated financial statements, are determined in accordance with *AS № 22 - Reporting of Business Combinations* and present the portion of net assets of subsidiaries attributable to interests that are not owned directly or indirectly through other subsidiaries of the Parent company. The minority interest as at the date of the business combination is calculated as a share of the fair values of the acquired identifiable assets and liabilities.

Profit or loss are attributable to the owners of the Parent company and to the minority interests.

2.3. Goodwill

Positive purchase goodwill presents the excess of the acquisition cost over the Group's share in the fair values of the identifiable assets and liabilities of the acquired company at the acquisition date and is recognized as an asset in the balance sheet as a positive value. Positive goodwill is not recognized and respectively the amounts of the identifiable assets and liabilities are adjusted, when the goodwill has incurred as a result of: (i) understatement of the identifiable assets; (ii) overestatement of identifiable liabilities or (iii) omission of identifiable assets.

Goodwill is amortized on a systematic basis over its useful life. The amortization for each period is recognized as an expense.

Negative purchase goodwill presents the excess of the Group's share in the fair values of the identifiable assets and liabilities of the acquired company over the acquisition cost at the acquisition date and is recognized as an asset in the balance sheet as a negative value.

Negative goodwill, identified as sufficiently reliable future identifiable losses and expenses, that do not present identifiable liabilities at the acquisition date, is recognized as income in the income statement in the period when the expected losses and expenses are recognized.

When the negative goodwill cannot be determined as identifiable expected future losses and expenses, that are reliably identified at the acquisition date, the negative goodwill is recognized as income in the income statement, as follows: (i) the amount exceeding the fair values of the identifiable non-monetary assets, is immediately recognized as income for the acquiring company; (ii) the amount, that does not exceed the fair values of the identifiable non-monetary assets, is recognized as income systematically for the acquired company on a straight line basis over a period, determined based on the remaining average useful life of the acquired identifiable depreciable assets; when there is no identifiable depreciable assets, the term shall be determined by the acquiring company within 5 to 10 years, except when the term of the control over the activity of the acquired company (regardless of the reasons) is less than 5 years.

2.4. Presentation currency, and foreign currency transactions

Presentation currency

The Group prepares its consolidated financial statements in the national currency of the Republic of Bulgaria - the Bulgarian Lev.

These consolidated financial statements are presented in thousand Bulgarian Levs (BGN'000).

Foreign currency transactions

Transactions in foreign currency are initially recorded at the official rate of exchange of the respective national bank as of the date of the transaction. The foreign exchange rate differences, arising upon the settlement of these monetary positions or at restatement of these positions at rates, different from those when initially recorded, are reported in the profit or loss for the respective period.

As of December 31, 2018 and 2017 the monetary positions denominated in foreign currency are stated at the closing exchange rate of the Bulgarian National Bank (BNB). Since 1999 the Bulgarian Lev is pegged to the EURO at the rate of 1.95583 BGN/EUR. The closing exchange rate of the Bulgarian lev to the Romanian leu (new), Macedonian denar and Serbian dinar (calculated using the closing exchange rate of the Macedonian and Serbian national banks to the euro), the Hungarian forint and Turkish lira (new) for the periods, for which these consolidated financial statements are prepared are, as follows:

Foreign currency	December 31, 2018	December 31, 2017
Romanian leu	1 RON = 0.4194 BGN	1 RON = 0.4198 BGN
Macedonian Denar	1 MKD = 0.0318 BGN	1 MKD = 0.0318 BGN
Serbian dinar	1 RSD = 0.0166 BGN	1 RSD = 0.0165 BGN
Hungarian forint	1 HUF = 0.0061 BGN	1 HUF = 0.0063 BGN
Turkish lira	1 TRY = 0.3228 BGN	1 TRY = 0.4302 BGN

Translation of foreign operations

Assets and liabilities of foreign operations, including positive goodwill and adjustments to fair value, arising on acquisition, are translated into Bulgarian lev at the exchange rate, effective as at the date of the financial statements. Income and expenses of foreign operations are translated into Bulgarian lev as at the date of transaction. For 2018 and 2017, in accordance with *AS № 21 Effects of Changes in Exchange Rates*, an average exchange rate is used for recalculating the foreign operations results.

Exchange rate differences, arising on translation, are recognized as a separate item of equity as reserves from foreign currency adjustments, where they are reported to the disposal of the foreign operation.

For the purposes of presenting these consolidated financial statements, exchange differences arising on a monetary item, that is essentially a part of the net investment of the reporting entity in a foreign operation, are initially recognized as a separate item in equity and are reported as profit or loss after the disposal of the net investment.

2.5. Accounting estimates and reasonable assumptions

The preparation of the financial statements in accordance with the NAS requires management to make certain accounting estimates and reasonable assumptions to assess the value of some assets, liabilities, revenues and expenses. These estimates and assumptions are based on the best estimates of management, taking into account historical experience and analysis of all factors of significance in the circumstances as of the date of the financial statements. The actual results could differ from those estimates, presented in these consolidated financial statements (see also note 4).

3. Definition and valuation the financial statements items

3.1. Tangible and intangible fixed assets

The tangible fixed assets are identifiable non-financial resources, acquired and owned by the Group, which:

- have physical substance;
- are held for use in the production and/or supply/sale of assets or services, for rental to others, or for administrative or other purposes;
- are expected to be used during more than one period;
- have value that is over the materiality value threshold at the amount of BGN 700, defined by the Group.

The value of the tangible fixed assets is based on their acquisition price, which is the purchase price along with all costs incurred in bringing the asset in use less accumulated depreciation and subsequent impairment loss (if any) (see also note 3.2).

The intangible fixed assets are identifiable non-monetary assets without physical substance. The intangible fixed assets are initially measured at cost. After initial recognition they are measured at cost less accumulated amortization and impairment loss, if any.

Any subsequent expenditure incurred is capitalized only if it increases the economic benefits of the respective asset. All other subsequent costs are reported as current expenses in the income statement.

The depreciation and amortization is charged by the Group over the estimated useful life of the fixed assets, which is set by the management of the Group for each group of assets. The Group has approved an depreciation/amortization schedule upon individual depreciation rates, in accordance with the enforceable Bulgarian legislation.

The Group has adopted the straight-line method of depreciation.

The useful life of the fixed assets is defined in terms of the asset's expected utility to the Group, and is a matter of judgment based on the experience with similar assets. The useful life of the tangible and intangible fixed assets in years is estimated, as follows:

Useful life	**2018**	**2017**
Administrative and commerce buildings	25 years	25 years
Machines and equipment	4-8 years	4-8 years
Computers and software	2 years	2 years
Transport vehicles	4- 10 years	4- 10 years
Office equipment	7 years	7 years
Intangible fixed assets	2-7 years	2-7 years

3.1. Tangible and intangible fixed assets (continued)

Depreciation of an asset begins in the month, following the month in which the asset is available for use and ceases at the end of the month when the asset is derecognized.

The depreciation/amortization method applied to an asset and its estimated useful life are reviewed at least at each financial year-end, and changes are made to reflect the future usage of the asset or the expected pattern of consumption of the future economic benefits embodied in the asset. Such changes, if any, in the depreciation/amortization method and assets' useful life, are accounted for prospectively as a change in the accounting estimates in accordance with *AS 8 Net gains or losses for the period, fundamental errors and changes in accounting policies*.

