1. BACKGROUND CORPORATE INFORMATION

Neochim AD (the 'Company') was established in 1951. It was registered as a joint-stock company in July 1997. The Company has a seat and registered address at: Himkombinatska St., East Industrial Zone, Dimitrovgrad and it has been entered in the Commercial Register under UIC 836144932. The latest changes in the Articles of Association were entered in the Register of Commercial Companies on 6 August 2013. The latest changes in the managing bodies were entered in the Commercial Register on 21 June 2018. An extension of the term of office of the Board of Directors until 13 June 2021. On 21 June 2018, the establishment and authorisation of a Procurator of Neochim AD.

1.1. Ownership and management

Neochim AD is a public company under the Public Offering of Securities Act.
The structure of Company's share capital as at 31 December 2018 was as follows:

• Eco Tech AD	- 24.28 %
• Evro Fert AD	- 24.03 %
• Feboran EOOD	- 20.30 %
• Agrofer International Establishment, Lichtenstein	- 7.68 %
• UPF Saglasie	- 3.33 %
• Neochim AD (treasury shares)	- 2.58 %
• ZPAD Allianz Bulgaria	- 2.30 %
• UPF CCB Sila	- 2.19 %
• Other	- 13.31 %

Neochim AD has one-tier management system with a Board of Directors. The Board of Directors consists of 9 members as follows:

Dimcho Staikov Georgiev	Chairperson
Elena Simeonova Shopova	Deputy Chairperson
Dimitar Stefanov Dimitrov	Member
Tosho Ivanov Dimov	Member
Vasil Jivkov Grancharov	Member
Victoria Ilieva Cenova	Member
Zarneni Hrani Bulgaria AD	Member
Hubert Puchner	Member
Martina Michaela Auberger	Member

The Company is represented and managed by Dimitar Stefanov Dimitrov – in his capacity as Executive Director, and Stefan Dimitrov Dimitrov, in his capacity as Procurator (Sales Manager) – jointly and separately.

The management of Neochim AD is performed by the Board of Directors. Some of the operating functions are delegated to the Executive Director and the Procurator.

The Audit Committee supports the work of the Board of Directors and has the role of those charged with governance, performing monitoring and supervision over Neochim AD, including the Company’s financial reporting process.

The members of the Audit Committee are as follows:

Tanya Dimitrova Kovanlashka
Nikolina Zheleva Delcheva
Iordanka Atanasova Nikolova

As at 31 December 2018, the total number of Company's personnel was 878 workers and employees (31 December 2017: 969).

1.2. Principal activities

The principal activities of the Company include the following types of transactions and deals:
• production of inorganic and organic chemical products;
• trade.

1.3. Main indicators of the economic environment

The main economic indicators of the business environment that affected Company's activities throughout the period 2015 – 2018 are presented in the table below:

Indicator	**2015**	**2016**	**2017**	**2018**
GDP in million levs	88,575	94,130	101,043	107,987
Actual growth of GDP	3.5%	3.9%	3.8%	3.1%
Year-end inflation (HICP)	-0.9%	-0.5%	1.8%	2.3%
Average exchange rate of USD for the year	1.76	1.77	1.73	1.66
Exchange rate of the USD at year-end	1.79	1.86	1.63	1.71
Basic interest rate at year-end	0.01	0.00	0.00	0.00
Unemployment rate at year-end	10.0%	8.0%	7.1%	6.1%
Credit rating of the Republic of Bulgaria by Standard&Poors (long-term)	BB+	BB+	BB+	BBB-
Credit rating of the Republic of Bulgaria by Moody’s (long-term)	Baa2	Baa2	Baa2	Baa2
Credit rating of the Republic of Bulgaria by Fitch (long-term)	BBB	BBB-	BBB-	BBB

** BNB forecast for 2018, prepared as at 21 December 2018; Source: BNB*

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY

2.1. Basis for preparation of the separate financial statements

The separate financial statements of Neochim AD have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting

Standards (IAS) and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC), which are effectively in force as from 1 January 2018 and have been accepted by the Commission of the European Union. IFRS endorsed by EU is the generally accepted name of the general purpose framework – the basis of accounting equivalent to the framework introduced with the definition in § 1, p. 8 of the Additional Provisions of the Accountancy Act under the name of "International Accounting Standards" (IASs).

For the current financial year the Company has adopted all new and/or revised standards and interpretations issued by the International Accounting Standards Board (IASB) and respectively, by the International Financial Reporting Interpretations Committee (IFRIC), which have been relevant to its activities.

The adoption of these standards and/or interpretations, practically applicable for annual reporting periods commencing on 1 January 2018 at the earliest for entities in Bulgaria, resulted in changes in the Company's accounting policies with respect to the principles, rules and criteria for accounting for the following items, and with respect to the presentation of disclosure of financial information thereon: trade receivables and payables (*Note 20 and Note 31*), receivables from related parties and payables to related parties (*Note 19 and Note 32*), and revenue from contracts with customers (*Note 3*). The changes result from the adoption of the following standards and interpretations: IFRS 7 (amended) *Financial Instruments: Disclosures*, IFRS 9 *Financial Instruments*, and IFRS 15 *Revenue from Contracts with Customers*.

The changes are resultant from the application of the following standards and interpretations:

IFRS 9 "Financial Instruments" (in force for annual periods beginning on or after 1 January 2018 – endorsed by EC). This is a new standard for financial instruments. It is ultimately intended to replace IAS 39 in its entirety. The project for development of the new standard has passed through three phases and has covered the following scope of methodological matters: 1. Classification and measurement of financial assets and financial liabilities; 2. Hedge accounting; and 3. Impairment methodology. At present, IFRS 9 has been issued four times: in November 2009, October 2010, November 2013 and finally, in its entirety, in July 2014.

a) *Classification and measurement of financial assets and financial liabilities* – by the first issues it replaces those parts of IAS 39 that refer to the classification and measurement of financial instruments. It sets out new principles, rules and criteria for classification, and an approach to measurement, incl. For hybrid contracts, by preserving almost entirely the rules of IAS 39 on the recognition and derecognition of financial assets and liabilities. IFRS 9 introduces a requirement that financial assets are to be classified based on entity's business model for their management and on the contractual cash flow characteristics of the respective assets. Based on that, two primary categories are established for subsequent measurement: at amortised cost and at fair value. The new rules lead to changes mainly in the accounting for financial assets of the type of debt instruments and financial liabilities designated at fair value through profit or loss (for credit risk). A specific feature of the classification and the measurement model for financial assets at fair value is the category "subsequent measurement at fair value through other comprehensive income", in which debt and capital instruments can be classified if certain conditions are met.

b) *Hedge accounting* – the standard includes a new chapter, introducing a new, more flexible, approach, and respectively model for hedge accounting, which permits consistent and complete reflection of all financial and non-financial risk exposures, subject to economic hedge transactions, and also, better presentation of risk management activities in the financial statements and specifically , their relation to hedge transactions, and the scope and type of documentation to be used. In addition, the requirements to the structure, contents and presentation approach for hedge disclosures have been improved. Furthermore, an option is introduced that fair value changes of financial liabilities measured at fair value through profit or loss due to changes in the entity's own credit quality (own credit risk), to be recognized in other comprehensive income rather than in profit or loss.

c) *Impairment methodology* – the amendment is fundamental and introduces the application of the 'expected loss' concept and approach. According to this approach, all expected credit losses of a financial asset at amortised cost shall be recognised earlier, and the three-stage model is usually applied, depending on its credit quality change, and not only if a triggering default event has occurred as per the current model under IAS 39. The three stages are: a. upon the initial recognition of the financial asset – impairment for the 12-month period, b. in case of increased credit risk – for the full lifetime of the asset; and respectively, c. upon default - of the actual impairment. This model also determines the rules to measure impairment losses and respectively the application of the effective interest rate upon recognition of interest income. The impairment of debt instruments measured at fair value through the other comprehensive income is also determined and measured by applying the methodology which is used for financial assets at amortised cost. With regards to trade receivables, lease receivables and assets under contracts with customers, the standard permits the use of a simplified model to measure impairment, which however also retains the "expected losses" concept.

The management has done research and has concluded that the changes made through the new standard have an impact on the accounting policies, and on the value and classification of Company's assets, liabilities, transactions and performance, with regard to: trade receivables, receivables from related parties and expenses for impairment of receivables. The management has elected modified retrospective initial adoption of IFRS and will not restate comparative data. The effects of the restatements and reclassifications performed thereby are disclosed in Note 39.

IFRS 7 (amended) "Financial Instruments: Disclosures" – regarding the relief from the requirement to restate comparatives and the related thereto disclosures when applying IFRS 9 (in force for annual periods beginning on or after 1 January 2018 – endorsed by EC). The amendment is related to a relief from the requirement to restate the comparative financial statements and the option to present modified disclosures on the transition from IAS 39 to IFRS 9 as at the date of the standard application by the Company and whether it chooses the option to restate prior periods. The management has chosen modified retrospective application of IFRS 9 upon its initial application and will not restate comparative information (Note 39).

IFRS 15 "Revenue from Contracts with Customers" (in force for annual periods beginning on or after 1 January 2018 – endorsed by EC). This is an entirely new standard on the recognition and measurement of the revenue of entities from all economic sectors. It introduces a new concept, and based on it – a complete set of new principles, rules and approaches for recognition, accounting for and disclosure of information about the nature, amount, timing and uncertainties related to revenue and cash flows arising from contracts with customers. The standard fully supersedes all current standards related to revenue recognition, mainly IAS 18 and IAS 11 and the interpretations thereto. The main concept of the new standard is to provide a five step model whereby the revenue amount and timing reflect the fulfilment of obligation characteristics and performance of each of the parties to the transaction. The key components include:

a) contracts with customers that are commercial in their substance and assessment of the probability for collecting contractual amounts by the entity in line with the terms and conditions of the particular contract;
b) identification of the separate performance obligations under the contract for providing of a good or service – their distinction from the other assumed contractual commitments/promises, from which the customer would obtain benefits;
c) determination of the transaction price – the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer – special attention is paid to the types of variable components of the price, incl. the financing component, as well as the non-cash consideration;
d) allocation of the transaction price to separate performance obligations under the contract – usually on a stand-alone sale price of each component (good/service); and
e) the point of time or the period of revenue recognition – when an entity satisfies a performance obligation by transferring control of a promised good or service to the customer, which could occur at a point in time or over time.

Rules and criteria are introduced regarding: (a) identification of the performance obligations based on specific promises for the delivery of goods or services; (b) determining whether an entity acts as principal or agent in the provision of goods or services, and (c) license transfers. The application of this standard usually leads to more material changes: (a) in complex contracts with bundled sales of goods and services a clear distinction will be required between the goods and services of each component and provision of the contract; (b) probability for a change in the time of sale recognition; (c) expanding of disclosures; and (d) introduction of additional rules for recognising the revenue from a particular type of contracts – licences; consignment; one-time collection of preliminary fees; guarantees and other similar.

The standard allows a full retrospective approach or a modified retrospective approach from the beginning of the current reporting period (2018) with particular disclosures for prior periods.

The management has done research and has concluded that the changes made through the new standard have an impact on the accounting policies, and on the value and classification of Company's assets, liabilities, transactions and performance, with regard to: revenue from the sale of products and the provision of services and the assets and liabilities recognised in relation thereto. The management has elected to apply modified retrospective initial adoption of IFRS 15 and will not restate comparative data. There is no significant effect on the opening balances resulting from the changes made (Note 39).

Regarding the other standards and interpretations stated herein below, the management has analyzed their possible impact and has determined they would not impact the Company's accounting policy, respectively its assets, liabilities, transactions and results, in as far as it does not possess/operate such items and/or does not perform such deals and transactions:

- **IFRS 2 (amended) "Share-based Payment"** – Classification and measurement of share-based payment transactions (in force for annual periods beginning on or after 1 January 2018 – endorsed by EC).

- **IFRS 4 (amended) "Insurance Contracts"** in force for annual periods beginning on or after 1 January 2018 – endorsed by EC).

- **Annual Improvements to IFRSs 2014-2016 Cycle (December 2016)** – improvements to IFRS 1 and IAS 28 (in force for annual periods beginning on or after 1 January 2018 – endorsed by EC).

- **IAS 40 (amended) "Investment Property"** – regarding transfers of investment property (in force for annual periods beginning on or after 1 January 2018 – endorsed by EC).

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (in force for annual periods beginning on or after 1 January 2018 –endorsed by EC).

At the date when these financial statements have been approved for issue, there are several new standards and interpretations as well as amended standards and interpretations, issued but not yet in force for annual periods beginning on or after 1 January 2018, which have not been adopted by the Company for early application. The management has decided that out of them the following are likely to have a potential impact in the future for changes in the accounting policies, and in the classification and value of reporting items in Company's financial statements for subsequent periods, namely:

IFRS 16 "Leases" (in force for annual periods beginning on or after 1 January 2019 – endorsed by EC).

This standard has an entirely new concept. It establishes new principles for the recognition, measurement and presentation of a lease by introducing a new model with the objective to ensure a more faithful and adequate representation of such transactions primarily for the lessee. The standard will supersede the effective so far standard related to leases – IAS 17.

a) The main principle of the new standard for lessees is the introduction of a single lessee accounting model in the statement of financial position – an asset will be recognised for all contracts with duration of more than 12 months in the form of a 'right-of-use', which will be subsequently depreciated over the duration of the contract, and respectively, a financial liability will be stated for the lease liability under these contracts. This is the significant change in the current accounting practice. The standard allows an exception and retaining the current practice for leases of low-value assets and short-term leases;

b) There would not be any significant changes for lessors and they would continue to account for leases as per the old standard IAS 17 – as operating and finance lease. As far as the new standard introduces a more comprehensive concept, a more detailed analysis of contractual terms should be carried out on their part as well and it is possible that grounds for reclassification of particular lease transactions may occur for them (lessors), too. The new standard requires more extensive disclosures. The management has done research and has concluded that the changes made through the new standard have an impact on the accounting policies, and on the value and classification of Company's assets, liabilities, transactions and performance, with regard to: operating lease agreements in which the Company is a lessee, with the exception of lease agreements of short term (less than 12 months) and with low-value lease payments, which will continue to be recognised based on the straight-line method as current expenses within profit or loss.

The effects of the analyses, the preliminary restatements and reclassifications performed thereby are disclosed in Note 40. The management has chosen modified retrospective application of IFRS 16 on its initial application and will not restate comparative information.

Amendments to the Conceptual Framework for Financial Reporting (in force for annual periods beginning on or after 1 January 2020, not endorsed by EC). These amendments include revised definitions of "asset" and "liability", as well as new guidance for their measurement, derecognition, presentation, and disclosure. The amendments to the Conceptual Framework are accompanied by amendments to some references thereto in the International Financial Reporting Standards, including IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32. Some of the references state which version of the Conceptual Framework statements in the respective standards should refer to (the IASC framework adopted by IASB in 2001, the IASB framework of 2010, or the new revised framework dated 2018), while others specifically state that the standard's definitions have not been updated in accordance with the framework's latest amendments.

IFRS 3 (amended) "Business Combinations" (in force for annual periods beginning on or after 1 January 2020, not endorsed by EC). This change concerns the definition of "business" provided in the appendices to the standard and is related to the difficulties that acquiring entities experience when determining whether they have acquired a business or a group of assets. The amendment aims:

a) to clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;

b) to narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;

c) to add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;

d) to remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and

e) to add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (in force for annual periods beginning on or after 1 January 2020 – not endorsed by EC). These changes relate to providing a more precise definition of 'material' as stated in the two standards. According to them, the new definition of 'material' is:"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". There are three new aspects of the definition which should be noted:

a) "Obscuring". The existing definition only focused on omitting or misstating information, however, the Board concluded that obscuring material information with information that can be omitted can have a similar effect;

b) "Could reasonably be expected to influence". The existing definition referred to 'could influence' which the Board felt might be understood as requiring too much information as almost anything 'could' influence the decisions of some users even if the possibility is remote; and

c) Primary users. The existing definition referred only to 'users' which again the Board feared might be understood too broadly as requiring to consider all possible users of financial statements when deciding what information to disclose.

Moreover, the amendments stress especially five ways material information can be obscured:

a) if the language regarding a material item, transaction or other event is vague or unclear;

b) if information regarding a material item, transaction or other event is scattered in different places in the financial statements;

c) if dissimilar items, transactions or other events are inappropriately aggregated;

d) if similar items, transactions or other events are inappropriately disaggregated; and

e) if material information is hidden by immaterial information to the extent that it becomes unclear what information is material.

IFRIC 23 (amended) "Uncertainty over Income Tax Treatments" (in force for annual periods beginning on or after 1 January 2019 – endorsed by EC). This Interpretation provides guidance on the accounting treatment and accounting for income tax when tax treatments involve uncertainty that affects the application of IAS 12. It does not apply to taxes or other state levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation addresses the following matters:

a) whether an entity considers uncertain tax treatments;

b) the assumptions an entity makes about the examination and assessment of tax treatments by taxation authorities;

c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;

d) how an entity considers and treats changes in facts and circumstances; and
e) the entity's approach whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments.

IAS 19 (amended) "Employee Benefits" (in force for annual periods beginning on or after 1 January 2019 – not endorsed by EC). This amendment clarifies that in case of changes to defined benefit plan amendments, curtailments and settlements, upon determining the current service cost and interest costs for the period following the restatement, the entity is obliged to use the assumptions made therein. Additionally, changes are envisaged to the disclosure of impact for changes to defined benefit plan amendments, curtailments and settlements in relation to the plan asset ceiling.

Annual improvements to IFRSs 2015-2017 Cycle (December 2017) – improvements to IAS 23, IAS 12 and IFRS 3 in relation to IFRS 11 (in force for annual periods beginning on or after 1 January 2019 – not endorsed by EC). These improvements introduce partial amendments to and editions of the respective standards primarily with a view to remove the existing inconsistency or ambiguities in the application of the rules and requirements of individual standards as well as to set out more precise terminology. These amendments are basically focused on the following items and transactions:

a) they clarify that when an entity acquires control over a business which constitutes a joint venture, it should restate its previous holding in the business under IFRS 3. It is further clarified that when an entity acquires a joint control over a business which constitutes a joint venture, it should not restate its previous holding in the business under IFRS 11;
b) they clarify that all tax consequences on dividend income (i.e. upon profit distribution) should be stated within profit or loss irrespective of how they occurred – upon the application of IFRS 12; and
c) they clarify if under special-purpose loans concluded to finance a specific asset remain outstanding after the asset is ready for its intended use or disposal, these loans become part of general-purpose financing, and capitalisation rate is calculated under IAS 23.

The management is in the process of survey, analysis and assessment of the effects of the changes made to the Conceptual Framework and the standards listed hereinabove (with the exception of IFRS 16) which will impact its accounting policies and the values and classifications of its assets, liabilities, transactions and results in the subsequent reporting periods.

Additionally, with regard to the stated below new standards, amended/revised standards and new interpretations that have been issued but not yet in force for annual periods beginning on 1 January 2018, the management has judged that they are unlikely to have a potential impact resulting in changes in the accounting policies and the financial statements of the Company:

IFRS 10 (amended) "Consolidated Financial Statements" and **IAS 28 "Investments in Associates and Joint Ventures"** – regarding the sale or contribution of assets between an investor and its associates or joint ventures (postponed effective date, to be determined by the IASB). These amendments address the accounting treatment of the sale or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the assets sold or contributed constitute in substance a business as defined in IFRS 3. If these assets as an aggregate do not meet the definition of a business, then the investor shall recognise gain or loss only to the extent of other unrelated investor's interests in the associate or joint venture. In cases of sale or contribution of assets, which as an aggregate constitute a business, the investor shall recognise the full gain or loss on the transaction. The amendments will be applied on a prospective basis. IABS postponed the initial date of application of these amendments for an indefinite period.

