



**CONSOLIDATED
FINANCIAL STATEMENTS**

AS OF DECEMBER 31, 2017

(Unofficial translation of the original in Bulgarian)

CONTENTS:

CONSOLIDATED ANNUAL REPORT ON THE ACTIVITY.....	PAGE 3
INDEPENDENT AUDITOR'S REPORT	PAGE 10
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	PAGE 15
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	PAGE 16
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	PAGE 17
CONSOLIDATED CASH FLOW STATEMENT	PAGE 18
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.....	PAGE 19

Name of the Company:
Unified Identification Code:
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CONSOLIDATED ANNUAL REPORT ON THE ACTIVITY

Contents

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

1. Group's Profile

FILKAB AD (Parent company) is a joint-stock company, registered by decision of the Plovdiv District Court under company file № 2189/1999 and is entered in the Trade Register of the Registry Agency. Main activity of the Parent company and its subsidiary entities (the Group) is trade in cables and wires, electrical and automation equipment, medium-voltage electrical equipment, cable accessories, lighting fixtures, and electrical installation materials. The Group designs and manufactures lighting fixtures, electrical LV-switchboards, complete distribution systems 24kV, concrete complete transformer substations (CCTS).

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

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

Among the clients and partners of the Group, there are companies operating in the sphere of electricity generation, transmission and distribution, of the telecommunications sector, companies performing electrical installation, construction, and trade activities, etc. Among those of particular importance are investors and general contractors of substantial and key projects, Bulgarian investors from small and medium-sized businesses, state companies and public associations.

In 2015, Filkab AD completed the process of substantial structural change by separating the production and design activities in two subsidiaries:

- Engineering EAD, which performs the design, manufacturing, supply, installation and commissioning of complete electrical and automation projects, as well as the design and manufacturing of metal cabinets, lighting fixtures, electrical LV-switchboards, complete distribution systems 24kV, and concrete complete transformer substations;
- FILKAB Solar Ltd., which offers engineering services, supply and construction of photovoltaic (PV) systems in various configurations – connected to the grid, autonomous and hybrid, as well as for self-consumption. The systems can be ground- or building mounted – on facades, on horizontal or inclined roofs.

In 2017 the subsidiary in Turkey, FILKAB Solar Enerji A.Ş., in partnership with the Korean manufacturer of PV modules Hanwha Q CELLS Co., Ltd. (NASDAQ:HQCL), completed the work on several photovoltaic projects in the Republic of Turkey. PV power plants Sivas 01 (3.67 MW), Sivas 02 (2.42 MW) and Sivas 03 (4.78 MW) are located in the city of Sivas, PV power plant Elazig (34 MW) located in the city of Elazig District, and cover an area of over 900 decares. The team of FILKAB Solar Enerji A.Ş. was responsible for the supply of materials and the construction of the electrical part of the projects.

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

In the middle of 2016, the Company became the sole proprietor of the Romanian SPV (project company) SOLAR REMUS S.R.L., owner of a PV park (2160 kWp) near Giurgiu, Romania. The acquisition has helped for the restructuring of the receivable of FILKAB from APOSTOLOS BOBOLAS S.A., arising upon an agreement for construction of the photovoltaic plant, a major asset of the Romanian SPV.

The economic situation in 2018 will continue to cause changes in the industry in which FILKAB AD operates. For 2017 the GDP rate in the country was 3.6%. The economic growth model for 2017 is dominated by the export – i.e. sales abroad were the main reason for the growth during the year. That was also the main reason, to a certain extent, in 2015, FILKAB AD to establish FILKAB MIG d.o.o. – a subsidiary company in Serbia through which to operate on the Serbian market. In an effort to expand its activities on the foreign markets and to invest in neighboring countries, completed was the new commercial and warehouse centre on the territory of Macedonia. The investment is carried out by the subsidiary of FILKAB AD in Macedonia – MAKKAB DOOEL. As at the date of preparation of the report (April 2018), Filkab established also a subsidiary in Hungary - FILKAB Solar HU Kft, with main activity construction of photovoltaic (PV) power plants and supply of equipment for PV power plants.

According to the forecasts of the Ministry of Finance, the GDP rate in the country for 2018 will reach growth of 3.9%. In this regard, the Company should continue its activities on the diversification of offered products and services from the rapidly growing new areas – energy efficiency solutions, new efficient lighting sources and renewable energy sources: wind, water, sun, bioenergy. FILKAB AD is developing in this direction through its participation in projects as main contractor or subcontractor, thus obtaining know-how, establishing contacts and partnerships with external companies and organisations, working with research institutes, participating in joint manufacturing activities with them, applies with already completed projects for grants from Structural Funds and others.

The Company does not perform research and development activities.

2. Share Capital of the Parent Company

As of December 31, 2017 the registered share capital of the Parent company is at the total amount of BGN 20 000 thousand and is distributed in 2 000 000 ordinary shares at nominal value of BGN 10 per share. Shareholders are nine individuals. In 2016 transferred were shares at nominal value from two individuals to three new shareholders, also individuals, and no new shares were issued. As of December 31, 2017, the net assets of the Group are at the amount of BGN 41 962 thousand (2016: BGN 42 110 thousand).

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

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

The Parent company holds shares in the following companies:

No	Name of company of investment based on latest legal registration	Number of shares	Carrying amount of the investment in thousands of BGN	% of equity participation
1	ENGINEERING EAD, Plovdiv	10 000	139	100.00%
2	FILKAB SOLAR LTD, Plovdiv	3 500	35	70.00%
3	MAK KAB DOOEL, Macedonia	600 000	1 168	100.00%
4	FILKAB DISTRIBUTIE SRL, Romania	88 000	1 222	71.40%
5	FILKAB SOLAR ENERJI A.Ş., Turkey	100 000	71	100.00%
6	FILKAB MIG DOO, Serbia	5 000	50	51.00%
7	GESPRO GREEN ENERGY S.R.L., Romania	4 500	19	100.00%
8	SOLAR REMUS S.R.L., Romania	4 498	19	99.80%
9	OTHER	-	7	4.0%-5.0%
Total:			2 730	

4. Parent Company Management Bodies Information

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

As of December 31, 2017, the Board of Directors of the Parent company consists of seven members, as follows:

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

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

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

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

1. Trade activity – which is of key importance to the company and is 80% of the total volume;
2. Production and project activity – in 2017 it covers 20% of the total volume;
3. General operations.

5. Financial Position of the Group

	December 31, 2017	December 31, 2016	Change
Revenue	84 497	72 511	16.5%
Profit/(loss) from operating activities, net	623	686	-9.2%
Assets	84 088	82 667	1.7%
Liabilities	42 126	40 557	3.9%
Equity	41 962	42 110	-0.4%
Current assets	52 385	49 611	5.6%
Current liabilities	39 135	37 039	5.7%
Current liquidity ratio (current assets/current liabilities)	1.34	1.34	0.0%
Quick ratio (receivables+cash/current liabilities)	0.59	0.53	11.3%
Capital utilization	50.00%	51.00%	-2.0%
Return on assets (net income/assets)	1.00%	1.00%	0.0%
Equity profitability (net profit/equity) ratio	1.00%	2.00%	-50.0%
Equity to debt ratio (equity/equity+liabilities)	0.50	0.51	-2.00%
Debt to equity ratio (equity+liabilities/equity)	2.00	1.96	2.0%
Assets turnover	1.00	0.88	13.6%
Working capital, net	13 250	12 572	5.4%
Profit margin (net profit/ net revenue)	0.01	0.01	0.00%

6. Financial Instruments, Financial Risk Management

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

Market risk

Currency risk

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

Interest rate risk

As the Company has no significant interest bearing assets, the incomes and operating cash flows of the Company are independent from changes in market interest rates. Financial instruments that potentially expose the Company to interest rate risk are primarily the bank loans and finance lease contracts. As the contracted interest rate of the utilized loans is with a fixed markup over EURIBOR, the Company is potentially exposed to cash flow risk.

Price risk

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

Credit risk

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

Liquidity risk

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

7. Future Development Prospects for the Group

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

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

8. Environment Protection and Healthy and Safety Working Conditions

The Group has implemented an integrated system for management of quality, environment and healthy and safety working conditions for which the Parent company has the following certificates: ISO 9001:2008; ISO 14001:2004 and BS OHSAS 18001:2008, issued by the Bureau Veritas Certification. In May 2017 the Parent company had a recertification under the new standards ISO 9001:2015; ISO 14001:2015.

9. Disclosure of information pursuant to the Commerce Act

In 2017 Filkab AD has no contracts under Art. 240b of the Commerce Act..

As of December 31, 2017, members of the Board of Directors posses Company's shares, as follows:

- Ivan Stoykov Kukov – 433 000 shares;
- Rumen Hristov Tsankov – 433 000 shares;
- Lachezar Manolov Manolov – 300 000 shares;
- Vasil Nikolov Madanski – 80 000 shares;
- Margarit Stefanov Georgiev – 80 000 shares;
- Nikola Todorov Avramov – 45 000 shares.