Depreciation/amortization is not charged for land, assets under construction, fully depreciated assets and fixed assets which are temporarily out of use.

3.2. Impairment of tangible and intangible fixed assets

As of the date of preparation of the financial statements, the management of the Group reviews its tangible and intangible fixed assets to determine whether there is any indication for impairment of these assets. If any such indication exists, the recoverable amount of the respective asset is estimated. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit, to which the asset belongs.

The recoverable amount is the higher of the asset's fair value less costs to sell the asset and its value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. Impairment loss is recognized in profit or loss.

The amortized amount of the impaired asset is adjusted for future periods, so that the new carrying amount of the asset can be allocated based on the rest of its useful life after deducting the residual value, if any.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount. The increase of the carrying amount can not exceed the carrying amount that would have been determined had no impairment loss been recognized for the respective asset in prior periods. A reversal of an impairment loss is recognized in profit or loss.

3.3. Inventories

Inventories are assets held for sale in the ordinary course of business of the Group, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are stated at the lower of cost and net realizable value. Cost comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories in their present location and condition– transportation, customs duties and other similar costs. Net realizable value represents the estimated selling price less all estimated costs to be incurred in completing the production and selling.

3.3. Inventories (continued)

The costs on conversion of inventories include costs directly attributable to the units of production. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. The costs of conversion of each product, which are not separately identifiable, are allocated between the products on a rational and consistent basis.

Upon consumption, the cost of inventories is defined by application of the weighted average cost method.

3.4. Financial instruments

Financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets and liabilities are recognized in the balance sheet only when the Group becomes a party to the contractual provisions of the instrument.

Financial assets/liabilities are classified according the purpose of acquisition/purpose enter into, and when financial assets/liabilities are part of a portfolio, they are classified according the purpose that the Group has set to achieve with the portfolio.

The Group classifies the financial assets and liabilities in the current and prior reporting periods into the following categories: loans and receivables granted by the Group (loans granted and trade and other receivables) and loans and liabilities, initially originating in the Group (interest bearing loans, trade and other liabilities, and liabilities under lease contracts). The classification depends on the purpose and term of the respective contract.

On initial recognition financial assets and liabilities are measured at fair value of the investment made or received for it plus transaction costs for dealing with financial instruments.

The subsequent mesurment of the financial assets and liabilities is disclosed in the notes for the separate financial instruments below.

The Group derecognises all or part of its financial instruments (including those arising from collaterals) only when the contractual rights or obligations on them are redeemed. Paying off (completely or partially) of contractual rights or obligations, arising from a financial instrument exists on:

- realization of the rights or settlement of the obligations;
- denial of rights or cancellation of obligations;
- expiration of the period for realization of the rights or settlement of the obligations.

The effective interest method is a method of calculating the amortized cost of a financial asset or a liability (or group of financial assets/liabilities) and of allocating the interest expense or interest income over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability.

3.4. Financial instruments (continued)

3.4.1. Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are originated when the Group provides cash, goods or services, having no intention to trade the receivable incurred. These receivables are stated at their amortized cost, calculated based on the effective interest rate method. For current receivables, which are expected to be settled within normal credit terms, the amortized cost is approximately equal to their nominal value.

3.4.2. Cash

For the purposes of cash flow presentation, cash represents cash on hand and cash in bank accounts of the Group and other high-liquidity investments, that could be converted in certain cash amount and are subject to insignificant changes in value. For the purposes of cash flow presentation, cash comprises unrestricted cash funds. Cash receipts from customers and cash payments to suppliers are presented in the cash flow statement as their gross amounts, including value added tax (VAT). Cash receipts and payments on revolving bank loans, overdrafts and factoring are presented net.

3.4.3. Impairment of financial assets

As of the date of preparation of the financial statements the Group's management assesses whether there is any objective evidence for impairment of financial assets, reported at amortized cost. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset, resulting in a decrease of the estimated future cash flows. It may not be possible to identify a single, discrete event, rather than a combined effect of several events that may have caused the impairment.

Trade and other receivables

The Group recognizes impairment of trade receivables, whether there is objective evidence, that the Group would not be able to collect all amounts due at their maturity date. The Group considers as indications for potential impairment significant financial problems of the debtor, the probability that the debtor will be a subject to a bankruptcy procedure or non-fulfillment of the contract terms. If any of these indications for impairment occurs, the impairment loss is calculated as a difference between the carrying amount and the present value of the expected future cash flows, discounted by the original effective interest rate for similar assets. Current receivables are not discounted if the discounting effect is immaterial. Impairment is recorded by using a separate impairment account, which is shown as a reduction to receivables in the balance sheet, and the impairment expenses are stated as Other expenses in the income statement. If a receivable is non-collectable and there is a recognized impairment loss for it, the receivable is written off by decrease of the respective allowance account. The recovery of the loss from impairment of trade receivables is reported as a decrease of the item, in which the impairment has been previously recorded.

3.4. Financial instruments (continued)

3.4.4. Trade and other payables

Trade and other payables incurred as a result of purchases of goods and services, which are not classified as financial liabilities measured at fair value through profit or loss, are stated in the balance sheet at amortized cost, calculated based on the effective interest rate. For current payables, which are expected to be settled within normal credit terms, the amortized cost is approximately equal to their nominal value.

3.4.5. Borrowings

Loans are initially recorded at the fair value of the proceeds received, net of transaction costs. After initial recognition, loans are measured at amortized cost, and any difference between the initial cost and maturity cost is recognized in the profit or loss over the loan period, using the effective interest rate method. If no transaction costs have been incurred in negotiating an interest bearing loan, the loan is reported at nominal value, which is equal to its amortized cost. This also applies to bank overdrafts, where the borrower is entitled to multiple utilizations or repayments of the borrowed funds within a pre-determined overdraft limit.

Finance costs, including direct issue costs are included in profit or loss, using the effective interest rate method, except for transaction costs on bank overdrafts, which are recognized in profit or loss on a straight line basis over the overdraft period (see also note 3.11).

Loans are classified as current liabilities, unless the Group has an unconditional right to defer repayment of the liability for at least twelve months after the end of the reporting period.

3.4.6. Factoring

The Group performs transactions for assignment of trade receivables to a third party, which is a specialized factoring company (factor). Essentially these transactions are factoring of trade receivables with right of recourse.

The Group does not derecognise these financial assets until the cash flows from the end customer are not received, as not all risks and rewards, related to the trade receivables are transferred along with the transfer of the financial assets. Under the terms of the contract with the factor, the Group also recognizes financial liabilities, related to the fees and commissions. These liabilities are recognized at their fair value, as they are not subject to subsequent revaluation due to their short-term nature.

Upon receipt of the cash flows by the factor, the cash flows received are recorded as a current liability. Upon receipt of the cash flows related to trade receivable from the factor, the trade receivable is written off against the financial commitment to factor.

Trade receivables, that are a subject of the factoring agreement, are subsequently measured at their amortized cost.

This document is a translation of the original in Bulgarian, in case of divergence the Bulgarian original is prevailing

3.4. Financial instruments (continued)

3.4.7. Share capital

The share capital of the Group is presented at historical cost as of the date of its registration.