IFRS 17 "Insurance Contracts" (in force for annual periods beginning on or after 1 January 2021 – not endorsed by EC). This is an entirely new accounting standard on all types of insurance contracts, including some guarantees and financial instruments, and includes rules on recognition and measurement, presentation and disclosure. The standard will supersede the effective so far standard related to insurance contracts – IFRS 4. It establishes an entirely new overall model for insurance contracts' accounting, covering all relevant accounting aspects. It is not applicable to the Company's operations.

IFRS 9 (amended) "Financial Instruments" – regarding prepayment features with negative compensation in case of early repayment and modifications of financial liabilities (in force for annual periods beginning on or after 1 January 2019 – endorsed by EC). This change covers two aspects:
a) it amends the existing requirements in IFRS 9 by enabling entities to measure at amortised cost some financial assets and their passing of the "contractual cash flow characteristics" test, despite the availability of "prepayment features with negative compensation". Negative compensation exists when the terms of the contract allow the debtor to make an early repayment of the instrument prior to its maturity, and the amount repaid may differ from the outstanding principal and interest, but this negative compensation should be reasonable and relevant to the early termination of the contract. Prepayment itself is not a sufficient assessment indicator, i.e. depending on the interest rate prevailing at the time of termination a payment may also be made in favour of the contracting party initiating the early repayment. The calculation approach of this compensation payment must be the same for both type of payments - the case of an early repayment penalty and the case of an early repayment gain. Moreover, the respective asset should belong to the category of assets "held to collect contractual cash flows" according to the entity's business model;
b) it confirms that when a financial liability measured at amortised cost is modified but not derecognised, the effect of the modification should be recognised in the profit or loss. The effect is measured as the difference between the original negotiated cash flows and the ones, following the modification, discounted at the original effective interest rate.

IAS 28 (amended) "Investments in Associates and Joint Ventures" – regarding long term interests in associates and joint ventures (in force for annual periods beginning on or after 1 January 2019 – not endorsed by EC). The amendment clarifies that an entity should apply IFRS 9 including its impairment requirements regarding long term interests in associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. A change in the intents and plans of the management are not regarded as evidence for a change in use.

The Company keeps its accounting books in Bulgarian Levs (BGN), which is accepted as being its presentation currency. The data in the separate financial statements and the notes thereto is presented in thousand Bulgarian Levs (BGN'000) except where it is explicitly stated otherwise.

2.2. *Consolidated financial statements of the Company*

These financial statements represent the separate financial statements prepared in accordance with the requirements of the accounting and tax legislation of the Republic of Bulgaria. The Company has interest and exercises control over two subsidiaries (Note 16) and therefore, in accordance with the requirements of the Bulgarian Accountancy Act and based on IFRS 10 Consolidated Financial Statements, it also prepares consolidated financial statements.

2.3. *Accounting assumptions and estimates*

The presentation of the financial statements in accordance with International Financial Reporting Standards requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities, income and expenses and the disclosure of contingent receivables and payables as at the date of the financial statements. These estimates, accruals and assumptions are based on the information, which is available at the date of the financial statements, and therefore, the future actual results might be different from them (whereas in the conditions of financial crisis the uncertainties are more significant). The items presuming a higher level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the financial statements, are disclosed in Note 2.27

2.4. Comparatives

In these separate financial statements the Company presents comparative information for one prior year.

Where necessary, comparative data is reclassified (and restated) for the purpose of achieving comparability in view of the current year presentation changes.

An exception to this rule is the presentation of the impact of the first-time adoption of IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*. The Company has elected modified retrospective first-time adoption of IFRS 15 *Revenue from Contracts with Customers*. Upon adopting IFRS 9 *Financial Instruments*, the Company has applied the exceptions for its initial application. The adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* has resulted in changes in the concepts, classifications and models envisaged in the accounting policies, but these have not necessitated significant adjustments to the amounts of the respective items reflecting the respective items concerned and recognised in the financial statements. Comparative data for 2017 has not been restated. It has been presented and disclosed as per the requirements of IAS 39 *Financial Instruments: Recognition and Measurement* (repealed), IFRS 7

Financial Instruments: Disclosure, IAS 18 *Revenue* (repealed) and IAS 11 *Construction Contracts* (repealed) and the interpretations related thereto.

The effects of the initial adoption of the new IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* are presented in *Note* 39.

2.5. Functional currency and recognition of exchange differences

The Company's functional and reporting currency is the Bulgarian lev. Functional currency is the currency of the main economic environment in which a company operates and where cash is mostly generated and expensed. It reflects the basic transactions, events and conditions, which are significant for the entity. The Bulgarian Lev has been fixed to Euro, under the BNB Act, at the ratio BGN 1.95583:EUR 1.

Upon its initial recognition, a foreign currency transaction is recorded in the functional currency whereas the exchange rate to BGN at the date of the transaction or operation is applied to the foreign currency amount. Cash and cash equivalents, receivables and payables, as monetary reporting items, denominated in a foreign currency, are measured at 31 December at the closing exchange rate of BNB.

Net foreign exchange differences related to cash, trade receivables and payables, denominated in a foreign currency, are recognised in the statement of comprehensive income (within profit or loss for the year) when they arise and are presented net under 'other operating income/(losses)'.

The non-monetary items in the statement of financial position, which have been initially denominated in a foreign currency, are accounted for in the functional currency by applying the historical exchange rate at the transaction date and are not subsequently revalued at the closing exchange rate.

2.6. Revenue

2.6.1. Accounting policy applied as from 1 January 2018

2.6.1.1. ***Recognition of revenue from contracts with customers***
The Company's usual revenue is from the sale of finished products produced thereby (*Note* 3).

The Company's revenue is recognised when control over the products, goods and/or services promised in the *contract with the customer* is transferred to the customer. Control is transferred to the customer upon satisfaction of the contractual performance obligations through transfer of the promised products, goods and/or provision of the promised services.

Measurement of contracts with customers
The Company accounts for a *contract with a customer* only if upon its enforcement:
a. it has commercial essence and rationale;
b. the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform it;
c. each party's rights can be identified;

d. the payment conditions can be identified; and
e. it is probable that the Company will collect the consideration to which it is entitled upon performing its performance obligations.
In evaluating whether collectability of an amount of consideration is probable, the Company considers all relevant facts and circumstances of the transaction, including past experience, customary business practices, published rules and declarations made by the Company, collaterals and possibilities for satisfaction.

A contract for which any of the above criteria has not yet been met is subject to new assessment in each reporting period. The consideration received under such contracts shall be recognised as payable (*contract liability*) in the statement of financial position, until: a/ all criteria for recognizing a contract with a customer are met; b/ the Company meets its performance obligations and has received the whole or almost the whole remuneration (which is not recoverable); and/or c/ when the contract is terminated and the remuneration received is not recoverable.

Upon the initial measurement of its contracts with customers, the Company makes additional analysis and judgement whether two or more contracts should be combined and accounted for as a single contract, respectively whether the products, goods and/or services promised in each separate and/or combined contract should be accounted for as a single and/or multiple performance obligation(s).

Each promise to transfer goods which are distinct (in nature and in the context of the contract) is accounted for as a separate performance obligation.

The Company recognises revenue for *each separate performance obligation* at the level of *individual contracts with customers*, by analyzing the type, term and conditions of each particular contract.

2.6.1.2. ***Measurement of revenue under contracts with customers***

Revenue is measured based on the *transaction price* determined for each contract.
The transaction price is the amount of consideration to which an entity expects to be entitled, excluding amounts collected on behalf of third parties. Upon determining the transaction price, the Company takes into consideration the contractual conditions and its customary business practices, incl. the effect of variable consideration, the presence of a significant financing component, non-monetary consideration and consideration due to the customer (if any). In the case of contracts with more than one performance obligations, the transaction price is allocated between each performance obligation based on the standalone selling prices of each of the goods and/or services.

*The change in the scope or price (*or both) of the contract is accounted for as a separate contract and/or as part of the existing contract, depending on whether the change is related to the addition of goods and/or services which are distinct, and on the price determined for them. Depending on that:

a) the Company accounts for a contract modification as a separate contract if the scope of the contract increases because of the addition of promised goods or services that are distinct, and the price of the contract increases by an amount of consideration that reflects the entity's stand-alone selling prices of the additional promised goods or services;
b) the Company accounts for the contract modification as if it were a termination of the existing contract and the creation of a new contract (future application), if the remaining goods and/or services are distinct from the goods and/or services transferred before the contract modification, but the change in the contract price does not reflect the standalone selling price of the goods and/or services added;
c) the Company accounts for the contract modification as if it were a part of the existing contract (cumulative adjustment) if the remaining goods or services are not distinct and, therefore, form part of a single performance obligation that is partially satisfied.

2.6.1.3. ***Performance obligations under contracts with customers***

The revenue generated by the Company is mainly from the sale of finished products produced thereby. Sales of goods and services constitute an insignificant portion.

Sales of finished products are mostly to two main distributors – wholesalers, and to a foreign subsidiary. The other sales are realised in the country and abroad within the fertiliser season under one-off contracts.

As a whole, the Company has concluded that it acts a principal in its contracts with customers, since usually the Company controls the products, goods and/or services prior to their transfer to the customer.

Revenue from the sale of products

The Company produces and sells mostly ammonium nitrate, ammonia, ammonium hydrogen carbonate, etc. Upon sale, control over the products is transferred to the client *at a point in time*.

In the case of domestic sales, this is usually upon handover of the products or physical title thereof to the customer, when the customer may dispose of the products sold by managing the use and obtaining substantially all other rewards.

In the case of export sales, the judgement on the point in time when the customer obtains control over the products sold is made based on the INCOTERMS agreed.

Revenue from the sale of goods

The Company sells goods at an agricultural pharmacy which it rents. Upon the sale of goods, control over the goods is transferred to the client *at a point in time*, which is usually upon handover of the goods to the customer and the customer may dispose of the goods sold by managing the use and obtaining substantially all other rewards.

Revenue from the sale of services

The services provided by the Company include: IT services, and in some cses – transportation as an adjacent service to the sale of products.

Transport of the products sold

In some cases of export sales, the Company is responsible for transporting the goods to the agreed location; transportation is organised by the Company, and the transport cost is included (calculated) in the selling price (usually at cost). Depending on the contractual conditions, the transportation service may also be rendered after control over the products sold has been transferred to the customer. Until the transfer of control over the products, the sales of products and the transportation service are accounted for as a *single performance obligation*, since they constitute parts of an integrated product and/or service.

The transportation service following transfer of control over the products sold is accounted for as a *separate performance obligation*, since the transportation can be provided by another supplier (i.e. the customer may use the products sold with easily accessible resources), and the transportation service does not modify or amend the products sold in any way. In this case, the remuneration the Company expects to be entitled to (the transaction price) is allocated between the separate performance obligations based on their standalone selling prices. The standalone selling price of the products sold is determined based on the price list effective at the transaction's date, and the standalone selling price of the transport service is determined based on actual transport costs.

To render the transportation service, the Company uses transportation companies – subcontractors. The Company has determined it controls the services prior to their provision to the customer and therefore it acts in its capacity as principal, since a) it bears the responsibility for rendering the services and that the services are acceptable to the customer (i.e. the Company is responsible for fulfilling the promise in the contract irrespective of whether it performs the services itself or hires a third-party service supplier to perform them; and b) it negotiates the service price independently, without interference by the customer.

Revenue from the sales of transportation services are recognised *over time*, since it is not necessary for the work performed to date to be repeated if another party has to perform the remaining work, therefore, the customer receives and consumes rewards simultaneously with the service rendition. In order to measure the contract progress (stage of completion), the *input method* is used. This method has been determined as most appropriate to measure progress since it best describes the Company's activity regarding the transfer of control and satisfaction of obligations; respectively, it most accurately reflects the level of performance of obligations, in as far as the Company's efforts (costs incurred) are directly related to the transfer of the service to the customer. Progress is measured *based on the costs incurred versus the total costs planned for contract performance.*

Revenue from transport of the goods sold are stated within revenue from the sale of products, in as far as the transportation services accompany the sale of products.

IT and other services
Control over the services is transferred over the period of their rendition, since the customer simultaneously receives and consumes the benefits from the Company's operation. Revenue from sales is recognised over time by measuring the degree of completion of the Company's performance obligations (stage of completion). Revenue from IT services is stated within revenue from contracts with customers, and the other service revenue is stated as *other income* in the statement of comprehensive income, in as far as they have rather adjacent nature and are not treated as a main or key business activity.

2.6.1.4. Transaction price and payment terms
The transaction price usually includes the fixed selling price, as per a common or customer-specific price list. Selling prices are set in the framework contracts with wholesalers and the subsidiary, and for the other customers, they are individually set based on a price list.

Upon determining the transaction price, the Company also takes into consideration amounts (consideration), due to the customer, non-cash consideration and the presence of a significant financing component. In certain cases the Company collects short-term advances from customers. The pricing policy adopted and applied by the Company does not include forms of variable consideration. If such has been agreed, it is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The Company has conducted analysis and has determined that length of time between when it transfers the promised goods and/or services to the customer and when the customer pays for those goods and/or services is less than twelve months and the consideration agreed does not contain a significant financing component. The collected advance payments from the customer are stated in the statement of financial position as contract liabilities.

The Company usually does not incur costs to obtain contracts with customets or fulfil such contracts, which are admissible and subject to capitalisation.

2.6.1.5. *Contract balances*

Trade receivables and contract assets
A contract asset is the Company's right to consideration in exchange for the products, goods or services that it has transferred to a customer but is not unconditional (receivable accrual). If by transferring the products, goods and/or providing the services the Company performs its obligation to the customer to pay the respective consideration and/or before the payment is due, a contract asset is recognised for the consideration worked-out (which is conditional).

Recognised contract assets are reclassified as trade receivables when the right to consideration becomes unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

The initial measurement, subsequent measurement and impairment of trade receivables and contract assets are disclosed in *Note* 2.13

Contract liabilities

A contract liability is the consideration received from the customer and/or the unconditional right to receive consideration before it has performed its contractual obligations. Contract liabilities are recognised as revenue when (or as) the performance obligations are satisfied.

Contract assets and contract liabilities are stated on a separate line within current and non-current assets and liabilities in the statement of financial position and are disclosed separately. They are included within current assets when their maturity is within 12 months or within the Company's usual operating cycle, and the others are stated as non-current. Assets and liabilities from a single contract are stated net in the statement of financial position, even if they result from difference performance obligations in the contract.

Following their initial recognition, trade receivables and contract assets are subject to review for impairment pursuant to the conditions of IFRS 9 Financial Instruments. Impairment losses from contracts with customers are stated separately from other impairment losses.

2.6.2. Accounting policy applicable until 31 December 2017

Revenue is recognised on accrual basis and to the extent that it is probable that the economic benefits will flow to the Company and as far as the revenue can be reliably measured.

Upon sale of finished products, goods and materials, revenue is recognised when all significant risks and rewards of ownership have passed to the buyer.

Upon rendering of services, revenue is recognised by reference to the stage of completion of the transaction at the date of the statement of financial position, if this stage as well as the transaction and completion costs, can be measured reliably.

Revenue is measured on the basis of the fair value of the products, goods and services sold, net of indirect taxes (excise duties and VAT) and any discounts and rebates granted.

2.7. Expenses

Expenses are recognised by the Company as they are incurred, following the accrual and matching concepts but only as far as the latter does not result in recognising reporting items for assets or liabilities that do not satisfy the criteria of IFRS and the framework thereto.

Deferred expenses are put off and recognised as current expenses in the period when the contracts, whereto they refer, are performed.

Finance costs are included in the statement of comprehensive income (within profit or loss for the year) when incurred and comprise: interest expenses related to received loans as well as bank charges and other direct expenses on loans.

2.8. Property, plant and equipment

Property, plant and equipment (tangible fixed assets) are presented in the financial statements at cost (cost of acquisition) less the accumulated depreciation (excluding land) and any impairment losses in value.

Initial acquisition

Upon their initial acquisition, property, plant and equipment are valued at cost, which comprises the purchase price, customs duties and any other directly attributable costs of bringing the asset to working condition for its intended use.

The directly attributable costs include the cost of site preparation, initial delivery and handling costs, installation costs, professional fees for people involved in the project, non-refundable taxes, expenses on capitalised interest for qualifying assets, satisfying the requirements of IAS 23 and other. Components acquired together with or as addition to other specific tangible fixed assets, but have not yet been installed thereto, are capitalised to the amount of the basic item and depreciated using its residual useful life.

Upon self-construction of tangible fixed assets, the acquisition cost includes all direct costs related to the resources through which the respective items are constructed (salaries and insurances, raw materials and consumables, hired services, etc.).

The Company has set a value threshold of BGN 500, below which the acquired assets, regardless of having the features of fixed assets, are treated as current expense at the time of their acquisition.

Subsequent measurement

The chosen by the Company approach for subsequent measurement of property, plant and equipment, is the cost model under IAS 16, i.e. cost less any accumulated depreciation and any accumulated impairment losses in value.

Depreciation methods

The Company applies the straight-line depreciation method for property, plant and equipment. Depreciation of an asset begins when it is available for use. Land is not depreciated. The useful life per group of assets has been determined considering: their physical wear, the characteristic features of the equipment, the intentions for future use and the expected obsolescence.

The useful life set for any tangible fixed asset is reviewed at the end of each reporting period and in case of any material deviation from the future expectations of their period of use, the latter is adjusted as from the date of change.

The useful life set for any tangible fixed asset is reviewed at the end of each reporting period and in case of any material deviation from the future expectations of their period of use, the latter is adjusted as from the date of change.

The determined useful life per group of assets is as follows:

- buildings – 10-50 years;
- machinery and equipment – 2-25 years;
- computers – 2-5 years;
- motor vehicles – 3-15 years;
- furniture and fixtures – 2-15 years.

The determined useful life periods for non-current assets are reviewed at the end of each reporting year and upon identifying material deviations from future expectations for the assets' period of use, it is adjusted as at the date of change.

Subsequent costs

Repair and maintenance costs are recognised as current expenses as incurred. Subsequent costs incurred in relation to property, plant and equipment having the nature of replacement of certain components, significant parts and aggregates or improvements and restructuring, are capitalised in the carrying amount of the respective asset whereas the residual useful life is revised at the capitalisation date. At the same time, the non-depreciated part of the replaced components is derecognised from the carrying amount of the assets and is recognised in the current expenses for the period of restructure.

Impairment of assets

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount might permanently differ from their recoverable amount. If any indications exist that the estimated recoverable amount of an asset is lower than its carrying amount, the latter is adjusted to the recoverable amount of the asset. The recoverable amount of property, plant and equipment is the higher of fair value less costs to sell or the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions and assessments of the time value of money and the risks, specific to the particular asset. Impairment losses are recognised in the item 'Impairment and write-off of non-current assets' in the statement of comprehensive income (within profit or loss for the year).

Gains and losses on disposal (sale)

Tangible fixed assets are derecognised from the statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of 'property, plant and equipment' group are determined as the difference between the consideration the Company expects to be entitled to (sales revenue) and the carrying amount of the asset at the date when the customer obtains control thereon. They are stated net within 'Other operating income/(losses)' on the face of the statement of comprehensive income (within profit or loss).

2.9. Intangible assets

Intangible assets are stated in the separate financial statements at cost less accumulated amortisation and any impairment losses in value. They include licences for the use of software and emission quotas under EU emissions trading scheme and units of reduced emissions.