In 2017 members of the Board of Directors have transferred the following number of shares:

- Vasil Nikolov Madanski – 309 000 shares;
- Margarit Stefanov Georgiev – 320 000 shares.

As at December 31, 2017 the participation of members of the Board of Directors in companies as general partners, having more than 25 percent of the capital of another company, as well as their participation in the management of other companies or cooperatives as procurators, managers or members of management bodies is, as follows:

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

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

As at the date of preparation of these consolidated financial statements, renegotiated were the maturity terms for repayment of revolving credit line from a Bulgarian bank at total limit of EUR 1 812 thousand from February - May 2018 to February - May 2019.

11. Management Responsibilities

Management acknowledges that an adequate and consistent accounting policy has been applied and that the financial statements as of December 31, 2017 are prepared following the prudence principle in the valuation of assets, liabilities, income and expenses. Management is responsible for the accuracy of its books of account, for the safekeeping of assets and for the prevention and detection of fraud and other errors.

Atanas Tanchev
Executive Director
June 16, 2018
Plovdiv



INDEPENDENT AUDITOR'S REPORT

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

INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of
FILKAB JSC**

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of FILKAB JSC and its subsidiary companies (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Basis for Opinion

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

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

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

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

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

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

We have nothing to report in this regard.

Responsibilities of Management for the Consolidated Financial Statements

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

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

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

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

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

We also:

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

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

Report on Other Legal and Regulatory Requirements

Additional Matters to be Reported under the Accountancy Act

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

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

Based on the procedures performed, our opinion is that:

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

AndA Consulting Ltd.

Antoaneta Bazlyankova
Managing Director

June 16, 2018
Sofia



Dimitar Bazlyankov
Registered auditor

**CONSOLIDATED
FINANCIAL STATEMENTS
AS OF
DECEMBER 31, 2017**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended December 31, 2017

All amounts are in thousands of BGN, unless otherwise stated

	Note №	December 31, 2017	December 31, 2016
Revenue	5	84 497	72 511
Other operating income	6	573	357
Change in finished goods and work in progress		(561)	(413)
Materials expenses	7	(9 365)	(9 040)
Hired services	8	(2 864)	(2 352)
Personnel expenses	9	(6 528)	(6 093)
Depreciation and amortization expenses	10	(1 851)	(1 662)
Cost of goods sold	11	(61 170)	(51 145)
Other expenses	12	(872)	(906)
Finance income	13	50	777
Finance expenses	13	(1 120)	(1 108)
Profit before taxation		789	926
Income tax expense	14	(166)	(240)
Net profit for the period		623	686
Other comprehensive income			
<i>Items that will not be reclassified in profit or loss</i>			
Actuarial gains/(losses) recognised	26	(2)	22
Deferred taxes on actuarial gains	26	-	(2)
Effect from foreign currency recalculations of the subsidiaries financial statements		(198)	(69)
Total other comprehensive income for the period, net		(200)	(49)
Total comprehensive income for the period		423	637
Net profit for the period, attributable to:			
Equity holders of the Parent company		610	738
Non-controlling interest		13	(52)
		623	686
Total comprehensive income for the period, attributable to:			
Equity holders of the Parent company		410	689
Non-controlling interest		13	(52)
		423	637

Approved for issuance on June 16, 2018

Atanas Tanchev
Executive Director

Antoaneta Bazlyankova
Managing Director
AndA Consulting Ltd
June 16, 2018, Sofia



Zdravko Peychev
Compiler

Dimitar Bazlyankov
Registered Auditor

(The accompanying notes from page 19 to page 62 are an integral part of these financial statements)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as of December 31, 2017

All amounts are in thousands of BGN, unless otherwise stated

	Note №	December 31, 2017	December 31, 2016
ASSETS			
Non-current assets			
Property, plant and equipment	15	31 398	32 649
Intangible assets	16	220	311
Investments in entities	17	7	7
Goodwill		26	26
Deferred tax assets	14	52	63
		31 703	33 056
Current assets			
Inventories	19	29 085	29 662
Trade and other receivables	20	21 936	18 601
Green certificates	27	301	429
Cash and cash equivalents	21	1 050	905
Income tax recoverable	22	13	14
		52 385	49 611
TOTAL ASSETS		84 088	82 667
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	28	20 000	20 000
Reserves	29	8 945	9 114
Retained earnings		12 625	12 646
		41 570	41 760
Non-controlling interest	30	392	350
Total equity		41 962	42 110
Non-current liabilities			
Trade and other liabilities	23	423	470
Bank loans	24	2 089	2 570
Finance lease liabilities	25	216	208
Retirement benefits obligation	26	263	270
		2 991	3 518
Current liabilities			
Trade and other payables	23	15 607	13 607
Bank loans	24	22 975	22 847
Finance lease liabilities	25	149	109
Income tax liabilities	22	103	47
Deferred income	27	301	429
		39 135	37 039
TOTAL EQUITY AND LIABILITIES		84 088	82 667

Approved for issuance on June 16, 2018:

Atanas Tanchev
Executive Director

Antoaneta Bazlyankova
Managing Director
AndA Consulting Ltd
June 16, 2018, Sofia

(The accompanying notes from page 19 to page 64 are an integral part of these financial statements)

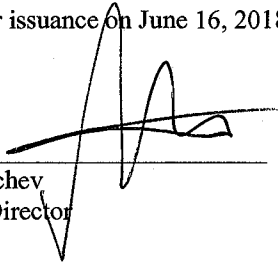
Zdravko Peychev
Compiler

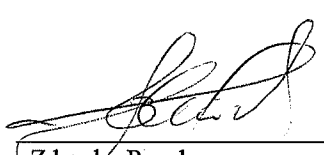
Dimitar Bazlyankov
Registered Auditor

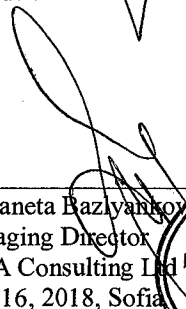
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2017
All amounts are in thousands of BGN, unless otherwise stated

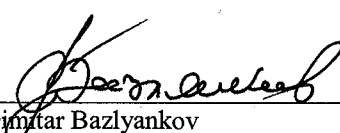
	Equity attributable to equity holders of the Parent company				Non- controlling interest	Total equity
	Share capital	Reserves	Accumulated profit	Total		
Balance at January 1, 2016	20 000	9 161	13 719	42 880	436	43 316
Changes in equity for 2016						
Comprehensive income for the period	-	(49)	738	689	(52)	637
Acquisition of subsidiary entities	-	-	(1 509)	(1 509)	-	(1 509)
Reserves	-	2	(2)	-	-	-
Dividend distribution	-	-	(300)	(300)	(34)	(334)
Balance at December 31, 2016	20 000	9 114	12 646	41 760	350	42 110
Changes in equity for 2017						
Comprehensive income for the period	-	(200)	610	410	55	465
Acquisition of subsidiary entities	-	-	-	-	-	-
Reserves	-	31	(31)	-	-	-
Dividend distribution	-	-	(600)	(600)	(13)	(613)
Balance at December 31, 2017	20 000	8 945	12 625	41 570	392	41 962

Approved for issuance on June 16, 2018.


 Atanas Tanchev
 Executive Director


 Zdrayko Peychev
 Compiler


 Antoaneta Bazlyankova
 Managing Director
 AndA Consulting Ltd
 June 16, 2018, Sofia


 Dimitar Bazlyankov
 Registered Auditor

(The accompanying notes from page 19 to page 62 are an integral part of these financial statements)

CONSOLIDATED CASH FLOW STATEMENT

for the year ended December 31, 2017

All amounts are in thousands of BGN, unless otherwise stated

	December 31, 2017	December 31, 2016
A. Cash flows from operating activities (note 31)	2 611	2 946
Income taxes paid	(98)	(171)
Net cash, generated from operating activities:	2 513	2 775
B. Cash flows from investing activities		
Purchase of property, plant and equipment	(473)	(2 544)
Purchase of intangible assets	(36)	(42)
Proceeds from sale of property, plant and equipment	108	4
Net cash flow from a business combination (note 34)	-	(4)
Net cash, used in investing activities:	(401)	(2 586)
C. Cash flows from financing activities		
Proceeds from borrowings	1 592	2 630
Repayments of borrowings	(1 945)	(790)
Payments on a finance lease	(170)	(202)
Interest paid, net	(709)	(810)
Payables of bank charges, commissions and others	(165)	(280)
Repayments of trade loans granted	-	(498)
Dividends paid	(570)	(279)
Interest received on trade loans	-	145
Indemnity interest paid on trade transactions	-	(15)
Net cash, used in financing activities:	(1 967)	(99)
Net increase in cash and cash equivalents for the period	145	90
Foreign currency recalculations differences	-	-
Cash and cash equivalents at the beginning of the period	905	815
Cash and cash equivalents at the end of the period (note 21)	1 050	905

Approved for issuance on June 16, 2018.