3.5. Deferred income and prepaid expenses

In the balance sheet of the Group deferred income and prepaid expenses comprise income and expenses that are prepaid in this period, but refer to future reporting periods - government grants (see also note 3.10), guarantees, insurance, subscriptions, rents and others.

3.6. Income tax

Income tax expense comprises of current income tax and deferred tax.

The tax currently payable is based on the taxable profit (tax loss) for the period, by the application of the effective tax rate according to the tax legislation as of the date of the financial statements. Deferred tax is the income tax expected to be payable (recoverable) on taxable (deductible) temporary differences. Temporary difference is the difference between the carrying amount of an asset or liability and the corresponding tax basis.

Deferred income taxes are calculated using the balance sheet liability method. Deferred tax liabilities are recognized for all taxable temporary differences, whereas deferred tax assets are recognized for deductible temporary differences, only to the extent that it is probable that sufficient taxable profit will be generated by the Group against which the deductible temporary difference can be utilized.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized, based on the information available for the Group at the date of preparation of the financial statements. Deferred tax is recognized in profit or loss, except when it relates to items reported directly in equity, in which case the deferred tax is also reported in equity.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that the Group might recover the assets.

Deferred tax assets and liabilities are reported net when they are subject to a unified tax regime.

In accordance with the tax legislation enforceable for 2018 and 2017, the tax rate applied for the calculation of the current tax liabilities of the Group is 10%. The enforceable for 2019 tax rate of 10% is applied in the calculation of the amount of deferred tax assets and liabilities as of December 31, 2018. Pursuant to the requirements of the tax legislation for 2018, incomes of the subsidiaries abroad are taxed as follows: Macedonia - 10%; Romania - 16%; Turkey - 20%; Serbia - 15%, Hungary - 10%.

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3.7. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Assets held under finance leases are recognized at the lower of the present value of the minimum lease payments and their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet of the Group as a finance lease obligation amounting to the total amount of the lease payments, and the difference between the value at which the assets are recognized and the total amount of the lease payments, as prepaid financial expenses.

Lease payments are allocated between principal and interest, so as to achieve a constant interest rate over the remaining liability on the principal. Interest is recognized in profit or loss.

For assets acquired under finance leases depreciation expense is recognized as the Group's policy regarding depreciation of assets acquired under leases, is no different from the policy for other depreciable assets, owned by the Group.

Leases, whereas a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Rental costs under operating lease contracts, net of any incentives received by the lessor, are recognized in profit or loss on a straight line basis over the term of the respective lease contract.

3.8. Employee benefits

Defined contributions plans

The governments of the respective countries where the Group operates, are responsible for the security of pensions under defined contributions plans. The entities within the Group have an obligation to transfer monthly installments under these plans for all employees at an amount and over a sum defined in the local regulations, and the contributions are recognized in the income statement at the time of their incurrence. According to all local legislations a guiding principle is the principle of accrual, not the effective salaries payment.

Unused paid annual leaves accruals

According to the legislations in the countries, where the Group has established subsidiaries, the unused paid leave during the year can be used in subsequent reporting periods. Therefore, as of the balance sheet date the Group recognizes as a liability the undiscounted amount of the estimated expenses for unused paid annual leaves, expected to be paid to employees in future reporting periods with respect of their past service.

As of the end of each reporting period the Group recognizes as a liability the undiscounted amount of the estimated expenses for unused paid annual leaves, expected to be paid to employees in future reporting periods with respect of their past service.

3.8. Employee benefits (continued)

Retirement benefits

Legal provisions regarding retirement benefits are different for the countries, where the Group operates. Upon termination of an employee labour contract at retirement in some of the countries, the Group is liable to indemnify the respective employee to certain amount depending on the employee's experience within the Group.

Considering that the average age of employees of the subsidiaries abroad is far from retirement age, and taking into account the conventional staff turnover, management has assessed that the eventual impact of the retirement benefits expenses would have been insignificant. Resulting this assessment, and due to the high uncertainty and remoteness in time, accruals for employee retirement benefits are not recognized in these consolidated financial statements of the Group.

Pursuant the provisions of the Labour Code (LC) enforceable in the Republic of Bulgaria, in these consolidated financial statements provisions are accrued only for the Parent company and for a subsidiary in Bulgaria regarding an employee labour contract termination at retirement. Retirement benefits are at the amount of two gross salaries, if the employee's experience is less than ten years, or six gross salaries, if the employee's experience in the companies is over ten consecutive years. Additionally, on early retirement due to disability, the employees are entitled to benefits amounting to two gross monthly salaries, provided that their length of service is at least five years, and they have received no other such benefits during the last five years of service.

In accordance with the requirements of *AS № 19 Employee benefits*, the Group recognizes a retirement benefits liability, which is determined estimated by a licensed actuary using the Projected Unit Credit Method. The current service costs, interest on the obligation and actuarial gains and losses from adjustments based on experience and changes in the actuarial assumptions are recognized in profit or loss,

The past service costs are recognized as an expense on a straight line basis over the average period, until the benefits become vested. To the extent that the benefits are already vested, immediately following the implementation of or after changes in the retirement benefits plan, the Group recognizes the past service cost immediately. The amount of the retirement benefits obligation, reported in the balance sheet represents the present value of the defined benefits obligation.

3.9. Provisions

Provisions are recognized in the balance sheet when the Group has a present obligation (legal or constructive) as a result of past events, it is probable that a flow of resources embodying economic benefits will be required, to settle the obligation and it is possible to determine precisely enough the obligation amount.

Provisions are discounted, when the effect of the time value of money is material, using a current pre-tax discount rate, reflecting the current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Future events, that may affect the amount needed to settle the obligation, are reflected in the provision amount, when there is sufficient objective evidence that these events will occur.

3.10. Government grants

Government grants, (financing, government grants), are assistance by the government, government agencies and similar bodies in the form of transfers of resources to a company in return for future compliance with certain conditions relating to the operating activities of the company. Government grants may be (i) related to assets and (ii) related to income.

Government grants are recognized when there is reasonable assurance that: (i) the company will comply with the conditions attaching to them; and (ii) the grants will be received.

Government grants, related to assets are presented in the balance sheet as deferred income, that are recognized as income on a systematic and rational basis over the useful life of the acquired assets.

The government grants received by two subsidiaries, are related to income, intended to offset expenses on production of green energy. The funds are received as direct subsidies based on the electricity produced and sold, as well as in the form of green certificates that are recognized in profit or loss for the period when they are sold through the official market for green certificates or directly to electricity generating companies.

Green certificates are reported at purchase cost, based on the official market price for green certificates as at the date of their acquisition.

3.11. Revenue and expenses recognition

Revenues and expenses are accrued when they arise, regardless of the cash receipts and payments. They are reported in compliance with the matching concept.

Revenues are carried at the fair value of the consideration received or receivable, less any discounts allowed by the entity.

Revenue is recognized when the amount of the revenue can be reliably measured and it is probable that future economic benefits will flow to the Group as a result of the transaction, and when all specific criteria for revenue recognition are met. It is considered that the amount of the revenue is not reliably measured until all contingencies related to the contract are dealt. The Group shall exercise judgment regarding the criteria for recognition of revenue based on its previous experience and the substance of each transaction and the class of each client.