The Company classifies the emission quotas as current ones when it expects to realise them within one reporting period and as non-current ones – all others.

The Company applies the straight-line amortisation method for the intangible assets with a determined useful life of 5 years, except for the non-current emission quotas, which are written-off when used.

The carrying amount of the intangible assets is subject to review for impairment when events or changes in the circumstances indicate that the carrying amount might exceed their recoverable amount. Then impairment is recognised as an expense in the statement of comprehensive income (within profit or loss for the year).

Intangible assets are derecognised from the statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of intangible assets are determined as the difference the consideration the Company expects to be entitled to (sales revenue) and the carrying amount of the asset at the date when the customer obtains control thereon. They are stated net within 'Other operating income/(losses)' on the face of the statement of comprehensive income (within profit or loss).

EU emissions trading scheme and units of reduced emissions

On initial acquisition the allocated quotas for greenhouse gases from the National register for trade with greenhouse gas emissions in relation to the third period from the EU emissions trading scheme (EU ETS) are recognised as intangible assets at nominal value (zero value). The purchased quotas are recognised on initial acquisition at cost and are classified as current or non-current ones depending of the intents for their use. The Company has chosen to apply the cost model for subsequent measurement of non-current emission quotas, i.e. costs less accumulated impairment losses. Current emission quotas are recognised within expenses (cost of finished products) when they are written-off within the current reporting period. In addition, the Company recognises a liability in the statement of financial position when the level of noxious gases for a certain period exceeds the level of allocated and available quotas. The liability is measured at the acquisition cost of purchased quotas – until reaching the level of the quotas held by the Company, and are revalued at current market price at the date of the statement of financial position – for the excess over the available quotas whereas the changes in the liability amount are recognised in the statement of comprehensive income (within the profit or loss for the year).

The company applies a method for writing-off the harmful gas quotas on the basis of the quotas actually used for the period.

2.10. Investments in subsidiaries

Long-term investments representing interest in subsidiaries are presented in the financial statements at acquisition cost (cost) being the fair value of the consideration paid. Investments in subsidiaries are not traded in the stock exchange. This circumstance does not provide opportunity for ensuring active market price quotations in order to determine reliably the fair value of these shares. In addition, the future functioning of a part of these companies is related to some uncertainties that affect the ability of making reasonable and justified long-term assumptions for the fair value calculation of their shares through other valuation methods.

In accordance with the requirements of IFRS 10 Consolidated Financial Statements the Company controls other entities if and only if it has achieved all of the following:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee;
- ability to use its power over the investee to affect the amount of investor's returns.

Base on the above criteria, the Company has concluded that it controls all entities in which it holds directly or indirectly more than 50% of the voting shares.

The investments in subsidiaries owned by the Company are subject to review for impairment. Where conditions for impairment are identified, the impairment is recognised in the statement of comprehensive income (within profit or loss for the year). The impairment amount reflects the difference between the cost of investments acquisition and the present value of expected future cash flows, discounted at the end of reporting period. Impairment losses are recognised in the item 'Impairment and write-off of non-current assets' on the face of the statement of comprehensive income (within profit or loss for the year).

In purchases and sales of investments in subsidiaries the date of trading (conclusion of the deal) is applied.

Investments are derecognised when the rights related thereto are transferred to third parties due to existing legal grounds for that and thus the control over the economic benefits from the investments is being lost.

2.11. *Other long-term equity investments*

The other long-term equity investments are non-derivative financial assets constituting shares and interest in the equity of other entities (minority interest) held with a long-term perspective.

Initial measurement

Equity investments are initially recognised at cost, being the fair value of the consideration given including the direct expenses associated with the investment (financial asset) acquisition.

Subsequent measurement

The Company's equity investments, representing shares in other companies (minority interest), are measured at fair value through other comprehensive income. The effects therefrom are transferred to retained earnings upon disposal of the respective investment. се оцененяват по справедлива стойност с отразяване на ефектите в друг всеобхватен доход.

Accounting policy applied until 31 December 2017

Until 31 December 2017, the equity investments held by the Company were stated in the statement of financial position at acquisition cost, since their shares are not traded on an active market, nor have market quotes on an active market, and the assumptions for the application of alternative valuation techniques are related too uncertain to determine their fair value in a sufficiently reliable degree.

The securities owned by the Company are reviewed for impairment at each statement of financial position date. If any such conditions are identified, the impairment is reported in the statement of comprehensive income (within profit or loss for the year).

2.12. Inventories

Inventories are valued at the lower of acquisition cost (cost) and net realisable value.

Expenses incurred at bringing a certain product to its current condition and location are included in the cost (acquisition cost) as follows:

- Commercially available raw and other materials – all delivery costs, including the purchase price, import customs duties and charges, transportation expenses, non-refundable taxes and other expenses, incurred for rendering the materials ready for usage;
- Finished products and work in progress – cost of direct materials and labour and the attributable proportion of the manufacturing overheads, based on normal operating capacity of production facilities, but excluding administrative expenses, exchange rate gains and losses and borrowing costs.

Production overheads are included in the cost of finished and semi-finished products based on normal operating capacity of the production facilities. The Company has chosen to allocate them to products on the basis of the quantity of articles produced.

Upon putting into production (sale) of inventories, the weighted average cost method is applied.

The net realisable value represents the estimated selling price of an asset in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

2.13. Trade receivables

Trade receivables constitute the Company's unconditional entitlement to consideration under contracts with customers and other counterparties (i.e. it is only dependent on the passage of time before payment of the consideration).

Initial measurement

Trade receivables are initially recognised and carried at fair value based on the transaction price, which is usually equal to the invoice amount, unless they contain a significant financial component, which is not additionally charged. In this case they are recognised at their present amount determined at a discount equal to the interest associated to the customer-debtor.

Subsequent measurement

The Company holds trade receivables only for the purpose of collecting contractual cash flows and subsequently measures them at amortised cost less the amount of impairment accumulated for credit losses (Note 20).

Impairment

Accounting policy applied as from 1 January 2018

The Company applies the expected credit losses model for the entire term of all trade receivables, using the simplified approach under IFRS 9, and based on the matrix model for loss percentage.

Accounting policy applied until 31 December 2017

The impairment of trade receivables is measured based on the incurred losses model. An estimate of allowances for doubtful and bad debts is made when significant uncertainty exists as to the collection of the full amount or a part of it.

Bad debts are written-off when the legal grounds for this occur.

The impairment of receivables is accrued and stated through the respective corresponding allowance account for each type of receivable within “Impairment of financial assets, net” on the face of the statement of comprehensive income (within profit or loss for the year).

2.14. *Cash and cash equivalents*

Cash includes cash in hand and cash in current accounts, and cash equivalents – bank deposits with original maturity up to three months, and funds in deposits with longer maturity which are readily available to the Company under its agreements with the banks over the deposits’ terms.

Subsequent measurement

Accounting policy applied as from 1 January 2018

Cash and cash equivalents at banks are subsequently measured at amortised cost, less the impairment accumulated for expected credit losses.

Accounting policy applied until 31 December 2017

Cash and cash equivalents at banks are subsequently measured at amortised cost, less the impairment accumulated for actually incurred credit losses.

For the purpose of the statement of cash flows:

- cash proceeds from customers and cash paid to suppliers are presented at gross amount, including value added tax (20%);

- interest under investment loans received are included as payments for financing activities, and the interest under loans servicing current operations (working capital) are included within operating activities.;

- the VAT paid under purchases of non-current assets from foreign suppliers is stated in the "taxes paid" line, and the VAT paid under purchases of non-current assets from local suppliers – in the "payable to suppliers" line within cash flows from operating activities, in as far as it is involved and recovered together and as part of the Company's operational flows for the respective period (month).

- cash permanently blocked for over 3 months is not treated as cash and cash equivalents.

- payments for the purchase of greenhouse emission quotas classified as current are included as payments for operating activities (payments to suppliers);
- the grant received (mainly for electricity) is included in cash flows from financing activities.

2.15. *Trade and other payables*

Trade and other current amounts payable in the statement of financial position are presented on the basis of the original invoice amount (acquisition cost), which is the fair value of the consideration to be paid in the future for assets and services received. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the payables are initially valued at their fair value based on their present value at a discount rate applicable for the Company, and subsequently – at amortised cost, after deducting the interest incorporated in their nominal value and determined following the effective interest method.

2.16. Interest-bearing loans and other borrowings

In the statement of financial position, all loans and other borrowings are initially presented at acquisition cost (nominal amount) which is designated as the fair value of the transaction's deliverable, net of the direct costs related to these loans and borrowings. Following their initial recognition, interest-bearing loans and other borrowings are subsequently measured and presented in the statement of financial position at amortised cost, determined by means of the effective interest method. The amortised cost is calculated by considering all charges, commissions and other costs, including discounts and premiums associated with these loans. Gains and losses are recognised in the statement of comprehensive income (within profit or loss for the year) as finance income or expenses (interest) over the amortisation period or when the payables are written-off or reduced.
Interest costs are recognised for the term of the financial instrument based on the effective interest method.

Interest-bearing loans and other borrowings are classified as current, except for the portion thereof for which the Company has an unconditional right to settle its obligation within over 12 months from the end of the reporting period.

2.17. Leases

Finance lease

Lessee

Finance leases, which transfer to the Company a substantial part of all risks and rewards incidental to ownership of the leased asset, are capitalised in the statement of financial position of the lessee and are presented as leased item of property, plant and equipment at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The lease payments are apportioned between the finance cost (interest) and the attributable portion of the lease liability (principal) so as to achieve a consistent interest rate on the remaining outstanding principal balance of the lease liability. Interest expenses are recognised in the statement of comprehensive income (within profit or loss for the year).

The assets acquired under finance lease agreements are depreciated based on the asset's useful life within the lease term.

Operating lease

Lessee

Leases where the lessor keeps a substantial part of all risks and economic benefits incidental to the ownership of the specific asset are classified as operating leases. Therefore, the lease is not included in the lessee's statement of financial position.

Operating lease payments are recognised as expenses in the statement of comprehensive income (within profit or loss for the year) on a straight-line basis over the lease term.

Lessor

The lessor continues to hold a substantial proportion of all risks and economic rewards pursuant from ownership of the leased asset. Therefore, this asset is included within its property, plant and equipment, and its depreciation over the lease term is included within the lessor's current expenses.

Lease income from operating leases is recognised on a straight-line basis over the lease term in the statement of comprehensive income (within profit or loss for the year). Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

2.18. Employee benefits

The employment and social security relations with the workers and employees of the Company are based on the provisions of the Labour Code and the effective social security legislation in Bulgaria.

Short-term benefits

Short-term employee benefits in the form of remuneration, bonuses and social payments and benefits (payable within 12 months after the end of the period when the employees have rendered the service or have met the required terms and requirements) are recognised as an expense in the statement of comprehensive income (within profit or loss for the year) in the period when the service thereon has been rendered or the requirements for their receipt have been met and as a current liability (less any amounts already paid and deductions due) at their undiscounted amount. The Company's obligations for social security and health insurance are recognised as a current expense and liability at their undiscounted amount together with the relevant benefits and within the period of the respective income to which they are related.

At the date of the annual financial statements, the Company measures the estimated costs on the accumulating compensated absences, which amount is expected to be paid as a result of the unused entitlement. The measurement includes the estimated expenses on the employee's remuneration and the statutory social security and health insurance contributions due by the employer thereon.

Long-term retirement benefits
Defined contribution plans
The major duty of the Company in its capacity as an employer is to make the mandatory social security contributions for the hired employees to the Pensions Fund, the Supplementary Mandatory Pension Security (SMPS) Fund, to the General Diseases and Maternity (GDM) Fund, the Unemployment Fund, the Labour Accident and Professional Diseases (LAPD) Fund and for health insurance. The rates of social security and health insurance contributions are defined under the Law on the Budget of State Social Security and the Law on the Budget of National Health Insurance Fund for the respective year. The contributions are split between the employer and employee in line with rules of the Social Security Code (SSC) at the ratio 60:40 (2017: 60:40).

These social security and pension plans, applied by the Company in its capacity of an employer, are based on the Bulgarian legislation and are defined contributions plans. Under these plans, the employer pays defined monthly contributions to the government funds as follows: Pensions Fund, GDM Fund, Unemployment Fund, LAPD Fund as well as to universal and professional pension funds – on the basis of rates fixed by law, and has no legal or constructive obligation to pay further contributions if the funds do not hold sufficient means to pay the respective individuals the benefits they have worked-out over the period of their service. The obligations referring to health insurance are analogous.

There is no established and functioning private voluntary social security fund at the Company.

The contributions payable by the Company under defined contribution plans for social security and health insurance, are recognised as a current expense in the statement of comprehensive income (within profit or loss for the year) unless a particular IFRS requires this amount to be capitalised to the cost of an asset, and as a current liability at their undiscounted amount along with the accrual of the respective employee benefits to which the contributions refer and in the period of rendering the underlying service.

Defined benefit plans
In accordance with the Labour Code, the Company in its capacity as an employer in Bulgaria is obliged to pay an indemnity to its personnel when coming of age for retirement, at an amount which, depending on the length of service with the entity, varies between two and six gross monthly salaries at the employment termination date. In their nature these are unfunded defined benefit schemes.

The calculation of the amount of these liabilities necessitates the participation of qualified actuaries in order to determine their present value at the date of the financial statements, at which they shall be presented in the statement of financial position, and respectively, the change in their value – in the statement of comprehensive income as follows:

(a) current and past service costs, interest costs and effects of curtailment and settlements are recognised immediately when incurred and are presented within current profit or loss in the item 'employee benefits expense';
(b) the effects of obligation remeasurement, which in substance represent actuarial gains and losses, are recognised immediately when incurred and are presented within other comprehensive income in the item 'remeasurement of defined benefit pension plans'. Actuarial gains and losses arise from changes in the actuarial assumptions and experience adjustments.

At the end of each reporting period, the Company assigns certified actuaries who provide their report with calculations regarding the long-term retirement benefit obligations. For this purpose, they apply the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows, which are expected to be paid within the maturity of this obligation, and using the interest rates of long-term government bonds of similar term, quoted in Bulgaria where the Company itself operates.

Termination benefits
The Company recognises employee benefit obligations on employment termination before the normal retirement date when it is demonstrably committed, based on announced plan, to terminating the employment contract with the respective individuals without possibility of withdrawal or in case of formal issuance of documents for voluntary redundancy. Termination benefits due more than 12 months are discounted and presented in the statement of financial position at their present value.

2.19. Share capital and reserves

Neochim AD is a joint-stock company and is obliged to register with the Commercial Register a specified share capital, which should serve as a security for the creditors of the Company for execution of their receivables. Shareholders are liable for the obligations of the Company up to the amount of the capital share held by each of them and may claim returning of this share only in liquidation or bankruptcy proceedings.

The Company reports its share capital at the nominal value of the shares registered in the Commercial Register.

According to the requirements of the Commercial Act and the Articles of Association, the Company is obliged to set aside a Reserve Fund (statutory reserves) by using the following sources:

- at least one tenth of the profit, which should be allocated to the Fund until its amount reaches one tenth of the share capital or any larger amount as provided in the Articles of Association;
- other sources as provided for by a decision of the General Meeting of Shareholders.

The amounts in the Fund can only be used to cover annual loss or losses from previous years. When the amount of the Fund reaches the minimal value specified in the Articles of Association the excess may be used for increasing the share capital.

Treasury shares are presented in the statement of financial position at cost (acquisition cost) whereas the Company's equity is decreased with the gross amount of treasury shares. Gains or losses on sales of treasury shares are carried directly to Company's equity in the 'Retained earnings' component.

The component from restatement of retirement benefit obligations (defined benefits plan) is set aside from the remeasurement of the payables to personnel upon retirement, which in substance represent actuarial gains and losses, and are recognised immediately when incurred. They are presented within other comprehensive income in the item 'remeasurement of defined benefit pension plans'.

2.20. Income taxes

Current income taxes are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act. The nominal income tax rate for year 2018 was 10% (2017: 10%).

Deferred income taxes are determined using the liability method on all temporary differences, existing at the date of the financial statements, between the carrying amounts of the assets and liabilities and their tax bases.

Deferred tax liabilities are recognised for all taxable temporary differences, with the exception of those originating from recognition of an asset or liability, which has not affected the accounting and the taxable profit/(loss) at the transaction date.

Deferred tax assets are recognised for all deductible temporary differences and the carry-forward of unused tax losses, to the extent that it is probable they will reverse and a taxable profit will be available or taxable temporary differences might occur, against which these deductible temporary differences can be utilised, with the exception of the differences arising from the recognition of an asset or liability, which has affected neither the accounting nor taxable profit/(loss) at the transaction date.

The carrying amount of all deferred tax assets is reviewed on the preparation of the statement of financial position and reduced to the extent that it is probable that they will reverse and sufficient taxable profit to be generated or occurring in the same period taxable temporary differences to allow the deferred tax asset to be deducted or compensated.

Deferred taxes related to items that are accounted for as other components of comprehensive income or an equity item in the statement of financial position, are also reported directly in the respective component of the comprehensive income or the equity item in the statement of financial position.

Deferred tax assets and liabilities are measured at the tax rates and on the bases that are expected to apply to the period and type of operations when the asset is realised or the liability – settled (repaid) on the basis of the tax laws that have been enacted or substantively enacted, and at tax rates of the country (Bulgaria) under the jurisdiction of which the respective deferred asset or liability is expected to be recovered or settled.

The deferred tax assets of the Company are presented net against its deferred tax liabilities when and as much as it is the tax payer for them in the respective jurisdiction (Bulgaria), and this is only in cases where the Company is legally entitled to perform or receive net payments of current tax liabilities or income tax receivables.

The deferred income tax liabilities of the Company as at 31 December 2018 were assessed at a rate valid for 2019, at the amount of 10%.

2.21. Earnings /(loss) per share

Basic earnings /(loss) per share are calculated by dividing net profit or loss attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period.

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding during at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. This factor represents the number of days that the shares are outstanding as a proportion of the total number of days in the period.

In case of a capitalisation, bonus issue or splitting, the number of the outstanding ordinary shares as at the date of such event, is adjusted as to reflect the proportional change in the number of outstanding ordinary shares as if the event has occurred in the beginning of the earliest presented period.

Diluted earnings per share are not calculated because no dilutive potential ordinary shares have been issued.

2.22. Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle (repay) the obligation. The measurement of provisions is based on the best estimate, made by the management at the date of the statement of financial position, concerning the expenses that will be incurred for the settlement of the particular obligation.

The estimate is discounted if the obligation is long-term. When part of the resources required to settle the obligation are expected to be recovered by a third party, the Company recognises a receivable if it is virtually certain that reimbursement will be received, its amount can be reliably measured and income (credit) is recognised in the same item of the statement of comprehensive income (within profit or loss for the year) where the provision itself is presented.

2.23. Government grant (grant from public institutions)

Government grants are different forms of grants from the state (local and central authorities and institutions) and/or international agreements and organizations.

The government grant (a grant from public institutions) is initially recognised as deferred income (financing) when there is reasonable assurance that it will be received by the Company and that the latter has complied and complies with the associated thereto terms and requirements.

The government grant (a grant from public institutions) that compensates the Company for expenses incurred is recognised in current profit or loss on a systematic basis in the same period in which the expenses are recognised or if it has been legally determined and obtained in a subsequent period – in this period.

The government grant (a grant from public institutions) that compensates investment expenses incurred to acquire an asset is recognised in current profit or loss on a systematic basis over the useful life of the asset usually at the amount of the recognised depreciation charge.

2.24. Financial instruments

2.24.1. Accounting policy applied as from 1 January 2018

A financial instrument is any contract that simultaneously gives rise to a financial asset at one entity and a financial liability or equity instrument at another entity.