Atanas Tanchev
Executive Director

Antoaneta Bazlyankova
Managing Director
AndA Consulting Ltd
June 16, 2018, Sofia



Zdravko Peychev
Compiler

Dimitar Bazlyankov
Registered Auditor

(The accompanying notes from page 19 to page 62 are an integral part of these financial statements)

**NOTES TO THE
CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2017**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*for the year ended December 31, 2017**All amounts are in thousands of BGN, unless otherwise stated***1. Legal status and business activity**

FILKAB AD (the Parent company) is a joint-stock company, registered and settled in the Republic of Bulgaria, Unified Identification Code 115328801. The seat and registered office of the Parent company is 92, Komatevsko shosse Str., Plovdiv 4004. As of December 31, 2017 shareholders in the Parent company are nine individuals.

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

These financial statements have been approved for issuance by the management of the Group on June 16, 2018.

2. Basis for preparation of the financial statements and accounting principles**2.1. General**

These consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and the Interpretations, issued by the International Financial Reporting Interpretations Committee (IFRIC), adopted by the European Union Commission (the Commission).

During the year is adopted all new and revised IFRS of the International Accounting Standards Board (IASB), adopted by the Commission and Interpretations issued, effective for 2017 and applicable for the activities of the Group. All changes in IFRS, effective for 2017, approved by the Commission are disclosed in note 2.1.1.

These financial statements are consolidated financial statements, prepared in accordance with the accounting and tax legislation in the Republic of Bulgaria and IFRS 10 - Consolidated Financial Statements.

These consolidated financial statements are prepared for general purpose and provide information for the financial position, results and cash flows, generated by the Group for the year ended December 31, 2017.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)*for the year ended December 31, 2017**All amounts are in thousands of BGN, unless otherwise stated***2.1.1. Changes in IFRS****2.1.1.1. Standards and Interpretations effective in the current period**

The following new and revised pronouncements, all of which are adopted by the EU Commission, are effective for 2017:

<i>Standard or interpretation, date of revision and effective date</i>	<i>Name of the standard or interpretation</i>	<i>Effect on the Company's activity</i>
Amendments to IAS 7, issued on January 29, 2016, effective for annual periods beginning on or after January 1, 2017	Amendments to IAS 7: Disclosure Initiative	No effect on the Group's financial statements
Amendments to IAS 12, issued on January 19, 2016, effective for annual periods beginning on or after January 1, 2017	Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	No effect on the Group's financial statements
Amendments to IFRS 12, included in annual Improvements to IFRS Standards 2014-2016 Cycle, effective for annual periods beginning on or after January 1, 2017	Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	No effect on the Group's financial statements

The more significant changes are, as follows:

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of borrowings (note 24) and lease contracts liabilities (note 25). A reconciliation between the opening and closing balances of these items is provided in note 25. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in note 25, the application of these amendments has had no impact on the Group's consolidated financial statements.

Amendments to IAS 12 Recognition of deferred tax Asset for Unrealised Losses

The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilize a deductible temporary difference.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

Annual improvement to IFRSs 2014-2016 Cycle

The Group has applied the amendments to IFRS 12 included in the Annual improvement to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group (see note 2.1.1.2).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended December 31, 2017

All amounts are in thousands of BGN, unless otherwise stated

2.1.1. Changes in IFRS (continued)

2.1.1.1 Standards and Interpretations effective in the current period (continued)

Annual improvement to IFRSs 2014-2016 Cycle (continued)

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Group's consolidated financial statements as none of the Group's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

2.1.1.2. Standards and Interpretations, issued by the International Accounting Standards Board (IASB), adopted by the EU Commission, not yet effective

<i>Standard or interpretation, date of revision and effective date</i>	<i>Name of the standard or interpretation</i>	<i>Date of adoption by the EU Commission</i>
IFRS 9 Financial Instruments (issued on July 24, 2014), effective for annual periods beginning on or after January 1, 2018	Financial Instruments – Classification and Measurement, the standard will supersede completely IAS 39	December 22, 2016
IFRS 15, issued in May, 2014, effective for annual periods beginning on or after January 1, 2018	Revenue from Contracts with Customers - applicable to an entity's first annual IFRS financial statements for a period beginning on or after January 1, 2018	September 22, 2016
Clarifications to IFRS 15, issued on April 12, 2016, effective for annual periods beginning on or after January 1, 2018	No changes in the underlying principles of the standard, just clarify and offer some additional transition relief.	October 31, 2017
IFRS 16, issued on January 13, 2016, effective for annual periods beginning on or after January 1, 2019	Leases	October 31, 2017
Amendments to IFRS 4, issued on September 12, 2016, effective for annual periods beginning on or after January 1, 2018	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	November 3, 2017

The Group has not applied the above new and revised standards that have been adopted by the EU but are not yet effective.

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended December 31, 2017

All amounts are in thousands of BGN, unless otherwise stated

2.1.1. Changes in IFRS (continued)

2.1.1.2. Standards and Interpretations, issued by the International Accounting Standards Board (IASB), adopted by the EU Commission, not yet effective (continued)

IFRS 9 Financial Instruments (continued)

Another revised version of IFRS 9 was issued in July 2014 mainly to include: a) Impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a fair value through other comprehensive income (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at fair value through profit or loss (FVTPL) at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- with regard to the measurement of financial liabilities designated as at FVTPL, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.
- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting, in addition, the effectiveness test has been overhauled and replaced with the principle of an economic relationship. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended December 31, 2017

All amounts are in thousands of BGN, unless otherwise stated

2.1.1. Changes in IFRS (continued)
2.1.1.2. Standards and Interpretations, issued by the International Accounting Standards Board (IASB), adopted by the EU Commission, not yet effective (continued)
IFRS 9 Financial Instruments (continued)

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the management of the Group has assessed the impact of IFRS 9 to the Group's consolidated financial statements, as follows:

Classification and measurement

The Group's financial assets include cash and cash equivalents, trade and other receivables, loans granted, and the financial liabilities – loans received, trade and other payables that will continue to be valued on the same basis as is currently recognized under IAS 39.

Impairment

Financial assets, measured at amortized cost, trade and other receivables and loans granted (see note 20), will be impaired under the requirements of IFRS 9.

The Group expects to apply the simplified approach to recognize lifetime expected credit losses for its trade and other receivables and loans granted, as required or permitted by IFRS 9.

In general, the management of the Group anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowance recognized for these items.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract;
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)*for the year ended December 31, 2017**All amounts are in thousands of BGN, unless otherwise stated***2.1.1. Changes in IFRS (continued)****2.1.1.2. Standards and Interpretations, issued by the International Accounting Standards Board (IASB), adopted by the EU Commission, not yet effective (continued)***IFRS 15 Revenue from Contracts with Customers (continued)*

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Group recognizes revenue from the following major sources:

- Sale of goods;
- Sale of finished goods;
- Sale of services;

The management of the Group has preliminarily assessed that the application of IFRS 15 will have no significant impact on the Group's revenue accounting.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-to-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
for the year ended December 31, 2017
All amounts are in thousands of BGN, unless otherwise stated
2.1.1. Changes in IFRS (continued)
2.1.1.2. Standards and Interpretations, issued by the International Accounting Standards Board (IASB), adopted by the EU Commission, not yet effective (continued)
IFRS 16 Leases (continued)

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease, or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has no any long-term operating lease commitments.

2.1.1.3 Standards and Interpretations, issued by the IASB, expected endorsement by the EU Commission

<i>Standard or interpretation, date of revision and effective date</i>	<i>Name of the standard or interpretation</i>	<i>Status of adoption by the EU Commission</i>
IFRS 14, issued in January, 2014, effective for annual periods beginning on or after January 1, 2016	Regulatory Deferral Accounts - applicable to an entity's first annual IFRS financial statements for a period beginning on or after January 1, 2016	The endorsement date is yet to be determined
Amendments to IFRS 2, issued on June 20, 2016, effective for annual periods beginning on or after January 1, 2018	Amendments to classification and measurement of share-based payment transactions	Endorsement is expected in 2018
Amendments to IFRS 10 and IAS 28, issued on September 11, 2014, effective for annual periods beginning on or after January 1, 2016	Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The endorsement date is yet to be determined
Amendments to IAS 40, issued on December 8, 2016, effective for annual periods beginning on or after January 1, 2018	Amendments to IAS 40: Transfers of Investment Property	Endorsement is expected in 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle, issued by the IASB on December 8, 2016, applicable to annual periods beginning on or after January 1, 2017 and January 1, 2018	Improvements to IFRS (IFRS 1, IAS 28 and IFRS 12)	Endorsement is expected in 2018
IFRS 17, issued on May 18, 2017, effective for annual periods beginning on or after January 1, 2021	Insurance Contracts	Endorsement is expected in 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended December 31, 2017