Sales of goods

The revenue from sales of goods is recognized when the following conditions have been met:

- The significant risks and rewards of the ownership over the goods are transferred to the buyer;
- The Group has not retained a continuing involvement and effective control over the management of the goods, which usually relates to the ownership of the goods;
- It is possible in the event of the transaction, the Group to receive economic benefits;
- The income and expenses directly attributable to the transaction can be reliably measured.

3.11. Revenue and expenses recognition (continued)

Income from services

Revenue, associated with a transaction involving the rendering of services, is recognized by reference to the stage of completion of the transaction at the end of the reporting period. Revenue recognition by reference to the stage of completion of the transaction is called the percentage of completion method, whereby revenue is recognized in the accounting period in which the services are rendered. In case the outcome of the transaction cannot be reliably measured, revenue is recognized to the extent the expenses incurred are recoverable.

Interest income and dividends

Interest income is accrued by application of the effective interest rate method over the outstanding principal.

Dividend income is recognized, when the Group's rights to receive payment is established.

Expenses

Expenses are recognized in the profit or loss, when a decrease of future economic benefits arise, regarding decrease of an asset or increase of a liability, which can be reliably measured.

When the economic benefits are expected to incur during more than one financial period and the corresponding revenue cannot be measured precisely but only indirectly, the expenses shall be recognized based on procedures for rational and systematic allocation.

Borrowing costs

The borrowing costs are recognized in profit or loss in the period in which they are incurred and are determined on the basis of the outstanding principal and the applicable effective interest rate, which is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount of the liability.

Other income/expenses

Profit/(loss) from sale of tangible fixed assets is presented as other income/(expenses).

Compensations from third parties regarding impairment or loss of tangible fixed assets, are recognized in profit or loss, when such compensations become due.

3.12. Comparative information for the current and previous reporting period

For comparative information purposes, some items from the previous reporting period have been reclassified.

3.13. Financial risk assessment and management

3.13.1. Financial risk factors

The Group's activities expose it to a variety of financial risks – market risk (comprising currency risk, interest rate risk and price risk); credit risk and liquidity risk. The Group does not use derivative financial instruments to manage financial risks.

3.13.2. Market risk

Currency risk

The Group performs transactions in foreign currency denominated primarily in BGN and EUR. As the EUR is fixed to the Bulgarian Lev, the Group is not exposed to currency risk regarding this foreign currency. Taking into account the low volume of other foreign currency transactions, the Group is not exposed to significant currency risk (see also note 20).

Interest rate risk

As the Group has no significant interest bearing assets, the incomes and operating cash flows of the Group are independent from changes in market interest rates. Financial instruments that potentially expose the Group to interest rate risk are primarily the bank loans and finance lease contracts. As the contracted interest rate of the utilized short-term loans is floating, based on EURIBOR or SOFIBOR, plus a markup, the Group is potentially exposed to cash flow risk, while the utilized long-term loans are with a fixed markup, the Group is potentially exposed to fair value risk.

If the interest rates on the loans with floating interest rate during 2018, had been 1% higher/(lower) with all other variables held constant, the financial result after taxes would have been BGN 277 thousand lower/higher (2017: BGN 251 thousand).

Price risk

The Group does not own any assets, the prices of which are dependent on the international market prices, so it is not exposed to price risk.

3.13.3. Credit risk

Financial assets that potentially expose the Group to credit risk are primarily its trade receivables. The Group has no significant concentration of credit risk in certain clients. Basically, the Group is exposed to credit risk, in case the clients do not meet their payment obligations. The Group's policy is directed to sales of goods on deferred payment to customers having favorable credit reputation, based on assessment of the customer's credit history and creditworthiness, expected sales volumes to the client, client's reputation, reference from contactors and others. For clients on deferred payment credit limits are defined, within which the clients are entitled to purchase goods on deferred payment. The credit limits are monitored by the Parent company's trade directorate on an ongoing basis.

3.13.4. Liquidity risk

Liquidity risk is the risk that the Group may have difficulties in paying its financial obligations. To manage this risk the management maintains an optimal level of quick liquid assets (cash and receivables), as well as the potential opportunity to demand additional credit line. The Group aims to make precise cash flow forecasts, which contributes to the effective management of the liquidity risk.

3.13. Financial risk assessment and management (continued)

3.13.4. Liquidity risk (continued)

The Group's financial liabilities as at the end of the reporting period, are stated in the table below, classified according their contracted maturity. The amounts reported are the contracted non-discounted cash flows. The amounts due within twelve months after the end of the reporting period are approximately equal to their carrying amount, as the discounting effect for them is insignificant.

	Over 1 year	Up to 1 year
December 31, 2018		
Borrowings (note 24)	1 763	27 039
Finance lease liabilities (note 25)	266	254
Trade and other payables (note 23)	422	16 953
Total	**2 451**	**44 246**
December 31, 2017		
Borrowings (note 24)	2 364	24 159
Finance lease liabilities (note 25)	224	159
Trade and other payables (note 23)	423	14 487
Total	**3 011**	**38 805**

3.14. Capital risk management

The primary goal of the Group in capital risk management is to maintain the share capital level in such limits, so that the Group could maintain its normal activities on a going concern basis, as well as to provide returns to its owners.

The capital structure is measured by the gearing ratio, which is a ratio between the net debt and equity. The net debt is calculated as the difference between interest bearing loans and finance lease obligations of the Group on one side and cash on the other side. The gearing ratio shows the extent to which the Group finances its activities with equity or with borrowings.

	December 31, 2018	December 31, 2017
Borrowings (note 24)	27 688	25 064
Finance lease liabilities (note 25)	520	383
Cash and cash equivalents (note 21)	(1 273)	(1 050)
Net debt	**26 935**	**24 397**
Equity	40 766	41 741
Gearing ratio	**0.66**	**0.58**

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4. Critical accounting judgments and sources of estimation uncertainty

The application of the adopted accounting policy requires the Group's management to apply certain accounting estimates and assumptions, which have significant effect on the financial statements. Such judgments rarely are equal to the actual results. Due to their nature the estimations are permanently reviewed and updated taking into account historical experience and analysis of all factors of significance, including expected future events, which the management believes are appropriate given the factual circumstances.

Retirement benefits obligation

Retirement benefits obligation is determined on the basis of actuarial valuation. This valuation requires certain assumptions about discount rates, future salary increases, staff turnover and mortality rates to be made. Due to the long term nature of the personnel benefits on retirement, these assumptions are subject to considerable uncertainty. As of December 31, 2018, the Group's defined benefits obligation is at the amount of BGN 291 thousand (2017.: BGN 263 thousand). Additional information about the defined benefits obligation is presented in note 26.

Useful lives of tangible and intangible fixed assets

Financial reporting of tangible and intangible fixed assets involves the use of estimates of their expected useful life and carrying amounts, that are based on judgments by the management of the Group.

Valuation of inventories

By the acquisition the inventories are recognized at cost comprising all costs of purchase, costs of conversion and other costs incurred in bringing the inventories in their present location and condition– transportation, customs duties and other similar costs.