Financial assets

Initial recognition, classification and measurement

Upon initial recognition, the Company's financial assets are classified in three groups, based on their subsequent measurement: at amortised cost; at fair value through other comprehensive income, and at fair value through profit or loss.

The Company initially measures financial assets at fair value, and in the case of financial assets which are not stated at fair value through profit and loss, the direct transaction costs are added. An exception to this rule are trade receivables that do not contain a significant financing component – they are measured based on the transaction price determined under IFRS 15.

The purchases and sales of financial assets whose conditions require asset delivery within a certain period, usually pursuant to legislation or the effective practice of the respective market (regular way purchases), are recognised using trade date accounting, i.e. on the date when the Company committed to purchase or sell the asset.

The classification of financial assets upon their initial recognition depends on the characteristics of the contractual cash flows of the respective financial asset and on the Company's business model for management thereof. In order for a financial asset to be classified and measured at amortised value or at fair value through other comprehensive income, its conditions should give rise to cash flows that are "solely payments of principal and interest (SPPI)" on the principal amount outstanding. For this purpose, analysis is performed by means of SPPI test at instrument level.

The Company's business model for the management of financial assets reflects the way the Company manages its financial assets to generate cash flows. The business model determines if cash flows are generated only by the collection of contractual cash flows, the sale of financial assets, or both.

Subsequent measurement

For the purpose of subsequent measurement, the Company's financial assets are classified as financial assets at amortised cost (debt instruments) and financial assets at fair value through other comprehensive income without recycling of the cumulative gains and losses (equity instruments).

The Company measures a financial asset at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are

solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method. They are subject to impairment. Gains and losses are recognised in the statement of comprehensive income (within profit or loss for the year) upon asset disposal, modification or impairment.

The Company's financial assets at amortised cost include: cash and cash equivalents at banks, and trade receivables, including from related parties.

The Company has made an irrevocable commitment to classify into the category of financial assets at fair value through other comprehensive income (equity instruments) it minority equity investments which it holds in the long term. These instruments are not traded on stock exchanges and are stated in the statement of financial position within the "other long-term equity investments" item.

Derecognition

A financial asset (or, when applicable, a portion of a financial asset or a group of similar financial assets) is derecognised from the Company's statement of financial position, when:

- the rights to cash flows from the asset have expired, or
- the rights to cash flows from the asset have been transferred or the Company has assumed an obligation to pay in full the cash flows received, without undue delay, to a third party under a transfer agreement, in which: a) the Company has transferred substantially all risks and rewards from ownership of the asset; or b) the Company has neither transferred nor retained substantially all risks and rewards from ownership of the asset, but has transferred control thereon.

When the Company has transferred its right to obtain cash flows from the asset or has concluded a transfer agreement, it assesses the extent to which it has retained the risks and rewards of ownership. When the Company has neither transferred, not retained substantially all risks and rewards from ownership of the financial assets, it continues to recognise the asset transferred to the extent of its continuing interest therein. In this case, the Company also recognises the respective liability. The transferred asset and the related liability are measured on a basis reflecting the rights and obligations that the Company has retained.

Continuing involvement in the form of a guarantee on the transferred asset is measured at the lower of the two values: the initial carrying amount of the asset and the maximum amount of consideration that the Company may be required to pay.

Impairment of financial assets

The Company recognises an allowance (impairment provision) for expected credit losses for all debt instruments which are not carried at fair value through profit or loss. Expected credit losses are calculated as the difference between the contractual cash flows due under the contractual conditions, and all cash flows the Company expects to receive, discounted at the initial effective interest rate. Expected cash flows also include cash flows from the disposal of a collateral held or other credit enhancements which constitute an integral part of the contrac terms.

To calculate the expected credit losses for *loans to related and third parties and contract assets,* the Company has elected and applies a simplified approach based on a matrix to calculate expected credit losses and does not monitor subsequent changes to their credit risk. Using this approach, it recognises an allowance (impairment provision) based on expected credit losses for the lifetime of receivables at each reporting date. The Company has developed and applies a provisioning matrix based on historical experience with credit losses, adjusted for forecast factors applicable to debtors and for the economic environment, for which a correlation has been established with the percentage of credit losses.

In order to calculate expected credit losses for cash and cash equivalents at banks, the the Company applies a „three-stage" impairment model based on changes versus the initial recognition of the credit quality of the financial instrument (asset). For this purpose it applies a rating model by using the banks' ratings as determined by internationally recognised rating firms such as Moody's, Fitch, S&P, BCRA and Bloomberg. Based on this, on the one hand, public data is used for the PD (probability of default) of the respective bank, and oth the other hand, based on the change in a bank's rating, the Company determines the presence of increased credit risk. Loss given default is measured depending the presence of secured amounts in the bank accounts.

Impaired financial assets are derecognised when no reasonable expectation exists to collect contractual cash flows.

Financial liabilities

Initial recognition, classification and measurement

The Company's financial liabilities include trade and other payables, loans and borrowings. Upon their initial recognition, financial liabilities are classified as: liabilities at amortised cost.
All financial liabilities are initially recognised at fair value, and in the case of loans and borrowings and trade and other payables, net of direct transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification. They are usually classified and measured at amortised cost.

Loans and borrowings (incl. payables to suppliers)

Following their initial recognition, the Company measures interest-bearing loans and borrowings at amortised cost, applying the effective interest method. Gains and losses are recognised in the statement of comprehensive income (within profit or loss for the year) when the respective financial liability is derecognised, as well as through amortisation based on the effective interest rate.

The amortised cost is calculated by taking into consideration any discounts or premiums at acquisition, as well as fees or costs that constitute an integral part of the effective interest rate. Amortisation is stated as a "finance expense" in the statement of comprehensive income (within profit or loss for the year).

Derecognition

Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled or expires. An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the respective carrying amounts is recognised in the statement of comprehensive income (within profit or loss for the year).

2.24.2 Accounting policy applicable until 31 December 2017

Financial instruments

Financial assets

The Company classifies its financial assets in the following categories: loans and receivables and available-for-sale assets. The classification depends on the nature and purpose (designation) of the financial assets at the date of their acquisition. The management determines the classification of Company's financial assets at the time of their initial recognition on the statement of financial position.

The Company usually recognises its financial assets on the statement of financial position on the trade date, being the date on which the Company commits (undertakes an ultimate engagement) to purchase the respective financial assets. All financial assets are initially measured at their fair value plus the directly attributable transaction costs except for the assets at fair value though profit or loss. The latter are recognised at fair value while the directly attributable transaction costs are recognised immediately in the statement of comprehensive income (within profit or loss for the year).

Financial assets are derecognised from Company's statement of financial position when the rights to receive cash (flows) from these assets have expired or have been transferred, and the Company has transferred substantially all the risks and rewards of ownership of the asset to another entity (person). If the Company retains substantially all risks and rewards associated with the ownership of a particular transferred financial asset, it continues to recognise the transferred asset on its statement of financial position but also recognises a secured liability (a loan) for the consideration received.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured in the statement of financial position at their amortised cost using the effective interest method less any allowance for impairment. These assets are included in current assets when having maturity within 12 months or within a common operating cycle of the Company while the remaining ones are classified as non-current assets. This group of financial assets includes: loans granted, trade receivables, other receivables from counterparts and third parties, cash and cash equivalents from the statement of financial position.

Interest income on loans and receivables is recognised by applying the effective interest rate except for short-term receivables (less than 12 months) where the recognition of such income would be unjustifiable as immaterial and within the common credit terms. It is presented in the statement of comprehensive income (within profit or loss for the year) under 'Other operating income, net'.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative assets that are either designated as available-for-sale or are not classified in any other category. These are usually unlisted or not actively traded shares, or shares in other companies, acquired for investment purposes, and are included within non-current assets, except where the Company intends to sell them in the following 12 months and is actively searching for a buyer.

Available-for-sale financial assets are measured at acquisition cost because they are in closed-end companies for which it is difficult to find analogous market transactions data or due to the circumstance that the future operation of these companies is related to certain doubts so that reasonable and justifiable long-term assumptions are possible for the calculation of the fair value of their shares through other alternative valuation methods.

Dividends on shares, classified as available-for-sale financial assets, are recognised in the statement of comprehensive income (within profit or loss for the year) when the Company's right to receive the dividends is established.

Financial liabilities and equity instruments

The Company classifies debt and equity instruments either as financial liabilities or as equity depending on the substance and the conditions of the contractual arrangements with the respective counterpart regarding these instruments.

Financial liabilities
Financial liabilities include loans and payables to suppliers and other counterparts. They are initially recognised in the statement of financial position at fair value net of the directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method.

2.25. Fair value measurement

IFRS 13 is applied when another IFRS requires or allows fair value measurement or disclosure of the measurement at fair value both of financial instruments and non-financial items. The standard is not applicable for share-based payment transactions that fall within the scope of IFRS 2 *Share-based Payment*, lease transactions within the scope of IAS *17 Leases* and with regard to measurements that have some similarities to fair value but are not fair value – e.g. measurement at net realisable value under IAS 1 *Inventories* or at value in use under IAS 36 *Impairment of Assets*.

Some of Company's assets and liabilities are measured and presented and/or just disclosed at fair value for financial reporting purposes. Such are: on a recurring (annual) basis – financial assets at fair value through other comprehensive income - *certain trade and other receivables and payables,.*

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in a principal (or most advantageous) market under current market conditions. According to IFRS 13, fair value is an exit price no matter if this price is directly observable or has been estimated by another valuation technique.

Fair value is measured from the perspective of using the assumptions and judgments that potential market participants would use when pricing the respective asset or liability assuming that market participants act in their economic best interest.

In measuring the fair value of non-financial assets the starting point is always the assumption what would be the highest and best use of the particular asset for the market participants.

All assets and liabilities that are measured and/or disclosed in the financial statements at fair value are categorised within the following fair value hierarchy, namely:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques that use inputs other than directly quoted prices but are observable, either directly or indirectly, including where the quoted prices are subject to significant adjustments; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

In accordance with Company's accounting policy, at the end of the annual reporting period the specifically designated individual, engaged with measurements, performs a general analysis of collected in advance information about the movement in the values of assets and liabilities that are subject to valuation or to a disclosure at fair value, the type of available data and the possible factors for the observed changes, and proposes for approval to the Executive Director the approach for measuring the fair value of the respective assets and liabilities at that date.

2.26. Segment reporting

A reporting segment is a distinguishable component of the Company that engages in business activities from which it may earn revenue and incur expenses (including revenue and expenses relating to transactions with other components of the Company), whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and assesses its performance, and for which discrete financial information is available. The Company has a single reporting segment.

2.27. Critical accounting judgments on applying the Company's accounting policies. Key estimates and assumptions of high uncertainty

Calculation of expected credit losses for loans and guarantees granted, trade receivables and contract assets – as from 1 January 2018

The measurement of expected credit losses for financial assets stated at amortised cost (loans granted, contract receivables and assets), as well as for financial guarantees granted is an area that requires the use of complex models and material assumptions for future economic conditions and the credit behaviour of customers and debtors (for instance, the probability of counterparties not meeting their obligations and the pursuant losses).

In order to apply these requirements, the Company's management makes a number of material judgements, such as: a) determining criteria to identify and measure significant credit risk increases; b) selection of suitable models and assumptions to measure expected credit losses; c) establishing groups of similar financial assets (portfolios) for the purpose of measuring expected credit losses; d) establishing and assessing the correlation between historical default rates and the behaviour of certain macro indicators to reflect the effects of forecasts for these macro indicators in the calculation of expected credit losses (*Note 20.*).

Regarding trade receivables, including from related parties

The Company uses a provisioning matrix to calculate expected credit losses from trade receivables and contract assets. The provision rates are based on days past due for groups from different customer segments (portfolios) sharing similar loss models (type of client by sector).
Each provisioning matrix is initially based on detailed historical observation of default rates in the Company's receivables and the movement of receivables by delay groups. Usually, historical data is used for at least three years as per the financial statement's date. Additionally, the Company calibrates the matrix so as to adjust historically ascertained dependence for credit losses with forecast information by also using probability scenarios. For instance, if forecast economic conditions are expected to aggravate in the next year, which might result in delays for a certain sector, the historic default rates are adjusted. At each reporting date, the observable historical default rates are updated and the effects of changes in the estimates are accounted for.
The assessment of the relation between observable historical default rates, the forecast economic conditions and expected credit losses is a significant accounting judgement. The amount of expected credit losses is sensitive to changes in circumstances and forecast conditions. The Company's historical credit closes and the forecast economic conditions may deviate from actual collection rates in the future.
Information about expected credit losses from trade receivables and contract losses is disclosed in Note 19 and *Note 20*.

In 2018, the impairment stated amounts to BGN 266 thousand (at 1 January 2018: BGN 156 thousand) (*Note 8*).

<u>*Regarding cash*</u>
In order to calculate expected credit losses for cash and cash equivalents at banks, the the Company applies a „three-stage" impairment model established by IFRS 9. For this purpose it applies a rating model by using the banks' ratings as determined by internationally recognised rating firms such as Moody's, Fitch, S&P, BCRA and Bloomberg. Based on this, on the one hand, public data is used for the PD (probability of default) of the respective bank, and oth the other hand, based on the change in a bank's rating, the Company determines the presence of increased credit risk. Loss given default is measured based on the above formula.

The Company's management has conducted analysis and has determined that cash and cash equivalents contain an insignificant expexted credit loss, close to zero, and has decided to not account for it in the financial statements.

Impairment of receivables – until 31 December 2017

Impairment of trade receivables is recognised when there are objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter insolvency proceedings or other financial reorganisation, and payment past due by more than 90 days, are considered by the management when it defines and classifies a particular receivable as impaired.

The impairment amount is the difference between the carrying amount of the receivable and the present value of the estimated future cash flows, discounted at the original effective interest rate. For this purpose, different scenarios of the forecasts are done, which incorporate differing assumptions for the risks, uncertaintities and probabilities for the future realization of the cash flows. These scenarios are carefully analyzed by the Management and the results from them are weighted in the calculations of the recoverable value of the overdue receivables.

The receivables assessed as uncollectable are 100% impaired. The carrying amount is adjusted through the use of an allowance account for accumulating all impairments and the amount of the impairment loss for the period is recognised in the statement of comprehensive income within 'other expenses'. In case of a subsequent reversal of impairment loss, it is stated as other income against a decrease in the allowance account. When a particular receivable is assessed as uncollectable, it is written-off against the allowance account.

Recognition and measurement of provisions

Production waste repositories
The Company has recognised a provision for closing-down of industrial waste repositories (landfills) and for recultivation of the terrain based on the simultaneous existence of:

- legal obligation by virtue of §4, Para of the transitional and final provisions of Ordinance 6 dated 27 August 2013 and Art. 14 of Directive 1999/31/EC on discontinuing operation, closure and/or alignment of existing waste landfills, and
- plan for rendering the repository in line with the legal requirements, which has been approved in terms of types of activities and terms and forecasted values by the Ministry of Environment and Water in accordance with the requirements of the above Ordinance.

In order to determine the amount of the provision, the Company has assigned certified experts-ecologists to prepare an estimate of costs by type of activity necessary for the execution of the obligation and to issue a special purpose report and a budget account. The amounts, expected to be utilised over a period longer than one year, are discounted.

Quotas for greenhouse gases
At the end of each reporting period, the Company reports issued quantities of quotas for greenhouse gases. In case of shortage of quotas, the Company recognises a provision for the current liability for settlement of verified quotas. The provision amount is determined as the quantity of shortage (the difference between the free quotas and the actual emissions of gases for the reporting period) of quotas, verified via a special document – Report on annual emission quotas, are valued at current market price at the reporting date while the changes in the liability amount are recognised in the statement of comprehensive income (within profit or loss for the year).

Impairment of inventories

At the end of each financial year, the Company reviews the state, useful life and usability of the existing inventories. When the companies identify inventories the assessment of which shows that it is highly probable for them to be not realised at their current carrying amount in the following reporting periods, these inventories are impaired to net realisable value (*Note* 9).

Actuarial calculations

Calculations of certified actuaries have been used every year when determining present value of long-term payables to personnel upon retirement on the basis of assumptions for mortality rate, staff turnover rate, future salaries level and discount factor (Note 27).

Impairment of investments in subsidiaries

The management makes an analysis and an assessment on whether indications for impairment of Company's investments in subsidiaries exist. The following are accepted as indicators for impairment: significant reduction in the volume or discontinuing of investee's operations; reporting of losses for a longer period of time, as well as stating of negative net assets or assets at an amount below the registered share capital.
The tests and assessments of the management on the impairment of investments have been made through the prism of its plans and intents as to the future economic benefits, which are expected from the subsidiaries, including trade benefits and production experience, position on foreign markets, expectations for future sales, etc.
For this purpose, different scenarios of the forecasts are done, which incorporate differing assumptions for the risks, uncertainties and probabilities for the future realization of the cash flows and earnings from these investments. These scenarios are carefully analyzed by the Management and the results from them are weighted in the calculations of the recoverable value of the investments.

Impairment of non-current tangible and intangible assets

At the end of each financial year, the Company reviews non-current tangible and intangible assets for impairment. As a result of this review, the management determines if conditions exist for impairment and if such conditions are present, the Company states an impairment expense for long-term tangible and intangible assets in the statement of comprehensive income (within profit or loss for the year) (Note 10).

Recognition of tax assets

Upon recognition of deferred tax assets by the management, the probability of separate deductible temporary differences to reverse in the future and the Company’s perspective possibility to generate sufficient tax profits are assessed.
In 2018 the Company states a loss and the management has determined that as at the date of issuance of these financial statements, an uncertainty exists as to whether and to what extent within the legal term for tax loss carry forward it will generate sufficient taxable profit; therefore, a more concervative approach has been applied.
As at 31 December 2018, no assets were recognised for deferred tax at the amount of BGN 982 thousand (31.12.2017 – none), related to tax losses. Moreover, as at 31 December 2018, no assets were recognised for deferred taxes at the amount of BGN 2,139 thousand (31 December 2017: BGN 2,139 thousand), related to the impairment of investments in and receivables from subsidiaries, since the management has determined it is improbable that the temporary difference will arise in the foreseeable future (Note 17).

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

	2018	*2017*
	BGN '000	*BGN '000*
Domestic market sales of finished products	103,441	117,419
Export of finished products	116,534	110,268
Revenue from the sale of goods	66	-
Revenue from the sale of services	25	-
	220,066	**227,687**

Sales by product – domestic market

	2018	*2017*
	BGN '000	*BGN '000*
Ammonium Nitrate – EC Fertilizer	99,227	110,470
Ammonia	1,612	2,406
NPK EC Fertilizer	872	1,937
Sodium Nitrate	600	1,453
Carbon Dioxide	413	463
Nitric Acid	283	233
Ammonia Water	192	190
Ammonium Hydrogencarbonate	147	158
Oxygen	16	16
Other	79	93
	103,441	**117,419**

Sales by product – export	*2018*	*2017*
	BGN '000	*BGN '000*
Ammonium Nitrate – EC Fertilizer	71,431	73,320
Ammonia	41,300	32,199
Ammonium Hydrogencarbonate	2,450	2,761
Sodium Nitrate	1,337	1,783
Ammonia Water	16	199
Other	-	6
	116,534	**110,268**

The allocation of product sales by markets is as follows:

	2018	***2017***
	BGN '000	***BGN '000***
Europe (including Bulgaria)	187,340	216,532
Asia and Africa	32,635	11,155
	219,975	**227,687**

Information on major clients

The total revenue from transaction with the largest clients of the Company is as follows:

Client	***2018***	***2017***
	BGN '000	***BGN '000***
Client 1	79,767	85,677
Client 2	36,454	51,832
Client 3	33,122	21,242
Client 4	11,556	-
Client 5	7,780	-
Client 6	7,617	8,466
Client 7	5,009	5,475
Client 8	4,347	-
Client 9	3,070	12,269
Client10	2,836	-
Client 11	2,228	4,632

Contract balances

Revenue for 2018 includes revenue at the amount of BGN 13,121 thousand which was recognised as contract liabilities at the beginning of the reporting year.

