



Annual Separate Management Report
Non-Financial Statement
Independent Auditor's Report
Separate Financial Statements

KOZLODUY NPP EAD

31 December 2019

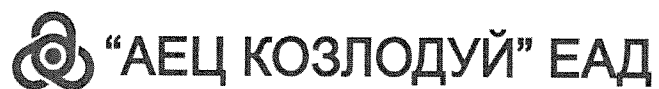


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GENERAL INFORMATION

Board of Directors as at the date of the financial statements

Zhaklen Koen - Chair of the Board of Directors;

Nasko Mihov - Member of the Board of Directors and CEO;

Ivan Yonchev - Member of the Board of Directors.

Address

Bulgaria

Kozloduy 3321, Vratsa District

Servicing banks

Investbank AD

International Asset Bank AD

DSK Bank EAD

United Bulgarian Bank AD

Municipal Bank AD

First Investment Bank AD

UniCredit Bulbank AD

Eurobank Bulgaria AD

Central Cooperative Bank AD

Bulgarian American Credit Bank AD

Allianz Bank Bulgaria AD

D Commerce Bank AD

Auditor

HLB Bulgaria OOD

Management Report **of Kozloduy NPP EAD**

01 January 2019 – 31 December 2019

This management report was prepared in compliance with the provisions of art. 39 of the Accountancy Act and art.187e, art.247, para.1, 2 and 3 of the Commercial Act. The management report contains the information required pursuant to Appendix No.10 of Regulation 2 of the Financial Supervision Commission, relating to persons under & 1e of the Additional provisions of the Public Offering of Securities Act, on the grounds of art.100o, para.7, i.2 of the Public Offering of Securities Act. The management report contains also non-financial information pursuant to art.48, para.1 and para.2 of the Accountancy Act.

Kozloduy NPP EAD (hereinafter referred to as "the Company") management report is an objective review, presenting truly and fairly the development and the results of the Company activities, as well as its position, together with a description of the major risks it faces.

The report presents commentary on and analysis of the financial statements and other significant information on the financial position, and the operating results of the Company. It covers the period from 01 January to 31 December 2019.

The separate financial statements presented by Kozloduy NPP EAD were prepared on the grounds of the International Accounting Standards, the Accountancy Act. It conforms to the current legislative and sublegislative normative acts. The separate financial statements were prepared in accordance with the integrated accounting policy approved by the Company.

1. General information

| | |
|-----------------------|---|
| Corporate name | Kozloduy NPP EAD |
| UIC | 106513772 |
| Address | Bulgaria Vratsa District town of Kozloduy 3321 |

Principal activities

– Using nuclear power to generate electricity and thermal energy. For the execution of these activities the Company holds and maintains: valid licence for generation of electricity and thermal energy by the electricity generating facility as defined therein; valid licences to operate nuclear facilities, as per the Safe Use of Nuclear Energy Act (SUNEA), issued by the Nuclear Regulatory Agency (valid permit for generation activity by the generating facility as defined by the licence, issued by the Inspectorate on the Safe Use of Atomic Energy for peaceful

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purposes);

- Import and export of fresh and spent nuclear fuel;
- Investment activities, related to the Company's activities as defined under the Company's principal activities;
- Construction, installation and maintenance in the fields of electrical and heat energy generation;
- Sales of high and medium voltage electric power and sales of thermal energy;
- Operation of radioactive waste management facilities, holding a valid licence pursuant to the Safe Use of Nuclear Energy Act (SUNEA).

Directors

As at 31 December 2019, the Company is managed by the Board of Directors (BoD), consisting of:

Zhaklen Koen - Chair of the Board of Directors;

Nasko Mihov - Member of the Board of Directors and CEO;

Ivan Yonchev - Member of the Board of Directors.

Management

Kozloduy NPP EAD is a joint stock company, established by virtue of Decision No. 582 of year 2000 of Vratsa District Court. The registered office of the Company is in the town of Kozloduy, Vratsa District, Bulgaria. The Company was established as a joint stock company on 28 April 2000 with a sole owner - the Republic of Bulgaria through spin-off from Natsionalna Elektricheska Kompania EAD (NEK EAD). In accordance with the Separation Protocol of Kozloduy NPP branch and GUP Atomenergoinvest, Kozloduy, compiled and based on the available accounting records dated 28 April 2000, the company is legal successor of the respective portion of the assets and liabilities of NEK EAD, Sofia.

Bulgarian Energy Holding EAD is the sole owner of the Company share capital as at 31 December 2019. The Company's ultimate owner is the Republic of Bulgaria through the Ministry of Energy.

The Company has a one-tier management system and is managed by a Board of Directors consisting of three members.

As at 31 December 2019 the Company's share capital amounts to BGN 244,584,890 allocated in 24,458,489 ordinary, registered, voting shares at BGN 10 par value per share. All ordinary shares are fully paid.

Licences

The Company holds the following licences:

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- Licence for operation of a nuclear facility, issued by the Bulgarian Nuclear Regulatory Agency (NRA) - Serial No. E, Registration No. 5303, dated 03 November 2017, valid as of 06 November 2017, for the operation of Kozloduy NPP EAD Unit 5. Licence validity - 06 November 2027;
- Licence for operation of a nuclear facility, issued by the NRA - Registration No. 5535, dated 03 October 2019, for the operation of Kozloduy NPP EAD Unit 6. License validity - 03 October 2029;
- Licence for generation of electricity and thermal power No. A-049- 03/11.12.2000, valid for thirty years - until 11.12.2030;
- Licence for transmission of heat energy No. 050-05/11.12.2000, valid for thirty years - until 11.12.2030;
- Licence, issued by the NRA, serial number II-11024, No. 04358, dated 01 April 2014, amended by Orders No. AA-04-1/27.01.2016 and No. AA-04-132/29.08.2018, for the use of sources of ionizing radiation for commercial purposes – performing non-destructive testing with radiation methods on site: Inspection body of type C Diagnostics and Control Testing Centre, valid until 31.03.2024;
- Licence, issued by the NRA, serial number II-1708, registration No. 04366, dated 08 April 2014, for the use of sources of ionizing radiation for commercial purposes – performing radiochemical control, radiological environmental monitoring, and metrological control, for a ten-year period – until 07.04.2024;
- Licence, issued by the NRA, for transportation of radioactive substances, serial number T-14002, Registration No. 04435, dated 30.06.2014, valid for a ten-year period – until 11.07.2024;
- Licence for trading in electricity No. A-216-15/18.12.2006 - until 18.12.2026;
- Licence, issued by the NRA, serial number CO, registration No. 5125 dated 05.10.2016 (amended by Order No. AA-04-126/24.08.2018) for conduct of specialised training in activities involving ionizing radiation sources in nuclear facilities which have an impact on safety, for issue of practising certificates to professionals working in nuclear facilities with ionizing radiation sources, apart from the ones

stipulated in Art. 64, Para. 1, Items 1 and 2 of the SUNEА, effected by Personnel and Training Centre Division. This licence is valid until 05.10.2021.

– Licence issued by the NRA for operation of the Spent Fuel Storage Facility, Serial number E, Registration No. 04441 dated 25.06.2014, for a ten-year period - until 25.06.2024.

– Licence, issued by the NRA, for operation of the Dry Spent Fuel Storage Facility with spent fuel from VVER-440 reactors, Serial number E, Registration No. 5016 dated 28.01.2016, for a ten-year period - until 28.01.2026.

Auditor

HLB Bulgaria OOD

**Basis for
preparation of the
financial statements**

- The financial statements have been prepared on a historic cost basis.
- The financial statements are presented in Bulgarian Leva (BGN) and unless otherwise stated, all disclosed amounts are rounded up to the nearest BGN thousand.
- The Company prepares its financial statements in accordance with the requirements of the International Financial Reporting Standards endorsed by the European Union.
- In conformance with the requirements of Art.31 of the Accountancy Act, the Company also prepares consolidated financial statements. The annual financial statements are published in the Trade Register no later than 30 June of the year, following the year to which they refer.
- Kozloduy NPP EAD operates in conformance with the Bulgarian legislation.

1.1. Management's responsibilities

The management confirms that it has applied adequate accounting policies in preparing the annual separate financial statements as at 31 December 2019, and that the annual separate financial statements are prepared under the going concern principle.

The management is responsible for keeping proper accounting records, for the expedient asset management and for undertaking all requisite actions to prevent and detect possible abuse and other irregularities.

1.2. Information required under Article 187e and Article 247 of the Commercial Act (CA)

➤ Information required under Article 187e of the Commercial Act (CA)

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In accordance with Article 187e of the Commercial Act, the Company must provide in its Management Report information on:

a/ The number and par value of the treasury shares acquired and transferred within the year, the portion of the capital that they represent, and the price at which the acquisition or transfer was concluded;

b/ The grounds on which the acquisitions were concluded within the year.

The Company has not acquired and/or transferred any treasury shares in 2019.

c/ The number and par value of the treasury shares held by the Company and the portion of capital that they represent.

The Company does not hold any treasury shares.

➤ **Information required under Article 247, Para. 2 of the CA**

a/ Information on the remuneration of the Board of Directors of Kozloduy NPP EAD, as disclosed under the signed management and control contracts.

| In thousands of BGN | Statements as at 31.12.2019 | Statements as at 31.12.2018 |
|--------------------------------------|--------------------------------|--------------------------------|
| Salaries, including bonuses | 344 | 272 |
| Social security costs | 30 | 21 |
| Social costs | 32 | 29 |
| Compensations | (6) | 46 |
| Bonuses (tantièmes) | 37 | - |
| Total short-term remuneration | 437 | 368 |

b/ Information on the Company's shares, acquired and held by members of the Board of Directors

The members of the Board of Directors do not hold any shares of the Company. No privileges or exclusive rights to acquire Company shares and bonds are provided to the members of the Board of Directors.

c/ Information on the participation of the members of the Board of Directors as general partners in commercial entities, information on the ownership of over 25 percent of the capital of another entity, as well as information on their participation in the management of other entities, or cooperatives, as procurators, managers or members of boards (in accordance with the requirements of Art.247, para.2, i.4 of the CA).

The members of the Board of Directors have not stated circumstances under art.247, para.2, i.4 of the CA.

d/ Information on the contracts under Art.240b of the Commercial Act concluded during the year:

- No shares or bonds of the Company were acquired or transferred by the members of the Board of Directors.

- No contracts were concluded during the reporting period by and between the members of the BoD or parties related to them, which go beyond the Company's ordinary activities or which significantly deviate from the market conditions.

1.3. Personnel

The Company defines the fulfilment of its priorities in the area of human resources management in the Human Resource Management Policy. The principal goals of the Management are related to maintaining and developing the system of professional recruitment, providing conditions for professional development of the personnel, systematic training and qualification enhancement and management of the knowledge gained. The applied management system and organisational-management structure ensure the fulfilment of the set priorities.

In relation to the long term operation of the plant and securing required staff, special attention is paid to attracting young people to ensure transfer of specific knowledge and experience gained over many years. In March the Board of Directors approved granting of scholarships to students pursuing major in the following specialities: for Master educational-qualification degree - Nuclear power engineering, Nuclear power engineering and technologies, Automation, information and control engineering, Electrical power engineering and electrical equipment; and for the educational qualification Bachelor degree - Thermal power engineering and nuclear power engineering, Nuclear equipment and nuclear power engineering.

In order to define the future needs of competences within the organisation during Units 5 and 6 long-term operation (LTO) period, as well as to ensure sufficient number of competent staff for the LTO activities, an analysis of the positions contained in the Staff Establishment Plan was performed. The majors that belong to higher education areas that are most commonly required for taking positions in the Company were considered when carrying out the analysis. As a result of the analysis, a list of majors in higher education that are priority majors for the Company was set up. A regular reception of documents from candidates for work at Kozloduy NPP for 31 priority majors has been announced on the Company's web site since June 2019 in order to shorten the time for recruitment and attract specialists from all over the country. For two years now, Kozloduy NPP is granting scholarships to students from the Technical University of Sofia and Sofia University "St. Kliment Ohridski" studying the so-important for the Company "Nuclear Power Engineering", "Nuclear Power Engineering and Technologies". The Company already contracted 13 scholarship recipients. Kozloduy NPP actively collaborates with the academic societies in the country.

Throughout the reporting period the employer's efforts continued in the direction of keeping the spirit of social agreement and collaboration with the employees, the trade unions and the representatives of the workers and employees.

As at 31 December 2019, the number of the staff employed by the Company under employment contracts is 3,722. The relative share of employees with higher or secondary vocational education is preserved. The Company observes the requirement set under the Staff Establishment Plan to have secondary education as the lowest educational degree when holding any staff position.

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| Total personnel, employed under employment contracts, including | Statements as at 31.12.2019 | Statements as at 31.12.2018 | % change |
|--|------------------------------------|------------------------------------|-----------------|
| Managers | 463 | 469 | -1.3% |
| Specialists | 1 028 | 1 004 | 2.39% |
| Technicians and associate professionals | 873 | 844 | 3.43% |
| Administrative Assistance Personnel | 246 | 259 | -5.02% |
| Personnel, engaged in providing services to the population, trade and security | 84 | 92 | -8.7% |
| Qualified workers and the associated with them professionals | 784 | 756 | 3.7% |
| Machine operators and assembly installers | 171 | 167 | 2.39% |
| Professions, which do not require special qualifications | 73 | 72 | 1.4% |
| TOTAL | 3 722 | 3 663 | 1.6% |

1.4. Legal and arbitration proceedings

Kozloduy NPP EAD is not a party under any legal, administrative or arbitration proceedings, associated with liabilities or receivables of the Company, with financial interest amounting to at least 10 percent of its equity.

1.5. Research and development

During the reporting period no surveys were conducted and no projects were implemented in the fields of Research and Development.

1.6. Subsidiaries

Kozloduy NPP EAD owns the following entities:

➤ Kozloduy HPP EAD

Kozloduy NPP EAD is the sole owner (100%) of the capital of Kozloduy HPP EAD, comprised of 1,082 ordinary, registered, materialised, voting shares, at BGN 1,000 par value per share.

Kozloduy HPP EAD is registered with Vratsa District Court under Company file No.495 of year 2004, with the purpose of building a Hydro Power Plant, generation and distribution of electrical energy generated by a small Hydro Power Plant in order to utilise the residual power generating capacity of treated water from Kozloduy NPP EAD.

Pursuant to a decision of BEH EAD dated 7 November 2008, contract No. 880080 dated 07.11.2008 was signed by and between the Company and Kozloduy HPP EAD for the provision of a credit line of BGN 20,000 thousand. The credit line's maturity is 2020. With Decision item II.15.1 dated 12.07.2012, the Board of Directors of BEH EAD authorised Kozloduy NPP EAD to re-negotiate the contracted terms and conditions under Contract Agreement for Credit line No. 880080 dated 07.11.2008 and Annex No. 810000003 dated 06.11.2011. An Annex to the Contract Agreement was signed on 26.09.2012 for the provision of an additional amount of BGN 2,000 thousand. The maturity of the latter is 2021, and the loan repayment started on 15.01.2013. With Decision item II.3.1, dated 29.03.2013, the Board of Directors of BEH EAD authorised the signing of Annex No.3 by and between Kozloduy HPP EAD and Kozloduy NPP EAD,

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which amended the contracted clauses related to: extension of the fund's utilisation deadline - until commissioning of Outlet channel-1 at Kozloduy HPP, but not later than 30.06.2013; maturity - until 15.07.2021; time frames of the repayment instalments, with the repayment beginning on 15.07.2013; due interest on the borrowed funds - increase of the base interest rate + 2.5 % margin. With Decision item II.6.1, dated 12.01.2015, the Board of Directors of BEH EAD authorised the signing of Annex No. 4 by and between Kozloduy HPP EAD and Kozloduy NPP EAD, which amended the contracted clauses related to: extending the loan's maturity - until 15.01.2024; increasing the number of the repayment instalments - 22 instalments.

➤ **Kozloduy NPP - New Build EAD**

Kozloduy NPP EAD is the sole owner (100%) of the capital of Kozloduy NPP - New Build EAD, comprised of 1,400,000 ordinary, registered shares, at nominal value of BGN 10.00 each.

Kozloduy NPP - New Build EAD is a single-shareholder joint stock company, registered in the Commercial Register of the Registry Agency on 09.05.2012, with UIC 202058513. The Company has its registered office at: NPP site, Kozloduy, Kozloduy Municipality, Vratsa District. The Company's registered capital amounts to BGN 14,000 thousand.

Pursuant to Decision No.28, dated 09.06.2015 and Decision No.36, dated 07.07.2015 of the Company's Board of Directors, it was decided to simultaneously decrease the capital of Kozloduy NPP - New Build EAD by cancellation of 135,100 ordinary, registered, voting shares at nominal value of BGN 10 each, and increase of the capital with BGN 1,351,000 by subscribing 135,100 new, ordinary, registered, voting shares, with total nominal value of BGN 1,351,000 by consideration in cash.

➤ **Interpriborservice OOD**

The Company has a controlling interest of 63.96% in Interpriborservice OOD, Kozloduy, holding seventy-one shares of its capital, which is comprised of 111 shares at BGN 100 par value per share. The investment is measured at acquisition cost - a total of BGN 79 thousand. The transactions with this company relate to deliveries of assets, supplies related to assets' modernisation and reconstruction, as well as purchases of inventory and hired services.

Interpriborservice OOD was established pursuant to a Decision No.55, dated 13.04.1988, of the Council of Ministers, as a specialised entity for installation, setting up, maintenance and technical servicing of automated process control systems, supply of instrumentation, equipment and spare parts for NPP, TPP, and others. The partners in the company are Russian and Ukrainian entities, operating in the energy sector.

➤ **ZAD Energia**

The Company has a participation in ZAD Energia, with investment value of BGN 457 thousand as at 31 December 2019.

1.7. Branches of the Company

The Company does not have any branches.

2. Activity overview

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Kozloduy NPP EAD ended the reporting year 2019 with excellent production and financial results.

The financial results of the Company were positively influenced by the considerably more advantageous development of the electricity market, which resulted in an increase of the average market prices, steady operation of Units 5 and 6 at 104%, and completion of the Unit 6 outage nearly 3 days ahead of schedule.

Achieving safe operation of the nuclear power units, the fulfilment of the investment projects for the long-term operation and power uprate of the nuclear units was financially secured with the Company's own financial resources, without using external financing.

Significant changes in the regulatory environment, having a direct impact on the Company's activity, occurred during 2019:

- Upon the change of the market model in 2018 and introduction of the exchange trade as the sole and obligatory market mechanism for all producers of installed capacity of 4 and above 4 MW until June 2019 and 1 and above 1 MW from July 2019, including renewables, in 2019, a significant growth of the volumes traded on the Day Ahead spot market (DAM) has been observed. The social liability cost has also been significantly reduced. On the other hand, based on the latest changes of the EA, a new obligation was imposed on the producers – to pay a price for access amounting to BGN 2.12 per MWh. The price applies to the total net production including the energy settled on the balancing market in the form of surplus.

- In the middle of January, the Commitments to the EC ensuing from case AT-39767-BEH-Electricity are being fulfilled for the fourth year now, with increased mandatory loads to be offered at the Day Ahead hourly market (DAM) by the generating companies within the BEH EAD.

- By virtue of Decision II - 19/01.07.2019 of the EWRC, the price of the electricity generated by Kozloduy NPP EAD was fixed at BGN 53.90 per MWh for the regulatory period 01.07.2019 - 30.06.2020 and the quota for the regulated market was increased by 55.5 % (3,000,000 MWh compared to 1,927,000 MWh for the previous period).

- A significant regulatory change is the introduction of monthly quotas for the producers as per Art. 21, Para.1, Item 21 of the EA. The highly unequal monthly distribution of the Kozloduy NPP quota (from 1,150 MW in January to 100-150 MW in the period April – June) has harmful effect on the market sales (minimal free volumes to offer on the market during winter compared to maximal volumes during the generally weak months in terms of price).

- By virtue of Decision II - 18/01.07.2019 of the EWRC, a new price of heat energy was approved amounting to BGN 42.18 per MWh for the regulatory period 01.07.2019 – 30.06.2020.

Electricity generation and sales

In 2019, Kozloduy NPP EAD generated record volumes of electricity (gross) considered from the commissioning of Unit 5 until now. The generated electricity amount to 16,555,288 MWh – plus 430,007

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(2.7%) MWh compared to 2018. The increased volume resulted from the steady operation of Units 5 and 6 at 104% and completion of the Unit 6 outage ahead of schedule. The amount of auxiliary power generated on-site reflects the operational modes of the nuclear facilities.

The performance indicators for the Company which characterise its specific nature are presented in the table below:

| Indicators | | Statements as at 31.12.2019 | Statements as at 31.12.2018 |
|------------|----|--------------------------------|--------------------------------|
| LF | 1) | 91.73 | 90.23 |
| UCF | 2) | 89.68 | 89.21 |
| UCLF | 3) | 0.30 | 0.00 |
| GRLF | 4) | 0.00 | 0.13 |

1) LF - Load Factor
2) UCF- Unit Capability Factor
3) UCLF- Unit Capability Loss Factor
4) GRLF – Grid Related Loss Factor

The LF indicator is of excellent values as a result of the shorter downtimes for outage compared to 2018 which makes up for the underproduction due to the unplanned events throughout 2019. The LF value reflects the trend towards optimum operation of the nuclear units. The UCF value above 85% indicates very high level of reliability and efficiency, in view of the WANO criterion (UCF > 85 %). The value of the UCLF indicator reaches up to 3% which indicates high level of reliability and efficiency at the plant. No grid-related losses have been registered in 2019 (GRLF indicator).

The table below summarises the electricity generation, sales and revenue data in 2019, compared to 2018:

| Indicator | Statements as at 31.12.2019 | Statements as at 31.12.2018 | % change |
|--|-----------------------------------|-----------------------------------|----------|
| Generation MWh | | | |
| Gross electricity generation | 16,555,288 | 16,125,281 | 2.7% |
| Electricity sales, incl.: | 15,742,719 | 15,312,415 | 2.8% |
| At regulated prices | 2,441,324 | 2,397,760 | 1.8% |
| At freely-negotiated prices (including Art.119 Para.1) | 13,279,431 | 12,893,493 | 3.0% |
| Sales (Energy Act, art.119, para.2) | 21,964 | 21,162 | 3.8% |

The total amount of electricity sold by Kozloduy NPP in 2019 is with 2,8 % higher compared to 2018 as a result of the registered production growth (2.7%).

The ratio between the sales at the regulated and the non-regulated market segment in 2019 was 15.5 %/ 84.5 % respectively, same as the previous year.

The sales at regulated prices for 2019 exceeded the sales for 2018 by 1.8 % due to the increased quota for the regulatory period 01.07.2019-30.06.2020.

The electricity volumes sold at freely-negotiated prices exceeded the volumes for 2018 by 3 %.

In 2019, there appeared significant changes in the structure and volumes of the sales in the non-regulated market segment due to the changes in the EA. Exchange market transactions are dominating, the sales on the Day Ahead hourly spot market (DAM) being two times higher compared to 2018 due to the

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increased share of Kozloduy NPP in the fulfilment of the common Commitment of the BEH group. Growth was also observed on the Intraday Market (IDM) due to its intensive use for imbalance management. The major long-term products were traded through the “Tender” window of the Centralised Market for Bilateral Contracts (CMBC) segment.

Electricity sales outside IBEX stipulated in the EA result from supplying Bank Pump Station house loads and end customers running their business on the Kozloduy NPP site which makes them part of the plant house loads. Their share is minimal.

The fresh nuclear fuel supplies for Units 5 and 6 were accomplished in conformity with the contractual terms.

Generation and sales of thermal energy

In 2019, the Company produced 183,358 MWh of heat energy, which is 8% less compared to the same period of 2018. The total volume of heat energy consumed on site and in the town of Kozloduy was 78,552 MWh, which is by 15,527 MWh (-16.5%) below the reported amount in the previous year, as a result of the decreased consumption due to more favourable weather conditions.

Programme to maintain and enhance safety

Maintaining and enhancing safety is a lead priority of Kozloduy NPP EAD. The actions, undertaken to maintain and enhance safety of operations within the Company are carried out in the following areas: nuclear safety, operating experience, radiation protection, emergency preparedness, radioactive waste management, radioecological monitoring, non-radiological monitoring and environmental protection.

Kozloduy NPP EAD nuclear facilities are operated in compliance with the terms and conditions of the Licences for operation of power units 5 and 6, SFSF and DSFSF, issued by the NRA. The Company maintains licences to use sources of ionizing radiation, licences to transport radioactive substances and licences to conduct specialised training.

On 27.09.2019, the NRA renewed the operating licence of the Kozloduy NPP Unit 6 for a period of 10 years. The licence became effective as of 03.10.2019.

Upon a review and assessment of the documents submitted and results of the reactor comprehensive tests, the NRA approved the transition of Unit 5 to long term operation at uprated thermal power of $104\%N_{nom}$.

There are no actuation of the reactor protection systems of Units 5 and 6 during the reporting period.

The nuclear plant is operated in conformance with the principles of radiological protection, defined by the Regulation on Basic Norms of Radiation Protection-2004, and BSS-115 of the IAEA, as well as the ALARA principle (as low as reasonably achievable personnel exposure).

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The plant radiological environmental monitoring is stipulated in the Kozloduy NPP EAD long-term programme for radioecological monitoring. No deviations of the radiological indicators above the admissible levels were registered during the reporting period. The results achieved in 2019 show that the equivalent dose rate of gamma-radiation varies within the limits of the natural background radiation (0.05 – 0.15) $\mu\text{Sv/h}$. The values, measured along the boundaries of the industrial site and in the towns and villages within the 100-km zone, are fully comparable.

Kozloduy NPP EAD is actively involved in activities dedicated to environmental protection in all its aspects. The plant, as an operating organisation, holds 10 permits, issued by the Bulgarian Ministry of Environment and Water and its administrative bodies. The total amount of greenhouse gas emissions of CO₂ generated in 2019, pursuant to the Company's verified report, is 469 tons. The necessary number of emission permits were ensured on the account of Kozloduy NPP EAD in the National Register of Greenhouse Gas Emissions Quota Trading.

Implementation of the Maintenance Programme

In 2019 the scheduled annual outages (Outages) with refuelling of the Units 5 and 6 reactors were performed in 40 and 32 calendar days respectively, considered from tripping the turbine generator to its reconnection to the grid. All the necessary activities (maintenance, repair, specialised control and inspections of the major and auxiliary equipment of the safety systems, systems important to safety and for the generation, in compliance with the factory, regulatory and licensing requirements) were carried out during the scheduled downtimes in 2019, in order to ensure the operability, reliability of the equipment and safe operation of the nuclear facilities; the scheduled modernisation and reconstruction activities under the plant life extension programme and the units power uprate project were also implemented.

The following core activities scheduled in the maintenance programme were performed in 2019, as per the licensing commitments of the Company for the operation of nuclear facilities:

- Maintenance and preventive maintenance of structures, systems and components (SSCs);
- Maintenance, examination and preventive maintenance of major and auxiliary equipment (SSCs of safety systems; systems important to safety and to production) of Units 5 and 6;
- Corrective maintenance - the defects that occurred on equipment and components, identified during operation, periodic checks and tests, shift walkdowns, periodic inspections, etc., have been removed in good time, in accordance with the process conditions and limitations;
- Maintenance of common plant facilities - the planned scopes for preventive maintenance, maintenance and repairs of the common plant equipment in the Spent Fuel Storage Facility, Switchyard, Bank Pump Station, Hydro-Engineering Facilities and Civil Structures, and the Heat Supply Department, were performed in accordance with the approved schedules in the different structural units.

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The required preventive actions to minimise the impact of unfavourable weather conditions and to ensure safe operation of Units 5 and 6 have been carried out in conformity with the approved plant documents. The scheduled activities (34 in number) were implemented during the summer. The scheduled 85 measures for preparation and safe operation of Units 5 and 6 during winter season were implemented in a timely manner.

The value of the activities implemented under the Kozloduy NPP EAD Maintenance Programme for 2019 amount to BGN 79,668 thousand, incl. BGN 11,606 thousand for maintenance activities of investment nature.

Implementation of the Investment Programme

For 2019, the reported investment costs secured by self-financing amount to BGN 79,821 thousand. These are allocated per type of activity, as follows:

- construction and installation works (CIW) - BGN 21,682 thousand;
- plant and equipment (PE) - BGN 51,074 thousand;
- project related research and studies (PRS) - BGN 6,980 thousand;
- other costs - BGN 85 thousand.

A major priority in the Investment Programme (IP), as part of the Business Programme of the Company, is the implementation of measures resulting from the requirements of the Safe Use of Nuclear Energy Act and the licences for the operation of Units 5 and 6, and the spent fuel storage facility, as well as maintaining and constant enhancement of safety, quality and security at Kozloduy NPP EAD.

A number of investment measures were completed in 2019 to maintain and enhance safety at Kozloduy NPP EAD, in compliance with the requirements of the Safe Use of Nuclear Energy Act and the licences for operation. The efforts were focused mainly on the achievement of the strategic goals for extending the operating life of units 5 and 6 beyond their design lifetime for long-term operation in the next 30 years, and increasing the generation efficiency by uprating their design thermal power to 104%. The remaining part covers activities for the current maintenance of the units, major and auxiliary facilities and infrastructure, as well as measures implemented in order to maintain and enhance the NPP security and physical protection.

➤ Activities ensuring the long-term operation (LTO) of the Kozloduy NPP EAD Units 5 and 6;

As a result of the measures implemented on Units 5 and 6 and the balance of plant (BOP) as part of Units 5 and 6 Plant Life Extension Project, Stage 2, recommendations were laid down for technical activities which should be implemented following the renewal of the operation licences and transition to long-term operation.

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The activities scheduled and performed during the 2019 outage were focused on completion of the actions resulting from the Ageing Management Review of the Units 5 and 6 structures, systems, and components and implemented during the licencing period.

The reported investment costs in the period 01.01.2019 – 31.12.2019 related to activities ensuring the units' LTO in connection with this project amount to BGN 24,394 thousand. The more significant measures implemented are focused on extending the life of existing hydraulic snubbers, procurement of head seals and flexible couplings for primary and secondary pumps, procurement and installation of pumps of the low-pressure Emergency Core Cooling System, procurement of spare parts for "BABCOCK" and "SEMPELL" valves, replacement of RT cabinets of the primary and secondary Process Control Systems and panels with limiting transmitters and supply panels, etc.

➤ **Implementation of engineering solutions for 104% thermal power uprate of Units 5 and 6;**

The transition of Units 5 and 6 to uprated power operation was completed based on the implementation of the scheduled activities listed in the Complex concept of Kozloduy NPP EAD for Units 5 and 6 thermal power uprate to 104%, programmes to be implemented, preparation and conduct of tests during the transition to 3,120 MW power as well as the plan for implementation of the applicable licensing and control according to SUNEА.

- In 2019, an award procedure was started for the "Modernisation of the Units 5 and 6 Neutron Flux Monitoring System (ENFMS)". The project for modernisation of the ENFM systems is aimed at enhancing safety and ensuring reliable operation of the Units 5 and 6 at 104% (uprated power operation) as well as increasing the precision, responsiveness, and reliability of in-core monitoring.

In respect of the auxiliary systems to the turbine generator TBB-1000-4V3, an engineering contract is under way: "Refurbishment of auxiliary systems 5,6SS, 5,6ST and 5,6VC to the turbine generators TBB-10000-4V3".

The funds invested under the IP in 2019 in relation to the Units 5 and 6 thermal power uprate to 104% amount to BGN 16,437 thousand.

➤ **Licensing provisions and measures resulting from operating experience, conducted reviews and regulatory requirements related to safety**

Measures to maintain and enhance safety are implemented in compliance with the Safe Use of Nuclear Energy Act and in observance of the provisions of the licences and permits issued by the authorised control and supervision bodies.

Work programmes were prepared at Kozloduy NPP EAD to govern the activities ensuring compliance with the requirements for safe use of nuclear energy and observance of the prescriptions of the Bulgarian Nuclear Regulatory Agency.

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The programme for supporting and enhancing safety at Kozloduy NPP EAD in 2019, 2020, and 2021 covers 35 measures under an investment programme for safety enhancement resulting from the conduct of tests or implementation of the surveillance programme, corrective actions resulting from internal or external operating experience, or peer reviews. 7 of those measures have been completed while the rest of them are under way.

The control over the implementation of the measures covered by the programmes is stipulated in the programmes themselves. Six-month and annual reports on the progress of the measures are prepared and submitted to the NRA.

The total amount of funds spent in 2019 to cover the costs of the measures related to licencing conditions and measures resulting from operating experience, conducted reviews and regulatory requirements related to safety is BGN 11,569 thousand. The more significant ones are as follows:

- Modernisation of the Units 5 and 6 gas blower systems – the funds reported concern construction and installation works on Units 5 and 6 under the contract for “Maintenance and electric installation works on main and auxiliary equipment and systems of Units 5 and 6, OII-1”.
- “Design, procurement, and installation of louvres on the intake chambers of 5,6 QF” – effected delivery under the contract for “Design, procurement, and installation of louvres on the intake chambers of 5,6 QF”. Currently, 4 louvres in total have been installed on Units 5 and 6.
- “Procurement and replacement of primary valves” – a contract has been completed for “Procurement of bellows stop valves of DN32 completed with gearboxes and electric actuators”.
- “Modernisation of the radiation monitoring system (replacement of the instruments with modern ones with automatic registration of the readings in a database)” – a delivery was made under the contract for Modernisation of the Radiation Monitoring System in the SNFSF.
- Design, procurement, and installation of relay protections; Design and construction of a new Off-Site Emergency Response Centre.