At the end of each reporting period the inventories are valued at the lower of cost and net realizable value. The net realizable value represents the estimated selling price less all estimated costs to be incurred for the completing of the conversion and sale. The assessment is performed based on the best estimate of the management for the sales prices of the inventories as at the date of preparation of the financial statements.

Impairment of receivables

Allowance for impairment of trade receivables is recognized, whether there is objective evidence, that the Group would not be able to collect all amounts due at their maturity date. Significant financial problems of the debtor, the probability that the debtor will be subject to a bankruptcy procedure or financial reorganization, non-fulfillment of the contract terms or delay in payment are considered by the management, by the determination and classification of individual amount for impairment.

Assessment of the estimated loss from doubtful and uncollectable receivables is performed on an individual basis at the end of each financial year, depending on the overdue period. All doubtful receivables, not collected as at the date of the financial statements and for which indications for impairment existed, are impaired.

4. Critical accounting judgments and sources of estimation uncertainty (continued)

Corporate income tax

For its activities the Group is subject to tax audits by the Bulgarian tax authorities, as well as the tax administrations in the countries of the subsidiaries included in the consolidation. The Group recognizes liabilities for expected tax obligations from future tax audits on the basis of assessment of management whether additional taxes would be due for payment. When the finally payable taxes resulting from such events are different from the preliminary recorded taxes, these differences will be reported as short-term corporate income taxes payable and will affect the deferred taxes for the period in which this difference has occurred.

5. Revenue

	December 31, 2018	December 31, 2017
Revenue from sale of goods	67 305	67 945
Revenue from rendering of services	9 686	9 264
Revenue from sale of finished goods	7 833	7 288
Total	**84 824**	**84 497**

Revenue from sale of goods, is as follows:

	December 31, 2018	December 31, 2017
Cables and wires	44 763	44 512
Electrical and automation equipment	8 193	8 939
Lighting fixtures and electrical materials	7 827	5 902
Cable accessories	3 235	3 294
Transformer substations, complete distribution systems and others	1 693	3 212
Renewable energy sources	632	438
Other	962	1 648
Total	**67 305**	**67 945**

Revenue from sale of finished goods is, as follows:

	December 31, 2018	December 31, 2017
Construction projects, including concrete transformer substations	2 857	3 265
Electrical LV-switchboards	2 290	1 951
Other	2 686	2 072
Total	**7 833**	**7 288**

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6. Other income

	December 31, 2018	December 31, 2017
Rents	177	120
Liabilities written-off	155	-
Waste products	66	74
Surpluses of assets	20	60
Income from insurance indemnities	15	18
Income from financing	-	199
Profit from sale of tangible fixed assets and materials	2	92
Other	7	10
Total	**442**	**573**

For 2017 income from government grants at the amount of BGN 199 thousand and relate to production of green energy and sale of green certificates on the official market for green certificates. The expenses, that are compensated with the recognized income from government grants, comprise operating expenses, associated with electricity production in photovoltaic parks, owned by foreign subsidiaries.

7. Materials expenses

	December 31, 2018	December 31, 2017
Materials for the production process	9 948	10 295
Fuels	502	450
Electricity and water consumption	230	218
Maintenance materials	107	118
Materials for transport vehicles	90	99
Furniture and fittings	55	46
Safety and protective equipment	28	23
Office materials and consumables	21	19
Materials for rental and aquired non-current assets	-	2
Other	9	13
Total	**10 990**	**11 283**

8. Hired services

	December 31, 2018	December 31, 2017
Hired services on a subcontractor and for production process	2 376	789
Repairs and maintenance	404	277
Transportation	403	288
Rents	252	441
Charges	226	186
Consulting services	179	356
Insurances	139	122
Communication	81	82
Advertizing and promotion	75	141
Notary and legal advisory services	51	53
Personnel trainings	16	8
Other	306	121
Total	**4 508**	**2 864**

9. Personnel expenses

	December 31, 2018	December 31, 2017
Remunerations	5 988	5 588
Social security expenses	991	897
Expenses on accrued retirement benefits obligation (note 26)	24	45
Total	**7 003**	**6 530**

10. Depreciation and amortization expenses

	December 31, 2018	December 31, 2017
Depreciation of tangible fixed assets (note 15)	1 822	1 728
Amortization of intangible fixed assets (note 16)	138	123
Total	**1 960**	**1 851**

11. Cost of goods sold

	December 31, 2018	December 31, 2017
Cables and wires	41 030	39 186
Lighting fixtures and electrical materials	6 644	4 999
Electrical equipment and automation	7 044	7 542
Transformer substations, complete distribution systems and others	1 473	3 029
Cable accessories	2 520	2 629
Renewable energy sources	522	379
Other	759	1 488
Total	**59 992**	**59 252**

12. Other expenses

	December 31, 2018	December 31, 2017
Business trips – in the country and abroad	235	212
Social expenses	194	182
Taxes, charges and other similar expenses	193	207
Representation expenses	87	85
Receivables written-off	26	26
Shrinkage and waste of inventory	17	33
Fines and penalties	12	16
Donations	10	7
Other expenses	114	104
Total	**888**	**872**

13. Finance income and expenses

	December 31, 2018	December 31, 2017
Finance income		
Interest income from delayed trade payments	*16*	*4*
Interest income from deposits in bank accounts	*19*	*11*
Total interest income	35	15
Exchage rate differences gains, net	108	-
Other income	12	35
Total	**155**	**50**

	December 31, 2018	December 31, 2017
Finance expenses		
Interest expenses on bank loans	*677*	*724*
Interest expenses on delayed payments	*14*	-
Interest expenses on retirement benefits provisions (note 26)	*4*	*5*
Interest expenses on a finance lease	*17*	*12*
Total interest expenses	712	741
Exchage rate differences loss, net	-	202
Bank charges, commissions and other expenses, net	143	177
Total	**855**	**1 120**

14. Income tax

Income tax expense in the profit and loss comprises current income tax expense and deferred income tax expense in accordance with *AS № 12 Income Taxes*.

	December 31, 2018	December 31, 2017
Current income tax	123	155
Deferred tax	(14)	11
Total tax expense	**109**	**166**

14. Income tax (continued)

Net deferred tax assets arising from tax effects on the taxable and deductible temporary differences are, as follows:

	December 31, 2018	December 31, 2017
Tangible fixed assets	(11)	(23)
Deferred tax liabilities, total	(11)	(23)
Receivables and inventory	30	32
Retirement benefits provisions	29	27
Provisions on personal income	13	9
Unused paid annual leaves liabilities	5	7
Deferred tax assets, total	77	75
Deferred tax assets and liabilities, to be settled net	66	52

The reconciliation of the tax expense to the accounting profit, and a recalculation of the effective tax rate as at December 31, 2018 and 2017 are provided in the table below:

	December 31, 2018	December 31, 2017
Accounting profit	162	787
Income tax at the applicable tax rate of 10%	16	79
Tax effect on permanent differences	12	12
Tax effect from income from participation interest	-	(25)
Tax effect from not-recognized temporary differences from previous periods	-	(9)
Tax effect from recognized temporary differences from previous periods	-	2
Tax effect from consolidation adjustments	45	100
Tax effect from tax assets unrecognized during the current period	36	7
Total income tax expense	109	166
Effective tax rate	67.28%	21.09%