All unsatisfied and/or partially satisfied performance obligations of the Company as at 31 December 2018 are under contracts with estimated delivery period of one year or less.

The change in contract liabilities in 2018 is as follows:

Contract liabilities	***2018***
	BGN'000
Balance on 1 January *(Note 30)*	**13,121**
Revenue stated which was recognised as contract liabilities	(13,121)
Payments from customers (except for payments recognised as revenue over the period)	10,394
Balance on 31 December	**10,394**

The service revenue at the amount of BGN 25 thousand is from the provision of IT services.

Revenue from the sale of goods at the amount of BGN 66 thousand is mostly from the sale of fertilizers, preparations, etc.

4. OTHER OPERATING INCOME, NET

	2018	*2017*
	BGN '000	***BGN '000***
Government funding	2,349	2,427
Revenue from the sales of materials	1,539	200
Carrying amount of the materials sold	(909)	(87)
Gain on sales of materials	**630**	**113**
Sales of PPE	369	361
Carrying amount of PPE sold	(38)	(9)
Gain on sale of PPE	**331**	**352**
Foreign exchange (losses)/gains	600	(382)
Liquidation of PPE	290	114
Rental income	247	209
Income from fines and penalties	81	24
Industrial services	54	47
Occupational health services	39	38
Ship processing	30	-
Surplus of assets	22	102
Transport, manoeuvring, overload	22	-
Transportation services	21	22
Payables written-off	17	14
Promotion of separate waste collection	13	21
Bonus from a mobile operator	13	14
Manoeuvre services	9	57
Revenue from the sales of goods	-	86
Carrying amouny of goods sold	-	(65)
Gain on sales of goods	-	**21**
Other	49	160
	4,817	**3,353**

Government grants comprise:

- Energy grant to the amount of BGN 2,312 thousand (31 December 2017 – BGN 2,390 thousand) – a state aid for reducing the burden of renewable energy costs, for which the Company was an applicant under the Ordinance on Reducing the Burden of Renewable Energy Costs (Note 21).
- Funding under Operational Programmes for sites in relation to the Company's energy efficiency, to the amount of BGN 37 thousand (31 December 2017 – BGN 37 thousand) (Note 35).

Gain on sales of materials includes:	***2018***	***2017***
	BGN '000	***BGN '000***
Metal scrap	639	53
Ammonium sulphate	(94)	-
Processed oil	17	7
Other	68	53
	630	**113**

The sold non-current assets include mainly accommodation facilities and motor vehicles owned by the Company.

5. RAW MATERIALS AND CONSUMABLES USED

Expenses on materials include:

	2018	***2017***
	BGN '000	***BGN '000***
Basic raw materials and consumables	151,931	138,234
Fuel and energy	14,149	13,788
Spare parts	1,555	1,433
Auxiliary materials	1,270	1,227
Other materials	**376**	**656**
	169,281	**155,338**

Basic raw materials and consumables include:	***2018***	***2017***
	BGN '000	***BGN '000***
Natural gas	140,885	126,776
Packaging	3,902	4,287
Magnesit	1,099	1,112
Ammonia	1,085	-
Lubricants	1,014	1,088
Precious metals	978	1,024
Calcinated soda	811	933
Sodium hydroxide	558	511
Monoammonium phosphate	436	1,000
Methyldiethanolamine	377	477
Sulphuric acid	194	217
Catalysts	165	258
Quicklime	84	84
Kalium chloride	69	138
Calcium carbonate	44	116
Other raw materials and consumables	230	213
	151,931	**138,234**

6. HIRED SERVICES EXPENSE

Hired services expense includes:

	2018	*2017*
	BGN '000	***BGN '000***
Transportation	9,443	10,532
Ocean freight	5,940	1,918
Repairs of PPE	4,162	3,918
Porters' and port costs	1,392	354
Security	1,204	1,076
Insurance	1,148	1,112
Cargo handling costs	874	640
Ire safety	684	684
Taxes and charges	604	684
Operating lease	562	293
Consulting services	499	316
Subscribed servicing and technical control	404	381
Cleaning and planting	260	236
Demurrage	188	39
Bank fees and charges	145	151
Commodity inspection costs	80	74
Communications	76	84
Waste recovery/disposal	46	61
Training courses	33	32
Civil contracts and fees	23	20
Other services	332	212
	28,099	**22,817**

The accrued expenses for the year on obligatory audit are for BGN 131 thousand (2017: BGN 172 thousand), agreed-upon procedures: pursuant to Ordinance Е-РД-04-06 dated 28.09.2016 on reducing the burden related to expenses for energy from renewable sources for the fourth price period at the amount of BGN 3 thousand (2017: BGN 3 thousand, for the third price period), services for checking translation compliance – BGN 3 thousand (2017: BGN 3 thousand).

7. EMPLOYEE BENEFITS EXPENSE

Personnel costs include:	***2018***	***2017***
	BGN '000	***BGN '000***
Salaries and other remuneration	22,307	20,698
Social security contributions	4,609	4,205
Food for personnel	1,031	1,151
Accruals for long-term payables to personnel (Note 27)	350	361
	28,297	**26,415**

Remuneration costs include:

	2018	***2017***
	BGN '000	***BGN '000***
Current wages and salaries	22,219	20,634
Accrued amounts for unused paid leaves	88	64
	22,307	**20,698**

Social security contributions include:	***2018***	***2017***
	BGN '000	***BGN '000***
Social security contributions	4,593	4,190
Accrued amounts for state social security on unused paid leaves	16	15
	4,609	**4,205**

8. IMPAIRMENT OF FINANCIAL ASSETS, NET

Impairment of financial assets and contract assets, net:	***2018***	***2017***
	BGN '000	***BGN '000***
Credit losses accrued	(266)	-
Reversed credit losses	156	-
	110	**-**

9. OTHER OPERATING EXPENSES

Other operating expenses include:	***2018***	***2017***
	BGN '000	***BGN '000***
Carbon emissions written-off (hazardous gas quotas – current year)	6,152	5
Provision for carbon emissions (hazardous gas quotas – current year) (Note 26)	1,978	3,645
Carbon emissions written-off (hazardous gas quotas – last year)	3,645	1,641
Provision for carbon emissions (hazardous gas quotas – last year)	(3,645)	(1,641)
Price difference from carbon emission purchases for a prior period	4,672	(309)
Carbon emissions expenses	***12,802***	***3,341***
Accrued amounts related to provisions, net (Note 26)	201	5
Materials and finished products scrapped	124	80
Remuneration to BD members – legal entities and natural persons	109	142
Business trip costs	65	82
Entertainment costs	60	52
Carrying amount of goods sold	50	-
Impairment of inventories	47	397
Unrecognized VAT credits	36	32
Pollution penalties	27	60
Participation at conferences	25	-
Expenses under operational programmes	23	-
Expenses for waste depot recultivation	18	12
Training costs	13	-
Other	115	62
	913	**924**
	13,715	**4,265**

At 31 December 2018, the price at which the provision was measured was BGN 44.27 per carbon quota (based on the exchange purchase price), and as at 31 December 2017 – BGN 15.92 per carbon quota. The considerable increase in the price of carbon quotas during the current period has a significant impact on the loss realised by the Company in 2018.

10. IMPAIRMENT AND DERECOGNITION OF NON-CURRENT ASSETS

The impairment and derecognition of non-current assets are as follows:	***2018***	***2017***
	BGN '000	***BGN '000***
Impairment of PPE	23	-
Expenses for PPE acquisition written-off	11	514
Impairment of non-current intangible assets	-	148
	34	**662**

11. FINANCE COSTS

The finance costs in 2018 comprise interest costs at the amount of BGN 498 thousand (2017: BGN 643 thousand).

12. INCOME TAX EXPENSE

Statement of comprehensive income (profit or loss for the year)	***2018***	***2017***
	BGN '000	***BGN '000***
Tax profit/(loss) for the year as per return	(9,822)	16,273
Current income tax for the year – 10% (2017: 10%)		(1,627)
Deferred income taxes		
Related to origination and reversal of temporary differences	999	30
Total saving from/income tax (expense) recognised in the statement of comprehensive income (profit or loss for the year)	**999**	**(1,597)**

Reconciliation of income tax expense applicable to the accounting profit or loss:

	2018	***2017***
	BGN '000	***BGN '000***
Accounting (loss)/profit for the year	*(20,156)*	*15,142*
Income tax savings/(expense) – 10% (2017: 10%)	2,016	(1,514)
Non-deductible amounts under tax return		
Related to increases – BGN 194 thousand (2017: BGN 162 thousand)	(20)	(16)
Unrecognised deferred tax assets		(1,525)
Unrecognised deferred tax asset for loss	(982)	-
Impact of the adoption of IFRS 9 on 1 January 2018	(15)	-
Recognition of amounts for which no deferred tax asset was recognised	-	1,458
Total saving from/income tax (expense) carried to the statement of comprehensive income (within profit or loss for the year)	**999**	**(1,597)**
Effective tax rate	**(4.96%)**	**10.55%**

13. NET LOSS/ EARNINGS PER SHARE

	2018	***2017***
	BGN '000	***BGN '000***
Weighted average number of shares based on days	2,585,964	2,585,964
(Loss)/Profit for the year (BGN’000)	(19,157)	13,545
Net (loss)/earnings per share (BGN)	**(7.41)**	**5.24**

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings		*Plant and equipment*		*Motor vehicles*		*Other*		*PPE and IA in progress*		*Total*	
	2018	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Book value												
Balance at 1 January	**23,187**	**22,698**	**166,337**	**162,326**	**8,684**	**8,894**	**1,192**	**1,194**	**4,569**	**2,918**	**203,969**	**198,030**
Additions	-	78	-	-	-	69	40	-	9,884	6,969	9,924	7,116
Disposals	(110)	(52)	(167)	(298)	(603)	(279)	(11)	(34)	(11)	(514)	(902)	(1,177)
Transfer	-	463	10,931	4,309	-	-	-	32	(10,931)	(4,804)	-	-
Balance at 31 December	**23,077**	**23,187**	**177,101**	**166,337**	**8,081**	**8,684**	**1,221**	**1,192**	**3,511**	**4,569**	**212,991**	**203,969**
Accumulated depreciation												
Balance at 1 January	**9,342**	**8,651**	**99,783**	**90,184**	**6,987**	**6,544**	**1,065**	**1,051**	**-**	**-**	**117,177**	**106,430**
Depreciation charge for the year	744	730	9,881	9,881	678	722	55	48	-	-	11,358	11,381
Impairment charged	2	-	21	-	-	-	-	-	-	-	23	-
Impairment written-off	-	-	-	(3)	-	-	-	-	-	-	-	(3)
Depreciation written-off	(78)	(39)	(157)	(279)	(602)	(279)	(9)	(34)	-	-	(846)	(631)
Balance at 31 December	**10,010**	**9,342**	**109,528**	**99,783**	**7,063**	**6,987**	**1,111**	**1,065**	**-**	**-**	**127,712**	**117,177**
Carrying amount on 31 December	**13,067**	**13,845**	**67,573**	**66,554**	**1,018**	**1,697**	**110**	**127**	**3,511**	**4,569**	**85,279**	**86,792**
Carrying amount on 1 January	**13,845**	**14,047**	**66,554**	**72,142**	**1,697**	**2,350**	**127**	**143**	**4,569**	**2,918**	**86,792**	**91,600**

Company's tangible fixed assets as at 31 December 2018 include land at the amount of BGN 3,630 thousand (31 December 2017: BGN 3,630 thousand) and buildings of carrying amount BGN 9,436 thousand (31 December 2017: BGN 10,215 thousand).

Tangible fixed assets as at 31 December 2018 include assets of book value BGN 36,494 thousand, which have been fully depreciated but still in use in Company's activities (31 December 2017: BGN 29,440 thousand).

As at 31 December 2018, there are contractual mortgages of immovable property with a carrying amount of BGN 5,538 thousand (31 December 2017: BGN 5,801 thousand) and a pledge on machinery and equipment with a carrying amount of BGN 12,463 thousand (31 December 2017: BGN 10,559 thousand) established as collateral under used bank loans (Note 24).

As at 31 December 2018, the expense for fixed assets additions include advances to suppliers at the amount of BGN 379 thousand (31 December 2017: BGN 2,255 thousand) and ongoing projects at the amount of BGN 3,132 thousand (31 December 2017: BGN 2,314 thousand).

The ongoing projects are as follows:	***31.12.2018 BGN '000***	***31.12.2017 BGN '000***
Offices, garage, warehouse and shop	2,483	1,579
Purification of infiltrate from a repository for harmful solid production waste at the Neutralisation Unit	368	351
Development of a human resource management system based on the BORA BUSINESS SUITE software	68	62
Distribution and transformer substation RTP-8	60	60
Replacement of potable and fire safety piping	42	-
Installation of concrete complete transformer 1	41	3
Project for installation of a suction pumping aggregate at pos.H152-1	29	-
FFS machine and robot for palletisation of ammonium bicarbonate	12	-
Other	29	259
	3,132	**2,314**

In 2018 projects were written off, with regards to which a decision was made by the management to suspend implementation, at the total amount of BGN 11 thousand (2016: BGN 514 thousand) (Note 10).

15. INTANGIBLE ASSETS

	Software
Book value	
On 1 January 2017	**892**
Additions	98
Disposals	-
31 December 2017	990
Additions	36
Disposals	**-**
31 December 2018	**1,026**
Accumulated amortisation	
On 1 January 2017	**686**
Amortisation charge for the year	41
Impairment accrual for the year	148
31 December 2017	**875**
Amortisation charge for the year	69
31 December 2018	**944**
Carrying amount on 31 December 2017	**115**
Carrying amount on 31 December 2018	**82**

Greenhouse gas emissions

In 2018, the Company purchased 390 thousand tons of emission of greenhouse gases at the amount of BGN 14,469 thousand (2017: 134 thousand tons of emission at the amount of BGN 1,337 thousand).

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Balance at the beginning of the year	**-**	**-**
Newly acquired	14,469	1,337
Written-off as expense (Note 9)	(6,152)	(5)
Written-off in relation to provision (Note 9)	(8,317)	(1,332)
Balance at the end of the year	**-**	**-**

16. INVESTMENTS IN SUBSIDIARIES

Company name	*Location of registration*	*Carrying amount*	*% of interest*	*Carrying amount*	*% of interest*
		31.12.2018		***31.12.2017***	
		BGN '000		***BGN '000***	
Neochim Tarim Ltd.	Turkey	83	99.092	83	99.00
Neochim Protect EOOD	Bulgaria	5	100	5	100
Neochim Gübre Ltd. - merged	Turkey	-	-	-	99.93
		88		**88**	

The scope of activities of the subsidiaries and the dates of their acquisition are as follows:

- Neochim Gübre Ltd., Odrin, Turkey – import, export and local trade in all types of chemical fertilizers. Date of acquisition – 1 August 2002. The company was deregistered due to merger into Neochim Tarim Ltd. on 17 September 2018.
- Neochim Tarim Ltd., Odrin, Turkey – import, export and local trade in all types of chemical fertilizers. Date of acquisition – 15 October 2012. The company was acquired through incorporation. The company is the legal successor of Neochim Gübre Ltd. as from 17 September 2018.
- Neochim Protect EOOD, Dimitrovgrad – safeguarding property of legal entities, buildings, premises and offices; safeguarding physical persons and their property and others. Date of acquisition – 24 April 2002.

Under Certificate No 1584 dated 18.09.2018 of the Commercial Registry Directorate of the city of Edirne, Republic of Turkey, Neochim Gübre Ltd. in its capacity as merged company was merged into Neochim Tarim Ltd. on 17 September 2018, as a result of which Neochim Gübre Ltd. was discontinued, and its legal successor was Neochim Tarim Ltd.

In 2017 Neochim AD increased its interest in the subsidiary Neochim Gübre Ltd. through transforming trade receivables at the amount of BGN 15,242 thousand (USD 8,726 thousand), which were fully impaired in previous reporting periods. The impairment of trade receivables was accordingly transformed into impairment of the investment.

17. DEFERRED TAX ASSETS/(LIABILITIES)

Deferred income taxes as at 31 December are related to the following items of the statement of financial position:

	temporary difference	*tax*	*temporary difference*	*tax*
	31.12.2018	***31.12.2018***	***31.12.2017***	***31.12.2017***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***
Property, plant and equipment	548	55	(10,839)	(1,084)
Total deferred tax (liabilities)/assets	**548**	**55**	**(10,839)**	**(1,084)**
Impairment of inventories	2,855	285	2,821	282
Provision for emissions (quotas for harmful gases)	1,978	198	3,645	365
Accruals for retirement benefit obligations to personnel	821	82	920	92
Accruals for unpaid benefits to physical persons	986	99	920	92
Provision for repositories recultivation	370	37	308	31
Impairment of receivables	2	-	2	-
Accruals for unused paid leaves	272	27	160	16
Provision for repository costs	7	1	21	2
Provisions for credit losses	264	26	-	-
Total deferred tax assets	**7,555**	**755**	**8,797**	**880**
Total deferred tax assets/(liabilities)	**8,103**	**810**	**(2,042)**	**(204)**

The movements within deferred tax assets and liabilities are presented below:

Deferred tax (liabilities)/ assets	*Balance at 1 January 2018*	*Effect of the initial adoption of IFRS 9 as at 1 January 2018*	*Recognised in profit or loss for the year*	*Balance at 31 December 2018*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment	(1,084)	-	1,139	55
Provision for emissions (quotas for harmful gases)	365	-	(167)	198
Accruals for retirement benefit obligations to personnel	92	-	(10)	82
Impairment of inventories	282	-	3	285
Provision for repositories recultivation	31	-	6	37
Provision for remuneration of foreign physical and legal persons	24	-	5	29
Accruals for unused paid leaves	16	-	11	27
Accruals for unpaid benefits to local physical persons	68	-	2	70
Provision for repository costs	2	-	(1)	1
Provisions for credit losses	-	15	11	26
Total tax (liabilities)/assets	**(204)**	**15**	**999**	**810**

This is a translation from Bulgarian of the separate financial statements of Neochim AD for year 2018.