All amounts are in thousands of BGN, unless otherwise stated

2.1.1. Changes in IFRS (continued)

2.1.1.3 Standards and Interpretations, issued by the IASB, expected endorsement by the EU Commission (continued)

<i>Standard or interpretation, date of revision and effective date</i>	<i>Name of the standard or interpretation</i>	<i>Status of adoption by the EU Commission</i>
IFRIC Interpretation 22, issued on December 8, 2016, effective for annual periods beginning on or after January 1, 2018	Foreign Currency Transactions and Advance Consideration	Endorsement is expected in 2018
IFRIC Interpretation 23, issued on June 7, 2017, effective for annual periods beginning on or after January 1, 2019	Uncertainty over Income Tax Treatments	Endorsement is expected in 2018
Amendments to IFRS 9, issued on October 12, 2017, effective for annual periods beginning on or after January 1, 2019	Prepayment Features with Negative Compensation	Endorsement is expected in 2018
Amendments to IAS 28, issued on October 12, 2017, effective for annual periods beginning on or after January 1, 2019	Long-term interests in Associates and Joint Ventures	Endorsement is expected in 2018
Annual Improvements to IFRS Standards 2015-2017 Cycle, issued by the IASB on December 12, 2017, applicable to annual periods beginning on or after January 1, 2019	Improvements to IFRS (IFRS 3 and IFRS 11, IAS 12 and IAS 23)	Endorsement is expected in 2018

2.2. Subsidiary companies and consolidation

These financial statements are consolidated financial statements, prepared in accordance with the accounting and tax legislation in the Republic of Bulgaria. The Parent company has control over other entities, therefore pursuant to the Accountancy Act in the Republic of Bulgaria and based on IFRS 10 - Consolidated Financial Statements, it should prepare consolidated financial statements.

A subsidiary is an entity controlled by the another company. Control is presumed to exist when: (i) the investor has power over the investee; (ii) the investor is exposed, or has rights, to variable returns from its involvement with the investee and; (iii) the investor has the ability to use its power to affect its returns.

The acquisition method is applied ('purchase method') in the reporting of the subsidiaries acquisition. At their acquisition, assets and liabilities of the respective subsidiaries are measured at their fair values at the acquisition date. Any excess of the fair values of the identifiable assets and liabilities of the subsidiary over the cost of acquisition is recognized in profit or loss for the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
for the year ended December 31, 2017
All amounts are in thousands of BGN, unless otherwise stated
2.2. Subsidiary companies and consolidation (continued)

As of December 31, 2017 and 2016 the Group includes the following subsidiary companies, which financial statements are consolidated:

Subsidiary	Activity	Share as of December 31, 2017 %	Share as of December 31, 2016 %
Engineering EAD	Installation	100.00%	100.00%
Filkab Solar Ltd.	Design and construction of electrical equipment	70.00%	70.00%
Mak Kab DOO, Macedonia	Trade	100.00%	100.00%
Filkab Distribution, Romania	Trade	71.43%	71.43%
Filkab Solar Energy AS, Turkey	Design and construction of electrical equipment	100.00%	100.00%
Filkab MIG, Serbia	Trade	51.00%	51.00%
Gespro Green Energy S.R.L., Romania	Maintenance of PV park	100.00%	100.00%
Solar Remus SRL, Romania	Maintenance of PV park	99.80%	99.80%

In 2016, acquired was Solar Remus SLR in Romania, producing solar energy, where 99.80% of the share capital are owned by the Parent company.

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

The financial statements of foreign subsidiaries are translated into the presentation currency of the Parent company in accordance with IAS 21 The Effects of Changes in Foreign Exchange Rates (see also note 2.4). For the purposes of consolidation the financial statements of the subsidiaries and the separate financial statements of the Parent company are combined on a line by line basis for assets, liabilities, equity, income and expenses.

For the purposes of consolidation eliminated are all intragroup balances as at December 31, 2017 and 2016, transactions performed within the Group, as well as intragroup profits and losses including the unrealized ones. Eliminated is the share owned by the Parent company in the share capital of the subsidiaries with the carrying amount of the investment in the respective company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)*for the year ended December 31, 2017**All amounts are in thousands of BGN, unless otherwise stated***2.2. Subsidiary companies and consolidation (continued)**

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

Non-controlling interests, presented in the consolidated financial statements are determined in accordance with IFRS 10 Consolidated Financial Statements and present the portion of net assets of subsidiaries attributable to interests that are not owned directly or indirectly through other subsidiaries of the Parent company. Non-controlling interest as at the date of the business combination is calculated as a share of the fair values of the acquired identifiable assets and liabilities.

Profit or loss and each component of other comprehensive income are attributable to the owners of the Parent company and to non-controlling interests. Total comprehensive income is allocated to the owners of the Parent company and non-controlling interests, even if this results in a negative balance of the non-controlling interests.

Changes in the Parent company's ownership interest in a subsidiary, that do not result in losing control, are reported as equity transactions (i.e. transactions with owners in their capacity as owners). In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Parent company.

2.3. Goodwill

Positive purchase goodwill presents the excess of the acquisition cost over the Group's share in the fair values of the identifiable assets and liabilities assumed of the acquired company at the date of the exchange transaction and is recognized as an asset. Where the acquisition cost is lower than the net assets acquired by the Group, the acquirer should reassess the identification and measurement of the identifiable assets acquired and liabilities assumed, and the cost of the business combination and should recognize immediately in the statement of comprehensive income any residual difference after the reassessment.

After its initial recognition, under the requirements of IFRS 3 Business Combinations, effective for annual periods beginning after March 31, 2004, positive goodwill is not amortized. Test for impairment is performed at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended December 31, 2017

All amounts are in thousands of BGN, unless otherwise stated

2.4. Functional and presentation currency, and foreign currency transactions

Functional and presentation currency

Functional currency is the currency in the primary economic environment in which an entity operates and in which mainly generates its cash inflows and outflows. It reflects the underlying transactions, events and conditions that are relevant to the entity.

The Group prepares its financial statements in the national currency of the Republic of Bulgaria - the Bulgarian Lev, adopted by the Group as its functional currency.

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

Foreign currency transactions

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

As of December 31, 2017 and 2016 the monetary positions denominated in foreign currency are stated at the closing exchange rate of the Bulgarian National Bank (BNB). Since 1999 the Bulgarian Lev is pegged to the EURO at the rate of 1.95583 BGN/EUR. The closing exchange rate of the Bulgarian lev to the Romanian leu (new), Macedonian denar and Serbian dinar (calculated using the closing exchange rate of the Macedonian and Serbian national banks to the euro) and the Turkish lira (new) for the periods, for which these consolidated financial statements are prepared, is as follows:

Foreign currency	December 31, 2017	December 31, 2016
Romanian leu	1 RON = 0.4198 BGN	1 RON = 0.4309 BGN
Macedonian Denar	1 MKD = 0.0318 BGN	1 MKD = 0.0318 BGN
Turkish lira	1 TRY = 0.4302 BGN	1 TRY = 0.5276 BGN
Serbian dinar	1 RSD = 0.0165 BGN	1 RSD = 0.0158 BGN

Translation of foreign operations

Assets and liabilities of foreign operations, including positive goodwill and adjustments to fair value, arising on acquisition, are translated into Bulgarian lev at the exchange rate, effective as at the date of the financial statements. Income and expenses of foreign operations are translated into Bulgarian lev as at the date of transaction. For 2017 and 2016, in accordance with IAS 21 The Effects of Changes in Exchange Rates, an average exchange rate is used for recalculating the foreign operations results.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
for the year ended December 31, 2017
All amounts are in thousands of BGN, unless otherwise stated
2.5. Accounting estimates and reasonable assumptions

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

3. Definition and valuation of the statement of financial position and statement of comprehensive income items
3.1. Property, plant and equipment and intangible assets

Property, plant and equipment are non-current assets that are held by the Group for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period.

Intangible assets are identifiable non-monetary assets without physical substance.

Property, plant and equipment and intangible assets are recognized and initially carried at cost, including the purchase price, import duties and non-refundable taxes, as well as any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. After initial recognition, property, plant and equipment and intangible assets are stated at cost less accumulated depreciation and impairment loss, if any (see also note 3.2).

The acquisition cost of an item of property, plant and equipment and an intangible asset is recognized in the statement of financial position only if: (i) it is probable that future economic benefits associated with the asset; will flow to the Group; and (ii) the acquisition cost of the asset can be reliably measured.

Subsequent costs are capitalized in the carrying amount of the asset, only if they satisfy the recognition criteria mentioned above. All other subsequent costs are recognized in profit or loss for the period as incurred.

Depreciation is charged over the estimated useful lives, using the straight-line method.