15. Tangible fixed assets

	Lands	Buildings	Machines, and equipments	Trans-port vehicles	Computers and other assets	Assets under construction	Total
Cost							
Balance at January 1, 2017	**5 961**	**18 886**	**15 237**	**5 232**	**1 949**	**6 612**	**53 877**
Additions	-	2 497	206	307	104	(2 435)	**679**
Disposals	-	-	(206)	(284)	(490)	-	**(980)**
Differences from foreign currency recalculations	(16)	(6)	(126)	5	(5)	-	**(148)**
Balance at December 31, 2017	**5 945**	**21 377**	**15 111**	**5 260**	**1 558**	**4 177**	**53 428**
Additions	-	174	528	216	100	108	**1 126**
Disposals	-	-	(314)	(64)	(11)	-	**(389)**
Differences from foreign currency recalculations	-	(1)	(133)	1	(6)	-	**(139)**
Balance at December 31, 2018	**5 945**	**21 550**	**15 192**	**5 413**	**1 641**	**4 285**	**54 026**
Depreciation							
Balance at January 1, 2017	**1 279**	**6 277**	**7 642**	**4 235**	**1 795**	-	**21 228**
Depreciation	2	768	593	293	72	-	**1 728**
On disposal	-	-	(177)	(268)	(481)	-	**(926)**
Balance at December 31, 2017	**1 281**	**7 045**	**8 058**	**4 260**	**1 386**	-	**22 030**
Depreciation	2	822	672	238	88	-	**1 822**
On disposal	-	-	(308)	(64)	(11)	-	**(383)**
Balance at December 31, 2018	**1 283**	**7 867**	**8 422**	**4 434**	**1 463**	-	**23 469**
Net book value							
At January 1, 2017	**4 682**	**12 609**	**7 595**	**997**	**154**	**6 612**	**32 649**
At December 31, 2017	**4 664**	**14 332**	**7 053**	**1 000**	**172**	**4 177**	**31 398**
At December 31, 2018	**4 662**	**13 683**	**6 770**	**979**	**178**	**4 285**	**30 557**

Assets acquired in 2018 and 2017 include mainly buildings, machinery, equipment and transport vehicles.

Tangible fixed assets with net book value of BGN 19 829 thousand (2016: BGN 17 633 thousand) serve as a collateral under bank loans utilized by the Group (see also note 24).

16. Intangible fixed assets

	Software	Other intangible assets	Total
Cost			
Balance at January 1, 2017	**681**	**291**	**972**
Additions	35	1	**36**
Foreign exchange rate recalculations	-	(4)	**(4)**
Balance at December 31, 2017	716	**288**	1 004
Additions	180	45	**225**
Foreign exchange rate recalculations	-	-	-
Balance at December 31, 2018	896	333	1 229
Amortization			
Balance at January 1, 2017	**499**	**162**	**661**
Amortization	99	24	**123**
Balance at December 31, 2017	598	186	784
Amortization	115	23	**138**
Balance at December 31, 2018	713	209	922
Net book value			
At January 1, 2017	182	129	311
At December 31, 2017	118	102	220
At December 31, 2018	183	124	307

17. Investments in entities

As at December 31, 2018 the Group holds minority interest in the capital of two Bulgarian trade companies:

	December 31, 2018		December 31, 2017	
Company	BGN'000	Participation %	BGN'000	Participation %
Elresurs Ltd.	5	5%	5	5%
Ikem AD	2	4%	2	4%
Total	7		7	

Investments in trade companies are presented at cost of acquisition in accordance with the requirements of *AS № 27 - Consolidated Financial Statements and Accounting for Investments in Subsidiaries*, as these investments are not quoted in an active market and their fair value cannot be reliably determined.

18. Financial instruments by category

As of December 31, 2018 and 2017 the carrying amounts of the financial assets and liabilities by category, defined in accordance with *AS № 32 - Financial Instruments* are presented in the tables bellow:

Financial assets

	December 31, 2018	December 31, 2017
Trade and other receivables, net (note 20)	22 290	20 992
Cash and cash equivalents (note 21)	1 273	1 050
Total	**23 563**	**22 042**

Financial liabilities

	December 31, 2018	December 31, 2017
Trade and other payables(note 23)	17 375	14 910
Bank loans (note 24)	27 688	25 064
Finance lease liability (note 25)	520	383
Total	**45 583**	**40 357**

19. Inventory

	December 31, 2018	December 31, 2017
Goods	28 707	26 682
Work in progress	1 636	615
Materials	1 820	1 401
Finished goods	303	387
Total	**32 466**	**29 085**

At the end of 2012 a review of the net realizable value of the goods and finished products was performed, resulting in an identified excess over the cost for certain items at the amount of BGN 479 thousand, therefore impairment is charged to profit and loss for the period. In 2018 and 2017 a portion of the impairment was reversed at the amount of BGN 6 thousand and BGN 8 thousand, respectively.

As of December 31, 2018 inventories at the amount of BGN 16 488 thousand (2017: BGN 16 488 thousand) are pledged as a collateral on bank loans utilized by the Group (see also note 24).

20. Trade and other receivables

	December 31, 2018	December 31, 2017
Trade receivables	20 427	18 909
Refundable taxes, other than income taxes	589	622
Deposits granted	563	476
Trade loans granted and interest receivables	384	384
Advances granted	349	509
Receivables from related parties (note 33)	347	536
Court receivables	182	103
Prepaid expenses	24	42
Other receivables	220	178
Total	**23 085**	**21 759**

The carrying amount of trade and other receivables, denominated in original currency is, as follows:

	December 31, 2018	December 31, 2017
Bulgarian lev (BGN)	16 419	15 628
Euro (EUR)	464	628
Romanian lei (RON)	1 423	1 867
Macedonian denar (MKD)	4 133	2 251
Unated States dollar (USD)	6	6
Turkish lira (TRY)	147	899
Serbian denar(RSD)	339	391
British pound (GBR)	-	89
Hungarian forint (HUF)	154	-
Total	**23 085**	**21 759**

Receivables from related parties are disclosed in note 33.

Group's policy regarding the monitoring of receivables and indications for impairment is disclosed in note 3.4.3. Trade receivables, that are overdue up to 3 months after their maturity date, are not considered non-performing.

As of December 31, 2018 trade receivables of the Group at the amount of BGN 1 735 thousand (2017: BGN 1 516 thousand) serve as a collateral to bank loans utilized by the Group (see also note 24).

21. Cash

	December 31, 2018	December 31, 2017
Cash in bank accounts	1 100	1 003
Cash on hand	173	47
Total	**1 273**	**1 050**

As at December 31, 2018 cash on bank accounts of the Group at the amount of BGN 108 thousand (2017: BGN 46 thousand) serve as a collateral on bank loans utilized by the Group (see note 24).

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22. Income taxes refundable/(payable)

	December 31, 2018	December 31, 2017
Balance at the beginning of the period	(90)	(33)
Corporate income tax accrued	(123)	(155)
Corporate income tax paid	218	98
Balance at the end of the period, including:	5	(90)
Income taxes refundable	12	13
Income taxes payable	(7)	(103)

23. Trade and other payables

	December 31, 2018	December 31, 2017
Non-current trade payables	422	423
Payables to suppliers	15 479	13 593
Advances received from customers	1 389	742
Payables on taxes	541	535
Payables to employees and social securities payable	585	585
Guarantees	47	61
Other	38	91
Total current liabilities	**18 079**	**15 607**
Total trade and other payables	**18 501**	**16 030**

The Group has no payables to related parties.