➤ **Investment activities for routine maintenance of the units, auxiliary facilities and infrastructure;**

The Company engages in activities, related to the maintenance of main and auxiliary facilities, and activities to ensure the normal operation of the common plant facilities, supporting the production activities. The reported costs amount to BGN 27,421 thousand.

Financial results for 2019

During the past 2019, the Business and Financial Management Policy pursued by the Management of Kozloduy NPP EAD was focused on achieving economically efficient and competitive electricity generation while ensuring highest level of safety, maintaining stability, and always striving for improvement in the financial status.

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The Company ended the year 2019 with net profit to the amount of BGN 324,892 thousand (a profit of BGN 163,546 thousand was recognised for the year 2018) with cash and cash equivalents to the amount of BGN 395,583 thousand (239,725 thousand for 2018). The excellent results are based on the record volume of electricity generated from the commissioning of Unit 5 to the present moment, stable trend towards keeping the market prices high, better collectability of sales revenues, and effective management of expenditure.

For 2019, the operating income from the Company's operation amounts to BGN 1,327,799 thousand, exceeding by BGN 209,959 thousand (18.78 %) the reported income for 2018. The increase is a result of the rising electrical power sales and higher exchange prices.

Regulated market – The reported revenue from electricity sales to the public supplier NEK EAD amounts to BGN 131,691 thousand and does not differ substantially from the income reported for the last year.

Non-regulated market – The revenues from electricity sales on the free market reached BGN 1,179,176 thousand, about 22% (212,188 thousand) above the reported revenues for 2018. The higher demand for electricity as well as higher market prices contributed to the reported increase. The average price of the electricity sold on an organised exchange market increased with almost 20%. The trend for the revenues from electricity sales on the SMBC to continue being dominant remained throughout 2019. A negative balance of BGN 7,511 thousand on the balancing market was reported due to unplanned events.

Electricity sale to end customers - The revenues from electricity sales to end customers, connected via direct lines to the Kozloduy NPP own switchyard as per art.119, para.2 of the Energy Act, amount to BGN 1,250 thousand.

Other revenues and income amounting to BGN 9,645 thousand, including revenues from sales of services, goods, rents, contractual penalties and insurance events, etc., are 17.7% higher than the last year. The income from financing amounts to BGN 4,081 thousand from recognized current income from financing of the DSFSF. Gains from sale of non-current assets are minimal compared to the previous year.

The operating expenses of the Company (continuing operations) in 2019 have a recognised value of BGN 968,782 thousand. They differ insignificantly compared to 2018 (3%). Structural variations from the last year are observed for the following costs:

- Lower costs for material and consumables and changes in work-in-progress, mainly due to the reduced costs for nuclear fuel resulting from the lower value of the loaded fresh fuel assemblies.
- Hired services expenses are comparable with the last year statements and amount to BGN 134,489 thousand. For 2019, the Company calculated BGN 16,919 thousand for payment of access price over the total net production, including the energy settled on the balancing market in the form of surplus, for the period since entry into force of the regulatory obligation.

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- For 2019, the reported depreciation and amortisation costs amount to 168,977 thousand, about 15 % lower than the previous year. This reduction results from a review of the residual useful life of Company's assets performed in the end of 2018 and re-allocation on the basis of the new residual useful life of the assets.

- Other expenses were increased by 12% above the reported ones in 2018. The largest relative share of these (97%) is attributed to expenses for instalments in the DNF Fund, RAW, and SES funds, which have been increased by BGN 33,116 thousand, as a result of higher electricity sales revenues.

- In 2019, provision costs amounting to BGN 80,743 thousand are calculated as follows:

- BGN 39,881 thousand provision costs for an obligation for transport of spent nuclear fuel from WWER-1000 for technological storage and reprocessing, including BGN 40,828 thousand, for missed transport in 2019 and 947 thousand for reintegration of calculated provision costs for 2018.

- BGN 40,862 thousand provision costs for retirement benefits (according to an actuarial report regarding the compensations at retirement on the basis of the Collective Labour Agreement in force for the period 2019-2020).

During the reporting year, the Company provided the required amount of cash as a result of the sales of electricity at favourable market conditions based on which the obligations under the commercial contracts for supply of nuclear fuel, reagents, maintenance and investment activities were fulfilled in a timely manner.

Preferentially, using its own financial resources, the Company secured the measures ensuring safe and reliable operation of the nuclear facilities, including the activities related to the management of SNF and RAW.

The Company effected insurance premiums in relation to the insurances as legally stipulated in the SUNEА and the Vienna Convention, contributions to the RAW Fund, the DNF Fund and the SES Fund, payments for salaries and wages, social security contributions.

The obligations under the long-term loan granted by the European Atomic Energy Community (EURATOM) under the Programme for Modernisation of Power Units 5 and 6 are regularly settled in line with the Loan Agreement with Euratom dated 29.05.2000 and financial contracts in force. The third and fifth tranche of the Euratom loan were fully repaid in 2019. The calculated values of the financial covenants - Debt Service Cover Ratio and Gearing Ratio were disclosed to Euratom in line with Kozloduy NPP EAD commitments under the Loan Agreement. The calculated values satisfy the creditor's financial criteria.

As at 31.12.2019, the Company ended the reporting year without any outstanding payments.

As at the end of 2019, the cash holdings of Kozloduy NPP EAD amount to BGN 395,583 thousand exceeding the reported amount in the end of 2018 by BGN 155,858 thousand. The major factors that had an impact on the cash amount as at the end of the reporting year are as follows:

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– Increase of incoming flows from non-regulated sales by 24 % above the reported levels for 2018 as a result of the favourable market trends over the year;

– High debt collectibility (70%) from the Public supplier for the regular supplies compared to previous years and regular payment of the cash instalments under concluded Debt Rescheduling Agreements;

– Increased outflows for the fulfilment of the commitments towards the state funds for the RAW management and DNF, the SES Fund, payment of liabilities related to taxes to the local and the state budget, and other statutory and licensing liabilities;

– Additional dividend paid out to BEH EAD in 2019 to the amount of BGN 150,000 thousand at the expense of the Other Reserves fund, apart from the statutory obligation for a dividend calculated as a portion from the profit for 2018 to the amount of BGN 80,056 thousand.

Over the past year, the constant monitoring and control of the lawful, appropriate and efficient use of the Company's financial resources continued by performing preliminary controls when undertaking commitments and subsequent monitoring and control of the budget implementation, by avoiding any exceeding of the financial framework under the approved programmes.

The table hereafter presents selected key indicators that reflect the achieved operational results and an evaluation of the Company's position and operations in 2019, compared to the same reporting period in the previous year, as follows:

| Indicator (BGN '000) | | Statements as at 31.12.2019 | Statements as at 31.12.2018 | Change 2019/2018 (%) |
|----------------------|---------------------------|--------------------------------|--------------------------------|-------------------------|
| c.1 | c.2 | c.3 | c.4 | c.5=(c.4/c.3)-1 |
| 1 | Total operating income | 1,327,799 | 1,117,840 | 18.78% |
| 2 | Total operating costs | -968,782 | -939,828 | 3.08% |
| 3 | EBITDA 1) | 527,994 | 376,583 | 40.21% |
| 4 | EBIT 2) | 359,017 | 178,012 | 101.68% |
| 5 | EBT 3) | 360,906 | 181,032 | 99.36% |
| 6 | EBIT margin | 27.04% | 15.92% | 69.85% |
| 7 | EBITDA margin | 39.76% | 33.69% | 18.02% |
| 8 | Total assets | 3,387,144 | 3,261,379 | 3.86% |
| 9 | AMA 4) | 2,408,171 | 2,544,339 | -5.35% |
| 10 | Working capital 5) | 597,097 | 438,370 | 36.21% |
| 11 | Cash and cash equivalents | 395,583 | 239,725 | 65.02% |
| 12 | Equity | 2,681,323 | 2,611,209 | 2.69% |
| 13 | Return on equity 6) | 13.46% | 6.93% | 94.23% |
| 14 | Return on assets 7) | 10.66% | 5.55% | 92.07% |

1) EBITDA – earnings before interest, taxes, depreciation (and amortization) from continuing operations;

2) EBIT – earnings before interest and tax, from continuing activities;

3) EBT – earnings before tax, from continuing activities;

4) Tangible Fixed Assets - Tangible Fixed Assets + costs to acquire Tangible Fixed Assets;

5) Working capital - Current Assets less Current Liabilities;

6) *Return on equity - EBT/Equity;*

7) *Return on assets - EBT/Total assets*

3. Financial instruments used by Kozloduy NPP EAD

3.1. Financial risk management goals and policy

The financial risk management policy implemented by Kozloduy NPP EAD is focused on minimising the potential negative effects that may result in aggravated financial results, given the possible difficulties of forecasting the market environment and the unpredictability regarding the dynamics of the market prices.

The financial risk management policy is implemented purposefully to give assurance when accomplishing the strategic and operative goals of the Company and to guarantee trouble-free operation of the nuclear power plant, while observing the regulatory and the licensing conditions. The Company observes the basic guidelines, action framework, principles and practices set out in the Risk Management Strategy and Policy established at the companies within the BEH Group. Specific activities for the identification, analysis, current evaluation and monitoring of the negative events impact are regularly carried out; followed by timely and adequate intervention to mitigate the unfavourable consequences depending on the individual approach used for the specific risk management - tolerating, treating, transferring or terminating. The applied risk management procedures as regards the Company's budget and finance are implemented against significant risks that are a major threat for the Company's balance.

The main goal of the top management is to maintain stable financial and economic position of the Company and effective management of cash and cash equivalents by ensuring optimum amount of financial resources, allocated in accordance with the Company's main business priorities.

The long-term debts under the state-guaranteed loan from Euratom are settled in compliance with the financial and payment terms and conditions and the provisions of the Bulgarian legislation under the Government Debt Act and Decree of the Council of Ministers on the implementation of the state budget.

3.2. Risk factors

The Company is exposed to various risks associated with its financial instruments. The most significant financial risks which the Company is exposed to are the market risk, credit risk, and liquidity risk.

➤ Market risk

By using financial instruments, the Company is exposed to market risk and more specifically to the risk of changes in the foreign currency exchange rates, interest risk, as well as risk of changes in specific prices, resulting from the operating and investment activities of the Company. A significant risk event in the midterm perspective is the change of the market model with a view of the transition to a completely liberalised market, which could have an unfavourable impact on the financial stability of the Company due to possible issues with the solvency of the energy companies, including NEK EAD and the other participants in case of will

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liberalisation, with which Kozloduy NPP EAD maintains commercial and economic relationships. A possible aggravation of the market situation and establishment of high intracompany indebtedness between the energy companies could compromise additionally the position of Kozloduy NPP EAD and to create problems to the liquidity and serious difficulties for the fulfilment of the current payments.

➤ Currency risk

The majority of the foreign exchange cash payments to suppliers for goods and services, for the acquisition of non-current tangible and intangible assets, and for the settlement of the long-term loan, obtained from EURATOM, are mainly denominated in Euro. The currency risk, related to losses, arising from the revaluation of the Company's costs due to reduction in the BGN (Bulgarian Lev) price, is minimal, as the BGN/Euro exchange rate is fixed.

A small portion of the Company's foreign exchange transactions (purchase of materials and services) are denominated in US Dollars. This does not expose the Company to high risk in terms of changes in the US Dollar exchange rate to the Bulgarian Lev on the international financial markets.

➤ Interest risk

The Company's policy is focused on minimising the interest risk in long-term funding.

The Company's cash flows are exposed to interest risk, arising due to changes in the market interest rates of the three tranches still to be repaid, denominated in Euro, under the Loan Agreement with EURATOM, dated 29.05.2000, at contracted floating interest rates, equal to six-month EURIBOR + margins in the range between 0.079% to 0.13%.

The existing uncertainty regarding the change of the interest levels on the financial market would present a certain threat; however, taking into consideration the historically low levels of EURIBOR established over the recent years and the small share of the unpaid remainder of the tranches with a floating % to the due maturity date in 2021, no high interest risk is conditioned.

In terms of the first tranche under the Loan agreement with EURATOM, contracted at fixed interest %, there is no risk, arising from the dynamics of the interest rates of EURIBOR.

Interest risk is possible with regard to the credit, granted to the subsidiary company Kozloduy HPP EAD, under floating interest rate conditions, namely - interest rates, based on the BIR plus a margin of 2.5%.

The Company is exposed to interest risk with regard to the developed retirement defined employee benefit plan. Changes to the calculated current value of the liabilities are possible in the presence of changes in the discount rate which is based on the market profitability of the treasury shares held. A possible decline in the market profitability of the treasury shares held will increase the Company's future liabilities related to defined benefit plans.

All the other financial assets and liabilities of the Company are contracted with fixed interest rates and annuity payments in order to have a better predictability of the expected values of the financial flows.

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➤ Liquidity risk

Liquidity risk is identified in consequence of non-fulfilment of statutory and contractual monetary obligations of the Company, upon their maturity. In order to manage potential liquidity issues in good time, the Company collects its receivables, controls its cash outflows and thus ensures sufficient working capital for the timely accomplishment of the short-term payments.

Kozloduy NPP EAD manage cash and cash equivalents in such a way, as to avoid net exposures in one credit institution in the end of each month exceeding 25 percent of the total Company cash, in compliance with the Rules and Regulations on concentration under Decree of the Council of Ministers No.127/27.05.2013. Implementing these Rules is part of the measures accomplished by the Company, focused on diversification and reduction of the risk of unrecoverable receivables when claiming bank institutions insolvent, wherefore the possible risk is limited to a low degree.

➤ Credit risk

The Company is exposed to this risk in the contracts related to sale of electricity, thermal energy and services, granting loans, and depositing of funds in financial institutions due to their declaring bankruptcy. Some of the timely measures for the collection of matured receivables include age analysis of the customers, signing agreements and contracts for electricity sale with favourable clauses, incl. advance payments, bank guarantees, damages conditions and others, accrual of late payment interest, offsetting of debts and receivables, bringing actions against thermal power debtors.

As part of the targeted measures over the year for the restriction of the credit risk, an Agreement was signed between Kozloduy NPP EAD and NEK EAD dated 16.04.2018 for rescheduling of unpaid liabilities for electricity sold at regulated prices. Repayment continued in 2019 while the monetary obligations under the Agreement are settled on a regular basis in line with an attached payment schedule. The measures undertaken improved the collectibility and eliminated the outstanding debts of NEK EAD to Kozloduy NPP EAD.

➤ Cash flows risk

The Company's cash flows depend on fluctuations in the amount of the expected future cash flows related to the financial instrument at hand. In order to limit the risk of unpredictability and uncertainty of the inflow and outflow of financial resource, the Company regularly plans its short-term and long-term cash flows to ensure regular, sufficient and secure proceeds, comparable to the operative and long-term financial needs.

4. Post-reporting date events

There are no events in the reporting period that lead to adjustment of the financial statements of the Company. Non-adjustment events are disclosed in Note 43 Post-reporting date events.

5. Future opportunities and developments in 2020

The planned economic policy of the Company for 2020 is in compliance with the five-year Business Programme for the period 2020 – 2024 approved by the Kozloduy NPP EAD Board of Directors as at 20.12.2019.

It presents the short-term perspectives and the major assumptions, business goals and priorities defined by Kozloduy NPP EAD Board of Directors, as well as the planned activities and the resources required for their implementation.

Ensuring long-term operation of the nuclear power units with guaranteed safety and reliability in compliance with the licences issued by the regulatory bodies and preserving the Company's financial stability remain key objectives.

Along with these strategic projects, the Company will ensure the implementation of all reconstructions and modernisations of the major facilities, necessitated in the course of their operation, or as a result of the analysis of the operational experience.

The plant management will continue to implement measures to ensure the Company's long-term financial stability, such as, but not limited to: measures to increase the sales revenues, measures to collect overdue receivables, measures to continue the application of mechanisms for effective expenditure control, etc. Increasing the cost effectiveness is still among the priorities of the Board of Directors, in the context of Ordinance No. E-PA-04-4 of 14.07.2016, for public disclosure and optimisation of the expenditure of commercial companies with 50 and above 50 per cent state or municipal share in the capital, performing activities under the Energy Act, the measures being focused on the nature and the dedication of the expenditure, with the purpose of increasing their contribution for raising the Company's profitability.

The transition to a new market model and a fully liberalised market is expected to create significant difficulties in the adaptation process for all energy market participants, including Kozloduy NPP EAD. The effectiveness of the electricity sale shall depend mainly on the implemented market and pricing strategy in accordance with the dynamic market conditions. With regard to this the business activities of the Company in 2020 will be aimed at ensuring maximum realisation of the generated electricity, stable market presence and maintaining of competitive prices. The Company's pricing policy for the non-regulated market will be oriented towards providing secure, sufficient and regular sales revenues, complying with the market conditions.

Provision of motivated and qualified personnel in order to ensure the units' safe operation during the relevant licencing period remains a priority for the Company's Management. The major goals are related to maintaining and developing the system of professional recruitment, providing conditions for professional development of the personnel, systematic training and qualification enhancement and management of the knowledge gained.

The Company Management does not consider that there are significant risks resulting from the dynamic fiscal and regulatory environment in Bulgaria that could necessitate amendments to the separate financial statements for the year ending 31 December 2019.

Additional information under Appendix No 10 of Regulation No 2 of the FSC

1. Information, presented in terms of value and quantity data, regarding the main categories of goods, products and/or rendered services, stating their share in the sales revenue as a whole and the changes that occurred during the reporting financial year;

In 2019, Kozloduy NPP EAD generated income in the total amount of BGN 1,327,799 thousand. The main categories, under which income was reported, are:

- Revenue from sales of production, amounting to BGN 1,314,050 thousand, of which BGN 1,312,117 thousand is reported under electricity sales revenue, and BGN 1,933 thousand - under thermal energy sales revenue;
- Income from financing in the amount of BGN 4,081 thousand;
- Income from sales of services, goods and other sales - amounting to BGN 9,645 thousand.

The sales revenue structure and the share of the main revenue categories are shown in Table 1. Data on the quantity of the goods produced is presented in Table 2.

Table 1

| Indicator | Statements as at 31.12.2019 | % share of income | Statements as at 31.12.2018 | % share of income |
|--|-----------------------------|-------------------|-----------------------------|-------------------|
| Total revenue from sales of production /BGN '000/ | 1,314,050 | 98.97% | 1,101,065 | 98.77% |
| Revenue from electricity sales | 1,312,117 | 99.85% | 1,099,058 | 99.82% |
| Thermal power sales income | 1,933 | 0.15% | 2,007 | 0.18% |
| Income from financing /BGN '000/ | 4,081 | 0.31% | 5,560 | 0.50% |
| Other revenue and income /BGN '000/ | 9,645 | 0.73% | 8,192 | 0.73% |
| Income from sales of goods | 1,090 | 11.30% | 903 | 11.02% |
| Income from sales of services | 3,403 | 35.28% | 3,971 | 48.48% |
| Income from other sales | 5,152 | 53.42% | 3,318 | 40.50% |
| Total revenue /BGN '000/ | 1,327,776 | 100.00% | 1,114,817 | 100.00% |

Table 2

| Indicator | Statements as at 31.12.2019 | % share | Statements as at 31.12.2018 | % share |
|---------------------------------------|-----------------------------|----------------|-----------------------------|----------------|
| Net energy (in-house generation), MWh | 15,734,410 | 99.95% | 15,312,366 | 100.00% |
| Purchased energy (substitute), MWh | 8,309 | 0.05% | 49 | 0.00% |
| Total realisation, MWh | 15,742,719 | 100.00% | 15,312,415 | 100.00% |

No changes in the structure of the main income categories occurred during the reporting financial year. The main revenues come from sales of the generated electrical power.

2. Information on the revenues, allocated to the different categories of activities, domestic and external markets, as well as information on the sources for the supply of materials, required in the production of goods, or in the rendering of services, reflecting the degree of dependency of the individual seller or buyer; in the cases where the relative share of any of those exceeds

10 per cent of the costs of sales or the sales revenue, information on each person, individually, on their share in the sales or purchases, and their relation to the Company shall be submitted.

The revenues from sales of production are generated entirely on the internal (domestic) market; all the Company's customers are based on the territory of the country. Information on the relative share of suppliers and customers, exceeding 10 percent of the total costs and the sales revenue is presented in Table 3. No supplies by a single supplier exceeding 10% of the expenditure were delivered in 2019 at the Company.

Table 3

| Customer | % of income | % of income |
|----------|-------------|-------------|
| | 2019 | 2018 |
| NEK EAD | 9.90% | 11.87% |
| IBEX EAD | 31.82% | 37.21% |

The contracts concluded within the reporting period do not differ from the usual business activities of the Company and do not deviate from the market conditions. Quantitative information on the goods, products and/or rendered services is described in detail in the Separate Financial Statements of the Company for 2019.

3. Information on major transactions concluded

In 2019, the Company did not enter into any major transactions outside its ordinary business activities, or such that are material in nature in terms of their impact on the financial results.

4. Information on the transactions, made between the Company and its related parties within the reporting period, proposals to conclude such transactions, as well as transactions that differ from the Company's usual activities, or which significantly deviate from the market conditions, and the Company, or any of its subsidiary, are parties to such transactions, stating also the value, nature of relationship, and any information necessary to assess the effect on the financial position of the Company;

All related party sales and purchases are made at market conditions, except for transactions related to the purchase and sale of electricity at regulated prices as determined by the Decision of the Energy and Water Regulatory Commission (EWRC). The transactions with related parties do not deviate from the normal market conditions. Kozloduy NPP EAD has not entered any transactions with related parties outside its usual business over the reporting period.

Quantitative information of the related parties' transactions is thoroughly disclosed in the Company's Annual Separate Financial Statements as at 31 December 2019.-(Note explanatory Appendix 35 "Related Party Disclosures").

5. Information on events and indicators of unusual for the Company nature, having a significant impact on its business activities and its income and incurred expenses; assessment of their impact on the current year results;

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There were no events and indicators of unusual for the Company nature, having a significant impact on its business activities and its income and incurred expenses, which have affected the current year activity results.

- 6. Information on off-balance sheet transactions: nature and business purpose; indicate the financial impact of such transactions on the activities if the risk and benefits of these transactions are material to the Company and if the disclosure of such information is significant for the assessment of the Company's financial position;**

The Company does not have any off-balance sheet transactions carried out in 2019. In terms of other entity's assets, pledged as collateral, the Company reports off the balance sheet, as follows:

- bank guarantees that Clients shall provide in favour of the Company, in accordance with the contracted terms for sales of electricity;
- any insurances in favour of Kozloduy NPP EAD to cover the risk of customers' default.

| Indicator | Available as at 01.01.2019 | Received in 2019 | Discharged in 2019 | Available as at 31.12.2019 |
|---|----------------------------------|---------------------|-----------------------|----------------------------------|
| Other entity's assets, pledged as compensation /BGN '000/ | 87,508 | 89,075 | 84,266 | 92,317 |
| Received bank guarantees, denominated in BGN | 64,169 | 37,160 | 72,992 | 28,337 |
| Received bank guarantees, denominated in foreign currency (BGN equivalent) | 23,339 | 2,017 | 11,274 | 14,082 |
| Received guarantees as per Insurance Contracts | | 49,898 | | 49,898 |

- 7. Information on the Company's participating interests. Information on its major investments in the country and abroad (in securities, financial instruments, intangible assets and real property), as well as investments in equity securities outside its economic group, within the meaning of the Accountancy Act, and the sources/methods of financing of these;**

In 2019, the Company did not acquire any new participating interests, and did not engage in investments in the country or abroad. The Company holds shares and investments only in Bulgaria: information on the held assets is presented in detail in the Company's Annual Separate Financial Statements as at 31 December 2019.

- 8. Information on the contracts concluded by the Company, its subsidiary or Parent Company, in their capacity of borrowers. Information on any credit agreements, disclosing the agreements' specific terms and conditions, including the maturity of each agreement, as well as information on the placed guarantees and the undertaken commitments;**

The Company did not conclude any credit agreements in 2019. Comprehensive information on the loans received is disclosed in the Company's Annual Separate Financial Statements as at 31 December 2019.

- 9. Information on the contracts, concluded by the Company, its subsidiaries or Parent Company, in their capacity of lenders; loan agreements, including the provision of guarantees of any**

kind, including to related parties, disclosing the specific terms and conditions under each, including the maturity and the purpose for which such were granted;

The Company did not conclude any loan agreements as a lender in 2019. According to a credit line agreement No. 880080 of 07 October 2008, a decision made by the Bulgarian Energy Holding EAD, dated 07 November 2008, and signed annexes to this Agreement, Kozloduy NPP EAD granted a loan to its subsidiary, Kozloduy HPP EAD, to the amount of BGN 22,000 thousand, intended for the construction of a hydroelectric power plant. According to Contract Annex No. 4, signed on 20.01.2015, the loan has a repayment deadline 15 January 2024, with repayment starting on 15 July 2013. The loan shall be repaid in 22 installments, the amount of the first 2 installments being BGN 150 thousand (15 July 2013) and BGN 1,300 thousand (15 January 2014), respectively, and for the remainder 1/15 of the outstanding principal, after 15 January 2014, a repayment plan has been drawn up. In accordance with Annex No. 4, the annual interest rate agreed is floating and equals the BIR plus 2.5% margin. The loan is secured by a promissory note. As at 31.12.2019, the loan had been regularly serviced. Repayment installments amounting to BGN 11,460 thousand have been paid, while the loan remainder is BGN 10,540 thousand.

Detailed information on the movements and balances on the granted loans is disclosed in the Company's Annual Separate Financial Statements as at 31 December 2019.

10. Information on the use of funds from the new securities issue during the reporting period

No securities were issued during the reporting period.

11. Analysis of the relationship between the financial results achieved, as reported in the financial statements for the financial year, and the previously published estimates of those results

The Company had not published any financial results estimates.

12. Analysis and evaluation of the financial resources management policy, stating the ability to settle the obligations, any possible threats and measures which the Company has taken or is about to undertake to eliminate those

The Company's financial resources are managed jointly by the senior management and the Board of Directors. The main priority is focused on the provision of short- and medium-term cash flows for settling the Company's liabilities without entering the financial markets and in accordance with the financial and payment conditions and the requirements of the Bulgarian legislation (such as the State Debt Act, and Decree of the Council of Ministers in execution of the State Budget). The Group implements an effective financial management and control system, through policies and procedures, designed to ensure confidence in the achievement of the objectives of the Company, as set in the Business Programme. There are ongoing activities to:

- ensure objective and accurate financial and economic information in order to take timely effective preventative action to avoid potential threats;

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- ensure control of financial resources through periodic (daily, weekly) risk assessment (credit risk, interest risk, liquidity risk, currency risk, and cash flow risk).

The Company does not face any difficulties in settling its liabilities. Detailed information on potential threats and measures undertaken is presented herein above in the Report. The risks that Kozloduy NPP EAD faces on the electricity market are mainly related to the Company's participation on the unregulated market, chiefly due to difficulties in forecasting the market environment, and the unpredictability of the market prices dynamics.

The gearing ratio (debt-to-equity ratio) in the end of the year is as follows:

| Indicator | 31.12.2019 | 31.12.2018 |
|------------------------------------|------------|------------|
| Total debts | 705,821 | 650,170 |
| Cash and short-term deposits | (395,583) | 239,725 |
| Net debt | 310,238 | 410,445 |
| Long-term liabilities | 364,462 | 421,500 |
| Equity | 2,681,323 | 2,611,209 |
| Long-term liabilities/Equity ratio | 0.14 | 0.16 |

13. Assessment of the possibilities for realisation of the investment intentions, indication of the amount of funds available, and specifying possible changes in the financing structure of this activity

The main priority in the Company's investment programme is the implementation of actions ensuing from the Safe Use of Nuclear Energy Act, the current licences for operation of Units 5&6, and the measures identified in the integrated programmes for continuous enhancement of the level of safety to Kozloduy NPP. Implementing them will ensure the long-term operation of nuclear power units over the next 30 years, and will guarantee the Kozloduy NPP EAD nuclear safety, quality and security, radiation protection and environmental protection during the operation of the power units and the auxiliary facilities, in compliance with the requirements of the applicable normative legislation in force. The possibilities for realisation of the investment intentions are estimated on the basis of the amount of available funds as at 31 December, 2019, and the estimates made in the Business Programme of the Company. It is envisaged to realise the investment intentions with own funds, from the net profits realised (after deducted dividend in the amount of 50% of the estimated financial results), and depreciation. At present the current forecast parameters do not envisage the Company assuming new long-term debt, or making changes in the financing structure of this activity.

14. Information on any changes occurring in the core management principles of the Company and the companies within its group, within the meaning of the Accountancy Act, in the reporting period;

No changes in the core management principles of the Company and its economic group occurred in 2019.

15. Information on the key features of the internal control system and risk management system, implemented by the Company in the process of preparing its Financial Statements;

In accordance with the Company's specifics of a licensed operator of nuclear power facilities, an effective financial management and control system has been established by policies and procedures developed and designed to ensure confidence in the achievement of the Company's objectives. The financial management and control system has been developed to comply with the requirements of the Financial Management and Control in the Public Sector Act (FMCPSA), and an internal auditing unit has been set up. Article 5, point 2 of FMCPSA states that internal auditing is one of the tools to assess the adequacy and effectiveness of the financial management and control system. In order to comply with the spirit of the law, the plant internal auditing department planned and performed an auditing for assurance, to assess the adequacy of the financial management and control system in Kozloduy NPP EAD. The results of the 2019 audit showed that all interconnected components of the financial management and control system such as control environment, risk assessment, control activities, information and communication, and monitoring are available and built in accordance with the requirements. Financial management and control have been integrated in the activity of Kozloduy NPP EAD. The Company has a well-established and process-based management system that guarantees good synchronisation in managing the risks assumed by the Company. Sufficient policies, procedures and internal rules have been developed and implemented in accordance with the legislation in force, taking into account the specificity in the implementation of the main activity of Kozloduy NPP EAD. Upon finding any weaknesses in the system, the Company management takes the necessary adequate action to remedy them. The Accounting Policies Manual comprises procedures, designed to ensure complete, true, accurate and timely booking, which are in compliance with the Accountancy Act and the International Financial Reporting Standards, endorsed by the European Union. The processing of financial-accounting documents in the implementation of business processes is established under the Rules for Processing Accounting Documents at Kozloduy NPP EAD. Permission, approval and authorisation procedures, a dual signature system and procedures for preventive, follow-up and current (ongoing) control of incurred costs are implemented through the developed internal documents. Separate rules describe different types of rights and obligations of the responsible persons, the scope of information, access to different types of information, and the responsibilities related to the information flows management. The established system ensures effective implementation of internal control when creating and managing all types of documents, including financial statements and other regular information that the company is obliged to disclose in accordance with legal regulations. The constructive environment for implementing control, in which all employees are aware of their role and responsibilities, is the result of training and management standards and procedures.

The Company applies the Financial Policy and Risk Management Policy adopted by BEH EAD. The risk management policy of the Company is designed to identify and analyse risks, set limits for risk assumption

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and controls, monitor risks and their compliance with the established limits. These policies are subject to periodic inspection in view of incorporating in them any changes that might have occurred in the market conditions or the activity.

16. Information on any changes made to the management and supervisory bodies during the reporting financial year

No changes were made during the reporting year, 2019.

17. Information on the amount of remuneration, rewards and/or benefits paid by the Company and its subsidiaries to every member of the managing and supervisory bodies during the financial reporting year, regardless of whether such were included in the Company's expenses, or were derived from profit distributions, inclusive;

| Name / Position | | Salaries, including bonuses | Compensations | Social costs | Bonuses (tantièmes) |
|----------------------|--|-----------------------------------|---------------|--------------|------------------------|
| Nasko Asenov Mihov | Chief Executive Officer and member of the BoD | 209 | 1 | 10 | 14 |
| Zhaklen Yosif Cohen | Member of the BoD | 69 | 0 | 11 | 4 |
| Ivan Todorov Yonchev | Member of the BoD | 69 | 0 | 11 | 4 |
| Ivan Todorov Andreev | Chief Executive Officer and member of the BoD until 27.11.2018 | -3 | -7 | 0 | 15 |
| | | 344 | -6 | 32 | 37 |

18. Information about arrangements known to the Company (including after the end of the financial year), which may result in future changes in the relative share of the stocks or bonds of the current shareholder or bondholder

At present, the Company does is not aware of any agreements that in the future could lead to changes in the relative share of stocks held by the sole owner of capital.

19. Information on pending judicial, administrative or arbitration proceedings, relating to liabilities or receivables of the Company, amounting to at least 10 per cent of its equity; information on each proceeding shall be presented separately if the total amount of the Company's receivables or liabilities under all proceedings exceeds 10 per cent of its equity;

As at 31 December 2019, there were no pending proceedings, regarding liabilities or receivables of the Company, amounting to at least 10 per cent of its equity. The claims laid against the Company have their legal grounds regarding labour and commercial disputes. The proceedings on these claims were not completed by final court decisions as at the date of preparing of this statement.

20. Other information

The Company considers that there is no other relevant information that would be of importance to the users.

Non-Financial Statement

Information in accordance with art. 48, para.1 and para.2 of the Accountancy Act

Kozloduy NPP EAD is the only nuclear power plant in Bulgaria and the country's major electricity producer, providing for more than one third of the national annual electricity generation.