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

Useful life	2017	2016
Administrative and commerce buildings	25 years	25 years
Machines and equipment	4-8 years	4-8 years
Computers and software	2 years	2 years
Transport vehicles	4- 10 years	4- 10 years
Office equipment	7 years	7 years
Intangible assets	2-7 years	2-7 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended December 31, 2017

All amounts are in thousands of BGN, unless otherwise stated

3.1. Property, plant and equipment and intangible assets (continued)

Depreciation of an asset begins in the month, following the month in which the asset is available for use and ceases at the earlier of the date when the asset is classified as held for sale, in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, and the date when the asset is derecognized.

The depreciation method applied to an asset and its estimated useful life are reviewed at least at each financial year-end, and changes are made to reflect the future usage of the asset or the expected pattern of consumption of the future economic benefits embodied in the asset. Such changes, if any, are accounted for prospectively as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Land, assets under construction and fully depreciated assets are not depreciated.

3.2. Impairment of property, plant and equipment and intangible assets

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

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

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

3.3. Inventories

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended December 31, 2017

All amounts are in thousands of BGN, unless otherwise stated

3.3. Inventories (continued)

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

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

3.4. Financial instruments

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

Financial assets and liabilities are recognized in the statement of financial position only when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognized from the statement of financial position when the contractual rights to the cash flows from the financial asset expire, or the financial asset is transferred and the transfer qualifies for derecognition in accordance with the derecognition requirements of IAS 39 Financial Instruments: Recognition and Measurement. Financial liabilities are removed from the statement of financial position only when they are extinguished – i.e. when the obligation specified in the contract is discharged or cancelled, or expired.

On initial recognition financial assets (liabilities) are measured at fair value plus, in the case of financial assets (liabilities) not reported at fair value through profit or loss, transaction costs, which are directly attributable to the acquisition or issue of the financial assets (liabilities).

For the purposes of subsequent measurement, in the current and prior reporting periods the Group classifies the financial assets and liabilities into the following categories: trade and other receivables and financial assets and liabilities (other than those, reported at fair value through profit or loss). The classification under each category depends on the purpose and term of the respective contract.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)*for the year ended December 31, 2017**All amounts are in thousands of BGN, unless otherwise stated***3.4. Financial instruments (continued)****3.4.1. Trade and other receivables**

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

3.4.2. Cash

For the purposes of cash flow presentation, cash represents cash on hand and cash in bank accounts of the Group. For the cash flow statement presentation purposes, cash receipts from customers and cash payments to suppliers are presented as their gross amounts, including value added tax (VAT).

3.4.3. Impairment of financial assets

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

Trade and other receivables

The Group recognizes impairment of trade receivables, whether there is objective evidence, that the Group would not be able to collect all amounts due at their maturity date. The Group considers as indications for potential impairment significant financial problems of the debtor, the probability that the debtor will be a subject to a bankruptcy procedure or non-fulfillment of the contract terms, as well as payment delay for more than 120 days after maturity date. If any of these indications for impairment occurs, the impairment loss is calculated as a difference between the carrying amount and the present value of the expected future cash flows, discounted by the original effective interest rate for similar assets. Current receivables are not discounted if the discounting effect is immaterial. Impairment is recorded by using a separate impairment account, which is shown as a reduction to receivables in the statement of financial position and the impairment expenses are stated as Other expenses in the statement of comprehensive income. If a receivable is non-collectable and there is a recognized impairment loss for it, the receivable is written off by decrease of the respective allowance account. The recovery of the loss from impairment of trade receivables is reported as a decrease of the item, in which the impairment has been previously recorded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
for the year ended December 31, 2017
All amounts are in thousands of BGN, unless otherwise stated
3.4. Financial instruments (continued)
3.4.4. Trade and other payables

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

3.4.5. Borrowings

Loans are initially recorded at the fair value of the proceeds received, net of transaction costs. After initial recognition, loans are measured at amortized cost, and any difference between the initial cost and maturity cost is recognized in the profit or loss over the loan period, using the effective interest rate method. If no transaction costs have been incurred in negotiating an interest bearing loan, the loan is not subject to amortization. This also applies to bank overdrafts, where the borrower is entitled to multiple utilizations or repayments of the borrowed funds within a pre-determined overdraft limit.

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

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

3.4.6. Factoring

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended December 31, 2017

All amounts are in thousands of BGN, unless otherwise stated

3.4. Financial instruments (continued)

3.4.7. Share capital

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

3.5. Deferred income and prepaid expenses

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

3.6. Income tax

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

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

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

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

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

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

In accordance with the tax legislation enforceable for 2017 and 2016, the tax rate applied for the calculation of the current tax liabilities of the Group is 10%. The enforceable for 2018 tax rate of 10% is applied in the calculation of the amount of deferred tax assets and liabilities as of December 31, 2017. Pursuant to the requirements of the tax legislation for 2017, incomes of the subsidiaries abroad are taxed as follows: Macedonia - 10%; Romania - 16%; Turkey - 20%; Serbia - 15%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended December 31, 2017

All amounts are in thousands of BGN, unless otherwise stated

3.7. Leasing

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

Assets held under finance leases are recognised at the lower of the present value of the minimum lease payments and their fair value at the date of acquisition. The corresponding liability to the lessor is included in the statement of financial position of the Group as a finance lease obligation. Lease payments are allocated between principal and interest, so as to achieve a constant interest rate over the remaining liability on the principal. Interest is recognized in profit or loss.

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

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

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

3.8. Employee benefits

Defined contributions plans

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

Unused paid annual leaves accruals

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended December 31, 2017

All amounts are in thousands of BGN, unless otherwise stated

3.8. Employee benefits (continued)

Retirement benefits

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

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

Pursuant the provisions of the Labour Code (LC) enforceable in the Republic of Bulgaria, in these consolidated financial statements provisions are accrued only for the Parent company and for a subsidiary in Bulgaria regarding an employee labour contract termination at retirement. Retirement benefits are at the amount of two gross salaries, if the employee's experience is less than ten years, or six gross salaries, if the employee's experience in the companies is over ten consecutive years.

In accordance with the requirements of IAS 19 Employee benefits, the Group recognizes a retirement benefits liability, which is determined estimated by a licensed actuary using the Projected Unit Credit Method. The current service costs and the interest on the obligation are recognized in profit or loss, and the actuarial gains and losses from adjustments based on experience and changes in the actuarial assumptions are charged or credited directly to equity, in reserve for actuarial recalculations, in the period, in which they arise. The subsequent changes in the reserve for actuarial recalculations are transferred directly in the retained earnings.

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

The amount of the retirement benefits obligation, reported in the statement of the financial position represents the present value of the defined benefits obligation.

According to the requirements of the LC in the Republic of Bulgaria, on early retirement due to disability, the employees are entitled to benefits amounting to two gross monthly salaries, provided that their length of service is at least five years, and they have received no other such benefits during the last five years of service.

3.9. Provisions

Provisions are recognized in the statement of financial position when the Group has a present obligation (legal or constructive) as a result of past events, it is probable that a flow of resources embodying economic benefits will be required, to settle the obligation. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax discount rate that reflects, where appropriate, the risks specific to the liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended December 31, 2017

All amounts are in thousands of BGN, unless otherwise stated

3.10. Government grants

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

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

The government grants received by the Parent company are related to assets and the main condition is to purchase, produce or acquire in other manner property, plant and equipment and intangible assets.

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

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

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

3.11. Revenue and expenses recognition

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

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

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

Sales of goods

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)*for the year ended December 31, 2017**All amounts are in thousands of BGN, unless otherwise stated***3.11. Revenue and expenses recognition (continued)*****Income from services***

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

Interest income and dividends

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

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

Expenses

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

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

Interest expenses

Interest expenses are recognized in the period when they arise and are based on the outstanding principle and the applicable effective interest rate.

Other income/expenses

Profit/(loss) from sale of property, plant and equipment is presented as other income/(expenses).

Compensations from third parties regarding impairment or loss of property, plant and equipment, are recognized in profit or loss, when such compensations become payable.

3.12. Comparative information for the current and previous reporting period

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
for the year ended December 31, 2017
All amounts are in thousands of BGN, unless otherwise stated
3.13. Financial risk assessment and management
3.13.1. Financial risk factors

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

3.13.2. Market risk
Currency risk

The Group performs transactions denominated in foreign currency primarily originated in EUR. As the EUR is fixed to the Bulgarian Lev, the Group is not exposed to currency risk.

Interest rate risk

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

If the interest rates on the loans with floating interest rate during 2017, had been 1% higher/(lower) with all other variables held constant, the financial result after taxes would have been BGN 251 thousand lower/higher (2016: BGN 254 thousand).