24. Borrowings

As at December 31, 2018 and 2017 the Group has bank loans received, as follows:

	December 31, 2018	December 31, 2017
Short-term loans	26 080	22 975
Long-term loans	1 608	2 089
Total	**27 688**	**25 064**

All short-term bank loans received by the Group are at a floating interest rate and a fixed markup. The interest rate is bound to 1-month and 3-month EURIBOR and to 1-month SOFIBOR, therefore the interest rates are updated on an ongoing basis. The bank loans terms can be renegotiated after one year of their allocation, after a respective financial analysis by the bank-creditor.

Bank loans granted to the Group are secured by a mortgage on property, plant and equipment, pledge of inventories, trade receivables and cash funds (see also notes 15, 19, 20 and 21).

25. Finance lease liabilities

As at December 31, 2018 and 2017 the Group has liabilities under financel lease contracts for acquisition of transport vehicles and machines.

	December 31, 2018	December 31, 2017
Finance lease liabilities		
Up to one year	254	158
Between two and five years	266	225
Total	520	383

26. Retirement benefits obligation

Movement of the retirement benefits obligation, recognized in the balance sheet is, as follows:

	December 31, 2018	December 31, 2017
Balance at the beginning of the period	263	270
Expenses on current length of service	41	43
Interest expenses	4	5
Benefits paid	-	(57)
Actuarial (gain)/loss	(17)	2
Balance at the end of the period	291	263

For the years ended December 31, 2018 and 2017 expenses on current length of service are included in the personnel expenses.

Retirement benefits obligation liability as at December 31, 2018 and 2017 includes:

	December 31, 2018	December 31, 2017
Benefits on attainment of retirement age	289	261
Benefits on early retirement	2	2
Total	291	263

The amounts, recognized in the income statement, regarding retirement benefits obligation are, as follows:

	December 31, 2018	December 31, 2017
Expenses on current length of service	*41*	*43*
Actuarial (gain)/loss	*(17)*	*2*
Expenses on remunerations, total	24	45
Interest expenses	4	5
Total	28	50

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26. Retirement benefits obligation (continued)

Provision is accrued upon adoption of the following basic financial assumptions:

	December 31, 2018	December 31, 2017
Discount rate	1.5%	2.0%
Future remunerations increase	1.5%	1.7%
Future remunerations increase after the fifth year	1.5%	1.0%

The demographic actuarial assumptions used are based on the following:

- data for the personnel turnover for the Group for the last three years;
- mortality rate data for the overall mortality of the population of Bulgaria, according to data of the National Statistical Institute for the period from 2015 to 2017.

Personnel turnover is, as follows:

Age	December 31, 2018	December 31, 2017
18 – 30 years	35%	35%
31 – 40 years	25%	25%
41 – 50 years	15%	15%
51 – 60 years	5%	5%
over 60 years	1%	1%

Under the provisions of the present Collective Labour Contract and pursuant to the Labour Code of the Republic of Bulgaria, the employees are entitled to retirement benefits amounting to two gross monthly salaries on attainment of retirement age or six gross monthly salaries if the length of service is in companies from the group for the last 10 consecutive years.

Defined benefit plan exposes the Group to the following actuarial risks:

Investment risk	The present value of the defined benefit plan liability is calculated using a discount rate of Bulgarian government securities, denominated in BGN, with maturity up to 10 years, and the data for the following periods is received by data interpolating.
Interest risk	A decrease in the interest rate of the Bulgarian government securities will increase the defined benefit plan liability.
Longevity risk	The present value of the defined benefit liability is calculated by reference to the best estimate of the mortality of plan participants.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. An increase in the salary of the plan participants will increase the plan's liability.

26. Retirement benefits obligation (continued)

A sensitivity analysis based on reasonably possible changes in the respective assumptions, at the end of the reporting period, assuming all other assumptions held constant is, as follows:

	Less 1 %	Assumptions and results used	Plus 1 %
Discount rate	0.50%	1.50%	2.50%
Amount of the liability (BGN thousand)	326	291	262
Difference (BGN thousand)	35	-	(29)
Difference (%)	12%	-	(10%)
Salary growth	0.50%	1.50%	2.50%
Amount of the liability (BGN thousand)	261	291	326
Difference (BGN thousand)	(30)	-	35
Difference (%)	(10%)	-	12%
Probability of early retirement	1.13%	1,97%	2.97%
Amount of the liability (BGN thousand)	296	291	286
Difference (BGN thousand)	5	-	(5)
Difference (%)	2%	-	(2%)
Mortality assumption	-1 year	Mortality rate	+ 1 year
Amount of the liability (BGN thousand)	295	291	262
Difference (BGN thousand)	4	-	(4)
Difference (%)	1%	-	(1%)

The sensitive analysis presented above may not be representative of the actual change in the retirement benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. In presenting the above calculations the projected unit credit method is used, the same as that applied in calculating the retirement benefit obligation liability, recognized in the balance sheet.

27. Deferred income

In 2018 and 2017, two subsidiaries received government grants related to income, intended to offset the costs of producing green energy.

The movement of the government grants is, as follows

	December 31, 2018	December 31, 2017
Balance at the beginning of the period	**301**	**429**
Received green certificates	-	71
Recognized income from realized green certificates	-	(199)
Balance at the end of the period	**301**	**301**

28. Share capital

The share capital is presented at nominal value, according to the court decision for registration. As of December 31, 2018 and 2017 the share capital fully paid in at the amount of BGN 20,000 thousand is distributed into 2 000 000 shares with a nominal value of BGN 10 each.

29. Reserves

	Legal reserves	Other reserves	Reserve from foreign currency translations	Total
Balance at January 1, 2017	**2 040**	**7 333**	**(446)**	**8 927**
Changes in equity for 2017				
Foreign currency translations	-	-	(198)	**(198)**
Reserves allocated	29	2	-	31
Balance at December 31, 2017	**2 069**	**7 335**	**(644)**	**8 760**
Changes in equity for 2018				
Foreign currency translations	-	-	(244)	**(244)**
Reserves allocated	38	2	-	**40**
Balance at December 31, 2018	**2 107**	**7 337**	**(888)**	**8 556**

Reserve from foreign currency translations is resulting from translation of the financial statements of the subsidiary entities abroad into the presentation currency of the Parent company.