Kozloduy NPP sells the generated electricity in the following segments of the Bulgarian energy market:

- regulated market - sale to the public supplier NEK EAD under prices regulated by the Energy and Water Regulatory Committee. The obligations to the regulated market (supply quotas) are determined by the EWRC based on estimates of the end suppliers consumption;
- Non-regulated market - transactions with electricity at freely negotiated prices on an organised exchange market, administered by the IBEX EAD:
 - Day Ahead segment (DA) - hourly transactions at the clearing exchange price with account taken of the Commitments under the agreement with the EC;
 - Intraday segment (ID) - hourly transactions to settle current imbalances;
 - Centralised Market for Bilateral Contracts segment (CMBC) - transactions for supply of standard and non-standard long-term products;
 - balancing market - remaining quantities (difference between planned sales and the actual measured production).
- Supplying company's facilities (art.119, para.1 of the Energy Act) and end customers connected through their own electrical systems (art.119, para.2 of the Energy Act).

The long-term intentions of the Company's Management regarding the management of Kozloduy NPP EAD are summarised in the Policy statement of Kozloduy NPP EAD Management Policy and the Policy Statement of Kozloduy NPP EAD Management regarding the management policy of the Company posted on the web site www.kznpp.org.

The main objective, as stated by the Company Management is safe, efficient and environmentally friendly electricity generation under the long-term operation conditions, of guaranteed quality and security of supplies in compliance with the national and international standards.

To achieve this goal the management of Kozloduy NPP EAD implements a Management System that incorporates all the requirements towards the activities, in compliance with the following priorities:

- Top Level of Safety;
- Efficient and competitive production;
- Qualified, competent and motivated personnel;
- Financial stability.

The priorities as stated by the management are substantiated in policies:

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- Safety Management Policy of Kozloduy NPP EAD;
- Security Management Policy of Kozloduy NPP EAD;
- Quality Management Policy of Kozloduy NPP EAD;
- Environmental Management Policy of Kozloduy NPP EAD;
- Health and Safety Management Policy of Kozloduy NPP EAD;
- Business and Financial Management Policy of Kozloduy NPP EAD;
- Policy on Training and Qualification of Kozloduy NPP EAD personnel;
- Fire Safety Management Policy of Kozloduy NPP EAD;
- Human Resource Management Policy of Kozloduy NPP EAD.

The policies reflect the senior management commitment to achieve the specific objectives in these areas, indicate the approach and the implemented principles for achieving the objectives, and express the management pursuit of constant improvement.

Environmental issues

The management has declared its top priority in its Safety Management Policy, namely - nuclear safety and radiological protection at stable operation of the nuclear facilities under the long-term operation conditions in compliance with the licences issued by the NRA. The Company's Management is committed to maintain and develop the safety monitoring and assessment system with highly qualified, trained, and well-motivated personnel for the conduct and control of the nuclear facilities' operation in compliance with the safety requirements as top priority of the integrated management system.

The organisational measures, technical requirements, allocation of responsibilities and delegation of authorities required to ensure the optimum level of safety are secured in order to maintain the necessary safety level.

The plant observes all the safety standards applicable to radioactive waste management and spent nuclear fuel management (SNF). The SNF is stored in special by-the-reactor pools, and in the on-site Spent Nuclear Fuel Storage Facility and Dry Spent Nuclear Fuel Storage Facility.

RAW safe management is implemented at Kozloduy NPP EAD in compliance with the national policy and the Strategy for SNF and RAW management until 2030, and the Integrated Programme for management of RAW generated by Kozloduy NPP EAD. The main purpose is to approach RAW in a way that ensures protection of human health and the environment now and in the future, without leaving a heavy burden in this area for the future generations. RAW management at each of the stages implemented by Kozloduy NPP EAD should allow meeting the criteria for their transfer to SE RAW, or the criteria for the end product acceptability, approved in the BNRA normative documents. The activities related to RAW handling are performed in accordance with approved procedures, whose underlying goal is ensuring safety during their management. The RAW management process at Kozloduy NPP EAD is carried out by trained personnel, who maintain and enhance their qualification on an annual basis. The RAW management programmes and instructions are updated periodically, taking into account the good practices of the international experience and the recommendations of the supervisory bodies, and also in compliance with the normative requirements on

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radiological protection and environmental protection. The RAW management activities are reported pursuant to the licensing provisions of Units 5 and 6 and the Spent Fuel Storage Facility licences.

In the operation of the nuclear facilities the plant management implements the principles of radiological protection, defined by the Regulation on Basic Norms of Radiation Protection, and GSR part 3 of the IAEA, as well as the ALARA principle (as low as reasonably achievable personnel exposure). The collective dose of the personnel and the contractor's staff who worked in the Radiologically Controlled Area of Kozloduy NPP EAD in 2019 is within the framework of the planned values.

The plant radiological environmental monitoring is specified in the Kozloduy NPP EAD long-term programme for radioecological monitoring. An effective and reliable radioecological monitoring in Kozloduy NPP EAD operation is ensured with the purpose of accurately and clearly determining the environmental radiation parameters, establishing the compliance of the actual radiological status with the legislation in force in the Republic of Bulgaria in this area, assessment of the changes and trends in the radiation conditions around Kozloduy NPP EAD. There were no deviations of the radiological indicators above the admissible levels in 2019. The achieved results show that the equivalent dose rate of gamma-radiation varies within the limits of the natural background radiation ($0.05 \div 0.15$) $\mu\text{Sv/h}$. The values, measured along the industrial site fence and in the towns and villages within the 100-km zone, are fully comparable.

The Company Management has as a top priority the protection of people's health and the environment against adverse effects associated with the activities implemented at Kozloduy NPP EAD site. As a nuclear facilities operator, Kozloduy NPP EAD performs continuous, systematic and overall monitoring of activities, products and services that have a negative impact on environment and health of the public in non-radiological aspect. The Environment Management Policy is targeted at achieving goals related to the protection of atmosphere and the purity of the atmospheric air, protection and management of waters in the region, safe management, minimising and utilising the non-radioactive waste, energy efficiency and assessment of the impact of used raw materials and materials on the environment, and last but not least, minimising the risk of exposure to environmental damages and incidents.

Greenhouse gases emissions are formed in the atmosphere as a consequence of the operation of diesel-generators and diesel-pumps, designed to provide emergency power supply for Kozloduy NPP safety systems. These facilities are kept in "hot standby" and are periodically tested. Kozloduy NPP EAD holds a greenhouse gases emissions permit No. 143-H2/2013 issued for the operation of these systems. The total amount of CO₂ emissions generated in 2019, as per the Company's report on reporting yearly emissions, is 469 tons. Compared to the conventional TPPs using coal, in the year 2019 Kozloduy NPP prevented the adverse impact of emissions of about 19.5 mln tons of CO₂, about 64 thousand tons of SO₂, 14 tons of NO_x, and 1.7 thousand tons of dust containing natural radioactivity.

For its operation the Company uses surface waters from the Danube river and underground waters. About 99.7% of the water used is for cooling. The remaining 0.3% are used for the production of demineralised water required for the production process. The cooling waters are returned to the Danube river without any changes to their chemical content, and very often even cleaner compared to the intake from the

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Danube. The waste water generated by the Company's activity is treated in specially designed and erected treatment facilities - neutralisation pits and sludge and oil retainer. The residential waste water is treated in a water purifying complex. Kozloduy NPP EAD performs periodical monitoring on the quality of waste water in order to establish the degree to which it has been affected. In addition to the compulsory monitoring stipulated by the permits for use of a water body to discharge waste water, the Company performs also extended internal plant control. The results of the performed control of the waste waters discharged in the Danube river show that they do not differ in terms of quality from those of the water taken to the plant. The values of the individual monitored indicators are considerably lower than the individual emission limits as stipulated in the permits for use of a water body to discharge waste water.

Kozloduy NPP EAD has introduced and uses a separate waste collection and management system, and the whole staff is familiar with it. The waste generated by the activity are collected on dedicated sites (storage facilities), where they are sorted and prepared to be transferred for subsequent safe reuse or decontamination. Reusable domestic waste, such as paper (carton), plastic, metal and glass packages, are also collected separately in coloured waste bins specially located in the Company buildings. All separately collected wastes are transferred for subsequent reuse or decontamination to specialised companies holding the necessary permits in compliance with the Waste Management Act. Non-reusable and non-hazardous domestic and industrial wastes, generated by the Company's activity, are disposed at the plant's Landfill for non-radioactive municipal and industrial wastes, that has been operated by Kozloduy NPP EAD since 2000.

One of the significant objectives of Kozloduy NPP EAD management is to develop the Company in the area of energy efficiency, resulting from the national and the European legislation, by conducting active policy aimed at reasonable use of energy, and energy and water resources. A major priority for Kozloduy NPP EAD management is to achieve a steady trend for improving the energy consumption indicators in the long-term, as an additional tool for improving the plant's financial position. In order to achieve this objective the management implements an Energy Efficiency Increase Programme, by carrying out energy efficiency measures and constant energy monitoring of energy consumption, and undertaking remedial measures. All the above described activities lead to direct improvement of air quality through reduction of the quantities of greenhouse gases and fine dust particles released by the local heat generation plants, and the possibility for an increasing number of citizens of the Republic of Bulgaria to use clean and cheap energy.

Social issues and personnel related issues

Ensuring and maintaining a sufficient number of highly qualified, trained and motivated personnel is one of the top priorities of the Company. This management commitment is reflected in the Human Resource Management Policy of the Company which forms part of Kozloduy NPP EAD Policies.

One of the major goals of the Human resource management policy is the application of a professional recruitment system where the decision for employing new workers are based on educational and qualification requirements, psychological traits, medical indications for work in ionizing radiation environment, regardless of nationality or ethnic origin, age, sex, race, religion, origin, sexual and political orientation, family status and

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physical disabilities, exclusive of the case when, as a consequence of the work nature, sex, age and health condition, respectively, are substantial elements to be considered.

Equal rights and opportunities for work, development and career promotion are provided, depending solely on the initiative, professional qualification, experience gained and personal qualities of the employees, as well as their performance results. The Plant management has made a formal commitment to increase the percentage of women in the Company's management levels. As at the end of 2019 the Company employs 3,722 workers and employees, 1,164 of which are women. Women occupy both higher operative and higher management positions in the Company. About 25% of the managing positions are taken by women, and the share of women at the 1st and 2nd management level is 30 %. Among the employees promoted to higher positions in 2019, 34% are women. Kozloduy NPP has a successful partnership and supports the local section of the Women in Nuclear - Bulgaria association, in achieving one of the major goals of the association - to support and encourage the creative and professional fulfilment of its members, as well as to organise a number of educational initiatives.

The justified 30-year extension of the units' life and renewal of their operating licences for the next 10 years imposed a specific focus in respect of the Company's human resource management strategy, namely to attract young specialists. To that end every year Kozloduy NPP welcomes the conducting of: group practical training or specialisation training for students; paid group specialisation practical training for students; paid and unpaid individual summer students internship. These activities are implemented in line with the requirements of an approved Administrative procedure. In 2019, the Company continued the scholarship programme for priority majors which had started in 2018. In May, 4 students became scholars of Kozloduy NPP, while in November they were 8. Since 2019, in order to attract students to the engineering specialities, a scholarship for first year students in these specialities was granted.

In 2019, the first steps towards dual training with the Kozloduy vocational school for nuclear energy, Igor Kurchatov, were taken. Apart from that, experts of the Plant took part in a number of forums and meetings on career guidance of high school, college, and university students.

In compliance with the licensing provisions, in 2019, personnel recruitment continued based on a professional recruitment system, observing the educational and qualification degree and other requirements specified in the job descriptions. A regular reception of documents from higher education specialists in the Company's priority majors has also been announced.

Kozloduy NPP EAD establishes and maintains good employment relationships, based on respect for personality, protection of rights and interests of employees and their social welfare. The Company duly abides by the Constitution and the laws in the country, in particular all the regulatory acts dealing with employment relationships. The Company ensures conditions for full-time employment of workers and employees under employment contract. Short-term employment contracts are signed annually for a short period of time, for the implementation of seasonal works, such as snow removal - in winter, and for attending the recreational centres - in summer time, as well as for substitution of absent workers or employees.

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The Employer's responsibility to ensure the required technical provisions, facilities, raw materials, materials, energy, tools, working clothes, personal protective equipment, etc., and adequate conditions to ensure normal performance of employment duties, is guaranteed by the collective labour agreement.

Prior to admitting newcomers to the work place, they all undergo a compulsory introduction course - Introduction to the NPP, which makes them familiar with the site access procedure, safety at work, radiological protection, fire safety, rendering first aid, general rules for acting in case of accident, and safety culture.

For the purposes of the transparent policy on selection, recruitment and reappointment of personnel, the Employer uses information displays and the Company's intranet to announce the vacancies, application requirements, as well as the results of each recruitment stage.

Kozloduy NPP EAD is a company with social responsibility. The Plant interior regulations stipulate that the Employer undertakes to create conditions and to assist the trade union organisations in carrying out their activity, and for the personnel - in exercising public or trade union activity, without this being a hindrance to the performance of their duties.

The Trade Union organisations at Kozloduy NPP EAD and the Company's Management sign a Collective Labour Agreement which settles the employment, social contribution, and social relations which have not been settled by the imperative provisions of the law, and ensures that the Employer respects its commitments to guarantee the personnel rights. In 2019, a new Collective Labour Agreement became effective between Ko EAD on the one hand and 5 of the Company's trade union organisations on the other hand. In pursuance of its commitments under the Collective Labour Agreement, upon a written request by a trade union organisations, the Employer is obliged to present information on the financial and economic position of the Company.

In order to ensure that the rights of workers and employees are respected, the trade union organisations take part in the preparation of the Plant interior regulations and the Plant regulations on salaries. Representatives of the trade union organisations participate in the committee for allocation of accommodation owned by Kozloduy NPP EAD, work conditions committee, as well as the committee on transfer to a more appropriate job (for reasons of health). A Medicine and Treatment Aid Committee was set up as a consultative body of the employer, with representatives of the trade unions to support the decision-making on the expenditure of a portion of the Cultural and Amenity Services Fund for workers and employees with health issues.

Based on Regulation No. 11 of 21.12.2005 on determining the terms and procedure for ensuring free food and/or supplements to it, the workers in ionizing radiation environment are provided with free food and/or supplements to it. Additionally, the Employer provides the off-site staff with means for cheaper food.

The Company grants its employees additional off-work days as well as an opportunity to use free transport to work.

The Company workers and employees are provided with additional voluntary retirement social insurance at Employer's expense. In 2019, an insurance contract was concluded covering a large number of medical and non-medical services organised as the following packages:

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- Outpatient medical care;
- Hospital medical care;
- Sanatorium treatment;
- Sanitary transportation;
- Recovery expenses for medicines and consumables.

The Occupational Medical Service, which is part of the Company's administrative structure, performs periodic medical examinations, healthcare servicing, and 24-hour reliable urgent medical assistance to the Company staff. It performs activities related to ensuring health and safety at work to the Company personnel, as well as developing and participating in the implementation of measures to manage and reduce the risks related to health and safety at work.

In view of the health prophylaxis, complete recreation and cultural life of the Company employees and their families, several social facilities are kept at their disposal - recreational centres, sports and recovery complex, Power Engineers Cultural Centre, etc., where a wide range of health, social and cultural activities are developed.

There are 32 active sport clubs of more than 600 members at the Plant. Apart from the popular sports like: volleyball, tennis, table tennis, football, athletics, swimming, rowing, badminton, judo, other sports are also practised, such as: Yoga, tourism, aeromodelling, tug of war, paintball, hunt shooting, armwrestling, off-road driving, petanque, etc. Each sport club has its annual budget and competition schedule depending on the number of events. The clubs are comprised of company staff, retired employees, as well as members of their families. More than 150 sport events are organised and held every year. Until now, employees of the Company have won 16 Complex Cups from participation in the Traditional International Sport Festival at Albena resort attended by more than 1,200-1,300 athletes from around the world. Kozloduy NPP has also been complex champion 17 times at the Bulgarian Nuclear Work Field Day which is attended by all the major companies of the energy sector. During the recent years, it has become a tradition to organise sports events for the Power Engineers Day festivities which are held several days before the official date. More than 300-350 people take part in the competitions. The competitions held during the year included 12 different sports: football, air rifle shooting, beach volleyball, tennis, table tennis, swimming, petanque, chess, backgammon, darts, off-road driving, aeromodelling. The Christmas sports events in December include 9 sports: football, table tennis, darts, swimming, chess, streetball, backgammon, contract bridge, and badminton which also attract interest and participation. One of the most popular events is the swimming across the Danube which is held on the last Saturday of August traditionally. It was attended by 44 people this year. Winter sport lovers may benefit from the ski camp organised yearly in the course of a week in different number of skier groups depending on the interest. The camp was attended by 102 people this winter. The tourism club organises and hosts events on a monthly basis at various places.

Workers are provided with opportunities for recovery at the Plant sports and spa facilities in Kozloduy.

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The Power Engineers Cultural Centre is a place where various cultural and educational forms and programmes are carried out to fully satisfy the cultural needs of the Company's employees and their families. An opportunity is provided for acquiring skills in the organised educational forms of arts and language courses; the plant employees are encouraged and supported in their artistic activity. In 2019, the 45th anniversary of the nuclear power plant official commissioning was celebrated at the Power Engineers Cultural Centre. Several generations of nuclear engineers and a many guests attended the official ceremony. The entertainment programme was focused on a number of awards for important professional contribution to the achievements of Kozloduy NPP.

The Plant employees and their families are provided with the opportunity to benefit from service accommodation and hostels owned by the Company and use the social facilities at preferential prices.

The Company provides care also for its retired workers and employees. They can also benefit from the social facilities at preferential prices. Financial resources are also allocated to support the activity of the Pensioners' Club, thus encouraging the social life of the retired people.

The Company management is pursuing a policy of acknowledging the critical role of high qualification of the personnel to ensure the safe operation of the nuclear power plant. This is defined in the Personnel Training and Qualification Policy of Kozloduy NPP EAD.

The NPP operation is carried out by a sufficient number of qualified staff who know and understand the design basis, safety analyses, design and operational documents of the nuclear power unit for all its operational states and accident conditions.

The activities in nuclear facilities related to ensuring and control of nuclear safety and radiation protection are carried out by qualified people, who are licensed under the procedure of the Regulation on the terms and procedure for obtaining of vocational qualification and on the procedure for issuing of licenses for specialised training and of individual licenses for use of nuclear power.

The Employer ensures, at his own expense, conditions for preparation and vocational qualification of its workers and employees in case of job cuts/creation, generation and activities, as and when the work technology changes.

A staff training and qualification system was set up, in compliance with the international standards and the national requirements, which is an integral part of the Kozloduy NPP management system. The Plant has its own Training Centre, which provides conditions for conducting specialised training, disposing of a full scope simulator for VVER-1000 reactor units. Compulsory initial training and continuous specialised training for activities in nuclear facilities and activities with ionizing radiation sources are conducted at the Company. The scope, topics, forms and sequence of the training are defined in training programmes, training time schedules, initial and continuous training programmes for the full scope simulator, and upon training requests. The yearly average number of training hours per employee is 27.

The Employer encourages the staff education enhancement. To that end the Company provides additional paid leave to workers and employees who continue their education in specialities which offer an opportunity for career development in the Company. The workers and employees are provided with

opportunities to participate in various professional meetings, forums and seminars, in order to share experience and enhance their qualification.

The Plant Rules on Salaries and Collective Labour Agreement are used as a basis to create organisation for effective management of labour payment at Kozloduy NPP and ensure prevention of discrimination or unequal treatment of workers and employees when determining their individual work remunerations.

These rules define the issues related to:

- labour payment system;
- accounting of the work time;
- minimal base work salaries according to the positions;
- types of additional labour remunerations;
- procedure, periodicity, and dates of payment of labour remunerations.

The labour payment system at Kozloduy NPP is based on the time worked and the quality of the performance, i.e. the amount of the base pay is directly dependent on the time worked and a bonus in the form of additional labour remuneration (monthly bonus) for the results achieved.

The amount of the monthly base pay of the workers and employees is contracted in an individual employment contract between the parties which are in employment relations, the latter being no less than the minimal salary for the relevant position.

An annual individual performance assessment of the Company personnel is used to determine the specific needs of each worker or employee to enhance his/her professional or personal competence and create conditions for implementing fair and transparent procedures for professional and career promotion. This process is defined in an administrative procedure.

Every year, at a special ceremony, the Company awards "The Best Performance" prize in certain professional areas, as part of the Power Engineers Day festivities, in order to distinguish and motivate the most prominent plant workers and employees. For the first time, in 2019, an award was given for collective contribution in the category "Safety First". It is aimed at encouraging the formation and development of a healthy safety culture at the work place.

Health and safety at work

The policy on ensuring health and safety at work as pursued by the Company is with specific formulations and an organisation for its implementation and management has been established. The policy is adequately promoted in order to be understood, applied and maintained at all levels through visualisation materials, publications in the internal information system, staff training, personal example. The Health and Safety Management Policy is implemented applying all its underlying principles. In order to successfully implement the Health and Safety Management Policy, Kozloduy NPP EAD management requires from all its managers, employees and workers, as well as all contractor workers on the plant territory, to demonstrate high professionalism and responsible behaviour in their every day work, regarding safety and health at work, and everyone must strictly observe the requirements specified in the documents of the health and safety at work management system.

KOZLODUY NPP EAD
Management Report and Non-financial Declaration
31 December 2019

A complex of organisational and technical measures for ensuring safe working environment has been set up to protect the life, safety and working ability of the workers and employees. For the safe and healthy implementation of the labour process, it is of particular importance for the participants in this process to be completely familiar with their rights, obligations and responsibilities. Therefore, adequately trained and instructed people, having the required qualification and licensing are allowed to perform the respective labour activities. The workers are continuously informed, through procedures for safe operation, good practice examples, continuous trainings, and opportunities to enhance their qualification. Collective protection equipment is provided. Constant control is performed on the actual status of the working environment. All the possibilities for upgrading of the work equipment have been utilised with a view to ensuring higher degree of safety.

Preserving the personnel life, health and working capacity in their labour activity is one of the Company's major goals. The work places are ergonomically arranged. All the employees/workers are provided with personal protective equipment depending on the specifics of the work places, potential hazards and the risk at work. The Company provides continuous medical service, including rendering first aid through the plant Occupational Medicine Service and a team of specialists that attend the medical centre. Prophylactic medical examinations are organised, their frequency is determined by the nature of the work, working conditions and the age of the workers/employees. Reduced working hours are introduced, as well as defined hours of work and breaks, and free food.

Constant monitoring of the work environment factors is performed in compliance with the statutory requirements, through periodic measurements and risk assessment for every job activity. The plant structural units have developed risk management programmes. The assessed risk is negligible or not a big one, which does not require additional measures, but rather keeping the currently existing ones. The workers are informed on the potential risks and the measures undertaken to prevent or reduce their impact.

In order to achieve a minimum number of industrial accidents, injuries and incidents at work, and with a view of preserving the security, health and welfare of the whole plant personnel, including that of external companies and organisations working on the territory of Kozloduy NPP EAD, as a preventive measure, any industrial incidents that occur on the territory of Kozloduy NPP EAD are analysed on an equal footing with the industrial accidents, although they did not lead to loss of working time and capacity. In other words, to eliminate the risks in a proactive and preventive manner, before they cause injuries to the workers.

Measures for continuous improvement of the working conditions are planned - replacement of window joinery, placing air-conditioning with adequate output to optimise the micro climate all year round, replacement of outworn equipment with new ergonomic one.

An Work Conditions Committee has been set up as a consultative body of the CEO on issues related to health and safety at work. The Work Conditions Committee works closely with the specialised plant and departments involved in creating and ensuring health and safety at work.

The Medicine and Treatment Aid Committee assists in keeping the personnel fit, strengthening and recovery of their health.

A contract with an insurance company was concluded for “Additional voluntary health insurance of the Kozloduy NPP EAD workers and employees and their families”.

A health and recreation centre is established and designed to preserve and strengthen the health and working capacity of the workers/employees, as well as prophylaxis of people with frequent illnesses or chronic diseases. The recovery centre is furnished with medical and fitness equipment to facilitate the good accomplishment of the recovery process.

To assess the achievement of the set goals, specific and functional performance indicators are used. The industrial accident rate at Kozloduy NPP EAD is of values that are considerably lower than the average values for the industry, and the country in general.

Human Rights Issues

Kozloduy NPP EAD is a member of the UN Global Compact of 30.03.2012. As a Member of the network it commits to observe the ten principles of the Global Compact, aimed at implementation of responsible business practices in the field of human rights, labour standards, environmental protection and anti-corruption. Kozloduy NPP published a Progress report on an annual basis. In 2019, together with the Chamber of Commerce and Industry of Vratsa and the Bulgarian network of the UN Global Compact, the Company held a regional forum entitled “The business as a drive for well-being” gathering local and national socially responsible companies as well as representatives of the local authorities from Vratsa and Kozloduy. The meeting was aimed at identifying good practices in respect of corporate social responsibility in order to find an efficient way to positively change the society.

As of 2013, the Company has introduced a Code of Ethics which defines the expected behaviour of Kozloduy NPP EAD employees on the basis of the Company's general values when applying the UN Global Compact universal principles.

The Code of Ethics is aimed at developing organisational culture which contributes to strengthening the Company's good reputation as a leader among the business organisations, as well as at increasing public trust in the professionalism and ethics of the Kozloduy NPP EAD staff.

The Code of Ethics is a document describing the moral-ethical norms and rules which add to the existing internal documents, and contribute to the personal judgement and responsibility of the people working at the nuclear power plant when carrying out their professional duties. The Plant's pursuit is to turn these principles into a part of the strategy, culture and everyday activity of the Company. The Code of Ethics is based on the following core values:

- Safety First;
- Commitment, mutual respect and recognition;
- Personal accountability and respectability at work;
- Strive for improvement;
- Learning.

The Code of Ethics is published in the internal information system and on the Company internet site, and it is expected to be respected also by the contractors' personnel, working on Kozloduy NPP EAD site.

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Management Report and Non-financial Declaration
31 December 2019

Kozloduy NPP EAD is a socially responsible company. Joint initiatives with the municipalities in the region and voluntary initiatives resulting from the employees' personal commitment were undertaken within the framework of the Company's Corporate Social Responsibility Policy to ensure lasting benefits to the local community. Supporting people in need, providing assistance for the development of public sites, infrastructure and health care improvement, as well as in the area of education, science, culture, and sport.

The activities implemented with the support of Kozloduy NPP EAD in 2019 include repair and restoration of public buildings and sites, endowment of assets to social institutions, purchase of medical equipment and supporting health establishments. The Company's employees make numerous donations for the treatment of people in need as well as blood donations.

In the area of science, culture and education the Company assisted for the improvement of the resource base in schools, organising of tournaments and school competitions, conferences and scientific works.

With the signed Collective Labour Agreement and the Plant Interior Regulations, the Employer commits to respond within one month to written applications, requests and warnings /complaints/ filed by the workers. The established internal information system is part of the Management communication policy, and the "Opinions" and "Question of the Week" sections provide an opportunity for the staff to ask questions, to state their opinions, and to receive answers by the senior management to various employment, social and other questions.

A survey of the personnel motivation is carried on an annual basis to obtain feedback and to improve the human resources management activity. Based on the results, corrective actions are proposed for the problematic areas and an action plan for the next year is prepared.

Anti-corruption and anti-bribery issues

As part of the Bulgarian Energy Holding EAD, the Company applies the Sectoral Anti-Corruption Plan in Energy. This plan further develops and specifies the priority areas for prevention of and counteraction to corruption in the energy sector, ensuring transparent management and accountability in the activity of the Ministry of Energy and in the trading companies in which the state holds over 50 % share in the equity.

The Corruption Prevention and Counteraction (CPC) section was set up in order to implement the measures contained in the plan. Its main activity is applying anti-corruption procedures and mechanisms for checking, monitoring and reporting, with the purpose of ensuring transparent management and accountability, preventing corruptive practices and increasing public trust in the Company's professionalism and ethics.

The mechanisms used by the Company for whistle-blowing on breaches, corruption and/or conflict of interests, are:

- Via a mailbox placed at the entrance of Kozloduy NPP EAD Management administrative building;
- Via the e-mail on the following address: signal@npp.bg;
- Hotline: +359 973 76262.

These alerts are examined applying the principle of information confidentiality and protection of the whistleblowers' anonymity. An administrative procedure has also been implemented for the registration and work on the corruption and/or conflict of interest alerts, and for protection of whistleblowers. The employees who have direct relation to the fight against corruption in the Company were adequately trained on the topic of Anticorruption. Continuous professional training is foreseen in this area in order to ensure the required expertise to counteract corruption.

In 2019, there were no alerts on corruption and/or conflict of interests in the Company, and no cases of corruption/corruption practices have been identified.

Outlook on environmental and social policies.

Kozloduy NPP EAD will continue to work actively for environmental protection in all its aspects. The actions, undertaken to maintain and enhance safety of operations within the Company will be carried out in the following directions: nuclear safety, operating experience, radiological protection, emergency preparedness, radioactive waste management, radioecological monitoring, non-radiological monitoring and environmental protection.

Kozloduy NPP EAD implements a programme for maintaining and enhancing safety for the period 2019-2021 developed in compliance with the provisions of the Safe Use of Nuclear Energy Act (SUNEA), the Strategy for SNF and RAW management until 2030 of the Republic of Bulgaria, the Vienna Convention and the sublegislative normative acts. The implementation of the measures contained in the programme aims to enhance safety of nuclear facilities, in compliance with the regulatory requirements, international requirements and the operating experience, ensuring adequate reliability of barriers. Every year, a new three-year programme for maintaining and increasing of safety is issued in order to achieve information update and provide continuous control on the measures implementation progress.

A programme for improving safety culture as well as security culture at the power plant is ongoing. The activities for improving safety culture stipulated in the programme are directly related to leadership for safety, improvement of human performance, personal accountability and team work, encouragement of no-blame work environment and reporting of problems and errors, document optimisation, human resource management as well as transfer and preservation of knowledge. In respect of security culture, the activities are focused on broader communication to the staff of the issues related to ensuring the security of the nuclear facilities, including preparation of the required information materials for the contractors' staff, review, update, and finalisation of training materials as well as conduct of training.

The Company will continue to implement the Plan for the staff required for key positions at Kozloduy NPP EAD for the period from 2017 to 2027, with the purpose of ensuring timely preparation of a pipeline of employees prepared to take key positions in the Company, to ensure safe and long-term operation of the nuclear facilities.

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The Company Management does not consider that there are significant risks regarding the environmental and social policies.

Date: 09/03/2020

Nasko Mihov

Chief Executive Officer
Kozloduy NPP EAD
town of Kozloduy



**INDEPENDENT AUDITOR'S REPORT
TO THE SOLE SHAREHOLDER OF
NPP KOZLODUY EAD**

Report on the Audit of the Separate Financial Statements

Qualified Opinion

We have audited the separate financial statements of NPP KOZLODUY EAD (the Company), which comprise the separate statement of financial position as at 31 December 2019, and the separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter, described in the "Basis for Qualified Opinion" section of our report the accompanying separate financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and 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 Qualified Opinion

As is disclosed in Note 4.23.9 "Provisions - Provision for decommissioning of nuclear facilities" of the separate financial statements as at 31 December 2019, out of Company activity arises the necessity to provide for future expenses for the decommissioning of nuclear facilities. According to the legislation currently in force and other international agreements, portion of these expenses could be assumed by national and international funds. In accordance with the requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", the Company should recognise provisions for decommissioning of nuclear facilities and a separate asset for its right to receive reimbursements in the event the asset's value can be reliably determined. We were not provided with an assessment of these future expenses and any related reimbursements. Consequently, we were not able to become convinced with reasonable assurance about assessment of provisions and related receivables as at 31 December 2019.

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 Separate Financial Statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements of Bulgarian Independent Financial Audit Act, and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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

Management is responsible for the other information. The other information, comprises the management report including non-financial statement, prepared by management in accordance with Chapter Seven of

the Accountancy Act, but does not include the separate financial statements and our auditor's report thereon.

Our opinion on the separate 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 separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate 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.

As described in the "Basis for Qualified Opinion" section, we were unable to obtain sufficient and appropriate audit evidence about the assessment of provision for decommissioning of nuclear facilities and the related receivables of the Company as at 31 December 2019. Accordingly, we were unable to conclude whether or not the other information is materially misstated with regard to financial indexes and respective disclosures referring to these matters.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter, described in the "Basis for Qualified Opinion" section above, we have determined the matters described below as key audit matters to be communicated in our auditor's report.

| 1. Valuation of property, plant and equipment | |
|---|---|
| <i>Note 4.11 and Note 5 to the separate financial statements</i> | |
| Key audit matter | How this key audit matter was addressed in our audit |
| <p>The Company has adopted the revaluation model as an accounting policy for subsequent measurement of property, plant and equipment and specialized means of transport (hereafter referred to as property, plant and equipment or assets). The frequency of revaluation for minor changes in the assets fair values is performed every three years.</p> <p>As of 31 December 2019 the revalued value of land, buildings, machinery and equipment amounts to BGN 2 219 553 thousand, and the revaluation reserve amounts to BGN 1 400 140</p> | <p>Our audit procedures include, but are not limited to, the following procedures:</p> <ul style="list-style-type: none"> • Review and assesment of the Company accounting policy regarding recognition, clasification, subsequent revaluation and impairment of property, plant and equipment, applied during the reporting period; • We reviewed the Company process about assets revaluation and controls applied; • We assessed the qualification and objectivity of the independent certified appraiser, expert |

thousand.