Price risk

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

3.13.3. Credit risk

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

3.13.4. Liquidity risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
for the year ended December 31, 2017
All amounts are in thousands of BGN, unless otherwise stated
3.13. Financial risk assessment and management (continued)
3.13.4. Liquidity risk (continued)

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

	<u>Over 1 year</u>	<u>Up to 1 year</u>
December 31, 2017		
Borrowings (note 24)	2 364	24 159
Finance lease liabilities (note 25)	224	159
Trade and other payables (note 23)	423	14 487
Total	3 011	38 805
December 31, 2016		
Borrowings (note 24)	3 324	23 963
Finance lease liabilities (note 25)	218	119
Trade and other payables (note 23)	470	12 870
Total	4 012	36 952

3.14. Capital risk management

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

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

	December 31, 2017	December 31, 2016
Borrowings (note 24)	25 064	25 417
Finance lease liabilities (note 25)	365	317
Cash and cash equivalents (note 21)	(1 050)	(905)
Net debt	24 379	24 829
Equity	41 962	42 110
Gearing ratio	0.58	0.59

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended December 31, 2017

All amounts are in thousands of BGN, unless otherwise stated

3.15. Estimates of fair value

Fair value of financial instruments that are not traded on an active market, is determined based on valuation techniques. To determine the fair value of some instruments the discounted cash flows method is applied. The fair values of current trade receivables and liabilities is assessed to be close to their nominal values, as the discounting effect for them is insignificant (see notes 20, 23 and 24).

4. Critical accounting judgments and sources of estimation uncertainty

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

Retirement benefits obligation

Retirement benefits obligation is determined on the basis of actuarial valuation. This valuation requires certain assumptions about discount rates, future salary increases, staff turnover and mortality rates to be made. Due to the long term nature of the personnel benefits on retirement, these assumptions are subject to considerable uncertainty. As of December 31, 2017, the Parent company's defined benefits obligation is at the amount of BGN 263 thousand (2016.: BGN 270 thousand). Additional information about the defined benefits obligation is presented in note 26.

Useful lives of property, plant and equipment, and intangible assets

Financial reporting of property, plant and equipment, and intangible assets involves the use of estimates of their expected useful life and residual values, that are based on judgments by the management of the Group.

Valuation of inventories

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended December 31, 2017

All amounts are in thousands of BGN, unless otherwise stated

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

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

Impairment of receivables

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

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

Corporate income tax

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
for the year ended December 31, 2017
All amounts are in thousands of BGN, unless otherwise stated
5. Revenue

	December 31, 2017	December 31, 2016
Revenue from sale of goods	67 945	59 418
Revenue from rendering of services	9 264	8 883
Revenue from sale of finished goods	7 288	4 210
Total	84 497	72 511

Revenue from sale of goods, is as follows:

	December 31, 2017	December 31, 2016
Cables and wires	44 512	37 714
Electrical and automation equipment	8 939	9 277
Lighting fixtures and electrical materials	5 902	5 385
Cable accessories	3 294	2 154
Transformer substations, complete distribution systems and others	3 212	3 335
Renewable energy sources	438	320
Other	1 648	1 233
Total	67 945	59 418

Revenue from sale of finished goods is, as follows:

	December 31, 2017	December 31, 2016
Construction projects, including concrete transformer substations	3 265	1 477
Electrical LV-switchboards	1 951	1 254
Other	2 072	1 479
Total	7 288	4 210

6. Other income

	December 31, 2017	December 31, 2016
Income from financing	199	155
Rents	120	7
Profit from sale of property, plant and equipment and materials	92	4
Waste products	74	31
Surpluses of assets	60	60
Income from insurance indemnities	18	-
Other	10	100
Total	573	357

For 2017 income from government grants at the amount of BGN 199 thousand (2016: BGN 155 thousand) relate to production of green energy and sale of green certificates on the official market for green certificates. The expenses, that are compensated with the recognized income from government grants, comprise operating expenses, associated with electricity production in photovoltaic parks, owned by foreign subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
for the year ended December 31, 2017
All amounts are in thousands of BGN, unless otherwise stated
7. Materials expenses

	December 31, 2017	December 31, 2016
Materials for the production process	8 377	8 157
Fuels	450	388
Electricity and water consumption	218	244
Maintenance materials	118	70
Materials for transport vehicles	99	73
Furniture and fittings	46	56
Safety and protective equipment	23	23
Office materials and consumables	19	22
Materials for rental and acquired non-current assets	2	1
Other	13	6
Total	9 365	9 040

8. Hired services

	December 31, 2017	December 31, 2016
Hired services on a subcontractor and for production process	789	476
Rents	441	248
Consulting services	356	200
Transportation	288	372
Repairs and maintenance	277	221
Charges	186	153
Advertizing and promotion	141	157
Insurances	122	122
Communication	82	77
Notary and legal advisory services	53	154
Personnel trainings	8	7
Services on acquisition and maintenance of property, plant and equipment	-	57
Other	121	108
Total	2 864	2 352

9. Personnel expenses

	December 31, 2017	December 31, 2016
Remunerations	5 588	5 236
Social security expenses	897	805
Expenses on accrued retirement benefits obligation (note 26)	43	52
Total	6 528	6 093

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
for the year ended December 31, 2017
All amounts are in thousands of BGN, unless otherwise stated
10. Depreciation and amortization expenses

	December 31, 2017	December 31, 2016
Depreciation of property, plant and equipment (note 15)	1 728	1 564
Amortization of intangible assets (note 16)	123	98
Total	1 851	1 662

11. Cost of goods sold

	December 31, 2017	December 31, 2016
Cables and wires	39 434	32 694
Electrical equipment and automation	7 590	7 970
Lighting fixtures and electrical materials	6 327	4 323
Transformer substations, complete distribution systems and others	4 591	2 806
Cable accessories	2 645	2 200
Renewable energy sources	382	287
Other	201	865
Total	61 170	51 145

12. Other expenses

	December 31, 2017	December 31, 2016
Business trips – in the country and abroad	212	255
Taxes, charges and other similar expenses	207	199
Social expenses	182	205
Representation expenses	85	64
Shrinkage and waste of inventory	33	35
Receivables written-off	26	20
Fines and penalties	16	20
Donations	7	3
Other expenses	104	105
Total	872	906

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
for the year ended December 31, 2017
All amounts are in thousands of BGN, unless otherwise stated
13. Finance income and expenses

	December 31, 2017	December 31, 2016
Finance income		
Interest income from trade loans	-	658
Interest income from delayed trade payments	4	29
Interest income from deposits in bank accounts	11	2
Total interest income	15	689
Exchange rate differences gains, net	-	65
Other income	35	23
Total	50	777

	December 31, 2017	December 31, 2016
Finance expenses		
Interest expenses on bank loans	724	812
Interest expenses on retirement benefits provisions (note 26)	5	6
Interest expenses on a finance lease	12	10
Total interest expenses	741	828
Exchange rate differences loss, net	202	-
Bank charges, commissions and other expenses, net	177	280
Total	1 120	1 108

14. Income tax

Income tax expense in the profit and loss comprises current income tax expense and deferred income tax expense in accordance with IAS 12 Income Taxes.

	December 31, 2017	December 31, 2016
Current income tax	155	186
Income tax from previous periods	-	44
Deferred tax	11	10
Total tax expense	166	240

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
for the year ended December 31, 2017
All amounts are in thousands of BGN, unless otherwise stated
14. Income tax (continued)

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

	December 31, 2017	December 31, 2016
Property, plant and equipment	(23)	(37)
Accruals	-	-
Deferred tax liabilities, total	(23)	(37)
Receivables and inventory	32	30
Tax losses carried forward	-	30
Retirement benefits provisions	27	27
Provisions on personal income	9	9
Unused paid annual leaves liabilities	7	4
Deferred tax assets, total	75	100
Deferred tax assets and liabilities, to be settled net	52	63

For 2016 deferred taxes recognized directly in equity are at the amount of BGN 2 thousand (see also the Statement of Comprehensive Income).

The reconciliation of the tax expense to the accounting profit, and a recalculation of the effective tax rate as at December 31, 2017 and 2016 are provided in the table below:

	December 31, 2017	December 31, 2016
Accounting profit	789	926
Income tax at the applicable tax rate of 10%	79	93
Tax effect on permanent differences	12	12
Tax effect from income from financing	-	-
Tax effect from income from participation interest	(25)	(3)
Tax effect from not-recognized temporary differences from previous periods	(9)	-
Tax effect from recognized temporary differences from previous periods	2	(5)
Tax effect from consolidation adjustments	100	68
Tax effect from tax assets unrecognized during the current period	7	75
Total income tax expense	166	240
Effective tax rate	21.04%	25.92%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended December 31, 2017