Changes in the reserve from foreign currency translations include:

	December 31, 2018	December 31, 2017
Balance at the beginning of the period	**(644)**	**(446)**
Effect from recalculation of the net assets at the closing exchange rate as of the end of the period	(21)	(159)
Effect from translation of the income statement at average exchange rate for the period, and of the balance sheet at closing exchange rate as of the end of the period	(223)	(39)
Balance at the end of the period	(888)	(644)

30. Minority interest

	December 31, 2018	December 31, 2017
Filkab Distribution, Romania	275	281
Filkab Solar Ltd. Bulgaria	93	70
Filkab Mig Serbia	54	41
Filkab Solar KFT, Hungary	9	-
Total	**431**	**392**

31. Cash flows from operating activities

	December 31, 2018	December 31, 2017
Profit before taxation for the period	162	787
Adjustments for:		
Depreciation and amortization	1 960	1 851
Receivables and liabilities written-off , net	(129)	26
Retirement benefit provision accrued	24	45
(Profit)/loss from sale of tangible fixed assets and materials	(2)	(92)
Carrying amount of tangible fixed assets and materials	6	38
Interest expenses and charges, net	768	891
	2 789	3 546
Changes in working capital, including:		
Trade and other receivables	(1 352)	(3 361)
Inventory	(3 381)	577
Trade and other payables	2 497	1 849
Cash flows generated from operating activities	**553**	**2 611**

32. Dividends

Based on a decision of the General meeting of the shareholders of the Parent company in 2018, dividends are distributed from the accumulated profit from previous years at the amount of BGN 800 thousand, that are reported as a decrease in retained earnings in the statement of changes in equity for 2018.

In 2017 dividends are distributed at the amount of BGN 600 thousand.

33. Related parties transactions

The subsidiary entities, that are controlled by the Parent company and included in the consolidation, are disclosed in note 2.2.

In 2018 and 2017 the Parent company performed transactions with the following related parties:

Related party	Nature of relationship
Management of the Company	Key management personnel
Consortium Filkab - Engineering	Consortium between the Parent company and a subsidiary entity

Related parties transactions relate mainly to: purchase-sale of goods and services and remunerations paid.

33. Related parties transactions (continued)

During 2018 and 2017 the transactions with related parties are, as follows:

Related party	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	Sale of goods and services	Sale of goods and services	Purchase of goods and services	Purchase of goods and services
Consortium Filkab - Engineering	814	1 354	-	-

As at December 31, 2018 and 2017 the outstanding transactions with related parties are, as follows:

Related party	December 31, 2018	December 31, 2018	December 31, 2017	December 31, 2017
	Receivables	*Payables*	*Receivables*	*Payables*
Consortium Filkab - Engineering	122	-	495	-
Key management personnel	225	-	41	-
	347	-	536	-

34. Effects from the change of the general financial reporting framework

The reconciliation of the balance sheet items and items of the income statement and statement of changes in equity and between the financial statements for 2017, prepared under the two financial reporting frameworks is, as follows:

INCOME STATEMENT
for the year ended December 31, 2017

Revenue	December 31 2017	Adjustments	December 31 2017 restated
Total revenue	85 120	-	85 120
Expenses			
Change in finished goods and work in progress	(561)		(561)
Materials expenses	(9 365)	-	(9 365)
Hired services	(2 864)	-	(2 864)
Personnel expenses	(6 528)	(2)	(6 530)
Depreciaition and amortization expenses	(1 851)	-	(1 851)
Cost of goods sold	(61 170)	-	(61 170)
Other expenses	(872)	-	(872)
Total operating expenses	(83 211)	(2)	(83 213)
Finance costs	(1 120)	-	(1 120)
Total expenses	(84 331)	(2)	(84 333)
Accounting profit	789	(2)	787
Income tax expense	(166)	-	(166)
Profit for the period, atributable to:	623	(2)	621
Equity holders of the Parent company	610	(2)	608
Minority interest	13	-	13

34. Effects from the change of the general financial reporting framework (continued)

BALANCE SHEET
as of December 31, 2017

	December 31 2017	Adjustments	December 31 2017 restated
ASSETS			
Goodwill	26	(26)	-
Other non-current assets	31 677	-	31 677
Non-current assets	31 703	(26)	31 677
Current assets			
Inventories, net	29 085	-	29 085
Trade and other receivables	21 936	(177)	21 759
Green certificates	301	-	301
Income taxes refundable	13	-	13
Cash and cash equivalents	1 050	-	1 050
Total current assets	52 385	(177)	52 208
TOTAL ASSETS	84 088	(203)	83 885
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	20 000	-	20 000
Reserves	8 945	(185)	8 760
Retained earnings	12 015	(34)	11 981
Profit for the period	610	(2)	608
Total	41 570	(221)	41 349
Non-controlling interest	392	-	392
Total capital and reserves	41 962	(221)	41 741
Non-current liabilities			
Borrowings	2 089	-	2 089
Trade and other payables	423	-	423
Retirement benefits obligation	263	-	263
Lease liabilities	216	9	225
Total non-current liabilities	2 991	9	3 000
Current liabilities			
Trade and other payables	15 607	-	15 607
Borrowings	22 975	-	22 975
Deferred income	301	-	301
Lease liabilities	149	9	158
Income tax liabilities	103	-	103
Total current liabilities	39 135	9	39 144
TOTAL EQUITY AND LIABILITIES	84 088	(203)	83 885

34. Effects from the change of the general financial reporting framework (continued)

EQUITY STATEMENT
for the year ended December 31, 2017

	Equity attributable to equity holders of the Parent company				Minority interest	Total equity
	Share capital	Reserves	Accumulated profit	Total		
Balance at January 1, 2016	**20 000**	**9 114**	**12 646**	**41 760**	**350**	**42 110**
Adjustments						
Positive goodwill written-off			(26)	**(26)**	-	**(26)**
Receivables written-off			(195)	**(195)**	-	**(195)**
Actuarial gain		(187)	187	-	-	-
Total adjustments	**-**	**(187)**	**(34)**	**(221)**	**-**	**(221)**
Balance at January 1, 2017, restated	**20 000**	**8 927**	**12 612**	**41 539**	**350**	**41 889**
Changes in equity for 2017						
Profit for the period	-	-	610	**610**	13	**623**
Actuarial loss	-	(2)		**(2)**	-	**(2)**
Foreign currency translations	-	(198)	-	**(198)**	42	**(156)**
Reserves	-	31	(31)	-	-	-
Dividend distribution	-	-	(600)	**(600)**	(13)	**(613)**
Balance at December 31, 2017	**20 000**	**8 758**	**12 591**	**41 349**	**392**	**41 741**
Adjustments						
Actuarial loss	-	2	(2)	-	-	-
Total adjustments	**-**	**2**	**(2)**	**-**	**-**	**-**
Balance at December 31, 2017, restated	**20 000**	**8 760**	**12 589**	**41 349**	**392**	**41 741**

The adjustments in the financial statements are, as follows:

1. Positive goodwill written-off as at December 31, 2016 at the amount of BGN 26 thousand to retained earnings;
2. Trade receivables written-off as at December 31, 2016 at the amount of BGN 195 thousand to retained earnings;
3. Transfer of the actuarial gain as at December 31, 2016 at the amount of BGN 187 thousand to retained earnings;
4. Recognition of the actuarial loss for 2017 at the amount of BGN 2 thousand in the personnel expenses;
5. Increase of the prepaid financial expenses and lease liabilities as at December 31, 2017 by the amount of BGN 18 thousand.

The change of the financial reporting framework has no effect on the Cash Flow Statement for the year ended December 31, 2017.

35. Events after the date of the financial statements

As at the date of issuance of these consolidated financial statements, renegotiated are the maturity terms for repayment of revolving loans from a Bulgarian bank, at the total limit of EUR 1 812 thousand from February - May 2019 – to February - May 2020.

In January 2019 a change in the members of the Board of Directors of the Parent Company was registered.