Revaluations are performed by a independent certified appraiser with sufficient frequency so that the carrying amount does not differ materially from the value that would have been determined if fair values were used at the end of each reporting period. The last revaluation of the Company was performed for the period ending on 31 December 2018.

The assets subject to revaluation are specific and specialized, strictly related to the Company activity and the alternative use of a significant part of them is impossible or difficult. Therefore, another use by the market participants is unlikely to maximize the value of the assets, and based on that it is considered that their current use in the business maximizes their value. The appraiser has used two main approaches and valuation methods - the Market Approach through the Market Analogue Method - for land and buildings for which there is a real market and observed price data for recent market transactions for similar properties; and "Expense approach" through "Amortized replacement cost method" - for the fair value of machinery, equipment and equipment, due to the specialized nature of most of the assets. The valuation measures the value of an asset by determining its new value at the measurement date, reflecting the cost of the asset, reduced by its physical deterioration, functional and economic depreciation as a result of its exploitation.

Due to the importance of the respective items in the separate statement of financial position of the Company (Property, plant and equipment, Revaluation reserve) and the use of accounting judgments, we consider this issue to be a key audit issue.

external for the Company, as well as the appropriateness of the used approaches, methods and assumptions for assessment of the assets fair values in order to determine compliance with the requirements of IFRS 13 'Fair value measurement';

- We have obtained an understanding and assessed the reasonableness of the key outputs calculated by the independent certified appraiser, expert external for the Company, as well as key judgments and assumptions;
- Assessment of the adequacy of the disclosures in the separate financial statements related to the revaluation of property, plant and equipment.

2. Classification and measurement of non-current assets and liabilities held for distribution to the owner in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations"

Note 4.19 and Note 16 to the separate financial statements

| Key audit matter | How this key audit matter was addressed in our audit |
|--|---|
| <p>As of 31 December 2019, the Company reports in the separate statement of financial position Non-current assets and liabilities held for distribution to the owner with carrying amount of BGN 57 277 thousand and respectively BGN 45 879 thousand, which include land, buildings and other assets in the process of acquisition under started projects, as well as the related financing and retained amounts under a construction contract, in implementation of the activities for decommissioning of nuclear facilities, declaring them private state property and providing them for public use and providing them for management of the SE RAW by reducing the capital of the Company.</p> <p>Assets classified as held for distribution to the owner are measured by the Company at the lower of their carrying amount immediately after their determination as held for distribution to the owner and their fair value less costs to distribute.</p> <p>Valuation techniques suitable for this type of asset (cost approach) are applied to determine fair values based on an estimate made by an external independent valuer engaged by the Company.</p> <p>The appraiser has used the amortized cost method, which is part of the cost approach. The valuation is influenced by assumptions about replacement value, physical, functional and economic depreciation of the assets, residual salvage life.</p> <p>As a review of the impairment of non-current assets held for distribution to owners requires material judgments by the management of the Company, as well as significant uncertainty related to the inputs used and assumptions in</p> | <p>Our audit procedures include, but are not limited to, the following procedures:</p> <ul style="list-style-type: none"> • Review and assessment of the Company's accounting policies applied during the reporting period regarding the recognition, classification and measurement of non-current assets and liabilities held for distribution to owners; • We reviewed the Company process about assets revaluation and controls applied; • We assessed the qualification and objectivity of the independent certified appraiser, expert external for the Company, as well as the appropriateness of the used approaches, methods and assumptions for assessment of the assets fair values in order to determine compliance with the requirements of IFRS 13 'Fair value measurement'; • We have obtained an understanding and assessed the reasonableness of the key outputs calculated by the independent certified appraiser, expert external for the Company, as well as key judgments and assumptions; • Verification that the criteria for determining the classification, measurement and accounting treatment of assets held for distribution under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations exist as of 31 December 2019; • Assessment of the adequacy of the disclosures in the separate financial statements related to the classification and presentation of non-current assets held for sale. |

| | |
|---|--|
| determining their fair values, the impairment of these assets may have a significant effect on the financial results of the Company as of December 31, 2019, which is why we have identified this issue as a key audit issue. | |
|---|--|

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 Company'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 Company'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 separate 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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, described above in the "Information Other than the Separate Financial Statements and Auditor's Report Thereon" section, in relation to the management report and the non-financial statement, we have also performed the procedures added to those required under ISAs in accordance with "Guidelines about new and expanded auditor's reports and communications from the auditor's side" of the professional organisation 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 opinions about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act (Art. 100m, paragraph 7 (2) of the POSA), 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 separate financial statements have been prepared is consistent with those separate financial statements, over which we expressed qualified opinion in the "Report on the Audit of the Separate Financial Statements" section above.

- b) The management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100(m), paragraph 7 (2) of the Public Offering of Securities Act.
- c) The non-financial statement referring to the financial year for which the separate financial statements have been prepared is provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- Audit firm HLB BULGARIA OOD was appointed as a statutory auditor of the separate financial statements of NPP KOZLODUY EAD for the year ended 31 December 2019 by the Minutes № Е-РД-21-16 of the Minister of Energy dated from 15 June 2018 for a period of three years.
- The audit of the separate financial statements of the Company for the year ended 31 December 2019 represents fifth total uninterrupted statutory audit engagement for that entity carried out by us.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to Company's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Company.

Audit firm

HLB BULGARIA OOD

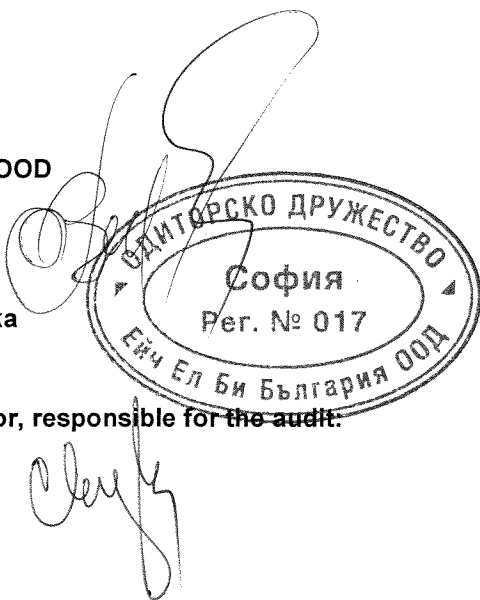
Manager:

Veronika Revalska

Registered auditor, responsible for the audit:

Svetlana Pavlova

30 March 2020



Separate Statement of Financial Position

| | Note | 31 December 2019 BGN '000 | 31 December 2018 BGN '000 |
|---|------|---------------------------------|---------------------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 5 | 2,408,171 | 2,544,339 |
| Intangible assets | 6 | 8,672 | 9,732 |
| Investment properties | 7 | 4,120 | 4,100 |
| Investments in subsidiaries | 8 | 15,161 | 15,161 |
| Loans granted to related parties | 35.2 | 8,289 | 9,751 |
| Related parties receivables | 35.1 | - | 7,529 |
| Long-term trade and other receivables | 9 | 3,818 | 3,261 |
| Equity instruments at fair value through other comprehensive income (OCI) | 10 | 457 | 466 |
| Non-current assets | | 2,448,688 | 2,594,339 |
| Current assets | | | |
| Nuclear Fuel | 12 | 303,607 | 213,962 |
| Inventories | 13 | 54,303 | 60,018 |
| Trade and other receivables | 14 | 70,624 | 43,192 |
| Loans granted to related parties | 35.2 | 2,374 | 2,334 |
| Related parties receivables | 35.1 | 53,924 | 107,809 |
| Income tax payments | | 764 | - |
| Cash and cash equivalents | 15 | 395,583 | 239,725 |
| | | 881,179 | 667,040 |
| Assets included in disposal groups classified as non-current assets held for distribution to owners | 16 | 57,277 | - |
| Current assets | | 938,456 | 667,040 |
| Total assets | | 3,387,144 | 3,261,379 |

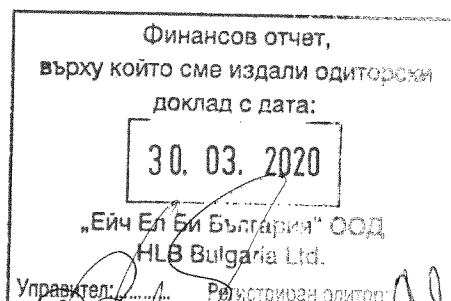
Prepared by: 
 /Margarita Mankova/

Chief Executive Officer: 
 /Nasko Mihov/

Date: 09 March 2020


The Separate Financial Statements were approved for issue by decision of the Board of Directors on 20 March 2020.

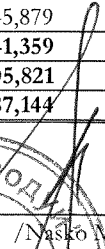
Audit firm
 HLB Bulgaria OOD



Separate Statement of Financial Position (continued)

| | Note | 31 December 2019 BGN '000 | 31 December 2018 BGN '000 |
|--|------|---------------------------------|---------------------------------|
| Equity and liabilities | | | |
| Equity | | | |
| Share capital | 17.1 | 244,585 | 244,585 |
| Legal reserves | 17.2 | 24,458 | 24,458 |
| Revaluation reserve of non-financial assets | 17.3 | 1,400,140 | 1,400,874 |
| Revaluation reserve of defined benefit plans | | (70,375) | (45,698) |
| Revaluation reserve of financial assets at fair value | | 203 | 211 |
| Other reserves | 17.4 | 676,667 | 826,667 |
| Retained earnings | | 405,645 | 160,112 |
| Total equity | | 2,681,323 | 2,611,209 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Borrowings | 18 | 10,879 | 33,127 |
| Retained amounts under construction contracts | 19 | 978 | 863 |
| Financing | 20 | 106,966 | 154,616 |
| Pension and other employee obligations | 21 | 84,707 | 50,665 |
| Long-term trade and other liabilities | 22 | 13,181 | 18,656 |
| Deferred tax liabilities | 11 | 147,751 | 163,573 |
| Non-current liabilities | | 364,462 | 421,500 |
| Current liabilities | | | |
| Trade and other payables | 22 | 143,749 | 122,847 |
| Related parties payables | 35.1 | 5,424 | 1,589 |
| Borrowings | 18 | 22,833 | 33,890 |
| Financing | 20 | 4,340 | 4,435 |
| Retained amounts under construction contracts | 19 | 3,210 | 4,971 |
| Pension and other employee obligations | 21 | 34,272 | 14,423 |
| Provision for spent nuclear fuel and others | 23 | 81,652 | 41,775 |
| Income tax liabilities | | - | 4,740 |
| | | 295,480 | 228,670 |
| Liabilities included in disposal groups classified as non-current assets held for distribution to owners | 16 | 45,879 | - |
| Current liabilities | | 341,359 | 228,670 |
| Total liabilities | | 705,821 | 650,170 |
| Total equity and liabilities | | 3,387,144 | 3,261,379 |

Prepared by: 
/Margarita Mankova/

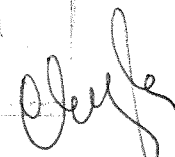
Chief Executive Officer: 
/Nasko Mihov/

Date: 09 March 2020

The Separate Financial Statements were approved for issue by decision of the Board of Directors on 20 March 2020.

Audit firm
HLB Bulgaria OOD



Финансов отчет,
върху който сме издали одиторски
доклад с дата:
30. 03. 2020
„Ейч Ел Би България“ ООД
HLB Bulgaria Ltd.
Управител: Регистриран одитор: 

Separate Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December

| | Note | 2019 BGN '000 | 2018 BGN '000 |
|--|------|------------------|------------------|
| Revenue from sale of electricity | | 1,312,117 | 1,099,058 |
| Revenue from sale of heat energy | | 1,933 | 2,007 |
| Revenue from sale of production | 24 | 1,314,050 | 1,101,065 |
| Income from financing | | 4,081 | 5,560 |
| Other revenues and incomes | 25 | 9,645 | 8,192 |
| Gains from sale of non-current assets | | 3 | 3,017 |
| Change in the fair value of investment properties | | 20 | 6 |
| Cost of materials | 27 | (134,162) | (151,929) |
| Hired services expenses | 28 | (134,489) | (131,497) |
| Employee benefits expenses | 29 | (234,521) | (211,892) |
| Provisions for post-employment benefit plans | | (40,862) | (8,799) |
| Depreciation and amortisation costs, and revaluation of PPE | 5.6 | (168,977) | (198,571) |
| Provisions costs | 30 | (39,881) | (41,118) |
| Impairment costs/reversed impairment on financial assets (net) | 31 | 477 | (6,239) |
| Other expenses | 32 | (210,138) | (187,177) |
| Cost of goods sold and other current assets | | (670) | (555) |
| Change in work in progress | | (9,409) | (2,163) |
| Acquisition of self-constructed machinery, plant and equipment | | 3,850 | 112 |
| Operating profit | | 359,017 | 178,012 |
| Financial costs | 33 | (2,117) | (2,526) |
| Financial income | 33 | 4,006 | 5,546 |
| Profit before tax | | 360,906 | 181,032 |
| Income tax expenses | 34 | (36,014) | (17,486) |
| Profit for the year from continuing operations | | 324,892 | 163,546 |
| Profit for the year from discontinued operations | 16 | - | - |
| Profit for the year | | 324,892 | 163,546 |

Prepared by:

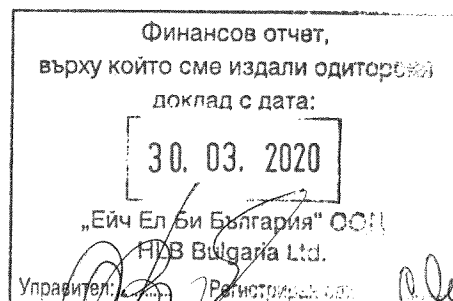
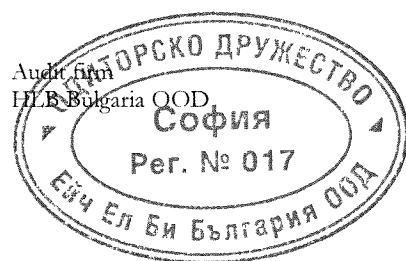
/Margarita Mankova/

Chief Executive Officer:

/Nasko Mihov/

Date: 09 March 2020

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The accompanying notes, pages 8 to 72, form an integral part of these separate financial statements. 3

Separate Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December (continued)

| | Note | 2019 BGN '000 | 2018 BGN '000 |
|--|------|------------------|------------------|
| Profit for the year | | 324,892 | 163,546 |
| Other comprehensive income: | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Revaluation of defined benefit liabilities | 21 | (27,419) | (11,781) |
| Revaluation of non-financial assets | 5 | - | 18,969 |
| Change in the fair value of financial instruments at fair value through other comprehensive income – losses for the current period | | (9) | (59) |
| Income tax relating to items not reclassified | 11 | 2,743 | (713) |
| Other comprehensive income for the year, net of tax | | (24,685) | 6,416 |
| Total comprehensive income for the year | | 300,207 | 169,962 |

Prepared by: 
 /Margarita Mankova/

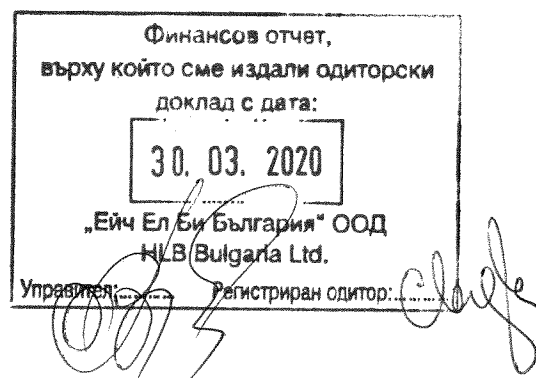
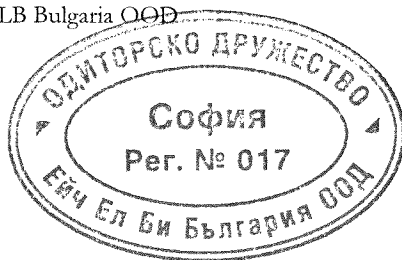
Chief Executive Officer: 
 /Nasko Mihov/



Date: 09 March 2020

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Audit firm
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Kozloduy NPP EAD
Separate Financial Statements
31 December 2019

Separate Statement of Changes in Equity for the Year Ended 31 December

| All amounts are in BGN '000 | Share capital | Legal reserves | Revaluation reserve of non- financial assets | Revaluation reserve of defined benefit plans | Revaluation reserve of financial assets at fair value | Other reserves | Retained earnings | Total equity |
|--|---------------|-------------------|--|---|--|-------------------|-------------------|--------------|
| Balance at 01 January 2019 | 244,585 | 24,458 | 1,400,874 | (45,698) | 211 | 826,667 | 160,112 | 2,611,209 |
| Dividends | - | - | - | - | - | (150,000) | (80,056) | (230,056) |
| Transactions with the Sole Owner | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | - | - |
| Other comprehensive income, net of tax | - | - | - | (24,677) | (8) | - | 324,892 | 324,892 |
| Total comprehensive income for the year | - | - | - | (24,677) | (8) | - | - | (24,685) |
| Reserves increase via retained earnings | - | - | - | - | - | - | - | - |
| Transfer of revaluation reserve of non-financial assets to retained earnings | - | - | (734) | - | - | - | 734 | - |
| Other changes in equity | - | - | - | - | - | - | (37) | (37) |
| Balance at 31 December 2019 | 244,585 | 24,458 | 1,400,140 | (70,375) | 203 | 676,667 | 405,645 | 2,681,323 |

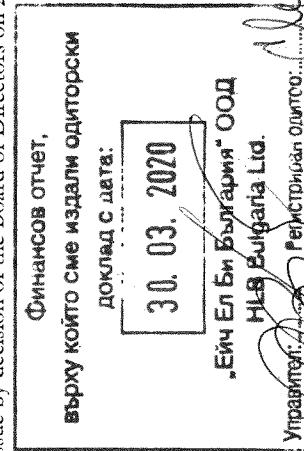
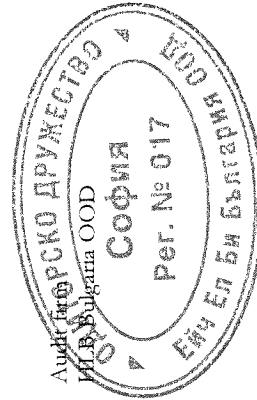
Prepared by: 
/Margarita Mankova/

Chief Executive Officer



Date: 09 March 2020

The Separate Financial Statements were approved for issue by decision of the Board of Directors on 20 March 2020.



The accompanying notes, pages 8 to 72, form an integral part of these separate financial statements.

Kozloduy NPP EAD
Separate Financial Statements
31 December 2019

Separate Statement of Changes in Equity for the year ended 31 December (continued)

| All amounts are in BGN '000 | Share capital | Legal reserves | Revaluation reserve of non- financial assets | Revaluation reserve of defined benefit plans | Revaluation reserve of financial assets at fair value | Other reserves | Retained earnings | Total equity |
|---|---------------|-------------------|--|---|--|-------------------|-------------------|--------------|
| Balance at 31 December 2017 * | 244,585 | 19,785 | 1,384,245 | (35,095) | - | 984,126 | 123,827 | 2,721,473 |
| Adjustments from the adoption of IFRS 9, net of tax (Note 3.1) | - | - | - | - | 264 | - | (3,876) | (3,612) |
| Balance at 1 January 2018 (restated) | 244,585 | 19,785 | 1,384,245 | (35,095) | 264 | 984,126 | 119,951 | 14,720,861 |
| Dividends | - | - | - | - | - | (157,459) | (119,154) | (276,613) |
| Transactions with the Sole Owner | - | - | - | - | - | (157,459) | (119,154) | (276,613) |
| Profit for the year | - | - | - | - | - | - | 163,546 | 163,546 |
| Other comprehensive income, net of tax | - | - | 17,072 | (10,603) | (53) | - | - | 6,416 |
| Total comprehensive income for the year | - | - | 17,072 | (10,603) | (53) | - | 163,546 | 169,962 |
| Reserves increase via retained earnings | - | - | - | - | - | - | (4,673) | - |
| Transfer of revaluation reserve of non-financial assets to retained earnings | - | - | - | - | - | - | - | - |
| Other changes in equity | - | - | (443) | - | - | - | 443 | - |
| Balance at 31 December 2018 | 244,585 | 24,458 | 1,400,874 | (45,698) | 211 | 826,667 | 160,112 | 2,611,209 |

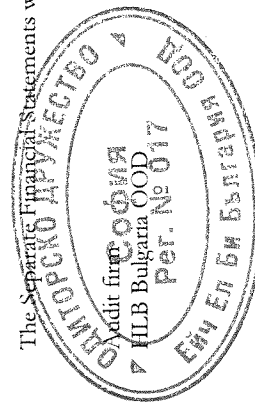
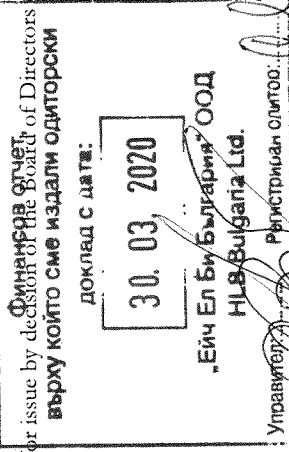
Prepared by: 
/Margarita Mankova/

Date: 09 March 2020

The Separate Financial Statements were approved for issue by decision of the Board of Directors on 20 March 2020.

Chief Executive Officer:

/Nasko Mihov/



The accompanying notes, pages 8 to 72, form an integral part of these separate financial statements.

Separate cash flow statement for the year, ended 31 December

| Note | 2019 BGN '000 | 2018 BGN '000 |
|---|-------------------|------------------|
| Operating activities | | |
| Cash receipts from customers | 1,558,261 | 1,305,614 |
| Cash paid to suppliers | (339,827) | (297,655) |
| Cash paid to employees and social security institutions | (242,092) | (208,289) |
| Cash paid for fees, commissions, and other | (27) | (36) |
| Cash paid to the RAW Fund, NFD Fund, and SES Fund | (202,330) | (168,138) |
| (Paid to)/receipts from income taxes | (54,598) | (28,310) |
| Cash flows related to other tax and payments to the governmental budget | (185,840) | (162,987) |
| Cash flows related to insurance | (15,478) | (15,315) |
| Other cash flows from operating activities | (5,608) | 33,193 |
| Net cash flows from continuing operations | 512,461 | 458,077 |
| Net cash flows from operating activity | 512,461 | 458,077 |
| Investing activity | | |
| Purchase of property, plant, and equipment | (94,865) | (85,091) |
| Proceeds from disposals of property, plant, and equipment | 4 | 3,227 |
| Loan repayments received | 35.2 2,200 | 2,200 |
| Interest received | 35.2 308 | 364 |
| Dividends received | 869 | 991 |
| Net cash flows from investing activity | (91,484) | (78,309) |
| Financing activity | | |
| Repayments of borrowings | (33,005) | (38,872) |
| Leasing payments | (116) | - |
| Interest paid | (1,385) | (1,855) |
| Dividends paid | (230,056) | (276,613) |
| Net cash flows from financing activity | (264,562) | (317,340) |
| Net change in cash and cash equivalents | 156,415 | 62,428 |
| Cash and cash equivalents, beginning of year | 239,725 | 178,211 |
| Effect from expected credit losses under IFRS 9 | (857) | (914) |
| Cash and cash equivalents at the end of the year | 15 395,583 | 239,725 |

Prepared by: _____

/Margarita Mankova/

Chief Executive Officer: _____

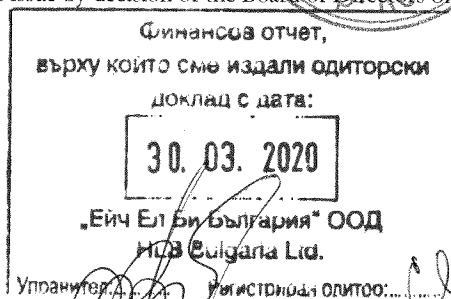
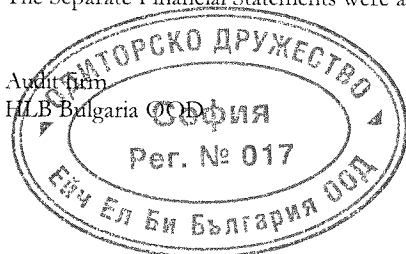
/Nasko Mihov/

Date: 09 March 2020

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Audit firm

HLB Bulgaria OOD



The accompanying notes, pages 8 to 72, form an integral part of these separate financial statements. 7

Notes to the Separate Financial Statements

1. Principal activities

Kozloduy NPP EAD ("the Company") is a single-owner shareholding company, established by virtue of Decision No 582 from 2000 of Vratsa District Court. The Company is registered in the town of Kozloduy 3321, Vratsa District, Bulgaria. 3321. The Company was established as a shareholding company on 28 April 2000 with a sole owner - the Republic of Bulgaria through spin-off from 'Natsionalna Elektricheska Kompania' EAD (NEK EAD). The company is a legal successor of the respective portion of assets and liabilities of NEK EAD, Sofia, in accordance with the Separation Protocol for the Kozloduy NPP branch and GUP Atomenergoinvest, Kozloduy, compiled and based on the available accounting records dated 28 April 2000. As of 18 September 2008, the rights of sole shareholder of the Company are exercised by the Ministry of Economy and Energy through the incorporated Bulgarian Energy Holding EAD.

The Company's financial year ends on 31 December.

The principal activity of the Company includes use of nuclear energy to generate electrical and thermal power.

As at 31 December 2019, Bulgarian Energy Holding EAD is the sole owner of the Company share capital. The Company's ultimate owner is the Republic of Bulgaria through the Ministry of Energy.

The Company has a one-tier management system and is managed by a Board of Directors with the following members as at 31 December 2018:

- Jacklen Yosif Cohen - Chairman
- Ivan Todorov Yonchev - Member
- Nasko Asenov Mihov, Member

As at 31 December 2019, the Company is represented by the Chief Executive Officer Nasko Mihov.

As at 31 December 2019, the number of the staff employed by the Company under employment contracts is 3.722 (31 December 2018: 3.663).

2. Basis for the preparation of the separate financial statements

The separate financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards (IFRS) as developed and issued by the International Accounting Standards Board (IASB), adopted by the European Union (EU).

The separate financial statements are presented in Bulgarian leva (BGN) which is the functional currency of the Company. All amounts are denominated in thousands of BGN (BGN '000) (including comparative information) unless otherwise specified.

These financial statements are separate for the Company. The Company also prepares consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as developed and issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU), where investments in subsidiaries are stated in accordance with IFRS 10 "Consolidated Financial Statements."

The separate financial statements are prepared under the going concern principle.

As at the date of preparation of the current separate financial statements, the management has analysed the Company's ability to continue to operate as a going concern, taking into account the available information about the foreseeable future. As a result of the review carried out of the Company's activities, the management anticipates that the Company will have sufficient resources to continue its operating activities in the foreseeable future and believes that the going concern principle is appropriate for the preparation of the separate financial statements.

3. Changes in accounting policy

3.1. New standards, amendments, and interpretations of the IFRS which came into effect as of 1 January 2019

The Company applies the following new standards, amendments, and interpretations of the IFRS developed and published by the International Accounting Standards Board which have an effect on the Company's financial statements and are mandatory for the period starting on 01 January 2019:

- IFRS 16 "Leases"

This standards supersedes the instructions of IAS 17 "Leases" together with three interpretations (IFRS Interpretations Committee, Interpretation 4 Determining whether an agreement contains a lease, SIC-15 Operating leases - Incentives, and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease) and introduces significant changes in the reporting of leases, in particular on the part of the lessees.

According to IAS 17 the lessors were required to distinguish between financial lease (recognised in the balance) and operating lease (recognised off-balance). IFRS 16 requires that lessees recognise lease obligation reflecting future lease payments, and "right to use an asset" for almost all lease contracts. IASB has included a right of option for some short-term leases and leases of low-value assets, and this exception can only be applied by lessees.

The accounting on the part of the lessors remains almost unchanged.

In compliance with IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of the asset for a period of time in exchange for consideration.

On 01.01.2019 the Company has reviewed all agreements in the light of the new IFRS 16. The standard concerns mainly the operating leases of the Company in its capacity of a lessee. As at the date of the financial statements the irrevocable commitments under contracts for operating leases are of insignificant value. The review showed that the main portion of the contracts, falling within the scope of IFRS 16, have short terms and are contracts of low value which continue to be recognised on the straight-line basis as current costs in profit or loss.

The Company applied the following new standards, amendments, and interpretations of the IFRS developed and published by the International Accounting Standards Board which are mandatory for the year starting on 01 January 2019 but have no material effect of their application on the financial result and the financial position of the Company:

- IFRS 9 "Financial instruments" (amended) - Prepayment Features with Negative Compensation, effective as of 01 January 2019, adopted by the EU;
- IAS 28 "Investments in Associates and Joint Ventures" (amended) – Long-term Interests in Associates and Joint Ventures, effective as of 01 January 2019, not yet adopted by the EU;
- IAS 19 "Employee Benefits" (amended) – Plan Amendment, Curtailment or Settlement – effective as of 01 January 2019, not yet adopted by the EU;
- IFRIC 23 "Uncertainty over Income Tax Treatments", effective as of 01 January 2019, not yet adopted by the EU.
- Annual improvements to IFRSs 2015-2017, effective as of 01 January 2019, not yet adopted by the EU.

These amendments comprise insignificant changes in:

- IFRS 3 "Business Combinations" - a company revaluates its previously held interest in a joint operation when it obtains control of the business.
- IFRS 11 "Joint Arrangements" - a company does not revalue its previously held interest in a joint operation when it obtains joint control of the business.

- IAS 12 "Income Taxes" - a company accounts for all income tax consequences of dividend payments in the same way.
- IAS 23 "Borrowing Costs" - a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

3.2. Standards, amendments, and interpretations which have not yet come into effect and have not been applied from an earlier date by the Company

As at the date of approval of these financial statements new standards, amendments and interpretations have been published to the already existing standards, but which have not come into effect or have not been adopted by the EU for the financial year starting 01 January 2019, and have not been applied as of an earlier date by the Company. They are not expected to have a material effect on the financial statements of the Company. The management expects that all the standards and amendments will be adopted in the accounting policy of the Company in the first period starting after the date of their coming into effect.

The changes are related to the following standards:

- Amendments to the *Conceptual Framework for Financial Reporting* (effective for annual periods as of 01 January 2020);
- IFRS 17 *Insurance Contracts* (effective for annual periods beginning on or after 01 January 2021).
- Amendments to IFRS 3 Business Combinations (issued on 22 October 2018), in effect as of 01 January 2020.
- Amendments to IAS 1 and IAS 8; Determining Materiality (issued on 31 October 2018), in effect as of 01 January 2020.
- Interest Rate Benchmark Reform (amendments to IFRS 9, IAS 39, and IFRS 7) (issued on 26 September 2019), in effect as of 01 January 2020.

4. Accounting Policy

4.1. Overview

The most significant accounting policies applied in the preparation of these separate financial statements are presented below.

The financial statements have been prepared in accordance with the principles for the measurement of all types of assets, liabilities, income and expenses, in accordance with IFRS. The valuation bases are disclosed in detail further down in the accounting policy to the separate financial statements.

It should be noted that accounting estimates and assumptions were used to prepare the presented separate financial statements. Although they are based on information provided to management as at the date of preparation of the financial statements, the actual results may differ from the estimates and assumptions made.

4.2. Presentation of the separate financial statements

The separate financial statements are presented in accordance with IAS 1 "Presentation of Financial Statements". The Company has accepted to present the statement of profit or loss and other comprehensive income in a single statement.

Two comparative periods are presented in the separate financial statements, when the Company:

- (a) applies an accounting policy retrospectively;
- (b) retrospectively recalculates positions in the financial statements; or
- (c) reclassifies items in the financial statements.

and this has a material effect on the information in the separate statement of financial position at the beginning of the previous period.

4.3. Transactions in foreign currency

Transactions in foreign currencies are reported in the functional currency of the Company at the official exchange rate at the date of the transaction (according to the official exchange rate of the Bulgarian National Bank). Gains and losses from exchange rate differences, arising in the process of settlement of those transactions and revaluation of foreign currency monetary items at the end of the reporting period, are recognised in the profit or loss.

Non-monetary items measured at historical cost in foreign currency are reported at the exchange rate as at the date of transaction. Non-monetary items measured at fair value in foreign currency are reported at the exchange rate at the date of determining the fair value.

4.4. Investments in subsidiaries

Subsidiaries are all entities, controlled by the Company. The company's control over subsidiaries is expressed as its ability to manage and determine the financial and operating policy of the subsidiaries, so that benefits can be obtained from the activities of these subsidiaries. Investments in subsidiaries are carried at cost (acquisition cost) in the separate financial statements of the Company.

The company recognises dividends from subsidiaries in profit or loss, in its separate financial statements, when the company's right to obtain those dividends is established.

4.5. Revenues

Revenue from contracts with customers

Recognising and evaluating revenue from customer contracts

The main revenues generated by the Company are related to the sale of electrical and heat energy.