All amounts are in thousands of BGN, unless otherwise stated

15. Property, plant and equipment

	Lands	Buildings	Machines, and equipments	Trans- port vehicles	Computers and other assets	Assets under construction	Total
Cost of acquisition							
Balance at January 1, 2016	5 811	18 783	10 564	5 243	1 843	4 375	46 619
Additions	-	-	452	199	138	2 234	3 023
Disposals	-	-	(34)	(210)	(29)	-	(273)
Asset from business combination	149	103	4 256	-	-	-	4 508
Differences from foreign currency recalculations	1	-	(1)	-	(3)	3	-
Balance at December 31, 2016	5 961	18 886	15 237	5 232	1 949	6 612	53 877
Additions	-	2 497	206	307	104	(2 435)	679
Disposals	-	-	(206)	(284)	(490)	-	(980)
Differences from foreign currency recalculations	(16)	(6)	(126)	5	(5)	-	(148)
Balance at December 31, 2017	5 945	21 377	15 111	5 260	1 558	4 177	53 428
Depreciation							
Balance at January 1, 2016	1 190	5 508	6 710	4 126	1 770	-	19 304
Depreciation	89	761	377	284	53	-	1 564
Depreciation from business combination	-	8	589	-	-	-	597
On disposal	-	-	(34)	(175)	(28)	-	(237)
Balance at December 31, 2016	1 279	6 277	7 642	4 235	1 795	-	21 228
Depreciation	2	768	593	293	72	-	1 728
On disposal	-	-	(177)	(268)	(481)	-	(926)
Balance at December 31, 2017	1 281	7 045	8 058	4 260	1 386	-	22 030
Carrying amount							
At January 1, 2016	4 621	13 275	3 854	1 117	73	4 375	27 315
At December 31, 2016	4 682	12 609	7 595	997	154	6 612	32 649
At December 31, 2017	4 664	14 332	7 053	1 000	172	4 177	31 398

Assets acquired in 2017 and 2016 include mainly buildings, machinery, equipment and transport vehicles.

Property, plant and equipment with carrying amount of BGN 17 633 thousand (2016: BGN 18 490 thousand) serve as a collateral under bank loans utilized by the Group (see also note 24).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
for the year ended December 31, 2017
All amounts are in thousands of BGN, unless otherwise stated
16. Intangible assets

	Software	Other intangible assets	Total
Cost of acquisition			
Balance at January 1, 2016	650	127	777
Additions	31	11	42
Assets from a business combination	-	153	153
Balance at December 31, 2016	681	291	972
Additions	35	1	36
Foreign exchange rate difference recalculations	-	(4)	(4)
Balance at December 31, 2017	716	288	1 004
Amortization			
Balance at January 1, 2016	408	123	531
Amortization	91	7	98
Amortization from a business combination	-	32	32
Balance at December 31, 2016	499	162	661
Amortization	99	24	123
Balance at December 31, 2017	598	186	784
Carrying amount			
At January 1, 2016	242	4	246
At December 31, 2016	182	129	311
At December 31, 2017	118	102	220

17. Investments in entities

As at December 31, 2017 the Group holds minority interest in the capital of two Bulgarian trade companies:

Company	December 31, 2017		December 31, 2016	
	BGN'000	Participation %	BGN'000	Participation %
Elresurs Ltd.	5	5%	5	5%
Ikem AD	2	4%	2	4%
Total	7		7	

Investments in trade companies are presented at cost of acquisition in accordance with the requirements of IAS 27, as these investments are not quoted in an active market and their fair value cannot be reliably determined.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
for the year ended December 31, 2017
All amounts are in thousands of BGN, unless otherwise stated
18. Financial instruments by category

As of December 31, 2017 and 2016 the Group has no financial instruments, that are reported through profit or loss.

Financial assets

	December 31, 2017	December 31, 2016
Trade and other receivables (note 20)	21 187	17 594
Cash and cash equivalents (note 21)	1 050	905
Total	22 237	18 499

Financial liabilities

	December 31, 2017	December 31, 2016
Trade and other payables(note 23)	14 910	13 340
Bank loans (note 24)	25 064	25 417
Finance lease liability (note 25)	365	317
Total	40 339	39 074

19. Inventory

	December 31, 2017	December 31, 2016
Goods	26 682	27 421
Work in progress	615	1 253
Materials	1 401	678
Finished goods	387	310
Total	29 085	29 662

At the end of 2012 a review of the net realizable value of the goods and finished products was performed, resulting in an identified excess over the cost for certain items at the amount of BGN 479 thousand, therefore impairment is charged to profit and loss for the period. In 2017 and 2016 a portion of the impairment was reversed at the amount of BGN 8 thousand and BGN 12 thousand, respectively.

As of December 31, 2017 inventories at the amount of BGN 16 488 thousand (2016: BGN 16 295 thousand) are pledged as a collateral on bank loans utilized by the Group (see also note 24).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

for the year ended December 31, 2017

All amounts are in thousands of BGN, unless otherwise stated

20. Trade and other receivables, net

	December 31, 2017	December 31, 2016
Trade receivables	19 104	16 024
Refundable taxes, other than income taxes	622	934
Advances granted	509	312
Deposits granted	476	532
Receivables from related parties (note 33)	536	274
Trade loans granted and interest receivables	384	384
Court receivables	103	61
Prepaid expenses	24	12
Other receivables	178	68
Total	21 936	18 601

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

	December 31, 2017	December 31, 2016
Bulgarian lev (BGN)	15 610	11 690
Euro (EUR)	628	1 926
Romanian lei (RON)	1 867	2 373
Macedonian denar (MKD)	2 446	2 122
United States dollar (USD)	6	6
Turkish lira (TRY)	899	216
Serbian denar (RSD)	391	175
British pound (GBR)	89	93
Total	21 936	18 601

Receivables from related parties are disclosed in note 33.

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

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

As at December 31, 2017 financial assets held by the Group comprise trade and other receivables. To determine their fair value the Group uses the discounted cash flows method. As these financial instruments are short-term and with a negligible short defer of maturity, their carrying and fair values are approximately equal. Carrying and fair values of long-term financial instruments are approximately equal. The Group classifies its financial assets in Level 2 - inputs, other than quoted prices included within Level 1, that are either directly or indirectly observable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
for the year ended December 31, 2017
All amounts are in thousands of BGN, unless otherwise stated
21. Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash in bank accounts	1 003	853
Cash on hand	47	52
Total	1 050	905

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

22. Income taxes refundable/(payable)

	December 31, 2017	December 31, 2016
Balance at the beginning of the period	(33)	(18)
Corporate income tax accrued	(155)	(186)
Corporate income tax paid	98	171
Balance at the end of the period, including:	(90)	(33)
Income taxes refundable	13	14
Income taxes payable	(103)	(47)

23. Trade and other payables

	December 31, 2017	December 31, 2016
Non-current trade payables	423	470
Payables to suppliers	13 593	11 878
Advances received from customers	742	828
Payables on taxes	535	231
Payables to employees and social securities payable	585	506
Guarantees	61	120
Other	91	44
Total current liabilities	15 607	13 607
Total trade and other payables	16 030	14 077

The Group has no payables to related parties.

As at December 31, 2017 financial liabilities of the Group comprise trade and other payables. To determine their fair value the Group uses the discounted cash flows method. As the financial liabilities are short-term and with a negligible short defer of maturity, their carrying and fair values are approximately equal. The Group classifies its financial liabilities in Level 2 - inputs, other than quoted prices included within Level 1, that are either directly or indirectly observable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
for the year ended December 31, 2017
All amounts are in thousands of BGN, unless otherwise stated
24. Borrowings

As at December 31, 2017 and 2016 the Group has bank loans received, as follows:

	December 31, 2017	December 31, 2016
Short-term loans	22 975	22 847
Long-term loans	2 089	2 570
Total	25 064	25 417

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

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

Financial liabilities held by the Group as of December 31, 2017 include interest bearing loans. To determine their fair value the Group uses the discounted cash flows method. The Group classifies its financial liabilities in Level 2 - inputs, other than quoted prices included within Level 1, that are either directly or indirectly observable.

25. Finance lease liabilities

As at December 31, 2017 the Group has liabilities under finance lease contracts for acquisition of transport vehicles.

The fair value of the finance lease liabilities is approximately equal to the present value of the minimum lease payments.

	Minimum lease payments		Present value of minimum lease payments	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Finance lease liabilities				
Up to one year	159	119	149	109
Between two and five years	224	218	216	208
Less: Interest on leases	(18)	(20)	-	-
Present value of finance lease liabilities	365	317	365	317
Less: Present value of finance lease liabilities up to one year			(149)	(109)
Present value of finance lease liabilities over one year			216	208

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
for the year ended December 31, 2017
All amounts are in thousands of BGN, unless otherwise stated
25. Finance lease liabilities (continued)

The table below presents an analysis of the changes in the Group's liabilities, arising from its financing activities, including both cash and non-cash changes for the year ended December 31, 2017. Liabilities arising from financing activities are those for which cash flows were, of future cash flows will be classified in the Company's separate statement of cash flows from financing activities.