Deferred tax (liabilities)/ assets	***Balance at 1 January 2017***	***Recognised in profit or loss for the year***	***Balance at 31 December 2017***
	BGN '000	***BGN '000***	***BGN '000***
Property, plant and equipment	(838)	(246)	(1,084)
Provision for emissions (quotas for harmful gases)	164	201	365
Accruals for retirement benefit obligations to personnel	83	9	92
Impairment of inventories	247	35	282
Provision for repositories recultivation	33	(2)	31
Impairment of receivables	29	(29)	-
Provision for remuneration of foreign physical and legal persons	22	2	24
Accruals for unused paid leaves	8	8	16
Accruals for unpaid benefits to local physical persons	16	52	68
Provision for repository costs	2	-	2
Total tax (liabilities)/assets	**(234)**	**30**	**(204)**

No deferred tax assets have been recognised for:

	temporary difference	***tax***	***temporary difference***	***tax***
	31.12.2018 BGN '000	***31.12.2018 BGN '000***	***31.12.2017 BGN '000***	***31.12.2017 BGN '000***
Impairment of investments in and receivables from subsidiaries	(21,386)	2,139	(21,386)	2,139
Deductible losses	(9,822)	982	-	-
Total	**(31,208)**	**3,121**	**(21,386)**	**2,139**

18. INVENTORIES

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
Materials	21,203	21,209
Finished products	8,739	5,021
Work in progress	3,896	2,734
Goods	12	9
	33,850	**28,973**

Materials include:

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
Precious metals	8,233	8,767
Spare parts and bearings	5,503	5,057
Auxiliary materials	3,507	3,609
Basic materials	2,355	2,483
Packaging materials	1,111	727
Catalysers	141	269
Automobile tyres	32	39
Other materials	321	258
	21,203	**21,209**

Basic materials	*31.12.2018*	*31.12.2017*
	BGN '000	*BGN '000*
Kalium chloride	553	18
Ammonium sulphate	530	1,021
Magnesit	345	485
Chemicals, catalysts	155	93
Calcinated soda	141	124
Lubricant	127	150
Calcium carbonate	74	85
Methyldiethanolamine	56	179
Sodium hydroxide	45	47
Quicklime	40	128
Monoammonium phosphate	34	25
Other	255	128
	2,355	**2,483**

Finished products	***31.12.2018***	***31.12.2017***
	BGN '000	***BGN '000***
Ammonium Nitrate – EC Fertilizer	8,634	4,916
Ammonium Hydrogencarbonate	33	75
Ammonia Water	19	17
Sodium Nitrate – technical grade	41	4
Other	12	9
	8,739	**5,021**

Work in progress	***31.12.2018***	***31.12.2017***
	BGN '000	***BGN '000***
Ammonia	3,358	2,407
Nitric Acid	420	243
Ammonium Nitrate	12	6
Other	106	78
	3,896	**2,734**

There are established pledges on inventories as at 31 December 2018 as collateral for used bank loans as follows:

- Precious metals – BGN 8,233 thousand (31 December 2017: BGN 8,767 thousand);
- Finished products (Ammonium Nitrate) – BGN 8,405 thousand (31 December 2017: BGN 4,916 thousand);
- Work in progress (Ammonia) – BGN 3,010 thousand (31 December 2017: BGN 2,407 thousand).

19. RECEIVABLES FROM RELATED PARTIES

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Receivables on sales in foreign currency	5,943	3,618
Provision for impairment of credit losses from uncollected receivables in foreign currencies	(2,862)	(2,733)
incl. effect of remeasurement of currency exchange position	*(129)*	*(376)*
Receivables from sales in BGN	5	16
Provision for impairment of credit losses from uncollected receivables in BGN	(5)	(11)
Provision for impairment of credit losses in foreign currencies (IFRS 9)	(141)	-
	2,940	**890**

The receivables from related parties in foreign currency are denominated in USD: USD 453 thousand – BGN 774 thousand); (31 December 2017: USD 543 thousand – BGN 885 thousand), and in EUR: EUR 1,107 thousand – BGN 2,166 thousand (31 December 2017: none).

The receivables from related parties at 31 December 2018 include receivables from subsidiaries at a carrying amount of BGN 774 thousand (31 December 2017: BGN 886 thousand) and receivables from the group of a shareholder with significant influence, at the amount of BGN 2,166 thousand (31 December 2017: BGN 4 thousand – shareholder with significant influence).
The Company has set a usual payment term for receivables from subsidiaries of up to 270 days, and from other related parties – 20 days.

The *age structure* of non-matured (regular) trade receivables from related parties is as follows:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
up to 30 days	323	344
from 31 to 90 days	56	465
from 91 to 180 days	101	-
from 181 to 365 days	745	-
Provision for impairment of credit losses	(129)	-
	1,096	**809**

The *age structure* of past due but not impaired trade receivables from related parties is as follows:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
up to 30 days	1,141	2
from 31 to 90 days	714	-
from 91 to 180 days	-	79
over 365 days	2,868	2,744
Provision for impairment of credit losses	(2,879)	(2,744)
	1,844	**81**

Until 31 December 2017, the Company applied the incurred losses model with respect to bad debt based on individual assessment.

The impairment amount was calculated on an individual basis, by applying the discounted cash flow approach, with a discount rate determined based on the Company's borrowings, adjusted for average net profitability and conservative estimates for expected cash flows determined based on the debtor's history and the agreements signed, incl. court decisions, therewith. The receivables or the portion thereof for which the management determines high collection uncertainty exists and are not secured, were impaired at 100% (*Note 8*).

The new impairment model under IFRS 9 is based on recognition of impairment provisions based on "expected credit losses", which are recognised at a stage when they have already been formed. In 2018, the Company applies the simplified approach under IFRS 9 to measure expected credit losses for trade receivables from related parties by recognizing expected lifetime losses for all receivables.

The table below provides summarised data about expected credit losses in the allowance (provision) for impairment of receivables from related parties as at 31 December 2018 and 1 January 2018:

31 December 2018	**Regular**	**1 to 30 days past due**	**31 to 90 days past due**	**91 to 180 days past due**	**181 to 365 days past due**	**Over 1 year past due**	**Total BGN'000**
Expected percentage of credit losses	-	0.44%	0.84%	-	-	100%	50.57%
Trade receivables (gross carrying amount)	-	1,141	714	-	-	2,868	5,948
Expected credit loss	-	**5**	**6**	-	-	**2,868**	**3,008**

1 January 2018	**Regular**	**1 to 30 days past due**	**31 to 90 days past due**	**91 to 180 days past due**	**181 to 365 days past due**	**Over 1 year past due**	**Total BGN'000**
Expected percentage of credit losses	-	-	-	-	-	**100%**	75,51%
Trade receivables (gross carrying amount)	-	2	-	79	-	2,744	3,634
Expected credit loss	-	-	-	-	-	**2,744**	**2,744**

Movement of allowance for impairment:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Balance at the beginning of the year, calculated under IAS 39	**2,744**	**19,310**
Amounts recognised in the opening balance of retained earnings from restatement on modified initial application of IFRS 9	148	-
Opening balance of the allowance for expected credit losses as at 1 January 2018, calculated under IFRS 9	**2,892**	**-**
Increase in the allowance for credit losses recognised within profit or loss for the year	141	-
Decrease in the allowance for credit losses recognised within profit or loss for the year	(148)	-
Uncollectable impaired receivables written-off	(6)	-
Effect of revaluation of foreign currency positions	129	(1,324)
Transformed measurement of trade receivables into impairment of investment in a subsidiary (Note 16)	-	(15,242)
Balance at the end of the year	**3,008**	**2,744**

20. TRADE RECEIVABLES AND ADVANCES

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Receivables on sales to foreign clients	6,918	1,688
Impairment of receivables from foreign clients	(118)	(1)
Receivables on sales to local clients	285	165
Impairment of receivables from local clients	(7)	(1)
	7,078	*1,851*
Advances granted to local suppliers	65	357
Advances granted to foreign suppliers	458	936
	7,601	**3,144**

Trade receivables and advances granted per currency type are as follows:

- in BGN – BGN 343 thousand (31 December 2017: BGN 521 thousand);
- in EUR – BGN 2,277 thousand (EUR 1,164 thousand), (31 December 2017: BGN 2,476 thousand (EUR 1,266 thousand));
- in USD – BGN 4,937 thousand (USD 2,891 thousand), (31 December 2017: BGN 96 thousand (USD 59 thousand)).
- in RUB – BGN 44 thousand (RUB 1,816 thousand), (31 December 2017: BGN 51 thousand (RUB 1,816 thousand)).

The Company usually negotiates full or partial advance payment with its customers, and for the cases without any advance payment, a credit period has been set to 90 days.

The age structure of non-matured (regular) trade receivables is as follows:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
up to 30 days	6,597	1,207
from 31 to 90 days	10	-
Provision for impairment of credit losses	(3)	-
	6,604	**1,207**

The age structure of past due trade receivables is as follows:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
up to 30 days	134	412
from 31 to 90 days	304	185
from 91 to 180 days	4	38
from 181 to 365 days	152	9
over 365 days	2	2
Provision for impairment of credit losses	(122)	(2)
	474	**644**

Until 31 December 2017, the Company applied the incurred losses model with respect to bad debt based on individual assessment.

The impairment amount was calculated on an individual basis, by applying the discounted cash flow approach, with a discount rate determined based on the Company's borrowings, adjusted for average net profitability and conservative estimates for expected cash flows determined based on the debtor's history and the agreements signed, incl. court decisions, therewith. The receivables or the portion thereof for which the management determines high collection uncertainty exists and are not secured, were impaired at 100% (*Note 8*).

The new impairment model under IFRS 9 is based on recognition of impairment provisions based on "expected credit losses", which are recognised at a stage when they have already been formed. In 2018, the Company applies the simplified approach under IFRS 9 to measure expected credit losses for trade receivables by recognizing expected lifetime losses for all trade receivables.

The table below provides summarised data about expected credit losses in the allowance (provision) for impairment of receivables from clients as at 31 December 2018 and 1 January 2018:

31 December 2018	Regular	1 to 30 days past due	31 to 90 days past due	91 to 180 days past due	181 to 365 days past due	Over 1 year past due	Total BGN'000
Expected average percentage of credit losses	-	0.75%	0.99%	25%	75.66%	100%	1.74%
Receivables under contracts with customers (gross carrying amount)	-	134	304	4	152	2	7,203
Expected credit loss	**-**	**1**	**3**	**1**	**115**	**2**	**125**

1 January 2018	Regular	1 to 30 days past due	31 to 90 days past due	91 to 180 days past due	181 to 365 days past due	Over 1 year past due	Total BGN'000
Expected average percentage of credit losses	-	-	-	-	-	100%	0.11%
Receivables under contracts with customers (gross carrying amount)	-	412	185	38	9	2	1,853
Expected credit loss	**-**	**-**	**-**	-	**-**	**2**	**2**

Movement in the impairment allowance (provision):

	31.12.2018	*31.12.2017*
	BGN '000	*BGN '000*
Balance at 1 January, calculated under IAS 39	**2**	**4**
Amounts recognised in the opening balance of retained earnings upon restatement in the modified initial application of IFRS 9	8	-
Opening balance of the allowance for expected credit losses at 1 January 2018, calculated under IFRS 9	**10**	-
Increase in the credit loss allowance recognised within profit or loss for the year	123	-
Decrease in the credit loss allowance recognised within profit or loss for the year	(8)	(2)
Balance at the end of the year	**125**	**2**

The ***advances granted*** as at 31 December are regular and are for the purchase of:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Materials	313	946
Services	210	347
	523	**1,293**

21. OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments include:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
VAT refundable	3,794	1,294
Prepayments	806	600
Corporate tax	140	-
Receivables under an Operational Programme	36	-
Court and awarded receivables	11	11
Impairment of court and awarded receivables	(1)	(1)
Receivable under electric energy grant	-	943
Other	66	79
	4,852	**2,926**

Prepayments are comprised of:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Insurance	543	526
Ocean freight	200	-
Subscriptions	23	19
Other	40	55
	806	**600**

22. CASH AND CASH EQUIVALENTS

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Current accounts	561	26,695
Cash in hand	15	26
Cash and cash equivalents stated in the statement of cash flows	**576**	**26,721**

The cash available at 31 December 2018 is held at the Company's accounts in the following banks: UniCredit Bulbank AD, Central Cooperative Bank AD, Reiffeisenbank (Bulgaria) EAD and UBB AD.

Cash in current account is as follows: in BGN – BGN 18 thousand (31 December 2017: BGN 6,717 thousand), in EUR – BGN 48 thousand (31 December 2017: BGN 14,856thousand) and in USD – BGN 495 thousand (31 December 2017: BGN 5,122 thousand). Cash in hand is only in BGN.

As a result of the analyses made and the methodology applied to estimate expected credit losses for cash and cash equivalents, the management has determined that the impairment of cash and cash equivalent would amount at close to zero. Therefore, the Company has not recognised a provision for the impairment of expected credit losses, at 1 January 2018 or at 31 December 2018.

23. SHARE CAPITAL AND RESERVES

Share capital

As at 31 December 2018, the registered share capital of Neochim AD amounted to BGN 2,654 thousand, distributed in 2,654,358 ordinary, registered shares with right of vote, dividend and liquidation share with nominal value of BGN 1 per share.

The ***treasury shares*** are 68,394 at the amount of BGN 3,575 thousand (31 December 2017: 68,394 shares – BGN 3,575 thousand).

Statutory reserves (Reserve Fund) are set aside from distribution of profit in accordance with the Commercial Act and the Articles of Association of the Company.

The ***component from remeasurement of defined benefit pension plan obligation*** is formed in relation with the requirements of IAS 19 (Note 27, 2.18).

24. LONG-TERM BANK LOANS

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Non-current payables under bank loans		
Bank loans	**3,629**	**4,538**
Current portion of long-term bank loans		
Bank loans	3,383	5,487
Deferred charges for loan management and administration	(9)	(25)
	3,374	**5,462**
Total payables under interest-bearing loans	**7,003**	**10,000**

This is a translation from Bulgarian of the separate financial statements of Neochim AD for year 2018.

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

Loan	***31.12.2018***	***31.12.2017***	***Contracted***	***Maturity***	***Interest rate***
	BGN '000	***BGN '000***	***amount in currency***		
1	4,767	3,021	BGN 5,900 thousand	20.06.2022	ADI* plus 2.432% minimum 2.60%
2	1,332	2,331	BGN 4,000 thousand	20.04.2020	ADI* plus 3.082% minimum 3.25%
3	904	3,627	BGN 16,344 thousand	20.04.2019	ADI* plus 3.12% minimum 3.25%
4	-	1,021	BGN 4,100 thousand	20.12.2018	ADI* plus 3.12% minimum 3.25%
	7,003	**10,000**			

*ADI – Average Deposit Index

The funds were granted primarily for the purpose of repairs and renewal of production facilities for Ammonia in the Company.

Reconciliation of liabilities arising from financial activities

The table below details changes in liabilities arising from financial activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities.

	01/01/2018	**Changes in cash flows from financing activities**	**Non-cash changes**	**Other changes**	31/12/2018
			New liabilities under finance lease and dividends accruals		
	BGN‘000	**BGN‘000**	**BGN‘000**		**BGN‘000**
Bank loans, including short-term loans (Note 24 and Note 29)	10,000	9,097	-	(23)*	19,074
Finance lease (Note 25)	55	(34)	-	-	21
Dividend payable (Note 35)	92	(513)	517	(20)	76
	10,147	**8,550**	**517**	**(43)**	**19,171**

	01/01/2017	Changes in cash flows from financing activities	Non-cash changes New liabilities under finance lease and dividends accruals	Other changes	31/12/2017
	BGN'000	BGN'000	BGN'000		BGN'000
Bank loans, including short-term loans (Note 24 and Note 29)	27,139	(17,179)	-	40*	10,000
Finance lease (Note 25)	81	(59)	29	4	55
Dividend payable (Note 35)	66	(3,301)	3,362	(35)	92
	27,286	**(20,539)**	**3,391**	**9**	**10,147**

*"Other changes: include the accrual of interest and payments of bank fees and charges.

The long-term and short-term loans (Note 24 and Note 29) are secured with the following assets owned by the Company:

- real estate with carrying amount of BGN 5,538 thousand (31 December 2017: BGN 5,801 thousand) (Note 14);
- equipment with carrying amount of BGN 12,463 thousand (31 December 2017: BGN 10,559 thousand) (Note 14);
- precious metals with carrying amount of BGN 8,233 thousand (31 December 2017: BGN 8,767 thousand) (Note 18);
- finished products (ammonium nitrate) with carrying amount of BGN 8,405 thousand (31 December 2017: BGN 4,916 thousand) (Note 18);
- work in progress (ammonia) with carrying amount of BGN 3,010 thousand (31 December 2017: BGN 2,407 thousand) (Note 18);
- proceeds from future receivables under concluded sales contracts at the amount of up to BGN 60,000 thousand (31 December 2017: BGN 60,000 thousand).
-

25. FINANCE LEASE LIABILITIES

The long-term finance lease liabilities, included in the statement of financial position as at 31 December 2018, amounting to BGN 15 thousand (31 December 2017: BGN 23 thousand), are under agreements for acquisition of motor vehicles. They are presented net of the interest due and are as follows:

Term	***31.12.2018***	***31.12.2017***
	BGN '000	***BGN '000***
Up to one year (Note 35)	6	32
Over one year	15	23
	21	**55**

The minimum lease payments under finance lease are due as follows:

Term	***31.12.2018***	***31.12.2017***
	BGN '000	***BGN '000***
Up to one year (Note 35)	6	33
Over one year	16	24
	22	57
Future finance costs under finance leases	(1)	(2)
Present value of finance lease liabilities	**21**	**55**

Payments under finance lease agreements for the acquisition of automobiles due after 31 December 2019 are presented as non-current finance lease liabilities. Accordingly, the lease payments due in the following 12 months are presented in the statement of financial position under other current liabilities as current portion of finance lease liabilities (Note 35).

26. PROVISIONS

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Balance at 1 January	**3,974**	**1,998**
Accrued	2,186	3,671
Released	(3,805)	(1,695)
Balance at 31 December	**2,355**	**3,974**
including non-current portion	*39*	*34*
including current portion	*2,316*	*3,940*

Provisions include:

- provision for a liability for closing-down of production waste repositories used by the Company in prior periods and for recultivation of the terrains. The final term for performing the major recultivation procedures is year 2019 with continuing monitoring until year 2049. The total amount of the provision, determined on the basis of expert assessment of the expected expenses on the execution of the obligation is BGN 399 thousand (31 December

2017: BGN 337 thousand) while the amortised value at which it is presented in the statement of financial position is BGN 370 thousand (31 December 2017: BGN 308 thousand), including a non-current portion of BGN 39 thousand (31 December 2017: BGN 34 thousand). The amortised cost has been calculated on the basis of the present value of all future cash payments discounted with interest of 2.81%. The payments due for a period of up to one year amount to BGN 331 thousand (31 December 2017: BGN 274 thousand) are presented in the statement of financial position as other current liabilities (Note 35);

- provision for a liability for carbon emissions, classified as current one, at the amount of BGN 1,978 thousand (31 December 2017: BGN 3,645 thousand) (Note 35);

- provision for penalty imposed for environment pollution resulting as a result of production activities at the amount of BGN 7 thousand (31 December 2017: BGN 21 thousand) (Note 35).

27. RETIREMENT BENEFIT OBLIGATIONS

The long-term retirement benefit obligations to personnel include the present value of Company's liability at the date of the statement of financial position to pay indemnities to individuals of its employees upon coming of age for retirement.

In accordance with the Labour Code in Bulgaria, every employee is entitled to an indemnity on retirement at the amount of two gross monthly salaries, and if he or she has worked for the same employer during the last 10 years of their service the indemnity amounts to six gross monthly salaries at the time of retirement. This is a defined benefits plan. (Note 2.18).

For the purpose of establishing the amount of these obligations to personnel, the Company has assigned an actuarial valuation by using the services of a certified actuary.