In order to decide whether and how to recognise revenues, the Company uses the following 5 steps:

1. Identification of the contract with the client
2. Identification of the performance obligations
3. Determining the value of the transaction
4. Allocating the value of the transaction to the performance obligations
5. Recognising the revenues when the performance obligations to be performed.

The revenues are recognised either at a certain moment or in the course of time, when or until the Company meets the performance obligations transferring the promised goods or services to its customers.

The company recognises as liabilities under contract payment received in relation to unsatisfied performance obligations and presents them as other liabilities in the statement of the financial position. In the same way, if the Company meets the performance obligation, prior to receiving the payment, it recognises in the statement of the financial position either an asset under the contract, or a receivable, depending on whether something else is required apart from certain time for receiving the remuneration.

Revenues from contracts with customers are recognised when the control of the goods and/or services promised in the contract is transferred to the customer in an amount that reflects the consideration the Group expects to be entitled to in exchange for those goods or services.

Control is transferred to the customer when (or as) they meet the performance obligation, under the terms of the contract, by transferring the promised product or service to the customer. An asset (product or service) is transferred when (or as) the customer gains control over that asset.

In the initial assessment of its contracts with customers, the Company assesses whether two or more contracts are to be treated in combination and accounted for as one, and whether the promised goods and/or services in each separate and/or combined contract are to be accounted for as one and/or more performance obligations.

Any promise to transfer goods and/or services that are identifiable (on their own and in the context of the contract) is reported as one performance obligation.

The Company recognises revenue for each separate performance obligation at the level of individual contract with customer by analysing the type, timing and terms of each particular contract. For contracts with similar characteristics, revenues are recognised on a portfolio basis only if their grouping in a portfolio would not have a materially different effect on the financial statements.

Clients' contracts typically include a single performance obligation.

Measurement

Revenues are measured on the basis of the transaction price specified for each contract.

In determining the transaction price, the Company takes into account the terms of the contract and its usual business practices.

The transaction price is the amount of the consideration the Company expects to be entitled to in exchange for the transfer of the promised goods or services to the customer, except for amounts collected on behalf of third parties (e.g. value added tax). The consideration promised in the contract with the customer may include fixed amounts, variable amounts, or both.

When (or as) a performance obligation is met, the Company recognises as revenue the cost of the transaction (which excludes estimates of variable consideration containing limitations) that is attributable to that performance obligation.

The Company examines whether there are other promises in the contract that are separate performance obligations for which part of the transaction price should be allocated.

When determining the transaction price, account is taken of the impact of variable consideration, the existence of significant components of funding, non-monetary consideration and consideration owed to the customer (if any).

Performance obligations and recognition approach to main types of revenue under contracts with customer

Sale of electricity

Electricity supplies are carried out all year-round in a continuous mode of operation. Since the customer simultaneously receives and consumes the benefits, the Company transfers control over electricity over time and therefore meets the performance obligation and recognise revenues over time.

The sales revenue shall be recognised at every transfer of control over electricity when it is supplied to the customer and there are no unmet obligations which could affect the acceptance of electricity on behalf of the customer. Electricity is deemed to be delivered to the customer as soon as the schedules of the Seller and the Buyer are recorded in the Schedule Notification System administered by the Electricity System Operator EAD after the parties have an agreement on the schedules. Schedules are uploaded every day until 15.30 for the next day, both for liberalised and for regulated market, and for exchange. The so-called net monthly trade measurement of the quantities at the OSY (Open Switchyard) outlets is carried out, which should correspond to the quantities quoted in the schedules.

Electricity sales do not have a financing component, as sales are paid for up to 1 year of deferred payment.

A receivable is recognised with the delivery of electricity as this is the moment when the right to consideration becomes unconditional and it only requires the expiry of the time before the payment becomes due.

Revenue is invoiced under the terms of the contract.

Sale of heat energy

Heat energy supplies are carried out during the heating season in a continuous mode of operation. Since the customer simultaneously receives and consumes the benefits, the Company transfers control over the heat energy over time and therefore meets the performance obligation and recognises revenue over time.

Sales revenue is recognised on each transfer of control over heat energy when it is delivered to the buyer and there are no outstanding obligations that could affect the buyer's heat energy acceptance. The heat energy is considered delivered to the customer at the time of consumption. Quantities delivered are reported by means of a heat meter in the substation where the commercial metering takes place once a month.

Heat energy sales do not have a financing component, as sales are paid for up to 1 year of deferred payment.

A receivable is recognised with the delivery of heat energy as this is the moment when the right to consideration becomes unconditional and it only requires the expiry of the time before the payment becomes due.

Revenue is invoiced monthly under the terms of the concluded contract.

Revenue from services

Lease payments under operating leases are recognised as income on the straight-line basis over the lease contract validity, except for the cases when the Company's management decides that another systematic basis is more representative of the time pattern the use of which has reduced the benefit from the leased asset.

Revenue from sales of short-term assets

Revenues from sales of short-term assets are recognised when the control over the assets sold is transferred. The delivery shall arise when the assets have been paid to the customer, the risks of potential losses have been transferred to the customer, and/or he has accepted the assets in accordance with the sale contract.

Principal or agent

When a third party participates in the provision of goods or services to a customer, the Company shall determine whether the nature of their promise represents an obligation to perform the provision of the particular goods or services (a principal), or by arranging for the third party to provide those goods or services (an agent).

The company is the principal when it controls the promised goods or service before transferring it to the customer. However, the Company does not necessarily act as the principal if it receives the ownership of an asset only temporarily before the ownership right is transferred to the customer.

The Company is an agent if the Company's performance obligation is to arrange the delivery of the goods or services from a third party. When an agent company fulfils a performance obligation, it recognises revenue in the amount of the fee or commission it expects to have the right to in exchange for arranging for the goods and services to be provided by another party. The fee or commission of the Company may be the net amount of the consideration the Company retains after paying to the other party the consideration received in exchange for the goods or services to be provided by that party.

The signs that the Company is an agent include the following elements:

- a third party bears the primary responsibility for the performance of the contract;
- before or after the goods have been ordered by the customer, upon dispatch or upon return of the goods there is no risk for the Company's inventories;
- The Company does not have the power to determine the prices of the other party's goods or services and therefore the benefit the company can obtain from these goods and services is limited;
- the consideration to the Company is in the form of a commission;
- The Company is not exposed to a credit risk for the receivable from the customer in exchange for the other party's goods or services.

The Company is an agent in the following transactions:

- fee/component obligation to society;
- consumables under rental contracts.

Contractual balances

Trade receivables and assets under contracts

Receivable is the right of the Company to receive consideration at a certain amount, which is unconditional (i.e., before the payment of the consideration becomes due, it is only necessary a certain period of time to expire).

The asset under the contract is the right of the Company to receive consideration in exchange for the goods or services it has transferred to the customer but which is not unconditional (charging a receivable). If, through the transfer of the goods and/or the provision of services, the Company fulfils its obligation before the customer has paid the respective consideration and/or before the payment becomes due, a contract asset is recognised for the earned consideration (which is conditional). Recognised assets under the contract are reclassified as a trade receivable when the right to consideration becomes unconditional.

Liabilities under contracts

As a contractual liability, the Company presents the payments received from the customer and/or an unconditional right to receive a payment before fulfilling its contractual performance obligations. Contract liabilities are recognised as revenue when (or as) it meets the performance obligations.

Assets and liabilities arising from a contract are presented net in the separate statement of financial position even if they are the result of different contractual obligations for performance of the contract.

After the initial recognition, trade receivables and contract assets are subject to an impairment review in accordance with the IFRS 9 "Financial Instruments".

B. Other revenues and incomes

Other revenues include operations that are incidental to the Company's core business and are revenues or income that are recognised under other standards and are outside the scope of IFRS 15.

| Revenue | Recognition approach |
|---|---|
| Net profit from sales of property, plant, and equipment and intangible assets | Gains or losses arising from derecognition of assets from a property, plant and equipment or an intangible asset as a result of a sale shall be included in profit or loss when the asset is derecognised. The asset is derecognised at the time the control over the sold asset is transferred. |
| Revenues from revaluation of property, plant, and equipment | Revenue from revaluations is reported as revenue to the amount of previously charged expenses. |
| Rental income | Lease payments under operating lease contracts are recognised as income on the straight-line basis over the lease term unless the management decides that another systematic basis is more representative of the time pattern the use of which has reduced the benefit from the leased asset. |
| Surplus assets and asset liquidation | Revenues from surplus assets are recognised when surpluses are established. |
| Revenue from financing | Where the grant (financing) is related to an item of expenditure, it is recognised as revenue for the periods necessary to compare it on a systematic basis with the expenditures it is intended to compensate. When the grant (financing) relates to an asset, it is presented as a liability and is included in the income over the useful life of the related asset. |
| Revenue from insurance events | The revenue is recognised when the Company's right to receive |

| | |
|--|--|
| | payment is established. |
| Income from penalties | Revenue is recognised when the Company's right to receive payment is established. |
| Revenues from derecognition of liabilities | The revenue from derecognition is recognised when the liability expires or the creditor waives its rights. |

C. Financial revenues

Financial revenues are included in the separate profit and loss and other comprehensive income statement when incurred, and includes interest income on loans granted and term deposits, income from dividends from other entities.

Financial revenues are presented separately from the financial expenses on the face of the separate profit and loss and other comprehensive income statement.

Recognition of interest income

Interest income is calculated by applying the effective interest rate on the gross carrying amount of financial assets, as per the requirements of IFRS 9 "Financial Instruments", except for financial assets impaired by credit (Phase 3) for which interest income is calculated by applying the effective interest rate on their amortised cost (gross carrying amount adjusted with the provision for expected credit losses).

The income from dividends is recognised at the time when the right to receive the payment arises.

D. Income from financing

Financing represent grants provided by the Government (the Government, government agencies and others governmental bodies, either local, national, or international) that meet the definition of Government grants under IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance".

Government grants are recognised in the separate statement of financial position of the company when there is reasonable assurance that the company comply with any conditions attached to the grant and the grant will be received. Grants that relate to current activities are recognised on a systematic base, over the periods in which the expenses, which the grants shall compensate, are recognised. Grants, related to the acquisition of non-current assets, are presented as deferred income and are recognised in the profit or loss, on a systematic base, over the useful life of the respective asset.

Non-monetary government grants are recognised at the fair value of the non-monetary asset, as evaluated by qualified actuary at the transfer date.

4.6. Assets and liabilities under contracts with clients

The company recognises assets and/or liabilities under a contract when one of the contractual parties has performed its obligations depending on the relation between the activity of the enterprise and the payment by the client. The company presents separately each unconditional right to consideration as a receivable. Receivable is the unconditional right of the enterprise to receive consideration.

Liabilities under a contract are recognised in the statement of the financial positions, if a client pays a consideration or the company is entitled to consideration which is unconditional before the control over the goods or service is transferred.

The company recognises assets under a contract when the performance obligations are met and the payment is not due on behalf of the client. The contract asset is the right of the Company to receive consideration in exchange for the goods or services it has transferred to the customer.

Subsequently, the Company evaluates an asset under the contracts in accordance with IFRS 9 "Financial Instruments".

4.7. Operating costs

Operating costs are recognised in profit or loss when the services are consumed or at the date when the cost are incurred.

Electricity costs

In accordance with the 'Ordinance on regulating the prices of electric power' issued by the Energy and Water Regulatory Commission (EWRC), production costs directly attributable to the generated product are included in the prime cost of electricity.

Costs, incurred for nuclear fuel, are carried in accordance with the methodology established by the company. Electricity costs attributable to nuclear fuel are derived by multiplying the fuel component, calculated as per the relevant methodology, by the estimated gross amount of electricity generated by the relevant unit.

Costs for the Decommissioning of Nuclear Facilities (DNF) Fund and Radioactive Waste (RAW) Fund are calculated in accordance with the relevant decrees and regulations of the Council of Ministries and are recognised as other costs.

Cost of available capacities

The prime cost of the available capacities comprises the conditionally fixed operating expenses, including:

- Cost of materials, different from nuclear fuel, reagents, and diesel;
- Hired services costs;
- Salaries and social security contributions;
- Depreciation and amortisation costs;
- Other costs, excluding costs for the DNF, RAW, and ESS Funds;
- Own transport costs;
- Allocated indirect costs based on handover certificates for works performed in respect of the other supporting activities.

Cost of generation and transmission of heat energy

District heating direct prime cost is derived from generation and distribution costs. District heating costs include the conditionally fixed and variable (nuclear fuel) costs incurred at Units 5 and 6 multiplied by a reduction factor. The reduction factor refers to the relative share of electricity underproduction against the gross electrical energy, generated by Electricity generation - 2 (EP-2). Underproduction is calculated on a monthly basis by the Engineering Support Division. The reduced expenses decrease the electricity generation costs and the cost of available capacities at EP-2. These costs are included into the prime cost of generated heat and cost derived from generation of heat intended for the various administrative units on-site.

Referring to the activity 'District heating generation and distribution':

- The prime cost of the heat energy comprises the conditionally fixed and variable expenses of EP-2;
- All variable and conditionally fixed costs of the District Heating Department are included in the heat distribution prime cost.

The heat energy for the Kozloduy NPP's own facilities (household needs) is recognised on an ongoing basis over the year as cost at the selling price of heat energy to consumers, and it is balanced with the actual cost as at year-end.

Cost, incurred under auxiliary and additional activities

The costs of auxiliary and additional operations are accounted for in separate accounting record groups, including direct and indirect costs. The allocation basis of the indirect technological costs is as follows:

- For maintenance:
 - For off-site facilities – labour hour inputs per facilities and orders;
 - For on-site facilities of the NPP – material inputs per facilities and orders;
- For road transport – fuel consumption;
- For the principal activity – electricity generation, as follows:

The social expenses are allocated under the coefficient method, based on the number of personnel, engaged in the activities 'Electricity generation' and 'Heat energy distribution'.

Administrative costs are accounted for as current costs. The accrued 'taxes on expenses', within the meaning of the Corporate Income Tax Act, are also accounted for here.

The local taxes and fees, as per the meaning of the Local Taxes and Fees Act, are included in the separate profit or loss and other comprehensive income statement under 'Hired services costs'.

4.8. Interest and borrowing costs

Interest costs are recognised currently, using the effective interest rate method.

Borrowing costs are mainly comprised of interest on the bank loans, obtained by the company. All borrowing costs directly attributable to the acquisition, construction, or production of a qualifying asset, are capitalised over the period in which the asset is expected to be completed and ready for use or sale, by applying a capitalisation rate to the expenses on that asset. The capitalisation rate is the weighed average of the borrowing costs, attributable to the loans of the company, which are unsettled during the period, excluding loans, obtained exclusively for the purpose of acquiring a qualifying asset.

All other borrowing costs are recognised as an expense, in the period when incurred, in the separate profit or loss and other comprehensive income statement under 'Finance costs'.

4.9. Profit or loss from discontinued operations

Discontinued operation is a component of the company that either has been disposed, or was classified as 'held-for-sale', or as held for distribution to owner, and:

- Represents certain principal activity or covers activities in certain geographical area;
- Is part of a separate coordinated plan to dispose of a principal activity or activities in certain geographical area; or
- Represents a subsidiary acquired exclusively with the purpose of reselling.

Gains and losses from discontinued operations, as well as components of the previous year's profit or loss are presented in the statement of profit or loss and other comprehensive income, as one (total) amount.

Disclosures of discontinued operations relate to all the activities that have been discontinued as at the date of the separate financial statements for the latest presented reporting period. In the event of activities previously presented as discontinued are renewed in the current year, the relevant disclosures for the previous reporting period are adjusted, too.

4.10. Intangible assets

Separately acquired intangible assets are measured initially at acquisition cost, including all paid custom duties, non-refundable taxes and any directly incurred costs related to the preparation of the asset for its intended use, where the capitalised costs are then amortised based on the straight-line method over the defined period of the assets' useful life, as the latter is considered finite.

Intangible assets are subsequently measured at their purchase price less all accumulated amortisations and impairment losses. The impairments conducted are reported as expenses and are recognised in the separate statement of profit or loss and other comprehensive income for the respective period.

Intangible assets with finite useful life are amortised over their useful life and reviewed for impairment in case of indications that their value has been impaired. The amortisation period and method for amortisation of intangible assets with finite useful life are reviewed at least at each financial reporting year-end. Changes in the expected useful life or in the pattern of consumption of the future economic benefits, embodied in the asset, are accounted for by changing the amortisation period, or the amortisation method, and are treated as changes in accounting estimates.

Subsequent expenses, incurred in respect of intangible assets after their initial recognition, are recognised in the statement profit or loss and other comprehensive income for the period, when such are incurred, except of the cases when, because of these subsequently incurred expenses, the intangible asset can generate more than the initially estimated future economic benefits, and when such expenses can be reliably measured, and attributed to the asset. If these requirements are met, the incurred expenses are added to the cost of the asset.

The Management estimates the residual value and useful life of intangible assets at the financial reporting year-end.

Intangible assets are amortised on the straight-line method, over the assets' useful life. The useful life of intangible assets is defined as finite:

| | |
|----------------------|------------------------------------|
| Software products | 2-10 years |
| Licenses | The validity period of the licence |
| Others | 3-10 years |
| Development products | 5-20 years |

Amortisation costs are included in the statement of profit or loss and other comprehensive income under 'Depreciation costs'.

Gains or losses arising from the derecognition of intangible assets, representing the difference between the net disposal proceeds and the carrying amount of the asset, are included in the profit or loss and other comprehensive income statement when the asset is disposed.

The intangible assets, created under the company's development activities to serve the purpose of inter-company users, are recognised by the expertise committee that is appointed by the company's Management, depending on the intangible asset's completion stage, if the below conditions are met:

- availability of technical ability to complete the asset;
- Intention to complete the asset;
- The asset can be used or sold, and there is a market for the asset, or the asset is useful for inter-company use;
- Capacity to measure the costs incurred in the development of the asset.

Research activity

Research costs incurred to acquire new scientific or technical knowledge are recognised in profit or loss when incurred.

Research costs incurred under contracts with customers are recognised as saleable assets.

Indirect technological production costs are allocated based on labour; together with the direct costs they make the prime cost of a created asset.

Development activity

Development activity includes a production plan, or project, for the creation of new, or significantly improved, products and processes. Development costs are capitalised only if these expenses can be measured reliably, the product or the process is technically and commercially possible, future economic

benefits are probable and the company intends and has sufficient resources to complete the development, and to use or sell the asset. The capitalised costs include materials, labour, production overheads, directly attributable to the asset's preparation for its intended future use, and capitalised interest expenses. Other development costs are recognised in profit or loss, when incurred. The capitalised development costs are measured at purchase price, less the accumulated amortisation and impairment losses.

Costs incurred in the development of intangible assets, that do not meet capitalisation criteria, are recognised when incurred.

The approved materiality threshold in respect of the intangible assets of the company amounts to BGN 700.00.

4.11. Property, plant, and equipment

Property, plant, and equipment (PPE) are initially measured at prime cost, comprised of the purchase price and all directly attributable costs of bringing the asset to a working condition for its intended use.

After initial recognition, revaluation of PPE applies to entire classes of similar assets, as follows:

| No. | PPE Class | Subsequent revaluation model |
|-----|------------------------------------|------------------------------|
| 1 | Land | Revaluation model |
| 2 | Improvements on lands and terrains | Revaluation model |
| 3 | Buildings and structures | |
| | • Solid | Revaluation model |
| | • Hollow | Acquisition cost |
| 4 | Machines, plant, and equipment | Revaluation model |
| 5 | Computer systems | Acquisition cost |
| 6 | Transport vehicles | |
| | • Cargo vehicles | Revaluation model |
| | • Cars | Acquisition cost |
| | • Special vehicles | Revaluation model |
| 7 | Furniture, fixtures, and fittings | Acquisition cost |
| 8 | Spare parts carried as PPE | Revaluation model |
| 9 | Other PPE | Acquisition cost |

Property, plant and equipment, subsequently measured under the revaluation model, are carried at revalued amount which is their fair value at the date of revaluation less any subsequently accumulated depreciations and impairment losses. The conducted revaluations are recognised in the statement of profit or loss and other comprehensive income, and are accumulated in equity (revaluation reserve), if there are no already accrued expenses, associated with such. If a revalued asset is sold or disposed, the remaining revaluation reserve is transferred to retained earnings.

Revaluations are carried at the following intervals:

- When the fair value of the assets changes insignificantly, the assets are revalued once every three years;
- When the fair value of PPE frequently changes significantly, property, plant, and equipment are revalued in shorter intervals, so that the carrying amount of the respective asset does not differ materially from its fair value.

When applying the revaluation model, the frequency of subsequent revaluations of PPE depends on whether the carrying amount of a revalued asset differs materially from its fair value at the end of the reporting period.

In this regard, during the annual stock-taking in the end of the reporting period (financial year-end), the company reviews PPE to check for any indications that their carrying amount differs materially from their fair value.

Any differences of more than 5% in the carrying amount of property, plant and equipment from their fair value as at the date of preparation of the separate financial statements are regarded as material. Deviations of less than 5% are regarded as material too, when the difference between the carrying value of assets and their fair value as cumulative value of the PPE is essential for the preparation of the separate financial statements.

Property, plant and equipment which are not subsequently measured by applying the revaluation model, are evaluated at acquisition cost less the accumulated depreciation and any accumulated impairment losses. The impairments conducted are reported as expenses and are recognised in the profit or loss and other comprehensive income statement for the respective period.

Subsequent costs related to an item of property, plant and equipment are added to the carrying amount of the asset when it is probable that the Company may have economic benefits, exceeding the originally assessed performance efficiency of the existing asset. All other subsequent costs are recognised as an expense in the period in which they are incurred.

The residual value and useful life of property, plant, and equipment are estimated by the management as at each year-end.

Depreciation of property, plant, and equipment is calculated using the straight-line method over the estimated useful lives of the separate groups of assets, as follows:

Buildings

25-70 years

| | |
|---------------------------------|-------------|
| Machinery, plant, and equipment | 5-55 years |
| Mobile phones | 3-5 years |
| Lifting equipment | 22-55 years |
| Portable tools | 5-19 years |
| I&C systems | 5-40 years |
| Cars | 9-42 years |
| Vehicles | 5-40 years |
| Computer equipment | 2-28 years |
| Furniture | 3-35 years |

Gains or losses arising from sale of property, plant, and equipment are defined as the difference between the sale proceeds and carrying amount of the asset.

The approved materiality threshold in respect of the property, plant and equipment of the Company amounts to BGN 700.00.

4.12. Lease (Leased assets)

Accounting policy applicable as of 01 January 2019

The Company as a lessee

For all new contracts signed on or after 01 January 2019 the Company decides whether the contract is or contains lease. Lease is defined as a "contract or part of contract which conveys the right to use an asset (the main asset) over a period of time against payment". To apply this definition the Company makes an assessment whether the contract complies with three key assessments they have given:

- the contract contains an asset which is either explicitly identified in the contract, or implicitly specified, being identified in the moment when the asset is provided to the Company;
- the Company is entitled to receive in essence all economic benefits from the use of the asset over the whole period of use, taking into consideration its rights under the scope defined in the contract;
- the Company is entitled to direct the use of the asset over the whole period of use. The Company assesses whether it is entitled to direct "how and to what end" the asset shall be used over the whole period of use.

Assessing and recognising a lease as a lessee

On the start date of the lease the Company recognises a right-of-use asset or lease obligation in the balance. The a right-of-use asset is evaluated at prime cost which comprises of the original cost of the liability under the lease, all original direct costs incurred by the Company, an evaluation of all expenses for dismantling and disposal of the asset in the end of the lease, and all ease payments, incurred before the start date of the lease (excluding any received incentives).

The Company depreciates the a right-of-use asset on the straight-line base as of the start date of the lease to the earlier than the end of the useful life of the a right-of-use asset, or the end of the lease term. The Company also performs a review for impairment of the a right-of-use asset, when there are such indicators.

As at the start date the Company evaluates the lease obligation on the current value of the lease payments that were not paid as at that date, discounted, using the interest rate included in the lease contract. If this rate cannot be immediately determined the Company uses the interest rate that it should pay in order to borrow for a similar period of time, under similar collateral, the means required to obtain an asset of similar value in a similar economic environment.

Lease payments included in the evaluation of the lease obligation comprise fixed payments, variable payments based on an index or a rate, sums that are expected to be payable pursuant to residual value guarantee and payments arising from options, reasonably safe to be exercised.

After the start date the Company evaluates the liability under the lease increasing the carrying amount to reflect the lease liability interest, and decreasing the carrying amount to reflect the executed lease payments, and revalues the carrying amount of the liability to reflect revaluations or modifications to the lease contract, or to reflect the adjusted lease payments fixed in essence.

The Company is exposed to potential future increases in the variable lease payments based on an index or an interest rate that are not comprised in the lease liability until they are effected. When the adjustments in the lease payments come into effect, based on an index or interest, the lease obligation is revalued and adjusted against the asset with a right to use.

When the lease liability is revalued the respective adjustment is reflected in the a right-of-use asset or in the profit and loss, if the a right-of-use asset is already reduced to zero.

The Company chose to report the short-term lease contracts and lease contract where the main asset is of low value, using exemptions from the recognition requirements . Instead of recognising a right-of-use asset and a lease obligation, the payments related to them are recognised as an expense in the profit or loss on a straight line over the term of the lease.

The a right-of-use assets are included under the property, plant, and equipment in the statement of financial position, whereas the lease obligations are included under the trade and other liabilities.

The Company as a lessor

The accounting policy of the Group as regards IFRS 16 has not changed since the comparative period.

As a lessor the Company classifies its lease contracts as operating or financial lease.

A lease is classified as a financial lease if it transfers in essence all risks and benefits related to the ownership of the main asset, otherwise it is classified as an operating lease.

Accounting policy applicable as of 01 January 2019

The Company as a lessee

Financial lease

The management applies an evaluation when considering the essence of the lease contract and whether it transfers in essence all risks and benefits related to the ownership of the leased asset. The major factors considered include the duration of the lease term in relation to the economic life of the asset, present value of the minimum lease payments in relation to the asset's fair value, and whether the Company gains ownership of the asset in the end of the lease term.

Operating lease

All other lease contracts are treated as operating lease. When the Company is lessee, the payments under operating lease contracts are recognised as an expense on a straight-line basis over the lease term. The costs related to them, such as maintenance and insurance, are deducted when the costs are incurred.

The Company as a lessor

Lessors present the assets, subject to operating lease, in their statements of financial position in accordance with the assets' nature.

Lease payments under operating lease contracts are recognised as income on the straight-line basis over the lease term unless another systematic basis is more representative of the time pattern the use of which has reduced the benefit from the leased asset. The initial direct costs, incurred by the lessor with regards to the negotiation and settlement of the operating lease, are added to the carrying amount of the leased asset and are recognised as an expense, over the lease term, on the same basis as the one applied in respect of the lease income.

Lessors must recognise the total amount of expenses incurred for lease incentives under the lease contract provided by the lessor as a reduction of the lease income over the lease term on a straight line basis unless another systematic base is more representative of the time when the benefit from the leased asset decreases.

4.13. Impairment tests on investments in subsidiaries, intangible assets, investment properties, and property, plant and equipment

When estimating the amount of impairment, the Company defines the smallest identifiable group of assets, for which individual cash flows can be determined (cash-generating unit). As a result, some assets are subject to impairment tests on an individual basis, while others – based on the cash-generating unit.

All assets and cash-generating units are tested for impairment at least ones per year. All other separate assets, or cash-generating units, are tested for impairment when events, or changes in the circumstances, indicate that their carrying amount cannot be recovered.

The amount by which the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the latter being higher than the respective fair value net of all costs of disposal of the asset and its value in use, is recognised as impairment loss. When determining the value in use, the Company's Management calculates the expected future cash flows for each cash-generating unit and determines appropriate discounting factor in order to calculate the present value of these cash flows. The data, used in the impairment testing, are based on the latest approved budget for the company, adjusted, when needed, as to eliminate the effect of future reorganisations and significant improvements in the assets. The discounting factors are determined for each cash-generating unit, reflecting their risk profile as assessed by the Company's management.

Impairment losses from a cash-generating unit are recognised as a decrease of the carrying amount of the assets, from that unit. The company's Management subsequently assesses whether there are indications that the impairment loss of all assets, recognised in previous period, may no longer exist or may have decreased. Impairment recognised in a previous period is reversible if the recoverable amount of a cash-generating unit exceeds its carrying amount.

4.14. Investment properties

Investment properties are assessed initially at cost which comprises the purchase price and any expenses that are directly related to the investment properties, e.g. fees for legal services, taxes related to the transfer of the property, and other expenses related to the transaction.

An investment property is recognised as such, if it satisfies the following conditions:

- Complies with the definition of investment property;
- It is probable that the Company will obtain economic benefits, associated with the assets lease/rental; and
- Its value can be measured reliably.

The company applies the fair value model for subsequent measurement of the investment property.

Fair value is the price at which the property may be exchanged between informed and willing parties, in a fair transaction between them. Fair value reflects the market conditions as at the date of preparation of the financial statements. Investment properties are revalued on an yearly basis and are included in the statement of financial position at their market values.

Gains/losses arising from changes in the fair value of investment property are included in the net profit or loss for the period in which the gains/losses are incurred.

Transfers of assets to, or from, the investment property group are only made when there is a change in their use, evidenced by:

- Commencement of use by the company - transfers from investment property to property used by the owner;
- Commencement of development with the purpose of selling – transfer from investment property to inventories;
- End of use by the Company and leasing to third parties - transfer from property used by owner to investment property;
- Commencement of an operating lease, of an asset presented as inventory, to another party – transfer from inventories to investment property.

When the use of an investment property changes so that it is reclassified in PPE, its fair value at the reclassification date becomes its acquisition cost to be used in subsequent measurement.

When property used by the Company becomes investment property carried at fair value, all differences between the carrying amount of the property, in accordance with IAS 16, and its fair value at the date of the change in its use, are carried as revaluation, in accordance with IAS 16.

The carrying value of an investment property is derecognised on sale, when entering in a finance lease, or when no future economic benefits are expected from the property's use.

The Company derecognises its investment properties when selling them or upon their permanent disposal, in the event no economic benefits are expected from their disposal. Gains or losses arising from their disposal or their sale are recognised in the statement of profit or loss and other comprehensive income, and are defined as the difference between the net proceeds from the asset disposal and its carrying value.

4.15. Financial instruments

A financial instrument is any contract that generates a financial asset of an enterprise and a financial liability or an equity instrument of another entity.

A financial asset is any asset that represents: cash, an equity instrument of another entity, a contractual right to acquire or exchange under potentially favourable terms cash or financial instruments with another entity, and a contract to be settled with equity instruments of the Company and is a non-derivative, it may or will obtain a variable number of its equity instruments or a derivative that can or will be settled by exchanging a fixed amount of cash or other financial assets against a fixed number of own equity instruments.

A financial asset is any asset that represents: a contractual right to provide or exchange under potentially unfavourable terms cash or financial instruments with another entity, and a contract to be settled with equity instruments of the issuer and is a non-derivative, with which the Company may or will obtain a variable number of its equity instruments or a derivative that can or will be settled in a way different from exchanging a fixed amount of cash or other financial assets against a fixed number of equity instruments of the Company.

4.15.1. Financial assets

Initial recognition and classification

The Company initially recognises a financial asset at the time it becomes a party to a contractual arrangement and classifies it according to the business model for managing financial assets and the characteristics of the contracted cash flows.

The Company classifies its financial assets according to their subsequent valuation in three categories: 'financial assets measured at amortised cost', 'financial assets measured at fair value through other comprehensive income' or 'financial assets at fair value through profit or loss', as appropriate, under the

contractual terms of the instruments and the established business models in the Company in accordance with IFRS 9.

The Company's business model of the financial assets management refers to the way in which it manages its financial assets to generate cash flows. The business model determines whether cash flows will result from the collection of contractual cash flows, the sale of financial assets, or both.

The management of the Company has determined that the financial assets representing cash in banks, trade receivables, other receivables, litigations and writs receivables and receivables from related parties are held by the Company in order to obtain the agreed cash flows and are expected to generate cash flows, representing only payments of principal and interest (business model applied). Those financial assets have been classified and will be subsequently measured under IFRS 9 at amortised cost.

Initial measurement

Initially, all financial assets, excluding trade receivables, are measured at their fair value plus direct transaction costs if they are not carried at fair value through profit or loss when initially recognised as net of transaction costs. Trade receivables that do not have a significant component of financing and for which the Company applies the practically feasible measure under IFRS 15 in this respect are initially measured at the transaction price in accordance with IFRS 15.

Subsequent measurement and presentation

For the purposes of subsequent measurement and presentation, financial assets are classified into one of the following categories: 'Financial assets measured at amortised cost' (debt instruments), 'financial assets measured at fair value through other comprehensive income with reclassification of accumulated profit or loss (debt instruments)', financial assets measured at fair value through other comprehensive income, without reclassification of accrued gains or losses at derecognition' (equity instruments) or 'financial assets measured at fair value through profit or loss' (debt and equity instruments).

Financial assets at amortised cost (debt instruments)

This category includes cash in banks, trade receivables, other receivables, litigations and writs receivables and receivables from related parties and loans granted. This category of financial assets is the most significant for the Company.

The Company measures and evaluates financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the purpose of holding financial assets in order to collect contractual cash flows;
- The agreed terms of the financial asset result in certain dates of cash flows, which are only payments of principal and interest on the outstanding principal.