	Balance at the beginning of the period	Financing cash flows	Non-cash changes		Balance at the end of the period
			Accrued interest	New finance lease	
Liabilities on loans	25 417	(1 077)	724	-	25 064
Finance lease liabilities	317	(170)	12	206	365
Total	25 734	(1 247)	736	206	25 429

26. Retirement benefits obligation

Movement of the retirement benefits obligation, recognized in the statement of financial position is, as follows:

	December 31, 2017	December 31, 2016
Balance at the beginning of the period	270	306
Expenses on current length of service	43	52
Interest expenses	5	6
Benefits paid	(57)	(72)
Actuarial gain, arising from changes in the financial assumptions	(13)	(38)
Actuarial (gain)/loss, arising from adjustments due to experience	13	17
Actuarial gain, arising from changes in the demographic assumptions	2	(1)
Balance at the end of the period	263	270

For the years ended December 31, 2017 and 2016 expenses on current length of service are included in the personnel expenses.

Retirement benefits obligation liability as at December 31, 2017 and 2016 includes:

	December 31, 2017	December 31, 2016
Benefits on attainment of retirement age	253	268
Benefits on early retirement	10	2
Total	263	270

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
for the year ended December 31, 2017
All amounts are in thousands of BGN, unless otherwise stated
26. Retirement benefits obligation (continued)

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

	December 31, 2017	December 31, 2016
Expenses on current length of service	43	52
Interest expenses	5	6
Expenses, recognized in profit or loss	48	58
Actuarial gain, arising from change in the financial assumptions	(13)	(38)
Actuarial (gain)/loss, arising from adjustments due to experience	13	17
Actuarial (gain)/loss, arising from changes in the demographic assumptions	2	(1)
Actuarial (gain)/loss, recognized in other comprehensive income	2	(22)
Total	50	36

The movement of the reserve on retirement benefits obligation is, as follows

	December 31, 2017	December 31, 2016
Balance at the beginning of the period	187	167
Actuarial gain/(loss), recognized in other comprehensive income, gross	(2)	22
Deferred taxes, directly recognized in equity	-	(2)
Balance at the end of the period	185	187

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

	December 31, 2017	December 31, 2016
Discount rate	2%	2%
Future remunerations increase	1.7%	2%
Future remunerations increase after the fifth year	1%	1.5%

The demographic actuarial assumptions used are based on the following:

- data for the personnel turnover for the Company for the last three years;
- mortality rate data for the overall mortality of the population of Bulgaria, according to data of the National Statistical Institute for the period from 2011 to 2013.

Personnel turnover is, as follows:

Age	December 31, 2017	December 31, 2016
18 – 30 years	35%	4%
31 – 40 years	25%	3%
41 – 50 years	15%	2%
51 – 60 years	5%	1%
over 60 years	1%	0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
for the year ended December 31, 2017
All amounts are in thousands of BGN, unless otherwise stated
26. Retirement benefits obligation (continued)

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

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

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

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

	Less 1 %	Assumptions and results used	Plus 1 %
Discount rate	1.00%	2.00%	3.00%
Amount of the liability (BGN thousand)	292	263	239
Difference (BGN thousand)	29	-	-24
Difference (%)	11%	-	-9
Salary growth	0.5%	1.5%	2.5%
Amount of the liability (BGN thousand)	240	263	292
Difference (BGN thousand)	-23	-	29
Difference (%)	-9%	-	11%
Probability of early retirement	1.13%	1.97%	2.97%
Amount of the liability (BGN thousand)	266	263	259
Difference (BGN thousand)	3	-	-4
Difference (%)	1%	-	-2%
Mortality assumption	-1 year	Mortality rate	+ 1 year
Amount of the liability (BGN thousand)	264	263	262
Difference (BGN thousand)	1	-	-1
Difference (%)	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
for the year ended December 31, 2017
All amounts are in thousands of BGN, unless otherwise stated
26. Retirement benefits obligation (continued)

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

27. Deferred income

In 2016, two subsidiaries received government grants related to income, intended to offset the costs of producing green energy.

The movement of the government grants is, as follows

	December 31, 2017	December 31, 2016
Balance at the beginning of the period	429	-
Received green certificates	71	584
Recognized income from realized green certificates	(199)	(155)
Balance at the end of the period	301	429

28. Share capital

The share capital is presented at nominal value, according to the court decision for registration. As of December 31, 2017 and 2016 the share capital fully paid in at the amount of BGN 20,000 thousand is distributed into 2 000 000 shares with a nominal value of BGN 10 each.

29. Reserves

	Legal reserves	Other reserves	Actuarial gain	Reserve from foreign currency translations	Total
Balance at January 1, 2016	2 040	7 331	167	(377)	9 161
Changes in equity for 2016					
Comprehensive income for the period	-	-	20	(69)	(49)
Reserves allocated	-	2	-	-	2
Balance at December 31, 2016	2 040	7 333	187	(446)	9 114
Changes in equity for 2017					
Comprehensive income for the period	-	-	(2)	(198)	(200)
Reserves allocated	29	2	-	-	31
Balance at December 31, 2017	2 069	7 335	185	(644)	8 945

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
for the year ended December 31, 2017
All amounts are in thousands of BGN, unless otherwise stated
29. Reserves (continued)

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

Regarding establishment and use of the retirement benefit reserve (actuarial gain and loss) see notes 3.8 and 26.

Changes in the reserve from foreign currency translations include:

	December 31, 2017	December 31, 2016
Balance at the beginning of the period	(446)	(377)
Effect from recalculation of the net assets at the closing exchange rate as of the end of the period	(159)	(10)
Effect from translation of the statement of comprehensive income at average exchange rate for the period, and of the statement of financial position at closing exchange rate as of the end of the period	(39)	(59)
Balance at the end of the period	(644)	(446)

30. Non-controlling interest

	December 31, 2017	December 31, 2016
Filkab Distribution, Romania	281	293
Filkab Mig Serbia	41	15
Filkab Solar Ltd. Bulgaria	70	42
Total	392	350

31. Cash flows from operating activities

	December 31, 2017	December 31, 2016
Profit before taxation for the period	789	926
Adjustments for:		
Depreciation and amortization	1 851	1 662
Receivables written-off and impairment reversed	26	16
Retirement benefit provision accrued	43	52
(Profit)/loss from sale of property, plant and equipment, and materials	(92)	(4)
Carrying amount of property, plant and equipment, and materials written-off	38	36
Interest expenses and charges, net	891	396
	3 546	3 084
Changes in working capital, including:		
Trade and other receivables	(3 361)	5 515
Inventory	577	165
Trade and other payables	1 849	(5 818)
Cash flows generated from operating activities	2 611	2 946

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)*for the year ended December 31, 2017**All amounts are in thousands of BGN, unless otherwise stated***32. Dividends**

Based on a decision of the General meeting of the shareholders of the Parent company from March 2017, dividends are distributed from the accumulated profit from previous years at the amount of BGN 600 thousand, that are reported as a decrease in retained earnings in the statement of changes in equity for 2017.

In 2016 dividends are distributed amounting to BGN 300 thousand.

33. Related parties transactions

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

In 2017 and 2016 the Parent company performed transactions with the following related parties:

Related party	Nature of relationship
Management of the Company	Key management personnel
Poly Bolkans Ltd.	Company with participation of key management personnel
Consortium Filkab - Engineering	Consortium between the Parent company and a subsidiary entity

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

During 2017 and 2016 the transactions with related parties are, as follows:

Related party	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	Sale of goods and services	Sale of goods and services	Purchase of goods and services	Purchase of goods and services
Consortium Filkab - Engineering	1 354	1 024	-	-

As at December 31, 2017 and 2016 the outstanding transactions with related parties are, as follows:

Related party	December 31, 2017	December 31, 2017	December 31, 2016	December 31, 2016
	<i>Receivables</i>	<i>Payables</i>	<i>Receivables</i>	<i>Payables</i>
Consortium Filkab - Engineering	495	-	220	-
Key management personnel	41	-	54	-
	536	-	274	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
for the year ended December 31, 2017
All amounts are in thousands of BGN, unless otherwise stated
34. Business combination

As disclosed in note 2.2, in 2016 the Parent company has acquired 99.80% of the shares in the share capital of Solar Remus SRL, Romania. The result from the business combinations is, as follows:

	December 31, 2016
ASSETS	
Property, plant and equipment	3 911
Intangible assets	121
Trade and other receivables, net	79
Cash and cash equivalents	-
Green certificates	314
TOTAL ASSETS	4 425
LIABILITIES	
Trade and other payables	5 930
Loans	-
TOTAL LIABILITIES	5 930
NET LIABILITIES	(1 505)
Cash payments on the acquisition	(4)
LOSS FROM BUSINESS COMBINATION	(1 509)

Net cash flow from the business combination is presented in the table below:

	December 31, 2016
AQUIRED NET LIABILITIES TOTAL	(1 509)
Group's share	(1 509)
Cash payments on the acquisition	(4)
Cash and cash equivalents received	-
NET CASH FLOW PRESENTED IN THE CASH FLOW STATEMENT	(4)

35. Events after the date of the financial statements

As at the date of issuance of these consolidated financial statements, renegotiated are the maturity terms for repayment of revolving loans from a Bulgarian bank, at the total limit of EUR 1 812 thousand from February - May 2018 – to February - May 2019.