Movements in the present value of retirement benefit obligations to personnel are as follows:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Present value of the obligations at 1 January	**2,885**	**1,764**
Interest cost	42	46
Current service cost	360	217
Net actuarial (gain)/loss recognised for the period	(52)	98
Payments for the year	(449)	(267)
Remeasurement (gains)/ losses for the year, including:	(183)	1,027
Actuarial losses arising from changes in financial assumptions	*62*	*722*
Actuarial (gains)/ losses arising from experience adjustments	*(252)*	*297*
Actuarial losses for the year arising from changes in demographic assumptions	*7*	*8*
Liability recognised in the statement of financial position at 31 December	**2,603**	**2,885**

The amounts of long-term retirement benefits of personnel accrued in the statement of comprehensive income are as follows:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Current service cost	360	217
Interest cost	42	46
Net actuarial (gain)/loss recognised for the year	(52)	98
Components of defined benefit plan costs recognised in profit or loss	**350**	**361**
Actuarial losses arising from changes in financial assumptions	62	722
Loss for the year arising from changes in demographic assumptions	7	8
Actuarial (gains)/losses arising from experience adjustments	(252)	297
Components of defined benefit plan costs recognised in other comprehensive income	**(183)**	**1,027**
Total	**167**	**1,388**

The cumulative effect of the difference between the actual experience in 2018 and the actuarial assumptions made in the previous assessment is a decrease in the present value of the liability and formation of actuarial gain for 2018.

The following actuarial assumptions are used in calculating the present value of the liability as at 31 December 2018:

- mortality rate – in accordance with the table issued by the National Statistics Institute for the total mortality rate of the population in Bulgaria for the period 2015-2017.
- staff turnover rate – from 0% to 23% for the five age groups formed with the Company.
- discount factor – the rate applied is based on the effective annual interest rate i = 1% (2017: i = 1.4%). The assumption is based on yield data for long-term government securities with 10-year maturity.
- the assumption for the future level of working salaries is based on the information provided by the Company's management and amounts by year as follows:
  - for 2019 – growth of 5% against the level in 2018;
  - for 2020 – growth of 5% against the level in 2019;
  - for 2021 – growth of 5% against the level in 2020;
  - for 2022 – growth of 5% against the level in 2021;
  - for 2023 – growth of 5% against the level in 2022.

The assumption in the previous year was as follows:

- for 2018 – growth of 24% against the level in 2017;
- for 2019 – growth of 5% against the level in 2018;
- for 2020 – growth of 5% against the level in 2019;
- for 2021 – growth of 5% against the level in 2020;
- for 2022 – growth of 5% against the level in 2021.

This defined benefit plan exposes the Company to the following risks: investment risk, interest risk, longevity risk and salary growth related risk: The Company's management assesses them as follows:

- investment risk – as far as this is unfunded plan, the Company should monitor and balance currently the forthcoming payments under it with the ensuring of sufficient cash resources. The historical experience and the liability structure show that the annual resource required is not material compared to the commonly maintained liquid funds;
- interest risk – any increase in the yield of government securities with similar term will increase the plan liability;
- longevity risk – the present value of the retirement benefit liability is calculated by reference to the best estimate and updated information about the mortality of plan participants. An increase in life expectancy would result in a possible increase in the liability. A relative stability of this indicator has been observed in the recent years;
- salary growth related risk – the present value of the retirement benefit liability is calculated by reference to the best estimate of the future increase in plan participants' salaries. Such an increase would increase the plan liability.

The sensitivity analysis of the main actuarial assumptions is based on the reasonably possible changes of these assumptions at the end of the reporting period, assuming that all other assumptions are held constant.

The effect of a change (increase or decrease) by 1% in salary growth and interest rate on the total amount of current service cost and interest cost and on the present value of the obligation for payment of defined benefits on retirement is as follows:

	2018		***2017***	
	Increase	***Decrease***	***Increase***	***Decrease***
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Change in salary growth	208	(183)	229	(203)
Change in interest rate	(187)	217	(210)	243
Change in staff turnover	(198)	227	(222)	254

The effects of a change (increase or decrease) by 1% in salary growth and interest rate on the total amount of current length of service and interest expense is as follows:

	2018		***2017***	
	Increase	***Decrease***	***Increase***	***Decrease***
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Change in salary growth	29	(26)	34	(30)
Change in interest rate	(2)	1	(4)	3
Change in staff turnover	(28)	32	(33)	38

The average duration of the long-term payable to personnel under the defined benefit plan is 7.7 years (31 December 2017: 7.8 years).

The expected payments as indemnities upon retirement under the defined benefit plan for the next 5 years amount to BGN 1,276 thousand, including BGN 485 thousand for 2019.

28. GOVERNMENT GRANTS

The obtained financing is under operational programmes for projects related to Company's energy efficiency and amounts to BGN 476 thousand (31 December 2017: BGN 476 thousand). The recognised income from financing until 31 December 2018 amounts to BGN 327 thousand while the financing that will be recognised as income in subsequent reporting periods is BGN 149 thousand.

	31.12.2018	**31.12.2017**
	BGN '000	***BGN '000***
Up to 1 year (current portion) (Note 35)	37	37
Over 1 year (non-current portion)	112	149
	149	**186**

The current portion of the financing will be recognised as current income over the following 12 months from the date of the statement of financial position and presented in Other current liabilities (Note 35).

29. SHORT-TERM BANK LOANS

	31.12.2018	***31.12.*2017**
	BGN '000	***BGN '000***
Bank loans	12,110	-
Deferred charges for loan management and administration	(39)	-
	12,071	**-**

The Company has been granted a credit line under a revolving loan agreement at the amount of up to BGN 30,000 thousand, expiring on 20 April 2019, interest rate – ADI (average deposit index) plus 1.77 points p.a., minimum – 1.90%. As at 31 December 2018, the Company had an outstanding debt of BGN 12,071 thousand (31 December 2017: none).

The collateral provided for the loans is disclosed in Note 24.

30. CONTRACT LIABILITIES

	31.12.2018	*31.12.2017*
	BGN '000	***BGN '000***
Liabilities under contracts with local customers (related parties)	9,800	-
Liabilities under contracts with local customers (other)	32	-
Liabilities under contracts with foreign customers in foreign currencies	562	-
	10,394	-

Contract liabilities are mainly for the delivery of finished products.

Liabilities under contracts with customers – related parties are from a main shareholder with considerable influence, at the amount of BGN 7,111 thousand, subsidiaries of a main shareholder with considerable influence, at the amount of BGN 2,687 thousand, and a subsidiary – BGN 2 thousand.

31. TRADE PAYABLES

	31.12.2018	*31.12.2017*
	BGN '000	***BGN '000***
Local suppliers	2,286	3,277
Foreign suppliers	990	539
Local customers	-	79
Foreign customers	-	2,149
	3,276	**6,044**

The payables to suppliers are regular and interest-free. BGN-denominated payables amount to BGN 2,286 thousand (31 December 2017: BGN 3,356 thousand), EUR-denominated payables amount to BGN 942 thousand (31 December 2017: BGN 1,707 thousand), RUB-denominated – BGN 48 thousand (31 December 2017: none), and USD-denominated payables amount to: none (31 December 2017: BGN 981 thousand).

The Company has no past due trade payables.

In accordance with the terms and conditions for the supply of natural gas from Bulgargas EAD, the Company should pay the current supplies in advance as per the submitted order and additional payment within 12 days. After this date, Bulgargas EAD charges the statutory interest.

The advances (in BGN and in foreign currency) received from customers at the amount of BGN 2,228 thousand are mainly for supply of finished products.

32. PAYABLES TO RELATED PARTIES

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Payables for the supply of raw materials, fuel and services	257	258
Advances received for product sales	**-**	10,893
	257	**11,151**

BGN and foreign currency-denominated payables to related are current and interest-free. The Company has no past due payables to related parties.

As at 31 December 2017, reclassification was made of advances received at the amount of BGN 5,990 from trade payables to payables to related parties. The reclassified amount constitutes advances received in BGN and foreign currencies from an entity with Borealis Group (to which the shareholder Feboran EOOD belongs). The ground for reclassification was change in ownership of the shareholder Feboran OOD, due to which its parent company obtained significant influence over the capital of Neochim AD (Note 38).

33. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Payables to personnel, including:	1,640	1,289
Current payables for December	*1,421*	*1,158*
Accruals for unused paid leaves	*219*	*131*
Payables for social security/health insurance, including:	773	814
Current payables for December	*720*	*786*
Accruals for unused paid leaves	*53*	*28*
	2,413	**2,103**

34. TAX PAYABLES

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Tax payables under Personal Income Taxation Act	324	349
Income tax/Corporate tax	-	246
Other	30	24
	354	**619**

The tax payables are regularly settled.

By the date of issue of these financial statements the following inspections and audits have been performed:

- VAT – until 30 June 2013;
- Corporate tax – until 31 December 2012;
- Tax under Art. 194, 195 of CITA – until 31 December 2012;
- Tax under Art. 204 of CITA – until 31 December 2012;
- National Social Security Institute – until 31 March 2009;
- Customs Agency – excise duty liabilities for natural gas – until 29 February 2016;
- Customs Agency – excise duty liabilities for electric energy – until 5 June 2016.

Tax audit is performed within a 5-year period after the end of the year when the tax return for the respective liability has been submitted. The tax audit confirms ultimately the tax liability of the respective company — tax liable person except in the cases explicitly stated by law.

35. OTHER CURRENT LIABILITIES

Other current liabilities include:	***31.12.2018***	***31.12.2017***
	BGN '000	***BGN '000***
Guarantees received	2,627	337
Provision for liabilitiesto the Ministry of Environment and Water for carbon emissions	1,978	3,645
Remuneration payable to foreign and local natural persons	372	261
Current portion of provisions (Note 26)	331	274
Deductions from work salaries	172	162
Water usage charge	136	148
Dividend payable	76	92
Deposits from clients	63	62
Government grants (Note 28)	37	37
Current portion of finance lease liabilities (Note 25)	6	32
Other liabilities	146	148
	5,944	**5,198**

The guarantees received include:

- an amount of BGN 2,187 thousand (USD 1,280 thousand) transferred to a Neochim AD account to guarantee receivables from a foreign customer of the Company;

- other guarantees at the total amount of BGN 440 thousand (members of the Board of Directors, for civil works, for packaging, etc.).

The other non-current liabilities at the amount of BGN 33 thousand (31 December 2017: BGN 43 thousand) represent a part of accrued one-off additional remuneration to the Executive Director, deferred for payment after 1 January 2019 as per a decision of the Board of Directors.

36. CONTINGENT LIABILITIES AND COMMITMENTS

Guarantees granted

As at 31 December 2018, the Company has bank guarantees at the amount of BGN 163 thousand issued in favour of trade counterparts (31 December 2017: BGN 123 thousand).

37. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Company can be exposed to a variety of financial risks the most important of which are market risk (including currency risk, risk of a change in the fair value and price risk), credit risk, liquidity risk and risk of interest-bearing cash flows. The general risk management is focused on the difficulty to forecast the financial markets and to achieve minimizing the potential negative effects that could affect the financial results and position of the Company. The financial risks are currently identified, measured and monitored through various control mechanisms in order to establish adequate prices for the Company’s products and the borrowed thereby capital, as well as to assess adequately the market circumstance of its investments and the forms for maintenance of free liquid funds through preventing undue risk concentrations. Risk management in the Company is currently performed by the management

The structure of financial assets and liabilities as at 31 December 2018 is as follows:

Financial assets	***31.12.2018***	***31.12.2017***
	BGN '000	***BGN '000***
Cash and cash equivalents	576	26,721
Loans and receivables, incl.:	10,094	2,829
Receivables from related parties (Note 19)	*2,940*	*890*
Trade and other receivables (Notes 20 and 21)	*7,154*	*1,939*
Long-term equity investments	4	4
	10,674	**29,554**

Financial liabilities	***31.12.2018***	***31.12.2017***
	BGN '000	***BGN '000***
Financial liabilities at amortised cost, including:	**25,676**	**14,914**
Short-term and long-term bank loans (Notes 24 and 29)	*19,074*	*10,000*
Trade and other payables (Notes 25, 31, 32 and 35)	*6,602*	*4,914*

The Company’s financial assets are measured at amortised cost.

The impairment losses related to financial assets recognised in the statement of comprehensive income for 2018, are as follows:

	2018
Impairment loss related to:	**BGN’000**
Receivables from related parties (Note 19)	141
Receivables from clients (Note 20)	123
	264

Below, the different types of risks the Company is exposed to upon performing its business operations are described, as well as the approach adopted to manage these risks.

Market risk

Foreign currency risk

The Company usually performs its activities with an active exchange with foreign suppliers and clients. The Company is exposed to currency risk in respect of USD. Approximately 20% of Company's financial assets are formed from receivables related to export of finished products contracted as payable in USD. The currency risk is related with the adverse floating of the exchange rate of USD against BGN in future business transactions as to the recognised assets and liabilities denominated in foreign currency and as to the net investments in foreign companies.

Currency structure analysis

31 December 2018	***in EUR***	***in USD***	***in RUB***	***in BGN***	***Total***
	BGN '000	***BGN '000***	***BGN ‘000***	***BGN '000***	***BGN '000***
Financial assets					
Cash and cash equivalents	48	495	-	33	576
Loans and receivables	4,029	5,711	-	354	10,094
Long-term equity investments	-	-	-	4	4
	4,077	**6,206**	-	**391**	**10,674**
Financial liabilities					
Financial liabilities at amortised cost	**942**	**2,187**	**48**	**22,499**	**25,676**

31 December 2017	***in EUR***	***in USD***	***in RUB***	***in BGN***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Financial assets					
Cash and cash equivalents	14,856	5,122	-	6,743	26,721
Loans and receivables	1,687	885	-	257	2,829
Long-term equity investments	-	-	-	4	4
	16,543	**6,007**	**-**	**7,004**	**29,554**
Financial liabilities					
Financial liabilities at amortised cost	**539**	**-**	**-**	**14,375**	**14,914**

Foreign currency sensitivity analysis

The Company's risk is in the exposure to USD. The effect of Company's sensitivity to 10% increase/decrease in current exchange rates of BGN to USD, based on the structure of foreign currency assets and liabilities at 31 December and on the assumption that the influence of all other variables is ignored, has been measured and presented as impact on the post-tax financial result and on the equity.

In case of 10% increase in the rate of USD to BGN, the final effect on post-tax profit of the Company would be an increase by BGN 362 thousand (2017: BGN 541 thousand) mostly attributable to the receivables from clients denominated in foreign currency. Respectively, the impact on equity would be the same.

On 10% decrease in the exchange rate of USD to BGN, the final impact on the post-tax profit of the Company would be equal and reciprocal of the stated above.

The management believes that the presented above sensitivity analysis based on the balance sheet structure of foreign currency assets and liabilities is representative for the currency sensitivity of the Company for the respective period (reporting year).

Price risk

The Company is exposed to a price risk of adverse changes in the price of the main raw material used in its production process – the natural gas, as far as this price is negotiated and determined at government level. The Company is not exposed to a significant price risk of adverse changes in the prices of other raw materials and other materials, because under the contractual relations with suppliers they are periodically analysed and discussed for revision and update in accordance with the market changes.

The Company is also exposed to a price risk with respect to the price of carbon emission quotas, in as far as it is obliged to purchase certain quantities on a carbon exchange to cover its obligation when the level of hazardous gas emissions calculated thereby exceeds the level of freely allocated and available quotas. The purchase price on quotas depends on the exchange price, which in 2018 marked a significant increase of 178%.

The Company applies a strategy for optimisation of production costs, flexible marketing and price policies.

Credit risk

The main financial assets of the Company are cash in hand and at bank accounts, trade and other receivables.

Credit risk is mainly the risk that any of the Company's clients (and other counterparts) will fail to discharge in full and within the normally envisaged terms the amounts due under trade and other receivables.

Collectability and concentration of receivables are strictly monitored on an ongoing basis by the Sales Department in accordance with the credit policy adopted by the Company. For this purpose, the open exposures by client, the observance of contractual payment terms, and the proceeds received are subject to review on daily basis. In addition, receivables that have not been paid within the set terms are also followed. The Company’s usual policy is to negotiate advance payments, including up to 100% for some of its main customers, which reduces credit risk. Regarding the other sales, the Company tries to negotiate short payment terns, usually from 10 to 20 days.

The Company performs the main part of its sales through distributors, including:

- For the domestic market – two distributors: Distributor 1 –77%, Distributor 2 – 20%. It is an usual practice is to agree 100% advance payment of the transaction amount;
- In 2018, 65% of the export made by the Company is performed with main clients:
  Client 1 – 28%, Client 2 – 13%, Client 3 – 10%, Client 4 – 7%, and Client 5 – 7%.

The Company's management currently monitors and analyses the trade practices established with the main distributors and clients. On the basis of experience, the sales to Neochim Tarim Ltd., Turkey, have been regarded as bearing higher risk due to the economic environment in this country and therefore, these receivables are subject to specific current consideration and assessment. The receivables from Neochim Tarim Ltd., Turkey (8% of the receivables under sales and a credit period of 270 days) are assessed by the management as concentration of credit risk, in as far as they include payables past due, also repaid in the reporting period.

The Company has selected and applies a simplified approach to calculate expected credit losses of trade receivables, which is based on historical experience regarding credit losses adjusted for forecast factors specific for the debtors and the economic environment, and for which a connection with credit loss percentage has been established. Trade receivables are grouped in two groups of clients – from foreign subsidiaries and all others, which is made necessary by the specific market conditions in which the foreign (Turkish) subsidiaries operate.

Cash transactions are limited to reputable banks with high credit rating and liquid stability. The nature of Company’s operations does not presume the existence of free funds of significant amount for a longer time period. In addition, the credit exposure with banks is currently monitored and analysed for the purpose of efficient use of funds.

To calculate expected credit losses for cash and cash equivalents, the Company applies a rating model using the banks’ ratings as determined by internationally recognised rating firms such as Moody’s, Fitch, S&P, BCRA and Bloomberg, as well as the reference public data about PD (probability of default), corresponding to the respective bank's rating. The management currently monitors the change in the rating of the respective bank so as to assess the presence of increased credit risk and the ongoing management of incoming and outgoing cash flows, and the allocation of amounts between bank accounts and banks.

Liquidity risk

Liquidity risk is the adverse situation when the Company encounters difficulty in meeting unconditionally all of its obligations within their maturity. The liquidity management policy of the Company is conservative maintaining a constant optimal liquid reserve of cash and a capability for funding its business activities, including by securing and maintenance of adequate credit resources and facilities, continuous control monitoring of the actual and forecasted cash flows by periods ahead and matching maturity profiles of assets and liabilities.
One of the main resources for funding the Company's operations is the use of borrowings – bank loans.

Maturity analysis

The table below presents the financial non-derivative liabilities of the Company at the reporting date, grouped by remaining term to maturity, determined against the contractual maturity and cash flows. The table is prepared on the basis of undiscounted cash flows and the earliest date on which the receivable and respectively, the payable becomes due for payment. The amounts include principal and interest.

31 December 2018	**up to 1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**Total**
Financial liabilities							
Financial liabilities at amortised cost	16,272	1,055	3,097	1,890	1,895	1,874	**26,083**

31 December 2017	**up to 1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**Total**
Financial liabilities							
Financial liabilities at amortised cost	4,637	982	1,233	3,729	3,464	1,176	**15,221**

The financial liabilities at amortised cost at 31 December 2018, which mature in up to one month, represent trade payables and payables under the current portion of investment and revolving bank loans.

Risk of interest-bearing cash flows
In general, the Company does not have a significant portion of interest-bearing assets except for cash and cash equivalents. Since it does not maintain significant amounts of free cash for a longer period, its income and operating cash flows are largely independent from the changes in market interest rates.

Interest risk concentration of the Company refers to its long-term and short-term loans. They are usually with a floating interest rate, which makes its cash flows dependent on the interest rate risk.

When concluding bank loan contracts, the Company manages cash flow risk of interest rate levels by trying to negotiate interest rates through choosing from the most favourable conditions offered on the banking market.