Subsequent measurement is carried out using the 'effective interest' method through which interest income is calculated using the effective interest rate applied to the gross carrying amount of the instruments. For assets purchased or created with initial credit impairment and those with a recognised credit impairment, the effective interest rate corrected for credit losses, respectively, and the effective interest rate, respectively, apply to the amortised cost of the asset.

Financial assets in this category are subject to impairment testing at the date of each financial statement of the Company, the changes being reflected in profit or loss.

Profits or losses are recognised in profit or loss when the asset is derecognised, changed or impaired.

Financial assets measured at fair value through other comprehensive income (equity instruments)

Upon initial recognition, the Company classifies the investments in equity instruments in this category when they meet the definition of equity in accordance with IAS 32 'Financial Instruments: Presentation' and are not held for trading.

Subsequent measurement of this instrument category is carried at fair value and changes are recognised in other comprehensive income. Fair values are determined on the basis of prices quoted on an active market, and when there is no one based on measurement techniques, usually an analysis of the discounted cash flows.

Profits or losses from these financial assets are never reclassified in the profit or loss. The dividends are recognised in the 'financial income' item in the separate profit or loss and other comprehensive income statement when the payment right is established. Equity instruments designated at fair value in other comprehensive income are not subject to impairment.

Financial assets at fair value in profit or loss

The Company estimates all other financial assets other than those that are measured at amortised cost or at fair value through other comprehensive income at fair value through profit or loss.

In case that this eliminates or significantly reduces the discrepancy in the measurement or recognition of a financial asset that would result from recognition of results and changes based on different bases, the Company may apply the exemptions in accordance with IFRS 9 and upon initial recognition to irrevocably designate a financial asset as measured at fair value through profit or loss, including contracts for delivery of a non-financial item. Such financial assets are presented in the notes to the separate financial statement separately from the other instruments for which this measurement approach is mandatory.

Derecognition

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised when the contractual rights to the cash flows of the asset have expired or the Company has transferred its rights to receive cash flows from the asset or it took the obligation to fully pay up all the cash flows received without significant delay to a third party under a 'transfer' agreement.

When a financial asset is derecognised in its entirety, the difference between (1) the carrying amount (measured at the date of derecognition) and (2) the consideration received (including any new asset received without the new assumption of a new liability) shall be recognised in the profit or loss.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a transfer agreement, it assesses whether and to what extent the risks and benefits of ownership are preserved. When it neither transfers nor substantially retains all the risks and benefits from the asset nor transfers control over the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In this case, the Company recognises a related liability. The transferred asset and the related liability are measured on a basis that reflects the rights and obligations that the Company has retained.

(c) Impairment of financial assets

The Company recognises provisions for expected credit losses for all debt instruments that are not reported at fair value through profit or loss using the approach presented in the table below:

| | Type of financial asset | IFRS 9 category | Impairment approach |
|---|---|---|-----------------------|
| 1 | Short-term trade receivables | Debt instruments measured at amortised cost | Simplified approach |
| 2 | Trade receivables containing financing component | Debt instruments measured at amortised cost | Standardised approach |
| 3 | Trade receivables from related parties | Debt instruments measured at amortised cost | Simplified approach |
| 4 | Receivables from related parties with a financing component | Debt instruments measured at amortised cost | Standardised approach |
| 5 | Proceeds from loans | Debt instruments measured at amortised cost | Standardised approach |
| 6 | Cash and cash equivalents | Debt instruments measured at amortised cost | Standardised approach |
| 7 | Impairment of receivables from | Debt instruments measured at | Simplified approach |

| litigations and writs | amortised cost |
|-----------------------|----------------|
|-----------------------|----------------|

Expected credit losses are a probability-weighted assessment of credit losses (i.e. the present value of each shortage of money) over the expected term of the financial instrument. Monetary deficiency is the difference between the cash flows payable to the Company in accordance with the contract and the cash flows that the Company expects to receive. As the expected credit losses account for the amount and timing of payments, an expected credit loss is recognised even if the Company expects the asset to be fully paid but later than the due date.

Impairment and losses on financial instruments are dealt with in three stages, the first two being the expected credit losses for losses that may arise as a result of a non-performance, and the third as credit impairment (loss), based on evidence of potential or actual non-performance under the instruments.

Estimated credit losses for expositions for which there is no significant increase in the credit risk relative to the initial recognition are recognised for credit losses that may arise as a result of non-performance events over the next 12 months. For credit expositions for which there is a significant increase in the credit risk after the initial recognition, a loss adjustment for the expected credit losses over the remaining life of the exposition is required, regardless of the time of non-performance (ECL over the whole life of the instrument).

For trade receivables and contract assets arising from transactions in the scope of IFRS 15 that do not contain a significant component of financing, the Company applies a simplified approach in accordance with IFRS 9 by recognising an allowance for impairment loss for expected credit losses based on the expected credit loss for the full term of the receivables at each reporting date. The Company applies a matrix that calculates the expected credit losses on trade receivables. Receivables are classified in arrears and are grouped by type and client segments with different credit loss models.

For baseline data on trade receivables, the Company uses its accumulated experience of credit losses on such instruments to measure expected credit losses. The historical data used is for back periods of 3 to 5 years, grouped by type and corresponding client segment models, and adjusted by forecast factors specific to debtors and the industry concerned.

For cash in banks, the Company recognises impairment for expected credit losses by applying the Standardised Approach and the credit rating of the financial institutions in which the Company has deposited its cash is used to determine the loss from non-performance in the model parameters.

At each reporting date, the Company sets the depreciation value for each instrument to the amount equal to the expected lifetime losses, if the credit risk for that instrument has increased significantly since the initial recognition.

In case that the credit risk for a financial instrument has not increased significantly since the initial recognition at the reporting date, the impairment for that financial instrument is equal to the expected 12-month credit losses.

4.15.2. Financial liabilities

Initial recognition, classification and measurement

The Company recognises a financial liability in the separate statement of financial position only when it becomes a party to the contractual terms of the financial instrument.

Upon initial recognition, financial liabilities are classified as: 'Financial liabilities subsequently measured at amortised cost' (loans and borrowings, trade and other payables) or 'financial liabilities at fair value through profit or loss'.

Initial recognition occurs at the settlement date and is carried at fair value plus, in the case of financial liabilities that are not reported at fair value through profit or loss, directly attributable to the acquisition or issue of the financial liability. Loan management fees are deferred over the borrowing period using the effective interest method and are included in the amortised cost of the loans.

The financial liabilities of the Company include loans, trade and other payables and payables to related parties.

According to their repayment term, financial liabilities are classified as long-term and short-term.

Subsequent measurement

The subsequent financial liabilities measurement depends on their classification as described below:

Financial liabilities carried at fair value in profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated at their initial recognition at fair value through profit or loss.

Financial liabilities are classified as held for trading if they have been made with the purpose of repurchasing in the foreseeable future.

Profits or losses from liabilities held for trading are recognised in the separate profit or loss and other comprehensive income statement.

Financial liabilities designated at their initial recognition at fair value through profit or loss are determined at the initial recognition date, only if the criteria in IFRS 9 are met.

The Company has not designated financial liabilities as reported at fair value in profit or loss.

Financial liabilities measured at amortised cost

The category 'financial liabilities at amortised cost' includes borrowings, trade payables and other payables where the Company has become a party to a contract or an agreement and shall be settled in net cash. This category has the most significant share for the Company's financial instruments and for the Company itself as a whole.

Financial liabilities are subsequently measured at amortised cost using the effective interest rate method. The amortised cost is calculated, taking into account any discount or premium on acquisition, also fees or expenses that are an integral part of the effective interest rate. Expenses (calculated using the effective interest method) is included as financial expense in the separate profit or loss and other comprehensive income statement in line 'Financial expenses'.

For financial liabilities carried at amortised cost, a gain or loss is recognised in the profit or loss for the period when the financial asset or financial liability is derecognised or impaired also through the amortisation process.

On initial recognition, trade liabilities are recognised at nominal value and subsequently measured at amortised cost, net of all payments for debt settlement.

Dividends payable to the sole shareholder are recognised when the dividends are approved by the General Assembly.

Derecognition

The Company derecognises a financial liability only when it settles (fulfils) the obligation, the liability expires or the creditor waives its rights.

When an existing financial liability is replaced by another from the same lender under completely different conditions or the conditions of the existing obligation are significantly changed, such a replacement or a change shall be treated as disposal of the initial obligation and recognition of a new liability. The difference in the respective carrying amounts is recognised in the separate statement of profit or loss.

The difference between the financial liability carrying amount, either settled or transferred to another party, and what was paid for the settlement, including money and transfer of non-monetary assets, is recognised in profit or losses for the period.

Compensation of financial instruments

Financial assets and financial liabilities are compensated and the net amount is accounted in the separate statement of financial position in case there is an acting legal right to compensate recognised amounts and the Company intends to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

4.16. Inventories

Inventories include materials, work-in-progress, and goods. The cost of inventories comprises the direct costs of purchase or production, the costs of conversion and other direct costs, incurred in bringing the

inventories to their present condition and location, as well as part of the production overheads, determined based on the normal production capacity. Financial costs are not included in the cost of inventories. At the end of each reporting period, inventories are carried at the lower of cost and net realisable value. The amount of any impairment of inventor to net realisable value is recognised as an expense in the period of impairment.

The net realisable value is the estimated selling price of inventory less the estimated cost of completion of the production cycle and the estimated cost of sales. When inventory is impaired to net realisable value and in a subsequent reporting period it is established that the circumstances, which previously caused the inventory to be impaired no longer exist, the new realisable value of the inventory is adopted. The amount of the reversal is limited to the carrying amount of inventory, prior to die impairment. The reversal of inventory is treated as a decrease in the cost of inventory for the period in which the reversal occurs.

The company estimates the cost of inventories by using the weighted average method.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the respective earning is recognised.

Nuclear Fuel

The fuel loaded into the reactors represents the remaining value (residual life) of nuclear fuel contained in the reactors at the reporting date.

Calculations are based on the well-established Methodology for Reporting Supplies, Stock and Cost of Fresh Nuclear Fuel, in NPP Kozloduy EAD, taking into account the value of fresh nuclear fuel, tanked in the respective fuel campaign, and the estimated fuel component, which is determined by dividing the value of the loaded in the reactor nuclear fuel by the estimated electric power, generated in the period, in KWh. The product of the gross energy, generated from the respective unit for the fuel campaign, and the fuel component represents the costs of nuclear fuel for the respective period.

4.17. Income tax

The tax expenses, recognised in profit or loss, comprise the amount of deferred tax and the amount of current tax that were not recognised in other comprehensive income or directly in equity.

Current tax assets and/or liabilities are those liabilities to, or receivables from, the tax authorities for the current or the prior reporting periods, which have not been paid as at the date of the financial statements. Current tax is due on the taxable income which is different from the profit or loss disclosed in the financial statements. Current tax calculations are based on the tax rates and the tax legislation, in force as of the reporting date.

Deferred tax is calculated using the equity method for all temporary differences between the carrying amount of the assets and of the liabilities, and their tax base. Deferred tax is not provided on the initial recognition of an asset or liability, unless the respective transaction does not affect the taxable profit or the accounting profit.

Deferred tax assets and deferred tax liabilities are not discounted. The tax rates, expected to be enacting in the reporting period when the deferred tax assets and deferred tax liabilities are realised, are used when calculating such, given that these are in force, or it is certain that they will come into effect in the end of the reporting period.

Deferred tax liabilities are recognised in full amount.

Deferred tax assets are recognised only when it is probable that they will be utilised through future taxable income. Refer to Note 4.23.8. for more information on the management's best estimate on the probability of future taxable income against which the deferred tax assets to be utilised.

Deferred tax assets and deferred tax liabilities are compensated only when the Company is entitled and intends to compensate the current tax assets and current tax liabilities from the same tax institution.

Changes in deferred tax assets and in deferred tax liabilities are recognised as a component of the tax income or expense in profit on loss, unless they are related to items recognised in other comprehensive

income or directly in equity. In such cases, the respective deferred tax is recognised in other comprehensive income or in equity.

4.18. Cash and cash equivalents

Cash and cash equivalents are comprised of the available cash in hand, cash at bank, current deposits, and short-term (up to 12 months) deposits.

4.19. Non-current assets and liabilities classified as held for distribution to the owner

When the Company has assumed a commitment to distribute an asset (or a disposal group) to the owner, the asset or the disposal group is classified as 'held for distribution to the owner' and it is presented separately in the separate statement of financial position. For that purpose, the assets must be available for immediate distribution in their current state and the distribution must be highly probable. For the distribution to be highly probable, actions to complete it must have been initiated and it should be expected that the distribution will be completed within one year as of the classification date. The actions that are required to complete the distribution should indicate that it is unlikely to make significant changes to the distribution or the distribution be withdrawn.

Liabilities are classified as held for distribution to the owner and are presented as such in the separate statement of financial position only if they are directly related to the disposal group.

Assets classified as 'held for distribution to the owner' are measured at the lower of their carrying amount immediately after their classification as 'held for distribution to the owner' and their fair value less the costs related to their distribution. The assets classified as 'held for distribution to the owner' are not depreciated or amortised after being classified as 'held for distribution to the owner'.

4.20. Equity, reserves, and dividend payment

The share capital of the company reflects the nominal value of the issued shares.

In accordance with the Commercial Act, legal reserves are formed from profit distributions.

Revaluation surplus of non-financial assets is formed based on the difference between the carrying amount of assets arising from property, plant, and equipment, and their fair value at the revaluation date, less the respective deferred tax liability.

The defined benefit plans revaluation surplus includes actuarial gains or losses occurring when determining the amount of liabilities related to retirement benefits and years of services.

Other reserves are formed from profit distributions in accordance with the decisions of the Sole Owner.

Retained earnings include the current financial result and accumulated profit as well as uncovered losses from prior periods.

Liabilities to pay dividends to the sole shareholder are included under "Related parties' payables" in the separate statement of financial position, when dividends are approved for distribution by the sole shareholder, before the end of the reporting period.

All transactions with the company's owner are presented separately, in the separate statement of changes in equity.

4.21. Retirement and short-term employee benefits

The Company reports current liabilities under compensated absences, arising from unused annual paid leaves, in cases when these leaves are expected to be used within 12 months after the end of the reporting period during which the employees have provided labour, related to those leaves. Short-term obligations to employees include wages, salaries, and social security contributions.

The company must provide its personnel with retirement benefits, calculated in accordance with the defined benefit plans and the defined contribution plans.

Defined contribution plans are retirement plans, under which the Company pays fixed contributions to independent entities. The company has no other legal or contractual obligations after the payment of fixed contributions. The company pays fixed contributions under government (state) programmes and retirement contributions for its employees in respect of defined benefit plans. The Government of the

Republic of Bulgaria is responsible for the provision of pensions under defined benefit contribution plans. The expenses relating to the company's obligation to pay contributions under defined benefit plans are recognised currently, in profit or loss, in the period in which the respective services are received by the employee.

Plans that do not meet the definition of defined contribution plans are identified as defined benefit plans. Defined benefit plans are retirement plans based on which the amount of money an employee will receive upon retirement is determined taking into consideration the employee's years of service and based on the last remuneration received. The legal liabilities for defined benefits payments remain liabilities of the Company.

In accordance with Art. 222, para. 3 of the Labour Code (LC) in Bulgaria and the Collective Labour Agreement (CLA), the Company, as an employer, is obliged to pay its employees a certain number of gross monthly salaries upon retirement. The number of these gross monthly salaries depends of the years of service and the labour category, as follows:

In accordance with Art. 222, para. 3 of the LC, after an employee has obtained the right to retirement, based on his/her years of services and age, the company is obliged to pay him/her one-off compensation in the amount of two gross salaries. In cases when the retiring employee has worked for the the Company for at least 10 (ten) years and has received a notification, within the CLA framework, under Art. 49 that he/she has obtained the right to retirement (based on his/her years of service and age) under Art. 68 or Art. 69 (b) of the SIC, in addition to the compensation, due under Art. 222, para. 3 of the CL, that employee obtains and the right to additional compensation.

In accordance with Art. 48 of the Collective Labour Agreement, when employment relations are terminated on the grounds of Art. 325, para. 1, item 9 and Art. 327, para. 1, item 1 of the Labour Code, and given that in the last 5 years the employee, or the worker, who is being dismissed/retired has not received any compensation on such grounds, the employee or worker is entitled to compensation as per Art. 222, para. 2 of the Labour Code, amounting to his/her gross labour remuneration, if the employee or worker has served Kozloduy NPP EAD, prior to his/her dismissal:

- Between 5 and 10 years of service – 10 gross salaries;
- Between 10 and 15 years of service – 12 gross salaries;
- Between 15 and 20 years of service – 14 gross salaries;
- Between 20 and 25 years of service – 16 gross salaries;
- Between 25 and 30 years of service – 18 gross salaries;
- Over 30 years of service – 20 gross salaries.

In accordance with Article 50 of the Collective Labour Agreement, an employee or worker is entitled to additional compensation, further to the compensations provided in compliance with Article 222(3) of the Labour Code. This additional compensation is determined by multiplying the years of service under Labour Category 1 by 1.66, plus the number of years of service under Labour Category 2 multiplied by 1.25, plus the number of years of service under Labour Category 3. The result is then multiplied by a coefficient of 1.0.

The retirement defined employee benefit plan is not funded.

The liabilities, recognised in the separate statement of financial position, relating to defined benefit plans, represent the present value of the liabilities to pay defined benefits as at year-end.

The Company's Management estimates the liabilities under defined benefits, on an annual basis, with the help of an independent actuary, using the estimated credit unit method. The estimates of such liabilities are based on standard inflation rates, estimated personnel turnover, and mortality. Future salary increases are also taken into account. Discounting factors are determined at each year-end with consideration made of high-yield government securities that are denominated in the currency in which the benefits will be paid and have terms to maturity approximating the terms of the related pension obligations.

Actuarial gains and losses under defined benefits are recognised in other comprehensive income in the period of their occurrence.

When employment relations are terminated due to illness, the retiring worker or employee is entitled to compensation, payable by the company in accordance with Art. 222, para. 2 of the LC and the CLA, given that in the last 5 years of service he/she has not received any compensation on these grounds and he/she has served Kozloduy NPP EAD prior to his/her retirement (dismissal).

Actuarial gains or losses, associated with estimating the liabilities under long-term retirement employee benefits due to illness are recognised in profit or loss for the period.

Interest expenses, relating to retirement (pension) liabilities, are included in the separate statement of profit or loss and other comprehensive income, under 'Finance costs'. All other expenses incurred in respect of retirement remunerations are included under 'Employee benefit expenses'.

The current employee benefits, including and the entitled leaves, are included in current liabilities, under 'Trade and other payables', at the non-discounting amount that the Company expects to pay.

4.22. Provisions, contingent liabilities and contingent assets

Provisions are recognised when it is probable that the present obligations, as a result of past events, will result in an outflow of resources from the company and the liability can be reliably estimated. The validity or the amount of the cash outflows may be uncertain. Present obligations arise from legal or contractual obligations as a result of past events, for instance – decommissioning of nuclear facilities, legal disputes, or onerous contracts. Provisions for restructuring are recognised only when a detailed formal restructuring plan is designed and applied, or when the management has announced to those affected by the restructuring the key points of the restructuring plan. Provisions for future operating losses are not recognised.

The amount recognised as provision is calculated based on the most reliable estimate of the expenses required to settle a current liability at the end of the reporting period, taking into account the risks and uncertainties, associated with the current liability. When a number of such liabilities exist, the possible need of outflows to settle these liabilities is determined by accounting for the liabilities group as a whole. Provisions are discounted when the effect of the temporary differences in the value of money is significant.

Compensations from third parties, relating to given obligation, for which there is reasonable certainty that will be obtained by the company, are recognised as a separate asset. This asset may not exceed the amount of the respective provision.

Provisions are reviewed at the end of each reporting period and their amounts are adjusted to reflect the best estimates.

Liabilities are not recognised when an outflow of economic resources is highly unlikely to arise as a result of current obligations. Contingent liabilities should be subsequently measured at the higher value between the comparable provision described above and the initially recognised amount, less the accumulated amortisation.

Probable inflows of economic resources which do not currently meet the criteria to recognise assets, are regarded as contingent assets.

4.23. Estimates, which are of significant importance in the application of the Company's accounting policy. Key best estimates and assumptions with high level of uncertainty

4.23.1. Useful life of depreciable assets

The financial reporting of property, plant, and equipment and of intangible assets includes the use of estimates of their expected useful life and residual values, based on the best estimates of the Company's Management. As at 31 December 2019, the Management determined the useful life of assets - that being the expected period of the assets' use by the Company. The carrying amount of property, plant, and equipment is analysed in Note 5, and the carrying amount of intangible assets is analysed in Note 6.

4.23.2. Revenue from contracts with customers

When recognising revenues under contracts with customers, the Management makes various estimates, best estimates, and assumptions which influence the reported revenues, costs, and contractual assets and

liabilities. The key estimates and assumptions having substantial effect on the amount and term for recognition of revenues from contracts with customers are disclosed in Note 26.

4.23.3. Fair value measurement of financial instruments and non-financial assets

The Company determines the fair value of financial instruments and of non-financial assets, based on the available market information, or if such is not available - by appropriate valuation models. The fair value of financial instruments that are actively traded on organised financial markets is determined based on the quoted, as at the end of the reporting period's last working day, 'buying' prices. In the absence of an active market, the management uses reports of independent certified appraisers and employs various techniques to measure the fair value of financial instruments and non-financial assets. When applying these measurement techniques, the management uses at maximum the market data and assumptions which the participants would consider in measuring a financial instrument or non-financial asset. In the absence of applicable market data, the management uses its best estimate of the assumptions which the market participants would employ. These valuations may differ from the actual prices, which would be determined at a fair market transaction between well-informed and willing parties at the end of the

reporting period.

The Company subsequently accounts for major groups of property, plant, and equipment, investment property at revalued amounts, and financial instruments at fair value through other comprehensive income using reports of independent external appraisers in determining their fair value. Detailed information about the revaluation, employed valuation methods, basic assumptions and estimates used in determining the fair value is disclosed in Note 4, Note 5, and Note 6.

The Management believes that the fair values of property, plant and equipment, and investment property, as well as of financial instruments, including cash and cash equivalents, trade and other receivables, granted and obtained loans, trade and other payables, and other financial assets, do not differ from their carrying amounts, especially if they are of current nature, or if the applicable interest rates fluctuate according to the market conditions.

4.23.4. Inventories

Nuclear Fuel

Calculations are based on the approved Methodology for Reporting Supplies, Reloads, and Cost of Fresh Nuclear Fuel at Kozloduy NPP EAD, taking into account the cost of loaded fresh nuclear fuel during the respective fuel cycle and estimated fuel component determined by dividing the cost of the nuclear fuel loaded into the reactor by the estimated electric power generated throughout the period, in KWh. The product of the gross energy generated by the respective unit for the period of the fuel cycle multiplied by the fuel component represents the costs of nuclear fuel for the respective period.

Measurement

Inventory, of carrying amount as at 31 December 2019 of BGN 54,303 thousand (31 December 2018: BGN 60,018 thousand), is measured at the lower of the original cost and its net realisable value. To measure the net realisable value, the management considers the most reliable information at hand as at the estimation date and uses the reports of independent certified appraisers.

4.23.5. Pension and other employee obligations

Liabilities for retirement benefits are determined based on actuarial valuations. Those valuations require certain assumptions to be made regarding the discounting rate, future increase in salaries, personnel's turnover, and mortality rates. Due to the long-term nature of the liabilities for retirement benefits, these assumptions are subject to substantial uncertainty. As at 31 December 2019, the Company's liabilities for retirement benefits recognised in the separate statement of financial position amounted to BGN 118,979 thousand (31 December 2018: BGN 65,088 thousand). Additional information on the liabilities for retirement benefits is disclosed in Note 21.

4.23.6. Impairment of investments in subsidiaries, intangible assets, investment property and property, plant and equipment

The amount by which the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the latter being higher than the respective fair value net of all costs of disposal of the asset and its value in use, is recognised as impairment loss. When determining the value in use, the Company's Management calculates the expected future cash flows for each cash-generating unit and determines appropriate discounting factor in order to calculate the present value of these cash flows. In calculating the estimated future cash flows, the Management employs certain assumptions regarding the future gross profits. Those assumptions are related to future events and circumstances. The actual results could differ from these estimates and may require significant adjustments to the Company's assets in the next reporting period. In most cases, the appropriate adjustments related to the market risk and risk factors specific to the separate assets are measured when determining the applicable discounting factor.

The Company did not report impairment losses for non-current assets during the current period (in 2018 losses to the amount of 7,632 for property, plant, and equipment).

4.23.7. Impairment of loans and receivables

Recognition and measurement of expected credit losses from debt instruments measured at amortised cost

Approach to impairment of cash at banks

Cash and cash equivalents are the most liquid financial instruments. They are not carriers of settlement risk, and the liquid risk they carry is limited to the technical capability for a specific disposition of the latter not to be settled. Cash deposits at banks are, however, carriers of credit risk from contractors (settlement risk). The risk from contractors represents the probability for the failure of the other party to a financial transaction to fulfil its contractual obligations. The Company applies the standardised approach to the calculation of expected credit losses of cash at banks using, as a model parameter, the credit rating of the financial institutions where the Company has deposited its cash to measure the settlement loss. As at 31 December 2019, the Management's best estimate on the expected credit losses of cash at banks amounted to BGN 1,471 thousand. (31 December 2018: BGN 914 thousand) (Note 15)

In 2019 the Company performed a review of the methodology and the assumptions used for the best estimate of the expected credit losses over the previous reporting period, in order to decrease the differences between the best estimates and the factual credit losses. With regards to the review, the Company has changed its impairment model when calculating expected credit losses of cash at banks.

Approach to impairment of short-term trade and other receivables and receivables from related parties

The Company applies a simplified approach to the calculation of expected credit losses for trade receivables which do not contain a financing component.

For the purpose of determining the expected credit losses, customer modelling is performed at the industry level. Modelling is the intrinsic representation of the financial risk the customers carry to the companies within the Company.

The expected credit losses are calculated for every single receivable (invoice, interest list, etc.) binding a contractor, adjusted on the basis of delinquent days and standard payment cycle on behalf of the contractor. The average number of delinquent days per customer is determined based on historical data for the period of repayment of receivables from customers. The retrospective review covers a period of 3 to 5 years.

For the purpose of calculating the expected credit losses, for financial assets resulting from contracts with energy sector contractors, the Company has identified additional risk. Thus, trade receivables resulting from the above contractors are considered receivables of higher risk.

Additional risk is identified based on historical data on the collectability of the Company's receivables from contractors of the above industry, including poor financial position, liquidity problems, and other challenges concerning mostly electricity traders.

The risk factors identified in this manner are considered indications of a possible increase of the credit risk. The quantitative effect of increase in credit risk for energy sector contractors is determined based on the establishment of an additional sector, *High Risk Energy*, where the specific risk component has been added to be used for determination of the discounting rate which is used to measure impairment. The assessment of the ratio between the historical data on default, estimated economic conditions, industrial sector risk assessment and the amount of expected credit losses represents a substantial estimate. Information about the impairments of the Company's expected credit losses is presented in Note 14. As at 31 December 2019, the management's best estimate of expected credit losses from trade and other receivables and receivables from related parties is presented in Note 35.

Approach to impairment of granted loans, trade receivables, and receivables from related parties containing a financing component

The Company applies an individual approach to impairment of receivables containing a financing component and granted loans. The impairment model is based on the cash flows negotiated in the conditions of the relevant financial instrument as well as the assumptions and estimates concerning expected cash flows and realisability of the financial asset which has been adopted by the management for the preparation of the financial statements.

Expected credit losses are a probability-weighted assessment of credit losses (i.e. the present value of each shortage of money) over the expected term of the financial instrument. Monetary deficiency is the difference between the cash flows payable to the Company in accordance with the contract and the cash flows that the Company expects to receive. Because the expected credit losses account for the amount and timing of payments, an expected credit loss is recognised even if the Company expects the asset to be fully paid but later than the due date.

Based on the characteristics of the asset and contractor, it is possible for the expected future cash flows from the asset to differ significantly from the contractual ones. This would result in significant levels of the expected credit losses from the asset.

At each year-end, a review of the expected future cash flows from each specific asset is performed.

In 2019 the Company performed a review of the methodology and the assumptions used for the best estimate of the expected credit losses over the previous reporting period, in order to decrease the differences between the best estimates and the factual credit losses. With regards to the review, the Company has changed its impairment model when calculating expected credit losses of long-term trade and other receivables and receivables from third parties with a financial component.

Approach to impairment of receivables from litigations

In case the Company takes legal actions to collect its receivables, the latter are be classified as litigation receivables. This type of receivables are characterised by total delinquency, i.e. refusal or incapacity of the Customer to settle its obligation. Thus, regardless of any court decisions and initiated executive procedures, collectability of those receivables and expected future incoming cash flows, respectively, are low, while the probability of delinquency has already occurred in respect of the original asset, i.e. equals 100%.

The expected credit losses represent the sum of the expected credit losses for each litigation receivable, based on the historical collectability of this asset class. Further information is disclosed in Note 14.

4.23.8. Deferred tax assets

The estimation of the probability of realising deferred taxable income, against which the deferred taxable assets are to be utilised, is based on the latest approved budgeted estimate, adjusted to reflect the significant non-taxable income, and expenses, and the specific limitations to transfer unused taxable losses and credits. The tax rates in the different jurisdictions, in which the company operates, are also taken into account. If the reliable estimate of taxable income implies the probable use of a deferred tax asset, especially in cases when the asset can be used without any time restrictions, the deferred tax asset is recognised in full. Recognition of deferred tax assets that are subject to certain legal or economic limitations, or uncertainty, is assessed by the Management on a case-by-case basis, taking it into consideration the specific facts and circumstances.

4.23.9. Provisions

Provision of transport, processing and storage of spent nuclear fuel

In accordance with the effective Strategy for Management of the Spent Nuclear Fuel and Radioactive Waste until 2030, adopted by a decision of the Council of Ministers on 2 September 2015, the Company is obliged to transport at least 50 tons of heavy metal annually spent nuclear fuel (SNF) for reprocessing and storage in Russia, in the presence of favourable financial and economic conditions.

In 2018, a Framework Annex to the Contract for the transportation, temporary technological storage and reprocessing in Russia of 414 WWER-1000 SNF assemblies for the period 2019-2023 was signed with FSUE "Production Association Mayak", Russia, in coordination with the European Supply Agency, Euratom. Taking into account the lengthy nature of the preparatory activities for SNF transportation, including organisational and technical activities, preparation of the required documentation, obtaining certificates and permits, the first transport of WWER-1000 SNF for technological storage and reprocessing is planned to be carried out in the second half of 2020.

In 2019 the commitment under the Strategy for transportation of 50 tons of heavy metal spent nuclear fuel (SNF) from WWER-1000 was not fulfilled; therefore, provision costs for an obligation for transport of spent nuclear fuel from WWER-1000 for technological storage and reprocessing to the amount of BGN 40,828 thousand were accrued in the current expenses of Kozloduy NPP EAD. The amount of the accrued provision is based on the updated reliable estimate of the value of 1 transportation of WWER-1000 SNF (96 assemblies), in compliance with the Company's Accounting policies and the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

As at the end of the reporting period, ending 31 December 2019, the amount of the recognised provision required to cover the current obligation for SNF management is BGN 81,652 thousand, including the value of the unfulfilled transportations of WWER-1000 SNF for technological storage and reprocessing for 2018 and 2019.

Provision for decommissioning of nuclear facilities

In accordance with the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, liabilities whose value and occurrence over time are uncertain are recognised as provisions. Provisions are recognised only if the following conditions are met:

- the entity has a present obligation, arising from a past event;
- it is possible that an outflow of economic resources of the company is required to settle the obligation; and
- a reliable estimate of the value of the obligation can be made.

Based on the requirement of the standard for the 'reliable estimates' concept, the Company did not accrue expenses for provisions for 'decommissioning of nuclear facilities' and for 'safe storage of the spent nuclear fuel', for the following reasons:

- The Company is subject to specific regulations - the Safe Use of Nuclear Energy Act, the Regulation on Pricing and Decrees for the Raising Funds in Radioactive Waste Fund (RAWF) and Decommissioning of Nuclear Facilities Fund (DNFF) adopted by the Council of Ministers. In accordance with the requirements of these regulations, current expenses for contributions due to those funds, which are transferred to budget accounts, are accrued in the separate statement of profit or loss and other comprehensive income. In compliance with the principle of "comparability of revenues and expenses", under the Accountancy Act, an expense up to the amount of the due contributions to the DNF Fund and RAW Fund is recognised in the price of electricity for the regulated market, as defined by the EWRC.

- In connection with the agreements with the European Commission for early closure of Units 1 to 4, the State has agreed funding from external sources for the construction of dry spent fuel storage facility (DSFSF), and to cover the expenses, incurred for salaries and social security costs of the personnel, employed on Unit 3 and Unit 4, as well as other financing;

- Pursuant to Decision No. 839 of the Council of Ministers, in December 2008 the assets of Unit 1 and Unit 2 were transferred for free from Kozloduy NPP EAD to SE RAW, Sofia, whose principal activity is "decommissioning." By Decision No. 1038 of the Council of Ministers dated 19 December 2012, the Kozloduy NPP EAD Units 3 and 4 were declared facilities for radioactive waste management

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and their management was transferred to SE RAW. On 1 March 2013 the assets belonging to Units 3 and 4 together with the respective personnel were transferred to SE RAW.

According to the regulatory requirements, when the implementation of the decommissioning project proves to be more expensive than the estimates approved by the Management Board of the Decommissioning of Nuclear Facilities Fund, the necessary additional costs shall be covered by the entity which last operated the nuclear facility (in this case, Kozloduy NPP). Since as at the date of approval of the separate financial statements no estimate of the forecast costs of the project has been made by the Decommissioning of Nuclear Facilities Fund, the Company is unable to estimate reliably the liability and has not recognised a provision for decommissioning of nuclear facilities as at 31 December 2019 and 31 December 2018.

5. Property, plant and equipment

The carrying amounts of the property, plant and equipment for the reporting period can be analysed as follows:

| | Lands and buildings | Plant, machines and equipment | Vehicles | Fixtures and other assets | Acquisitio n costs | Assets with a right to use | Total |
|---|------------------------|-------------------------------------|--------------|---------------------------------|-----------------------|-------------------------------------|------------------|
| | BGN '000 | BGN '000 | BGN '000 | BGN '000 | BGN '000 | | BGN '000 |
| Gross carrying amount | | | | | | | |
| Balance at 01.01.2019 | 465,803 | 1,917,674 | 7,999 | 67,091 | 221,696 | - | 2,680,263 |
| Additions | 1,340 | 85,100 | 933 | 930 | 186,975 | 896 | 276,174 |
| Disposals | (217) | (3,770) | (212) | (128) | (189,001) | - | (193,328) |
| Decrease from assets held for distribution to owners | (1,069) | (8,677) | - | (6) | (47,541) | - | (57,293) |
| Revaluation at the expense of accumulated depreciation | (217) | (2,799) | - | - | - | - | (3,016) |
| Balance at 31.12.2019 | 465,640 | 1,987,528 | 8,720 | 67,887 | 172,129 | 896 | 2,702,800 |
| Depreciation | | | | | | | |
| Balance at 01.01.2019 | (2,632) | (83,961) | (1,075) | (48,256) | - | - | (135,924) |
| Amortisation | (10,658) | (149,919) | (941) | (4,065) | - | (105) | (165,688) |
| Disposals | 217 | 3,484 | 124 | 126 | - | - | 3,951 |
| Decrease from amortisation of assets held for distribution to owners | - | 10 | - | 6 | - | - | 16 |
| Revaluation at the expense of accumulated amortisation | 217 | 2,799 | - | - | - | - | 3,016 |
| Balance at 31.12.2019 | (12,856) | (227,587) | (1,892) | (52,189) | - | (105) | (294,629) |
| Carrying amount as at 31 December 2019 | 452,784 | 1,759,941 | 6,828 | 15,698 | 172,129 | 791 | 2,408,171 |

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| | Lands and buildings | Plant, machines and equipment | Vehicles | Fixtures and other assets | Acquisitio n costs | Total |
|--|------------------------|-------------------------------------|--------------|---------------------------------|-----------------------|------------------|
| | BGN '000 | BGN '000 | BGN '000 | BGN '000 | BGN '000 | BGN '000 |
| Gross carrying amount | | | | | | |
| Balance at 01.01.2018 | 502,931 | 2,305,844 | 9,656 | 66,670 | 253,338 | 3,138,439 |
| Additions | - | 101,423 | 1,046 | 583 | 73,282 | 176,334 |
| Disposals | - | (12,147) | (58) | (162) | (104,924) | (117,291) |
| Revaluation recognised in equity | 12,937 | 21,753 | 144 | - | - | 34,834 |
| Impairment recognised in equity | (106) | (15,752) | (7) | - | - | (15,865) |
| Impairment recognised in profit or loss | (7,359) | (271) | (2) | - | - | (7,632) |
| Impairment recovered in profit or loss | 26 | 93 | 12 | - | - | 131 |
| Revaluation at the expense of accumulated depreciation | (42,626) | (483,269) | (2,792) | - | - | (528,687) |
| Balance at 31 December 2018 | 465,803 | 1,917,674 | 7,999 | 67,091 | 221,696 | 2,680,263 |
| Depreciation | | | | | | |
| Balance at 01.01.2018 | (32,086) | (401,526) | (2,780) | (44,444) | - | (480,836) |
| Depreciations | (13,172) | (177,620) | (1,129) | (3,969) | - | (195,890) |
| Disposals | - | 11,916 | 42 | 157 | - | 12,115 |
| Revaluation at the expense of accumulated depreciation | 42,626 | 483,269 | 2,792 | - | - | 528,687 |
| Balance at 31 December 2018 | (2,632) | (83,961) | (1,075) | (48,256) | - | (135,924) |
| Carrying amount at 31 December 2018 | 463,171 | 1,833,713 | 6,924 | 18,835 | 221,696 | 2,544,339 |

Review for revaluation

In accordance with the Company's accounting policies property, plant and equipment are revalued once every 3 years, or at shorter intervals. Investment properties was measured at fair value as at 31 December 2018 in accordance with the requirements of IAS 16 and IFRS 13. The revaluation is based on measurement of their fair values by the independent certified appraiser Consortium GTFRP.

In accordance with IFRS 13 „Fair Value Measurement”, when measuring the fair value of non-financial assets, the ability of a certain market participant to generate economic benefits through using the asset with the purpose of maximising its value or through selling the asset to another market participant who will use it that way is considered. Kozloduy NPP EAD assets included in the review for revaluation are specific, strictly connected to the Company's activity and the alternative use of the majority of them is impossible or difficult, i.e. another usage by the market participants would highly unlikely lead to maximising the value of the assets. This is the reason why it has been accepted that their current use in the activity maximises the value.

The following two main approaches and assessment methods for fair value measurement of the different categories property, plant, and equipment have been applied:

- "Market approach" through the "Comparables Method" - for lands and buildings, for which there is real market and observable data about prices of recent market transactions for similar properties, adjusted by specific factors, such as area, location and current use. Their accepted market price which was defined through the comparative method is considered to be fair value;
- "Cost approach" through "Depreciated replacement cost method" - for buildings and structures of specialised nature;
- "Cost approach" through "Depreciated replacement cost method" - in order to reach a conclusion for the fair value of plant, machines and equipment an approach based on costs, through the Method based on the acquisition costs ("depreciated replacement cost") is considered a permissible and practicable, because of the specialised nature of the greater part of the assets. The Acquisition costs method measures the asset value by measuring its new value as at the date of the measurement reflecting the costs for its acquisition less its physical wear and tear, the functional and economic depreciation as a

result of its operation. The Method draws an indicative value using the economic principle that a buyer would not pay for a certain asset more than the acquisition costs of an asset with equal useful life, either by purchase or construction as at the date of the measurement.

The fair value measurement as at 31 December 2018 is based on the observable and unobservable data, adjusted by specific factors, such as area, location, and current use. The directly or indirectly observable data used in the measurement are subject to adjustments. As a result, the hypotheses employed are categorised as hypotheses of Level 3.

Significant non-observable data are related to adjustments in the specific for the Company's assets factors. The degree and direction of such adjustments depends on the number and characteristics of the observable market transactions with similar properties that are used for valuation purposes. Despite the fact that the data are a subjective assessment, the Management believes that the final valuation would not be significantly affected by other possible assumptions. The terms and way of use of the Company's assets were reviewed as at 31 December 2018 as well.

Review for impairment

As at 31 December 2019 and as at 31 December 2018, impairment tests have been prepared that do not show indications of performing such. No indications that the carrying amount of property, plant and equipment exceeds their recoverable value were found as a result of the conducted review.

Acquisition costs of long-term tangible assets

As at 31 December 2019 the acquisition costs of long-term tangible assets amount to BGN 172,129 thousand and are mainly related to:

- Activities to extend the operational life of Units 5 and 6 in compliance with the Investment Programme of the Company for 2019;
- Projects to improve the generation efficiency in the Company.

As at 31 December 2019 the advance payments for acquisitions of long-term assets amount to BGN 1,156 thousand (31 December 2018: BGN 1,474 thousand) which are included in the long-term tangible assets' acquisition cost.

Collaterals on loans

The Company has not pledged any property, plant and equipment as collaterals of its liabilities.

Other disclosures

For property, plant and equipment at revalued amount, the disclosure of the carrying amount that would be recognised if the assets were accounted for using the cost model is impracticable because of the complexity of the assets held and the long periods of time these assets are the property of the Company.

6. Intangible assets

The carrying amounts of the intangible assets for the reporting period can be analysed as follows:

| | Development products | Patents and licences | Software | Other | Total |
|--|-------------------------|-------------------------|--------------|----------|--------------|
| | BGN '000 | BGN '000 | BGN '000 | BGN '000 | BGN '000 |
| Carrying amount | | | | | |
| Balance at 01.01.2019 | 53,224 | 5,285 | 14,511 | 69,743 | 142,763 |
| Additions | 686 | 1,163 | 381 | - | 2,230 |
| Disposals | - | (310) | (82) | - | (392) |
| Balance at 31.12.2019 | 53,910 | 6,138 | 14,810 | 69,743 | 144,601 |
| Amortisation | | | | | |
| Balance at 01.01.2019 | (47,706) | (3,044) | (12,538) | (69,743) | (133,031) |
| Amortisation | (1,219) | (1,384) | (687) | - | (3,290) |
| Disposals | - | 310 | 82 | - | 392 |
| Balance at 31.12.2019 | (48,925) | (4,118) | (13,143) | (69,743) | (135,929) |
| Carrying amount at 31 December 2019 | 4,985 | 2,020 | 1,667 | - | 8,672 |

| | Development products | Patents and licences | Software | Other | Total |
|--|-------------------------|-------------------------|--------------|----------|--------------|
| | BGN '000 | BGN '000 | BGN '000 | BGN '000 | BGN '000 |
| Carrying amount | | | | | |
| Balance at 01.01.2018 | 53,224 | 4,278 | 14,315 | 69,743 | 141,560 |
| Additions | - | 1,007 | 236 | - | 1,243 |
| Disposals | - | - | (40) | - | (40) |
| Balance at 31 December 2018 | 53,224 | 5,285 | 14,511 | 69,743 | 142,763 |
| Amortisation | | | | | |
| Balance at 01.01.2018 | (46,362) | (2,434) | (11,851) | (69,743) | (130,390) |
| Amortisation | (1,344) | (610) | (727) | - | (2,681) |
| Disposals | - | - | 40 | - | 40 |
| Balance at 31 December 2018 | (47,706) | (3,044) | (12,538) | (69,743) | (133,031) |
| Carrying amount at 31 December 2018 | 5,518 | 2,241 | 1,973 | - | 9,732 |

The products of research and development activity are the result of scientific research on programmes and methodologies, created models of hired services or authorial teams of Kozloduy NPP EAD.

The Company has conducted an impairment test for the intangible assets as at 31 December 2019. No indicators that the carrying amount of the assets exceeds their recoverable amount were identified.

The Company has not pledged any intangible assets as collaterals of its liabilities.

7. Investment properties

Investment properties represent real estate - land and building, located in Sofia. The movement of investment properties for the period is as follows:

| | 31 December 2019 | 31 December 2018 |
|--------------------------------------|---------------------|---------------------|
| | BGN '000 | BGN '000 |
| Beginning of the year | 4,100 | 4,095 |
| Increase from fair value measurement | 73 | 6 |
| Decrease from fair value measurement | (53) | (1) |
| At year-end | 4,120 | 4,100 |

Fair value measurement

The investment properties were measured at fair value as at 31 December 2019. The fair value measurement is based on the observable and unobservable data, adjusted by specific factors, such as area, location, and current use. The performed valuation is consistent and recurring due to the application of the fair value model under IAS 40 and is performed regularly as at the date of each financial statement with the assistance of independent certified appraisers. The input data, used in the valuation, are subject to adjustments, however, they are directly or indirectly available for observation. As a result, the hypothesis employed is categorised as hypothesis of Level 2.

The table below provides a description of the valuation techniques, used to determine the fair value of investment property as at 31 December 2019, and the significant unobservable input data used:

| Valuation method | Weight of the valuation method | Valuation techniques | Significant unobservable input data |
|------------------------------|--------------------------------|--|---|
| Comparative method | 50% | Market prices of similar properties in the same and nearby locations | Information on concluded transactions, prices of identical properties |
| Income method | 50% | Capitalised rental income method, discounted cash flows | Rental rates for the respective region, for the respective type of property |
| Cost of assets method | 0% | Current valuation method | Analysis of the property based on the costs to construct it at the time of the valuation, increased by the value of the land and the improvements, made on the property |

Operating lease as a lessor

The Company has concluded a contract to lease real estates - land and building - for a 10-years period.

The future minimum lease payments under the contract are as follows:

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| | 31 December 2019 | 31 December 2018 |
|-------------------|---------------------|---------------------|
| | BGN '000 | BGN '000 |
| Up to 1 year | 285 | 285 |
| From 1 to 5 years | 1,141 | 1,141 |
| Over 5 years | 190 | 475 |
| | 1,616 | 1,901 |

8. Investments in subsidiaries

The Company has the following investments in subsidiaries:

| Subsidiary name | Country of incorporation | Principal activities | 31 December 2019 | | 31 December 2018 | |
|---------------------------------|-----------------------------|--|------------------|-------|------------------|-------|
| | | | BGN '000 | % | BGN '000 | % |
| Kozloduy NPP - New Build EAD | Bulgaria | Constructing of power units Generation and sale of electricity | 14,000 | 100 | 14,000 | 100 |
| Kozloduy HPP EAD | Bulgaria | Maintenance services | 1,082 | 100 | 1,082 | 100 |
| Interpriborservice OOD | Bulgaria | | 79 | 63.96 | 79 | 63.96 |
| | | | 15,161 | | 15,161 | |

Investments in subsidiaries are accounted for in the separate financial statements of the company at cost.

The company owns 100% of the capital of Kozloduy NPP - New Build EAD, Kozloduy, comprised of 1,400,000 ordinary, registered shares at par value of BGN 10 each.

The company owns 100% of the capital of Kozloduy HPP EAD, Kozloduy, comprised of 1,082 ordinary, registered shares at par value of BGN 1,000 each.

The company has a controlling interest of 63.96% in the capital of Interpriborservice OOD, Kozloduy. The company owns 71 shares of its capital which amounts to 111 shares, at par value of BGN 100 each. The investment amounts to BGN 79 thousand as initially on incorporation 41 shares were acquired for BGN 4 thousand, and in 2001 30 shares were purchased additionally from DZU Stara Zagora for BGN 75 thousand. The transactions with this company relate to deliveries of assets, supplies related to assets' modernisation and reconstruction, as well as purchases of inventory and hired services.

In 2019 Kozloduy HPP EAD have distributed dividends amounting to BGN 728 thousand (2018: BGN 762 thousand), and Interpriborservice OOD amounting to BGN 32 thousand. (2018: BGN 35 thousand).

The Company does not have contingent liabilities or other undertaken commitments, related to investments in subsidiaries.

9. Long-term trade and other receivables

| | 31 December 2019 | 31 December 2018 |
|--|---------------------|---------------------|
| | BGN '000 | BGN '000 |
| Trade receivables | 3,818 | 4,200 |
| Impairment of trade receivables | - | (939) |
| Financial assets | 3,818 | 3,261 |
| Long-term trade and other receivables | 3,818 | 3,261 |

In 2018 Kozloduy NPP EAD and State Enterprise Radioactive Waste (SERAW) signed an agreement for a rescheduling plan for a trade receivable amounting to BGN 5,346 thousand at contracted annual interest rate of 3%. The deadline for redemption of the receivable under the agreement is 30 December 2030. The receivable is uncovered. As at 31.12.2019 the SE RAW debt under the agreement amounts to BGN 3,818 thousand.

10. Equity instruments at fair value through other comprehensive income (OCI)

The company has 1.12% (50,400 shares) participation in the capital of the Insurance Shareholding Company "Energia" (ZAD Energia), Sofia, incorporated in Bulgaria. The majority shareholder of ZAD Energia is Allianz Bulgaria Holding AD.

On 01 January 2019 the Company reclassified the investment in ZAD Energia in the Equity instruments at fair value through other comprehensive income (OCI) category, because the Company intends to keep the investment for a long time by reason of strategic goals.

| | 31 December 2019 | 31 December 2018 |
|---|------------------|------------------|
| | BGN '000 | BGN '000 |
| Equity instruments at fair value through other comprehensive income (OCI) | 457 | 466 |
| | 457 | 466 |

In 2019 the company received dividends of BGN 106 thousand from ZAD Energia (2018: BGN 173 thousand).

Valuation techniques and significant unobservable input data

The table below provides a description of the valuation techniques as at 31 December, used to determine the fair value at Level 3, and the significant unobservable input data used:

| Investments in shares and stakes in the capital of other companies and enterprises (minority interest) | Valuation approaches and techniques | Significant unobservable input data |
|--|-------------------------------------|---|
| Level 3 | a. Income approach | * estimated annual rate of free cash flows change |
| | Valuation technique: | * terminal growth |
| | Dividend discount model | * discount rate |

11. Deferred tax assets and deferred tax liabilities

Deferred taxes arise as a result of temporary differences and can be presented as follows:

| Deferred tax assets /(liabilities) | 01.01.2019 | Recognised in other comprehensive income | Recognised in profit or loss | 31.12.2019 |
|--|------------------|---|---------------------------------|------------------|
| | BGN '000 | BGN '000 | BGN '000 | BGN '000 |
| Non-current assets | | | | |
| Property, plant and equipment - revaluation | (156,360) | - | - | (156,360) |
| Property, plant and equipment - depreciation | (24,160) | - | 5,686 | (18,474) |
| Property, plant and equipment - impairment | 1,215 | - | - | 1,215 |
| Investment properties - revaluation | (107) | - | (2) | (109) |
| Financial instruments at fair value | (23) | 1 | - | (22) |
| Current assets | | | | |
| Inventories - impairment | 1,047 | - | 46 | 1,093 |
| Trade and other receivables - impairment | 1,697 | - | (104) | 1,593 |
| Cash at banks - impairment | 91 | - | 56 | 147 |
| Non-current liabilities | | | | |
| Liabilities for retirement employee benefits | 6,509 | 2,742 | 2,647 | 11,898 |
| Current liabilities | | | | |
| Provisions | 4,178 | - | 3,987 | 8,165 |
| Unused leaves by the personnel | 2,020 | - | 303 | 2,323 |
| Accrued bonuses to the personnel | 320 | - | 460 | 780 |
| | (163,573) | 2,743 | 13,079 | (147,751) |
| Deferred tax assets | 17,077 | | | 27,214 |
| Deferred tax liabilities | (180,650) | | | (174,965) |
| Recognised as: | | | | |
| Deferred tax liabilities, net | (163,573) | | | (147,751) |

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Deferred tax for the comparative period 2018 can be summarised as follows:

| Deferred tax assets /(liabilities) | 01.01.2018 | Recognised in other comprehensive income | Adjustments from initial application of IFRS 9 (Note 3.1) | Recognised in profit or loss | 31.12.2018 |
|--|------------------|--|---|------------------------------|------------------|
| | BGN '000 | BGN '000 | BGN '000 | BGN '000 | BGN '000 |
| Non-current assets | | | | | |
| Property, plant and equipment - revaluation | (154,463) | (1,897) | - | - | (156,360) |
| Property, plant and equipment - depreciation | (33,589) | - | - | 9,429 | (24,160) |
| Property, plant and equipment - impairment | 465 | - | - | 750 | 1,215 |
| Investment properties - revaluation | (106) | - | - | (1) | (107) |
| Financial instruments at fair value | - | 6 | (29) | - | (23) |
| Current assets | | | | | |
| Inventory - impairment | 1,051 | - | - | (4) | 1,047 |
| Trade and other receivables - impairment | 733 | - | 377 | 587 | 1,697 |
| Cash at banks - impairment | - | - | 54 | 37 | 91 |
| Non-current liabilities | | | | | |
| Liabilities for retirement employee benefits | 5,809 | 1,178 | - | (478) | 6,509 |
| Current liabilities | | | | | |
| Provisions | 67 | - | - | 4,111 | 4,178 |
| Unused leaves by the personnel | 1,821 | - | - | 199 | 2,020 |
| Accrued bonuses to the personnel | 654 | - | - | (334) | 320 |
| | (177,558) | (713) | 402 | 14,296 | (163,573) |
| Deferred tax assets | 10,600 | | | | 17,077 |
| Deferred tax liabilities | (188,158) | | | | (180,650) |
| Recognised as: | | | | | |
| Deferred tax liabilities, net | (177,558) | | | | (163,573) |

12. Nuclear Fuel

| | Fuel loaded in the reactors | Fresh Nuclear Fuel | Total |
|-------------------------------|-----------------------------|--------------------|----------------|
| | BGN '000 | BGN '000 | BGN '000 |
| as at 01 January 2018 | 75,437 | 160,006 | 235,443 |
| Fuel, purchased over the year | - | 117,065 | 117,065 |
| Transfers | 136,370 | (136,370) | - |
| Fuel, spent over the year | (138,546) | - | (138,546) |
| as at 31 December 2018 | 73,261 | 140,701 | 213,962 |
| Fuel, purchased over the year | - | 211,234 | 211,234 |
| Transfers | 112,182 | (112,182) | - |
| Fuel, spent over the year | (121,589) | - | (121,589) |
| as at 31 December 2019 | 63,854 | 239,753 | 303,607 |

13. Inventory

Inventory, recognised in the separate statement of financial position can be analysed as follows:

| | 31 December 2019 | 31 December 2018 |
|--------------------------|---------------------|---------------------|
| | BGN '000 | BGN '000 |
| Spare parts | 44,023 | 49,134 |
| Fuels | 3,335 | 3,354 |
| Metals | 968 | 999 |
| Equipment | 585 | 893 |
| Reagents | 869 | 918 |
| Other materials | 4,368 | 4,581 |
| Total materials | 54,148 | 59,879 |
| Goods | 155 | 139 |
| Total Inventories | 54,303 | 60,018 |

An impairment of the idle inventory was performed as at 31 December 2019 based on the report of an independent certified appraiser amounting to BGN 495 thousand and an impairment from previous periods amounting to BGN 4 thousand was recovered. An impairment of the idle inventory was performed as at 31 December 2018 based on the report of an independent certified appraiser amounting to BGN 130 thousand and an impairment from previous periods amounting to BGN 3 thousand was recovered.

Inventory was not pledged as collateral of liabilities.

14. Trade and other receivables

| | 31 December 2019 | 31 December 2018 |
|--|---------------------|---------------------|
| | BGN '000 | BGN '000 |
| Trade receivables | 69,948 | 45,097 |
| Impairment of trade receivables | (9,272) | (7,017) |
| Receivables from litigations and writs | 2,766 | 2,701 |
| Impairment of receivables from litigations and writs | (2,409) | (2,359) |
| Receivables from CCB (insolvent) net from impairment | 4,024 | 4,537 |
| Impairment of a receivable from the CCB (insolvent) | (4,024) | (4,218) |
| Other receivables | 8,478 | 3,201 |
| Impairment of other receivables | (141) | (191) |
| Financial assets | 69,370 | 41,751 |
| Advance payments | 529 | 864 |
| Prepayments | 725 | 577 |
| Non-financial assets | 1,254 | 1,441 |
| Trade and other receivables | 70,624 | 43,192 |

All receivables are short-term, except those disclosed in Note 9.

All trade and other receivables as at 31 December 2019 have been reviewed for indication of impairment.

The change in impairment of trade and other receivables may be presented as follows:

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| | 2019 | 2018 |
|--|---------------|---------------|
| | BGN '000 | BGN '000 |
| Balance at 1 January | 14,724 | 7,329 |
| Adjustments from initial application of IFRS 9 (Note 3.1) | - | 1,038 |
| Balance at 1 January (restated) | 14,724 | 8,367 |
| Impairment loss | 1,365 | 7,176 |
| Recovering of impairment loss | (244) | (820) |
| Other adjustments | - | 1 |
| Balance at 31 December | 15,845 | 14,724 |

An analysis of the age structure of trade and other receivables is provided in Note 40.2.

15. Cash and cash equivalents

Cash and cash equivalents include the following items:

| | 31 December 2019 | 31 December 2018 |
|--|---------------------|------------------------|
| | BGN '000 | BGN '000 |
| Cash at banks and cash in hand, denominated in: | | |
| - Bulgarian Leva (BGN) | 387,379 | 232,045 |
| - Euro (EUR) | 9,671 | 8,590 |
| - US Dollars (USD) | 4 | 4 |
| Cash and cash equivalents in the separate statement of cash flows | 397,054 | 240,639 |
| Effect of IFRS 9 | (1,471) | (914) |
| Cash and cash equivalents in the separate statement of financial position | 395,583 | 239,725 |

The cash at banks in current accounts bear an interest with floating interest rates, based on the daily interest rates on bank deposits.

The Company has set aside the expected credit losses to the amount of BGN 1,471 thousand in relation to cash and cash equivalents. The expected credit losses are recognised in consequence of the risk that the Company faces regarding the financial institutions.

The Company has BGN 41,775 thousand in a special account in CB Eurobank Bulgaria AD, open under terms and conditions approved by the Ministry of Energy. The funds that are set aside from the available cash resources of Kozloduy NPP EAD are blocked and not available to effect any other payments beyond their purpose. They are spent purposefully only to cover SNF management costs, including for activities related to transportation, technological storage and reprocessing of SNF, that were not carried out during the previous years.

16. Assets and liabilities, classified as held for distribution to the owners

The radioactive waste reprocessing, storage and disposal are activities from the RAW management which, pursuant to SUNEА, shall be performed by SE RAW so as to ensure the protection of the interests of the citizens of the Republic of Bulgaria as well as the accountability of the Republic of Bulgaria and its competent authorities.

By Decision of the Ministry of Economy and Energy (Minutes No. 6/17.10.2011) SE RAW was appointed as sole decommissioning operator for Units 1- 4.

By Decision No.1038 of 19.12.2012 of the Council of Ministers of the Republic of Bulgaria for declaring Kozloduy NPP Units 3 and 4 radioactive waste management facilities and transferring their management

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to SE RAW, all activities related to the decommissioning of Units 1-4 and nuclear facilities definitively closed for decommissioning were transferred to SE RAW for implementation and management.

As of 31 December 2019, together with SE RAW, the required measures were taken to declare the unfinished "Facility for processing and conditioning of solid radioactive waste (RAW) with a high volume reduction coefficient" a facility for management of RAW and other assets which are in the process of acquisition under launched projects for implementation of nuclear facilities decommissioning activities private state property, and to transfer them to SE RAW for management.

The carrying amount of the assets and liabilities, intended for distribution between the owners that should be transferred to SE RAW can be presented, as follows:

| | 31 December 2019 |
|---|-----------------------------|
| | BGN '000 |
| Assets | |
| Lands and buildings | 1,069 |
| Machines, plant, and equipment | 8,667 |
| Acquisition costs | 47,541 |
| Total assets | 57,277 |
| Liabilities | |
| Retained amounts under construction contracts | 2,170 |
| Financing | 43,709 |
| Total liabilities | 45,879 |

As at 31.12.2019 there are no assets and liabilities which have been distributed to the owners and there are no cash flows generated. The Company's Management expects that the assets and liabilities will be transferred in 2020.

17. Equity

17.1. Share capital

The registered capital of the Company consists of 24,458,489 fully paid, ordinary, registered shares at par value of BGN 10 each. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting.

The change in the number of issued shares is presented, as follows:

| | 2019 | 2018 |
|--|-----------------------------|-----------------------------|
| | Number of shares | Number of shares |
| Number of shares issued and fully paid: | | |
| At the beginning of the year | 24,458,489 | 24,458,489 |
| Issue of shares | - | - |
| Number of shares issued and fully paid | 24,458,489 | 24,458,489 |
| Total number of shares, authorised on 31 December | 24,458,489 | 24,458,489 |

The sole owner of the Company is Bulgarian Energy Holding EAD which is owned by the Ministry of Energy.

By virtue of Decision of the Board of Directors of BEH EAD dated 23.05.2017 the share capital of the Company was increased by BGN 8,420 thousand, representing the retained earning of the Company for 2016, by issuing 841,963 new ordinary, registered shares, which represent 3.44 % of all issued shares. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting. On 4 September 2017, 24,458,489 shares were registered in the Commercial Register and the Company's capital was increased to BGN 244,584,890.

17.2. Legal reserves

Legal reserves are formed by joint stock companies, such as Kozloduy NPP EAD, as a distribution of the profit according to the provisions of art. 246 of the Commercial Act. They are set aside until their amount reaches one tenth or bigger portion of the capital. Sources for the formation of the legal reserves are at least one tenth portion of the net profit, share premium account, and the funds foreseen in the statute or by a decision of the sole owner.

| | Legal reserves |
|---|-----------------------|
| | BGN '000 |
| Balance at 01 January 2018 | 24,458 |
| Reserves build-up at the expense of retained earnings | - |
| Balance at 31 December 2018 | 24,458 |
| Reserves increase via retained earnings | - |
| Balance at 31.12.2019 | 24,458 |

17.3. Revaluation reserve of non-financial assets

Revaluation reserves are formed by the difference between the carrying value and the fair value of property, plant and equipment at the revaluation date, in accordance with the report, issued by the independent certified appraiser, less the respective deferred tax liabilities.

| | Revaluation reserve of non-financial assets |
|--|--|
| | BGN '000 |
| Balance at 01 January 2018 | 1,384,245 |
| Transfer to retained earnings upon disposals of assets | 16,629 |
| Balance at 31 December 2018 | 1,400,874 |
| Revaluation of non-financial assets, net of tax | - |
| Transfer to retained earnings upon disposals of assets | (734) |
| Balance at 31 December 2019 | 1,400,140 |

17.4. Other reserves

Other reserves, amounting to BGN 676,667 thousand (31 December 2018: BGN 826,667 thousand) are formed as follows:

- BGN 592,132 thousand from previous years' revaluation reserve, which might be used for increasing the company's capital;
- BGN 84,535 thousand) are formed as a result of previous years' profit distribution. By decision of the sole owner, it can be used to pay dividends, to cover losses, and for other purposes.

17.5. Declared and paid dividends

By virtue of Minutes No. 37-2019/11 June 2019 of the Board of Directors of BEH EAD and according to Order No. 1 of the Council of Ministers of the Republic of Bulgaria, distribution of the profit for 2018 for a dividend amounting to BGN 80,056 thousand, were approved. The dividend attributable to one share is BGN 0.03. (2018: BGN 0.02). By virtue of Minutes No. 65-2019/08 October 2019 of the Board of Directors of BEH EAD payment of an additional dividend in 2019 amounting to BGN 150,000 thousand was approved.

As at the date of preparation of these separate financial statements, Kozloduy NPP EAD does not owe any dividend to BEH EAD.

18. Borrowings

Loans include the following financial liabilities:

| | Effective interest rate | Maturity | 31 December 2019 BGN '000 | 31 December 2018 BGN '000 |
|---|---------------------------|--|------------------------------|------------------------------|
| Non-current: | | | | |
| Loan obligation to EURATOM - principal | EURIBOR + 0.079% to 0.13% | from 1 January 2021 to 10 May 2021 | 10,879 | 33,127 |
| | | | <u>10,879</u> | <u>33,127</u> |
| Current: | | | | |
| Loan obligation to EURATOM - principal | EURIBOR + 0.079% to 0.13% | from 16 January 2020 to 31 December 2020 | 22,248 | 33,005 |
| Accrued interest on the loan to EURATOM | | | 585 | 885 |
| | | | <u>22,833</u> | <u>33,890</u> |
| Total borrowings | | | <u>33,712</u> | <u>67,017</u> |

In 2000, Kozloduy NPP EAD signed an agreement with the European Atomic Energy Community (EURATOM) for a loan amounting to EUR 212,500 thousand (BGN 415,614 thousand). It was aimed to finance the modernisation of Kozloduy NPP EAD Units 5 and 6. The loan was acquired in 8 tranches each with different interest, different repayment schedule, and different maturity. The first tranche is at a fixed interest of 5.76%, while the remaining tranches are at floating interest rates, based on a 6-month EURIBOR plus a mark-up, varying from 0.079% to 0.13% for the different tranches. Each tranche has a separately contracted repayment schedule, with 10 May 2021 being the latest contracted maturity date. The loan is irrevocably and unconditionally secured by the Government of the Republic of Bulgaria and by NATIONAL ELECTRICITY COMPANY EAD (a related party under common control).

The loan contract contains special clauses with restrictive conditions as regards changes of the ultimate owners, as well as financial conditions requiring the achievement of certain levels of the gearing ratio and debt service coverage (see Explanation 40).

The book value of trade and other receivables is accepted as a reasonable estimated amount of their fair value.

19. Retentions on construction contracts

The amounts, retained under construction contracts as at 31 December are as follows:

| | 2019 BGN '000 | 2018 BGN '000 |
|-------------|------------------|------------------|
| Non-current | 978 | 863 |
| Current | 3,210 | 4,971 |
| | <u>4,188</u> | <u>5,834</u> |

In accordance with the signed contracts for construction of property, plant and equipment, the company retains a part of the amount of the invoiced construction works as a performance guarantee and guarantee for the timely execution of the construction and installation works by subcontractors. The retained amounts are interest free. In compliance with the contracted conditions, part of the retained amounts in the form of performance guarantees and guarantees for the timely execution of the construction and installation works, should be paid to suppliers after obtaining permits to use, while the remaining amounts should be paid in the contracted time frames.