Interest analysis

31 December 2018	***Interest-free***	***With floating interest %***	***Total***
Financial assets			
Cash and cash equivalents	15	561	576
Loans and receivables	10,094	-	10,094
Available-for-sale investments	4	-	4
	10,113	**561**	**10,674**
Financial liabilities			
Financial liabilities at amortised cost	**6,581**	**19,095**	**25,676**

31 December 2017	***Interest-free***	***With floating interest %***	***Total***
Financial assets			
Cash and cash equivalents	26	26,695	26,721
Loans and receivables	2,829	-	2,829
Available-for-sale investments	4	-	4
	2,859	**26,695**	**29,554**
Financial liabilities			
Financial liabilities at amortised cost	**4,859**	**10,055**	**14,914**

The Company's management currently monitors and analyses its exposure to changes in interest rates. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing. Based on these scenarios, the impact of a defined interest rate shift, expressed in points, on the financial result and equity is calculated.

The table below demonstrates the Company's sensitivity to possible increase in interest rates by 0.5% based on the structure of assets and liabilities as at 31 December and with the assumption that the influence of all other variables is ignored. The effect is measured and presented as impact on the financial result after taxes and on equity.

31 December 2018	***With floating interest %***	***Interest rate increase***	***Impact on post-tax financial result***	***Impact on equity***
Financial assets				
BGN	-	0.5	-	-
Financial liabilities				
EUR	-	0.5	-	-
BGN	19,095	0.5	(86)	(86)
	19,095		**(86)**	**(86)**

31 December 2017	***With floating interest %***	***Interest rate increase***	***Impact on post-tax financial result***	***Impact on equity***
Financial assets				
BGN	-	0.5	-	-
Financial liabilities				
EUR	-	0.5	-	-
BGN	10,055	0.5	(45)	(45)
	10,055		**(45)**	**(45)**

On interest rate decrease by 0.5%, the final impact on Company's post-tax profit would be equal and reciprocal to the stated above. The above table does not include cash and cash equivalents for which the effect of increase or decrease in the floating interest rate would be insignificant.

Capital risk management

The capital management objectives of the Company are to build and maintain capabilities to continue its operation as a going concern and to provide return on the investments of shareholders and economic benefits to other stakeholders and participants in its business as well as to maintain an optimal capital structure to reduce the cost of capital.

The Company currently monitors the availability and structure of capital based on the gearing ratio as presented in the table below as at 31 December:

	31.12.2018	***31.12.2017***
	BGN '000	***BGN '000***
Total borrowings, including:	**19,095**	**10,055**
Bank loans *(Notes 24 and 29)*	19,074	10,000
Finance lease liabilities *(Note 25)*	21	55
Less: cash and cash equivalents	**576**	**26,721**
Net debt	**18,519**	**(16,666)**
Total equity	**91,568**	**111,200**
Total capital	**110,087**	**94,534**
Gearing ratio	***16.82%***	***(17.63)%***

As at 31 December 2017, the amount of cash and cash equivalents exceeds payables to banks and finance lease liabilities, i.e. the Company fully covers these liabilities.

Fair value measurement

Fair value is generally the amount for which an asset could be exchanged, or a liability settled in an arm's length transaction between independent, willing and knowledgeable parties.

The financial assets owned by the Company represent mainly trade receivables and cash available at current bank accounts and therefore, it has been accepted that their carrying amount is almost equal to their fair value. The financial liabilities owned by the Company represent mainly loans with floating interest and trade payables and therefore, it has been accepted that their carrying amount is almost equal to their fair value.

An exception to this are investments in other long-term equity investments, which include interest in Fund Industry AD Sofia at the amount of BGN 2 thousand and in Ecobulpack AS Sofia, at the amount of BGN 2 thousand. With respect to the interest in Fund Industry AD, a decision is to be made on impairment and derecognition, in as far as the latter is an ineffective company. Interest in Ecobulpack at fair value is measured at around BGN 34 thousand based on the net asset value.

Company's management believes that the values of financial assets and liabilities, presented in the statement of financial position, are as reliable, adequate and trustworthy as possible for financial reporting purposes under the present circumstances.

38. RELATED PARTY TRANSACTIONS

The Company’s related parties are as follows:

Related parties	Relation type
Shareholders:	
Eco Tech AD	Main shareholding company (24.28%)
Evro Fert AD	Main shareholding company (24.03%)
Feboran EOOD	Main shareholding company (20.30%)
Subsidiaries:	
Neochim Tarim Ltd. – Turkey	100% owned by the Company
Neochim Protect EOOD	100% owned by the Company
Neochim Gübre Ltd. – Turkey- merged in Neochim Tarim Ltd. - Turkey	99.93% owned by the Company, deleted on 17 September 2018
Other:	
Terachim – Dimitrovgrad EOOD	100% owned by Evro Fert AD
Neo Kiten EOOD	100% owned by Evro Fert AD
Neoplod EOOD	100% owned by Evro Fert AD
Borealis L.A.T.	(Borealis AG) – Austria, holding 100% of the capital of Feboran EOOD

In 2017, a change was made in the ownership of Feboran EOOD – Borealis AG acquired 100% of the Company, thus acquiring significant influence; respectively, transactions with entities from Borealis Group have been reclassified as transactions with related parties. The Company has also reclassified advances received from Borealis L.A.T. at the amount of BGN 5,990 thousand (Note 32).

Supplies from related parties	***2018***	***2017***
	BGN '000	***BGN '000***
Materials		
Main shareholding company	**90**	**88**
Services		
Subsidiaries	1,200	1,065
Main shareholding company	93	92
	1,293	**1,157**
PPE	**1**	**1**
Total	**1,384**	**1,246**

Sales to related parties	***2018***	***2017***
	BGN '000	***BGN '000***
Finished products		
Main shareholding company	79,441	85,640
Subsidiaries	2,011	2,626
Other related parties (considerable influence through relation with a main shareholder)	36,453	36,777
	117,905	**125,043**
Services		
Main shareholding company	55	53
Subsidiaries	35	37
Other related parties	2	-
	92	**90**
Other		
Main shareholding company	305	2
Subsidiaries	2	3
	307	**5**
Total	**118,304**	**125,138**

The terms and conditions of these transactions do not deviate from the market prices for similar transactions.

Short-term receivables from related parties as at 31 December are as follows:

	31.12.2018	***31.12.2017***
Receivables on sales in foreign currency	***BGN '000***	***BGN '000***
Subsidiaries	774	885
Including book value	*3,765*	*3,618*
impairment charged	*(2,991)*	*(2,733)*
Other related parties (considerable influence through relation with a main shareholder)	2,166	-
Including book value	*2,213*	-
impairment charged	*(47)*	-
	2,940	**885**
Receivables on sales in BGN		
Main shareholding company	-	4
Subsidiaries	-	1
	-	**5**
Total	**2,940**	**890**

Payables to related parties as at 31 December are as follows:

	31.12.2018	***31.12.2017***
Contract assets (Advances received for sale of finished products)	***BGN '000***	***BGN '000***
Main shareholding company	7,111	4,903
Other related parties (considerable influence through relation with a main shareholder)	2,687	5,990
Subsidiaries	2	-
	9,800	**10,893**
Payables under supplied assets and services		
Subsidiaries	240	242
Main shareholding company	17	16
	257	**258**
Total	**10,057**	**11,151**

Remuneration of key management personnel:

The members of the Company's key management personnel are disclosed in Note 1.

	2018	***2017***
Salaries and other short-term benefits	1,028	987

39. POTENTIAL IMPACT OF THE ADOPTION OF NEW IFRS

This Note presents the impact on the Company’s financial statements for 2018 of the first-time adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* as at 1 January 2018.

IFRS 9 *Financial Instruments* replaces the provisions of IAS 39 *Financial Instruments: Recognition and Measurement* with respect to the recognition, classification and measurement of financial assets and financial liabilities, the derecognition of financial instruments, impairment of financial assets and hedge accounting. It introduces new classification criteria and groups of financial assets, respectively new rules for their subsequent measurement and for the recognition of interest income. The other material difference is the adoption of a new approach to measure impairment – based on expected credit losses. Upon the adoption of IFRS 9 *Financial Instruments*, the Company has applied the exceptions permitted for initial adoption, and has applied the standard for contracts for financial instruments outstanding as at 1 January 2018.

The adoption of IFRS 9 Financial Instruments has resulted in certain changes in the accounting policies, and in an adjustment to the amounts of the respective items recognised in the financial statements. The new accounting policies are presented in *Note 2.1* and *Note 2.13*.

IFRS15 Revenue from Contracts with Customers replaces IAS 18 *Revenue*, which covers goods and services contracts, and IAS 11 *Construction Contracts*, which covers construction contracts, and the respective SIC and IFRIC. The new standard establishes a model of five steps to account for contracts with customers. This model is based on the principle that revenue is recognised when control of a good or service transfers to a customer at an amount reflecting the consideration the entity expects to be entitled to in return for the transfer of goods or services to the customer. The adoption of the new IFRS 15 *Revenue from Contracts with Customers* significantly increases the use of judgement in the recognition of revenue and provides guidance for accounting for contract expenses. Presentation and disclosure pursuant to IFRS 15 *Revenue from Contracts with Customers* are to a certain extent different and more detailed compared to the accounting standards repealed. The Company has applied the guidance of IFRS 15 for all contracts outstanding as at 1 January 2018, with the practical expedient permitted for modified contracts with customers.

The adoption of IFRS 15 *Revenue from Contracts with Customers* has resulted in changes to the accounting policies, but has not necessitated material adjustment to the amounts of the respective items recognised in the financial statements. The changes are mostly related to the recognition of transport costs in the cases when the Company has undertaken a commitment in addition to the sale of products to also provide transportation to the customer’s location. The new accounting policies are presented in *Notes 2.1 and 2.6*.

The cumulative effect of the initial adoption of IFRS 9 and IFRS 15 for each item in the statement of financial position as at 1 January 2018 is as follows:

Statement of financial position	Note	31.12.2017 originally stated BGN'000	Effect of the adoption of IFRS 9 BGN'000	Effect of the adoption of IFRS 15 BGN'000	01.01.2018 restated BGN'000
ASSETS					
Non-current assets					
Property, plant and equipment		86,792	-	-	86,792
Intangible assets		115	-	-	115
Investments in subsidiaries		88	-	-	88
Other long-term equity investments		4	-	-	4
		86,999	**-**	**-**	**86,999**
Current assets					
Inventories		28,973	-	-	28,973
Receivables from related parties	a)	890	(148)	-	742
Trade receivables and prepayments	a)	3,144	(8)	(179)	2,957
Other receivables and prepaid expenses		2,926	-	-	2,926
Cash and cash equivalents		26,721	-	-	26,721
		62,654	**(156)**	**(179)**	**62,319**
TOTAL ASSETS		**149,653**	**(156)**	**(179)**	**149,318**
EQUITY AND LIABILITIES					
EQUITY					
Share capital		2,654	-	-	2,654
Treasury shares		(3,575)	-	-	(3,575)
Reserves		265	-	-	265
Retained earnings	a) b)	111,856	(141)	-	111,715
TOTAL EQUITY		**111,200**	**(141)**	**-**	**111,059**
LIABILITIES					
Non-current liabilities					
Long-term bank loans		4,538	-	-	4,538
Long-term payables to suppliers		23	-	-	23
Long-term provisions		34	-	-	34
Retirement benefit obligations		2,885	-	-	2,885
Government funding		149	-	-	149
Deferred tax liabilities	b)	204	(15)	-	189
Other liabilities		43	-	-	43
		7,876	**(15)**	**-**	**7,861**
Current liabilities					
Current portion of long-term bank loans		5,462	-	-	5,462
Contract liabilities	c)	-	-	13,121	13,121
Payables to related parties	c)	11,151	-	(10,893)	258
Trade payables	c)	6,044	-	(2,407)	3,637
Payables to personnel and for social security		2,103	-	-	2,103
Tax payables		619	-	-	619
Other current liabilities		5,198	-	-	5,198
		30,577	**-**	**(179)**	**30,398**
TOTAL LIABILITIES		**38,453**	**(15)**	**(179)**	**38,259**
TOTAL EQUITY AND LIABILITIES		**149,653**	**(156)**	**(179)**	**149,318**

IFRS 9 Financial instruments

The impact on the Company's retained earnings on 1 January 2018 of the adoption of IFRS 9 is as follows:

	BGN'000
Closing balance of accumulated profit/(loss) as at 31 December 2017 (originally stated according to the accounting policies for 2017)	**114,170**
Accrual of impairment provision for expected credit losses under trade receivables	(156)
Increase in deferred tax assets related to provisions accrued for credit losses	15
Closing balance of the accumulated profit/(loss) resulting from the initial adoption of IFRS 9 on 1 January 2018	**(114,029)**

On 1 January 2018 the Company's management assessed the business models of the separate financial assets and liabilities held by the Company, and reclassified its financial instruments into the respective categories under IFRS 9.

Trade receivables are held by the Company with the purpose of receiving the contractual cash flows and give rise to cash flows which are solely payments of principal and interest (SPPI). Therefore, they are reclassified and remeasured from "loans and receivables" under IAS 39 to "financial assets at amortised cost" under IFRS 9. The Company has applied the simplified approach under IFRS 9 for initial measurement of expected credit losses from trade receivables on 1 January 2018 *(Note 2.13)*. As a result, additional impairment has been recognised at the amount of BGN 156 thousand in the opening balances, which has resulted in a decrease in retained earnings, respectively in the carrying amount of trade receivables, by the same amount, on 1 January 2018.

As a result of the adjustment made at 1 January 2018, the Company recognised deferred tax assets for expected credit losses from trade receivables at the amount of BGN 15 thousand.

IFRS 15 Revenue from contracts with customers

The new accounting policies on revenue recognition have not necessitated adjustment to retained earnings at 1 January 2018, with the exception of some reclassification of amounts in the respective items already recognised in the financial statements.

Notes:

At 1 January 2018 the Company has received advances from clients in related to sales of finished products. Under the accounting policies applies until 31 December 2017, the advances from clients were stated as trade payables and payables to related parties. On 1 January 2018, reclassification was made and all advances from customers were presented in a separate item, *Contract liabilities (Note* 30).

In accordance with the policy applied until 31 December 2017 for the recognition of revenue from the sale of products including transportation, the Company recognised sales revenue, including from the transportation service, when all substantial risks and rewards of ownership were transferred to the buyer. Pursuant to IFRS 15, the transportation services that the Company has promised to deliver following the transfer of control over the products sold to the customer constitute a separate performance obligation and the revenue from transportation services is recognised over the period of their rendition.

As a result of this change, trade receivables and trade payables in the statement of financial position as at 1 January 2018 have decreased by BGN 179 thousand. The change has no impact on the amount of retained earnings at 1 January 2018, in as far as the adjustment in the amount of revenue from transportation services not provided at 31 December 2017 is accompanies by an adjustment of the same amoynt to the adjacent transportation expenses.

<u>*The effects on the financial result, assets, liabilities and equity, presented respectively in the statement of comprehensive income for 2018 and in the statement of financial position as at 31 December 2018, resulting from the application of the two different accounting policies – the one based on IFRS 15 and the one based on the repealed IAS 18 and the interpretations thereto, applied until 31 December 2017, are as follows:*</u>

Effects on the statement of comprehensive income

As a result of the adoption of IFRS 15 and the new policy for recognition of revenue from the transportation of prodicts sold, in 2018 the Company:

- recognised revenue from transportation services at the amount of BGN 179 thousand, and hired service expense at the same amount;
- has not recognised revenue from transportation services at the amount of BGN 879 thousand and hired service expense at the same amount.

As a result, the revenue from sales and hired service expense accounted for in 2018 pursuant to IFRS 15 is BGN 700 thousand less as compared to the amount that would have been accounted in accordance with the accounting policies and guidance of IAS 18, applied by the Company until 31 December 2017. The change described does not impact the financial result formed in accordance with the revenue recognition policy as from 1 January 2018 and or the financial result formed in accordance with the revenue recognition policy until 31 December 2017.

Effects on the statement of financial position

As a result of the adoption of IFRS 15, at 31 December 2018, contract liabilities were recognised at the amount of BGN 10,394 thousand, which in the statement of financial position at 31 December 2018 were presented separately in the item *Contract liabilities*.
Under the accounting policies and guidance of IAS 18, these liabilities would have been presented respectively as trade payables and payables to related parties. Upon application of the repealed policies, trade payables stated in the statement of financial position at 31 December 2018 would have been BGN 3,870 thousand, and payables to related parties – BGN 10,057 thousand.

40. POTENTIAL IMPACT OF THE ADOPTION OF IFRS 16 *LEASES*

IFRS 16 *Leases* is the new standard on leases. It will replace IAS 17 *Leases*, and the respective SIC and IFRIC. IFRS 16 establishes principles and rules for the recognition, measurement, presentation and disclosure of leases, by both lessor and lessees. The most significant changes concern accounting for leases by lessees.

Accounting for by lessees

IFRS 16 establishes a uniform model of lease accounting for by lessees that introduces their recognition in the balance sheet, similar to finance lease accounting under IAS 17.

Under the new standard, a contract contains a lease if the contract conveys the right to control the use of an identified asset for a certain period in return for consideration. At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability at the present value of the lease payments that are not paid at that date.

The two exceptions permitted by the standard are: (a) short-term leases (up to 12 months) and/or (b) low-value leases. If a lessee elects to apply the standard's exemptions regarding either short-term leases or leases for which the underlying asset is of low value, the lessee shall recognise the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis similar to operating lease accounting under IAS 17.

Lessees will recognise interest expense for the lease liability and respectively a depreciation expense for the right-of-use asset. Moreover, lessees will have to recognise revaluation of the lease liability upon the occurrence of certain events (for instance, changes in the conditions of the lease contract, changes to future lease payments due to changes in certain values (index, percentage, etc.) used in the calculation of lease payments). In these cases, lessees recognise changes as an adjustment of the lease liability and the right-of-use asset.

Accounting for by lessors

IFRS 16 does not substantially change accounting for leases by lessors. They will continue to classify each lease as either finance or operating, in fact applying the material rules of the old standard IAS 17, which remain unchanged in the new IFRS 16.

The Company has reviewed and analysed all lease agreements in the light of the guidance of the new IFRS 16. The standard will affect primarily the accounting of operating leases in which the Company is a lessee.

Date of adoption by the Company:

IFRS 16 is mandatory for financial years commencing on or after 1 January 2019. The Company has decided not to adopt the standard before its effective date. It has selected to apply the modified retrospective transition approach, as of 1 January 2019. Comparative amounts for the year prior to first adoption (2018) will not be restated.

As at 31.12.2018, in its capacity as lessee, the Company has non-cancellable commitments under 10 operating lease agreements, at the amount of BGN 1,114 thousand (Note 6), for period of ten to fourteen months, as follows:

Expected future lease payments	**BGN'000**
Cars	342
Real estate	276
Rail vehicles	496
	1,114

The Company has no liabilities related to payments under short-term leases (up to 12 months).
The effects of the change in the accounting policy resulting from the adoption of IFRS 16 are set out below:

a) The Company expects to recognise right-of-use assets of approximately BGN 1,075 thousand on 1 January 2019, and lease liabilities of BGN 1,075 thousand.
b) Overall net assets will be not changed, and net current assets will be BGN 449 thousand lower due to the presentation of a portion of the liability as a current liability;
c) The Company expects that the net profit for 2019 will decrease by BGN 7 thousand as a result of adopting the new standard.
d) The Company’s EBIDTA is expected to increase by approximately BGN 474 thousand due to the accounting for lease expenses as depreciation expenses of the right-of-use asset and interest on the lease liability.

e) Net operating cash flows will increase and net financing cash flows will decrease by approximately BGN 474 thousand as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.