As at 31.12.2019 retained guarantees to the amount of BGN 2,170 thousand were classified as liabilities held for distribution to owners. (Note 16)

20. Financing

| | 31 December 2019 | 31 December 2018 |
|---|---------------------|---------------------|
| | BGN '000 | BGN '000 |
| On 01 January | 159,051 | 186,004 |
| Received over the year | - | - |
| Recognised in profit or loss | (4,081) | (5,560) |
| Classified as liabilities held for distribution to owners | (43,709) | - |
| Recovered | 45 | (21,393) |
| On 31 December | 111,306 | 159,051 |
| Non-current | 106,966 | 154,616 |
| Current | 4,340 | 4,435 |

The financing is obtained under programmes and funds for construction of property, plant and equipment with ecological purpose.

On 10 July 2018 a meeting of the Assembly of donors of Kozloduy International Decommissioning Support Fund (KIDSF) was held with the participation of European Bank for Reconstruction and Development (EBRD) and representatives of the European Commission. At the meeting the donors and the bank posed the question for presenting accurate information on the appropriate use of Extension - Stage 1a of DSFSF.

Despite Kozloduy NPP's assurances about the appropriateness of the project and its future purpose, the analyses for storage of WWER-440 SNF submitted until that moment were not accepted by the donors due to various reasons.

In this regard at the meeting held on 10 July 2018 the Assembly decided that Kozloduy NPP EAD shall submit a repayment schedule for recovering the amount of EUR 12,892,000 (BGN 25,214,560.36) which was intended for the construction of the extension of the DSFSF - Stage 1a.

In pursuance of the decision and in accordance with a meeting held at the ME on 20 November 2018 Kozloduy NPP EAD proposed to EBRD an option for execution of the decision, taken at the Assembly of donors, through repayment of the sum in four equal annual repayment instalments, each amounting to EUR 3,223,000, payable in the period 2019 - 2022 without interest accrual, and this plan was accepted by EBRD.

At its meeting with Minutes No. 9/22.03.2019 the Board of Director of Kozloduy NPP EAD with decision 9.3.1. reviewed and approved the execution of the decision of the Assembly of donors of Kozloduy International Decommissioning Support Fund in compliance with the option accepted by the EBRD for deferred repayment of the funding in instalments.

In 2019 payment amounting to BGN 6,304 thousand was effected, whereby the company's debt to EBRD totalled BGN 18,911 thousand.

As at 31.12.2019 financing amounting to BGN 1,453 thousand were classified as liabilities held for distribution to owners. (Note 16)

21. Liabilities for retirement employee benefits

In accordance with the Bulgarian labour legislation and the Collective labour agreement, the Company is obliged to pay to the personnel a certain number of gross monthly salaries upon their retirement, depending on the employees' years of services in the company and the labour category. The retirement defined employee benefit plan is not funded.

The plan exposes the Company to actuarial risks, such as interest risk, risk of changes in the population's life expectancy and inflation risk.

Interest risk

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- The present value of the liabilities under defined benefit plans is calculated at a discount rate, determined on the basis of the market profitability of the treasury shares held. The maturity of the securities corresponds to the estimated time of the liabilities under defined benefit plans and they are denominated in Bulgarian Leva. A decline in the market profitability of the treasury shares held will result in increase of the Company's liabilities under defined benefit plans.

Risk of changes in the population's life expectancy

- Increase in the estimated life expectancy of the personnel would result in increase of the liabilities under defined benefit plans.

Inflation risk

- Increase in the inflation would result in increase of the liabilities under defined benefit plans.

The changes in the present value of the liabilities for retirement employee benefits are as follows:

| | 2019 BGN '000 | 2018 BGN '000 |
|--|------------------|------------------|
| Balance at 1 January | 65,088 | 58,085 |
| Interest costs | 679 | 822 |
| Current labour experience costs | 8,588 | 7,814 |
| Past labour experience costs | 31,200 | 502 |
| Actuarial (gains) / losses, related to liabilities upon retirement due to illness (retirement employee benefits) | 1,073 | 483 |
| Retirement employee benefits paid | (15,068) | (14,399) |
| Actuarial (gains) / losses from change in the actual experience | 17,834 | 9,822 |
| Actuarial (gains) / losses from change in the financial assumptions | - | 1,937 |
| Actuarial (gains) / losses from change in the discount rate | 1,316 | - |
| Actuarial (gains) / losses from increase in the salaries growth in long-term perspective | 8,073 | - |
| Actuarial (gains) / losses from changes in the demographic assumptions | 196 | 22 |
| Balance at 31 December | 118,979 | 65,088 |
| Non-current | 84,707 | 50,665 |
| Current | 34,272 | 14,423 |

In determining the liabilities for retirement employee benefits, the following actuarial assumptions are employed:

| | 31 December 2019 | 31 December 2018 |
|--------------------------------------|---|--|
| Discounting rate | 0.6% | 1.0% |
| | 5% for the first 3 years; After that 5% per year | 2% for the first 3 years; After that 2% per annum |
| Future increase in the remunerations | | |

The company's Management has employed these assumptions with the help of an independent certified appraiser. These assumptions are employed in determining the amount of defined benefit payables for the reporting periods and are considered to be the Management's best estimate.

The total amount of the company's retirement employee benefits, recognised in profit or loss, can be presented as follows:

Retirement employee benefits costs

| | 2019 | 2018 |
|--|---------------|--------------|
| | BGN '000 | BGN '000 |
| Current labour experience costs | 8,588 | 7,814 |
| Past labour experience costs | 31,200 | 502 |
| Interest costs | 679 | 822 |
| Actuarial (gains) / losses, related to liabilities upon retirement due to illness (retirement employee benefits) | 1,073 | 483 |
| Total expenses, recognised in profit or loss | 41,540 | 9,621 |

The expenses, incurred with regards to current and past labour experience, as well as the actuarial losses related to liabilities upon retirement due to illness (retirement employee benefits), are included in 'Employee benefits costs'. Interest costs are included in the statement of profit or loss and other comprehensive income, under 'Finance costs'.

The total amount of the Company's expenses under defined benefits, recognised in other comprehensive income, can be presented as follows:

| | 2019 | 2018 |
|--|-----------------|-----------------|
| | BGN '000 | BGN '000 |
| Actuarial (gains) / losses from change in the actual experience assumptions | (17,834) | (9,822) |
| Actuarial (gains) / losses from change in the financial assumptions | - | (1,937) |
| Actuarial (gains) / losses from change in the discount rate | (1,316) | - |
| Actuarial (gains) / losses from increase in the salaries growth in long-term perspective | (8,073) | - |
| Actuarial (gains) / losses from changes in the demographic assumptions | (196) | (22) |
| Total Actuarial (gains) / losses, recognised in other comprehensive income | (27,419) | (11,781) |

Based on past experience, the Company expects to pay BGN 34,272 thousand contributions under defined benefit plans in 2019.

The weighed average duration of the liability to pay defined benefits as at December 2019 is 14,00 years.

The significant actuarial assumptions in determining the liabilities under defined benefit plans, relate to the discounting rate, the estimated percentage of increase of salaries, the percentage of personnel's turnover, and the estimated life expectancy.

The table hereafter presents a sensitivity analysis and summarises the effects of changes in these actuarial assumptions on the liabilities under the defined benefit plans as at 31 December 2018:

**Changes in significant actuarial assumptions
 in BGN '000**

| | Increase by 1% | Decrease by 1% |
|--|----------------|----------------|
| Discounting rate | | |
| Increase/(decrease) in liabilities under defined benefit plans | (4,060) | 4,430 |
| Percentage of increase of salaries | | |
| Increase / (decrease) in liabilities under defined benefit plans | 4,252 | (3,982) |

| Estimated life expectancy | Increase by 1 year | Decrease by 1 year |
|--|-----------------------|-----------------------|
| Increase/(decrease) in liabilities under defined benefit plans | 357 | (357) |

| Percentage of personnel's turnover | Increase by 1% | Decrease by 1% |
|--|----------------|-------------------|
| Increase/(decrease) in liabilities under defined benefit plans | (4,341) | 4,664 |

The sensitivity analysis is based on a change in only one of the assumptions. It may differ from the actual change in liabilities under defined benefit plans, as changes in the assumptions are often interrelated.

22. Trade and other payables

Trade and other payables, reflected in the separate statement of financial position include:

| | 31 December 2019 BGN '000 | 31 December 2018 BGN '000 |
|---|------------------------------------|------------------------------------|
| <i>Non-current</i> | | |
| Other liabilities | 12,607 | 18,656 |
| Lease | 574 | - |
| Financial liabilities | 13,181 | 18,656 |
| <i>Current</i> | | |
| Liabilities to suppliers | 47,657 | 29,307 |
| Lease | 220 | - |
| Other liabilities | 15,962 | 9,963 |
| Financial liabilities | 63,839 | 39,270 |
| Liabilities for remunerations to the personnel | 32,234 | 32,776 |
| Liabilities for social security contributions | 9,651 | 8,632 |
| Tax liabilities | 20,269 | 18,648 |
| Liabilities under contributions to the DNF Fund, the RAW Fund, and the ESS Fund | 17,735 | 16,686 |
| Liabilities under received advance payments | 21 | 6,835 |
| Non-financial liabilities | 79,910 | 83,577 |
| Trade and other payables | 143,749 | 122,847 |

The net carrying amount of trade and other receivables is accepted as a reasonable estimated amount of their fair value.

Other liabilities to the amount of BGN 18,911 thousand (current - BGN 6,304 thousand, and non-current - BGN 12,607 thousand) are in relation to the Company's obligation to repay received financing. As at 31.12.2018 the other payables amount to BGN 24,748 thousand. (current - BGN 6,092 thousand, and non-current - BGN 18,656 thousand).

22.1. Lease

This note provides information on lease when the company is a lessee.

- Amounts recognised in the statement of financial position

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The statement of financial position shows the following sums related to lease:

| | Note | 2019 BGN '000 |
|----------------------------|------|------------------|
| Right-of-use assets | | |
| Transport vehicles | | 791 |
| | | <u>791</u> |
| Lease liabilities | | |
| Current | | 220 |
| Non-current | | 574 |
| | | <u>794</u> |

The acquired assets with a right to use over the financial year 2019 were to the amount of BGN 910 thousand.

- **Amounts recognised in the Statement of Profit or Loss and Other Comprehensive Income**

The Statement of profit or loss and other comprehensive income shows the following amounts related to lease:

| | Note | 2019 BGN '000 |
|--|------|------------------|
| Depreciation of assets with a right to use | | |
| Transport vehicles | | (105) |
| | | <u>(105)</u> |
| Interest costs (included in the financial costs) | | (14) |

The total lease cash flow in 2019 amounted to BGN 116 thousand.

23. Provisions

The carrying amount of the provisions can be presented, as follows:

| | 31 December 2019 BGN '000 | 31 December 2018 BGN '000 |
|----------------------------------|---------------------------------|---------------------------------|
| Provision for Spent Nuclear Fuel | 81,652 | 41,775 |
| | <u>81,652</u> | <u>41,775</u> |

The adjustment of the provisions during the year is presented below.

| | Provision for Spent Nuclear Fuel BGN '000 |
|--|--|
| Balance at 01.01.2019 | 41,775 |
| Used | (4) |
| Disposals | (947) |
| Recognised provision | 40,828 |
| Carrying amount at 31 December 2019 | <u>81,652</u> |

Provision of transport, reprocessing and storage of spent nuclear fuel

Pursuant to the effective Strategy for Management of the Spent Nuclear Fuel and Radioactive Waste until 2030, adopted by a decision of the Council of Ministers on 2 September 2015, the Company is obliged to transport at least 50 tons of heavy metal annually spent nuclear fuel (SNF) for reprocessing and storage in Russia, under the presence of favourable financial and economic conditions.

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In 2018, a Framework Annex to the Contract for the transportation, temporary technological storage and reprocessing in Russia of 414 WWER-1000 SNF assemblies for the period 2019-2023 was signed with FSUE "Production Association Mayak", Russia, in coordination with the European Supply Agency, Euratom. Taking into account the lengthy nature of the preparatory activities for SNF's transportation, including organisational and technical activities, preparation of the required documentation, obtaining certificates and permits, the first transport of WWER-1000 SNF for technological storage and reprocessing is planned to be carried out in the second half of 2020.

The commitment under the Strategy for transportation of 50 tons of heavy metal spent nuclear fuel (SNF) from WWER-1000 was not fulfilled; therefore, provision costs for an obligation for transport of spent nuclear fuel from WWER-1000 for technological storage and reprocessing to the amount of BGN 40,828 thousand were accrued in the current expenses of Kozloduy NPP EAD for 2019. The amount of the calculated provision is based on the updated reliable assessment on the value of 1 transport of WWER-1000 SNF (96 assemblies), in compliance with the Accounting policies of the Company and the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

As at the end of the reporting period, ending 31 December 2019, the amount of the recognised provision required to cover the current obligation for SNF management is BGN 81,652 thousand, including the value of the unfulfilled transportations of WWER-1000 SNF for technological storage and reprocessing for 2018 and 2019.

24. Revenue from sale of production

| | 2019 | 2018 |
|---|------------------|------------------|
| | BGN '000 | BGN '000 |
| Sales of electricity on the non-regulated market | 1,250 | 86,575 |
| Sales of electricity on the stock exchange market | 1,186,687 | 881,329 |
| Sales of electricity on the regulated market | 131,691 | 130,868 |
| Sales of electricity on the balancing market | (7,511) | 286 |
| Revenue from sale of electricity | 1,312,117 | 1,099,058 |
| Sales of heat energy | 1,933 | 2,007 |
| Revenue from sale of production | 1,314,050 | 1,101,065 |

25. Other revenues and incomes

| | 2019 | 2018 |
|---|--------------|--------------|
| | BGN '000 | BGN '000 |
| Other revenue from contracts with customers, incl. | | |
| Revenue from sales of services | 3,403 | 3,971 |
| Revenue from sales of goods and current assets | 1,232 | 957 |
| Rental income | 241 | 237 |
| | 4,876 | 5,165 |
| Other revenue/income, incl. | | |
| Income from penalties under contracts | 2,520 | 1,463 |
| Income from insurance events | 756 | 776 |
| Income from revaluation of PPE | - | 131 |
| Income from assets' surplus | 82 | 71 |
| Income from waste | 934 | 14 |
| Other income | 477 | 572 |
| | 4,769 | 3,027 |
| | 9,645 | 8,192 |

26. Revenue from contracts with customers

26.1. Segment information on the revenue from contracts with customers

The revenue from contracts with customers per types of segment include:

| | 2019 | 2018 |
|--|------------------|------------------|
| | BGN '000 | BGN '000 |
| Revenue from contracts with customers related to sales of electricity | 1,312,117 | 1,099,058 |
| Revenue from contracts with customers related to sales of heat energy | 1,933 | 2,007 |
| Revenue from contracts with customers related to provision of services | 3,644 | 4,208 |
| Revenue from sales of goods and other current assets | 1,232 | 957 |
| | 1,318,926 | 1,106,230 |

26.2. Geographic markets

| | 2019 | 2018 |
|-----------------|------------------|------------------|
| | BGN '000 | BGN '000 |
| Domestic market | 1,318,926 | 1,106,230 |
| | 1,318,926 | 1,106,230 |

26.3. Moment in time for revenue recognition

| | 2019 | 2018 |
|---|------------------|------------------|
| | BGN '000 | BGN '000 |
| Products transferred at a certain moment | 1,232 | 957 |
| Products and services transferred in the course of time | 1,317,694 | 1,105,273 |
| | 1,318,926 | 1,106,230 |

The next table presents information about the accounting policy applied by the Company as regards revenue recognition and time for meeting the obligation for fulfilment of contracts with customers under IFRS 15.

| Type of product/service | Character and time for meeting the obligations for fulfilment, including substantial payment conditions | Recognition of revenue under IFRS 15 |
|------------------------------------|---|--|
| Contracts for sales of electricity | Electricity supplies are carried out all year-round in a continuous mode of operation. Since the customer simultaneously receives and consumes the benefits, the Company transfers control over electricity over time and therefore meets the performance obligation and recognise revenues over time. Usually invoices are payable within 30 days. | The sales revenue shall be recognised at every transfer of control over electricity when it is supplied to the customer and there are no unmet obligations which could affect the acceptance of electricity on behalf of the customer. Electricity is be considered delivered to the customer immediately after the seller or customer registers schedules in the scheduling system administered by Electricity System Operator EAD after coordination of the schedules between the parties. |

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| Type of product/ service | Character and time for meeting the obligations for fulfilment, including substantial payment conditions | Recognition of revenue under IFRS 15 |
|--------------------------------------|---|--|
| | | Revenue is invoiced according to the terms of the contract concluded. |
| Revenue from heat energy | The supply of heat energy takes place all year round at continuous operating mode. Since the customer simultaneously receives and consumes the benefits, the Company transfers control over the heat energy over time and therefore meets the performance obligation and recognises revenue over time. Usually invoices are payable within 30 days. | Sales revenue is recognised on each transfer of control over heat energy when it is delivered to the buyer and there are no outstanding obligations that could affect the buyer's heat energy acceptance. The heat energy is considered delivered to the customer at the time of consumption. Quantities delivered are reported by means of a heat meter in the substation where the commercial metering takes place once a month. Revenue is invoiced on a monthly basis according to the terms of the contract concluded. |
| Revenue from services | The control is transferred when the service is completed. The receivables are due immediately. | The company transfers the control over the services in the course of time and, therefore meets the performance obligation and recognises revenue over time. If the service is not completed fully till the end of the reporting period, the revenue is recognised based on the actual service rendered till the end of the reporting period as a proportional part of the total services to be rendered. |
| Revenue from sales of current assets | The delivery is effected when the assets have been paid to the customer, the risks of potential losses have been transferred to the customer and/or he has accepted the assets in accordance with the sale contract. The usual payment term is up to 30 after delivery. | Revenue from sales of current assets are recognised when the control over the assets sold is transferred. |

26.4. Balances under contracts with customers

| | 31 December 2019 | 31 December 2018 |
|--|---------------------|---------------------|
| | BGN '000 | BGN '000 |
| Trade receivables | 69,948 | 41,341 |
| Trade receivables from related parties | 53,923 | 94,736 |
| | 123,871 | 136,077 |

The trade receivables are not interest-bearing and the usual credit term is up to 30 days.

The carrying amount of the trade receivables which are interest-bearing and have a credit term over one year is BGN 3,818 thousand (as at 31.12 2018 - BGN 3,261 thousand).

27. Cost of materials

| | 2019 | 2018 |
|---------------------------------------|-----------------|-----------------|
| | BGN '000 | BGN '000 |
| Nuclear fuel, lubricants and fuels | 113,517 | 137,599 |
| Spare parts and tools | 14,777 | 8,342 |
| Materials for current maintenance | 2,481 | 2,523 |
| Working and special outfits | 1,553 | 1,006 |
| Reagents for production | 912 | 1,354 |
| Purchased electric energy | 560 | 700 |
| Specialised literature and stationery | 190 | 209 |
| Construction materials and metals | 92 | 104 |
| Advertising materials | 80 | 92 |
| | 134,162 | 151,929 |

28. Hired services costs

| | 2019 | 2018 |
|---|-----------------|-----------------|
| | BGN '000 | BGN '000 |
| Repair and maintenance services | 54,976 | 48,917 |
| Services, provided in connection to extending the licences of Unit 5 and Unit 6 | - | 24,238 |
| Insurance of property insurance and nuclear damage | 16,249 | 16,001 |
| Armed security and fire security | 17,555 | 15,264 |
| Fees for permits by regulatory bodies | 5,027 | 5,431 |
| Taxes and fees | 5,247 | 4,811 |
| Transmission grid access fee | 16,919 | - |
| Consulting services | 4,866 | 3,544 |
| Transport costs | 3,206 | 3,198 |
| Services for providing safety food, as per ordinance | 2,496 | 2,332 |
| Sanitation and landscaping | 1,674 | 1,763 |
| Water-supply and sewerage services | 853 | 1,106 |
| Water usage fee | 1,341 | 1,065 |
| Researches, measurements and control | 631 | 536 |
| Training and qualification | 536 | 424 |
| Informational, postal and telecommunication services | 425 | 401 |
| Medical treatment services | 274 | 297 |
| Rents | 60 | 75 |
| Others | 2,154 | 2,094 |
| | 134,489 | 131,497 |

29. Employee benefits expenses

| | 2019 | 2018 |
|--|-----------------|-----------------|
| | BGN '000 | BGN '000 |
| Salaries and wages | 150,381 | 135,989 |
| Social security costs | 39,551 | 35,105 |
| Social expenses, in cash | 23,418 | 21,919 |
| Food expenses, in accordance with Ordinance No.11 | 16,696 | 15,956 |
| Other expenses for social services | 2,981 | 1,434 |
| Compensations, provided in accordance with the Labour Code | 1,494 | 1,489 |
| | 234,521 | 211,892 |
| Retirement employee benefits | 40,862 | 8,799 |
| | 275,383 | 220,691 |

30. Provisions costs

| | 2019 | 2018 |
|----------------------------------|---------------|---------------|
| | BGN '000 | BGN '000 |
| Provision for spent nuclear fuel | 40,828 | 41,775 |
| Provisions for other payables | (947) | (657) |
| | 39,881 | 41,118 |

31. Impairment costs/recovered impairment on financial assets (net)

| | 2019 | 2018 |
|--|--------------|--------------|
| | BGN '000 | BGN '000 |
| Impairment of receivables from customers | 1,316 | 6,844 |
| Recovered impairment of receivables from related parties | (2,155) | (489) |
| Recovered impairment of other receivables | (244) | (645) |
| Impairment of receivables from litigations and writs | 49 | 157 |
| Impairment of cash at banks | 557 | 372 |
| | (477) | 6,239 |

In 2019 the Company performed a review of the methodology and the assumptions used for the best estimate of the expected credit losses over the previous reporting period, in order to decrease the differences between the best estimates and the factual credit losses. With regards to the review, the Company has changed its impairment model when calculating expected credit losses of long-term trade and other receivables and receivables from related parties with a financial component, and of cash at banks.

32. Other expenses

| | 2019 | 2018 |
|---|----------------|----------------|
| | BGN '000 | BGN '000 |
| Annual instalment payment to the Decommissioning of Nuclear Facilities Fund | 98,409 | 82,385 |
| Annual instalment payment to the Radioactive Waste Fund | 39,363 | 32,954 |
| Annual instalment payment to the ESS Fund | 65,606 | 54,924 |
| Impairment of property, plant and equipment | - | 7,632 |
| Reimbursed financing | 38 | 3,821 |
| Donations and sponsorship | 2,461 | 1,805 |
| Membership fees | 861 | 831 |
| Business trips | 795 | 687 |
| Social costs | 579 | 503 |
| Shortages and defaults | 336 | 354 |
| Impairment of inventory | 574 | 130 |
| Reintegrated impairment of inventory | (4) | (3) |
| Entertainment cost | 297 | 192 |
| Penalties and charges under contracts | 71 | 119 |
| Penalties and charges under legal acts | 2 | 25 |
| Other expenses | 750 | 818 |
| | 210,138 | 187,177 |

33. Financial income and financial costs

| | 2019 | 2018 |
|--|--------------|--------------|
| | BGN '000 | BGN '000 |
| Interest expense under borrowings | 1,312 | 1,556 |
| Total interest expense under financial instruments that are not carried at fair value in profit or loss | 1,312 | 1,556 |
| Interest expenses on liabilities for retirement employee benefits | 678 | 822 |
| Fees and commissions expenses | 27 | 35 |
| Negative exchange rate differences | 100 | 113 |
| Financial costs | 2,117 | 2,526 |

The financial income for the presented reporting period can be analysed as follows:

| | 2019 | 2018 |
|--|--------------|--------------|
| | BGN '000 | BGN '000 |
| Interest income under loans provided | 283 | 339 |
| Interest income under agreements | 2,637 | 3,398 |
| Interest income under cash in bank (current accounts) | 136 | 196 |
| Total interest income under financial assets that are not carried at fair value in profit or loss | 3,056 | 3,933 |
| Income from dividends | 866 | 970 |
| Positive exchange rate differences | 84 | 176 |
| Income under discount on liabilities | - | 467 |
| Financial income | 4,006 | 5,546 |

34. Income tax expenses

The anticipated income tax expenses are based on the applicable tax rate for Bulgaria amounting to 10% (2018: 10%) and the actual tax expenses recognised in profit or loss can be reconciled as follows:

| | 2019 | 2018 |
|---|-----------------|-----------------|
| | BGN '000 | BGN '000 |
| Accounting profit from continuing operations | 360,906 | 181,032 |
| Accounting profit from discontinued operations | - | - |
| Accounting profit before tax | 360,906 | 181,032 |
| Tax rate | 10% | 10% |
| Estimated income tax expense | (36,090) | (18,103) |
| Tax effect of: | | |
| Increase of the financial result for tax purposes | (27,451) | (27,980) |
| Decrease of the financial result for tax purposes | 14,447 | 14,301 |
| Current income tax expense | (49,094) | (31,782) |
| Deferred tax profit/(loss) as a result of: | | |
| Arising and reversal of temporary tax differences | 13,080 | 14,296 |
| Income tax expenses | (36,014) | (17,486) |
| Deferred tax income, recognised in other comprehensive income | 2,743 | 713 |

Note 11 provides information on the deferred tax assets and deferred tax liabilities.

35. Related party disclosures

The Company discloses the following related parties:

Sole owner of the Company, exercising control (Parent Company)

Bulgarian Energy Holding EAD (BEH)

Sole owner of the Parent Company

The Republic of Bulgaria through the Minister of Energy

Subsidiaries

Kozloduy NPP - New Build EAD

Kozloduy HPP EAD

Interpriborservice OOD

Entities under common control with the Company (entities within the Group)

Natsionalna Elektricheska Kompania EAD, TPP Maritsa East 2 EAD, Mini Maritsa - Iztok EAD, Bulgargaz EAD, Bulgartel EAD, Bulgartansgas EAD, Electricity System Operator EAD, TPP Maritsa East 2 (9 and 10) EAD, PFC Beroe - Stara Zagora EAD, Bulgartel Skopje DOOEL, Gauging and Information Technologies Energy Operator EAD (in liquidation), Energy Investment Company EAD (until 26.04.2018), Independent Bulgarian Energy Exchange EAD (until 15.02.2018).

Associated companies for BEH group

ContourGlobal Maritsa Iztok 3 AD, ContourGlobal Operations Bulgaria AD, ZAD Energia, POD Allianz Bulgaria AD, HEK Gorna Arda AD

Joint ventures for BEH group

ICGB AD, South Stream Bulgaria AD, Transbalkan Electric Power Trading S.A. - NECO S.A.

Others - Independent Bulgarian Energy Exchange EAD since 16.02.2018 and all enterprises connected with the State.

Key management personnel of the parent company as at 31 December 2019:

Jacklen Yosif Cohen - Chair of the Board of Directors

Ivan Todorov Yonchev - Member of the Board of Directors

Nasko Asenov Mihov - Member of the Board of Directors and Chief Executive Officer

Key management personnel of the Parent company as at 31 December 2019:

Andon Andonow - Chair of the Board of Directors

Zhivko Dinchev - Member of the Board of Directors

Jacklen Cohen - Member of the Board of Directors and Chief Executive Officer

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received.

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35.1. Related party transactions and related party payables as at year-end

| | | Sales to related parties incl. dividends | Purchases from related parties incl. dividends | Gross amounts due from related parties | Impairment of the amounts due from related parties | Amounts due from related parties, net of impairment | Amounts due to related parties |
|---|-------------|--|---|--|---|--|---|
| | | BGN '000 | BGN '000 | BGN '000 | BGN '000 | BGN '000 | BGN '000 |
| <i>Sole owner:</i> | | | | | | | |
| BEH EAD | 2019 | 144 | 230,439 | 29 | - | 29 | 19 |
| BEH EAD | 2018 | 145 | 276,897 | 28 | - | 28 | 19 |
| <i>Subsidiaries:</i> | | | | | | | |
| Interpiborservice OOD | 2019 | 72 | 6,451 | 38 | - | 38 | 640 |
| Interpiborservice OOD | 2018 | 77 | 6,633 | 42 | - | 42 | 645 |
| Kozloduy HPP EAD | 2019 | 737 | - | - | - | - | - |
| Kozloduy HPP EAD | 2018 | 1,111 | - | - | - | - | - |
| Kozloduy NPP - New Build EAD | 2019 | 14 | - | 1 | - | 1 | 2 |
| Kozloduy NPP - New Build EAD | 2018 | 14 | - | 1 | - | 1 | 2 |
| <i>Other related parties (under common control)</i> | | | | | | | |
| NEK EAD | 2019 | 132,898 | 52 | 52,367 | (82) | 52,285 | - |
| NEK EAD | 2018 | 134,353 | 778 | 100,408 | (1,433) | 98,975 | - |
| ESO EAD | 2019 | 9,986 | 24,890 | 818 | - | 818 | 4,763 |
| ESO EAD | 2018 | 424 | 163 | 358 | - | 358 | 872 |
| Mini Maritsa Iztok EAD | 2019 | - | - | - | - | - | - |
| Mini Maritsa Iztok EAD | 2018 | - | 1 | - | - | - | - |
| TPP Maritsa East 2 EAD | 2019 | - | - | - | - | - | - |
| TPP Maritsa East 2 EAD | 2018 | 6,322 | - | - | - | - | - |
| <i>Other related parties</i> | | | | | | | |
| IBEX EAD | 2019 | - | - | - | - | - | - |
| | 2018 | 428,918 | 777 | 15,190 | - | 15,190 | 51 |
| ZAD Energia | 2019 | 753 | 15,370 | 753 | - | 753 | - |
| ZAD Energia | 2018 | 949 | 15,158 | 744 | - | 744 | - |
| | 2019 | | | | (83) | 53,924 | 5,458 |
| | 2018 | | | | (1,433) | 115,338 | 1,589 |

Sales to and purchases from related parties are performed at contracted rates. No guarantees are provided or received in respect of the receivables from and liabilities to related parties.

Kozloduy NPP EAD has signed two agreements with NEK EAD for scheduled payment of arrears for electricity sold. The first agreement is of 28.02.2017 for the amount of BGN 47,497 thousand and the associated interest to the amount of BGN 2,229 thousand, at contracted annual interest of 3%. The

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deadline for the repayment of the debt is 31.01.2020. The second agreement is for the amount of BGN 67,895 thousand and the associated interest to the amount of BGN 2,262 thousand, at a contracted annual rate of 3.87%. The deadline for repayment of the liabilities under the agreement is 29 February 2020. As at 31 December 2019 the remaining portion under the first agreement amounts to BGN 1,378 thousand, and under the second agreement - BGN 5,860 thousand.

35.2. Loans granted to related parties

| | 31 December 2019 | 31 December 2018 |
|----------------------------|---------------------|---------------------|
| | BGN '000 | BGN '000 |
| Non-current: | | |
| Principal | 7,767 | 10,540 |
| Impairment | 522 | (789) |
| | 8,289 | 9,751 |
| Current: | | |
| Principal | 2,267 | 2,200 |
| Interest | 124 | 150 |
| Impairment | (17) | (16) |
| | 2,374 | 2,334 |
| Total loans granted | 10,663 | 12,085 |

The loan is provided to the subsidiary Kozloduy HPP EAD in accordance with a decision of Bulgarian Energy Holding EAD on 7 November 2008. The credit line amounted to BGN 20,000 thousand and the deadline for its repayment is until 2020. An annual interest rate equalling the BIR as at the date of payment of the due instalment plus 0.30% margin was negotiated. Pursuant to Minutes No. 1-2015 of 12 January 2015, BEH EAD approved signing of Annex 4 to the Contract for Credit Line No. 880080 of 7 October 2008 concluded between Kozloduy NPP EAD as a creditor and Kozloduy HPP EAD as a debtor. As a result, the Annex was signed on 20 January 2015, and came into force as of 14 July 2014; the loan maturity date is 15 January 2024. The repayment of the loan began on 15 July 2013. The loan shall be repaid in 22 instalments, the first 2 instalments amounting to BGN 150 thousand (15 July 2013) and BGN 1,300 thousand (15 January 2014) respectively. A repayment schedule was prepared for the remaining 1/15 of the unpaid principal after 15 January 2014. In accordance with this Annex, the annual interest rate is floating and equals the BIR plus 2.5% margin. In 2019, Kozloduy HPP EAD repaid BGN 2,200 thousand and the credit balance as at 31 December 2019 amounted to BGN 10,540 thousand. The loan is secured by a promissory note. The interests accrued in 2019 amounted to BGN 308 thousand (2018: BGN 339 thousand). The receivables from related parties were reviewed for indications of impairment. The movement of the corrective account for impairment of trade and other receivables is as follows:

35.3. Movement of the impairment of receivables from related parties

| | 2019 | 2018 |
|--|----------|----------|
| | BGN '000 | BGN '000 |
| Balance at 1 January | 2,238 | - |
| Adjustments from initial application of IFRS 9 | - | 2,727 |
| Balance at 1 January (restated) | 2,238 | 2,727 |
| Impairment loss | - | 1,133 |
| Recovery of impairment loss | (2,155) | (1,622) |
| Balance at 31 December | 83 | 2,238 |

35.4. Transactions with key management personnel

The key management personnel of the Company includes members of the Board of Directors. Key management personnel remuneration includes the following expenses:

| | 2019 | 2018 |
|-------------------------------|------------|------------|
| | BGN '000 | BGN '000 |
| Short-term employee benefits: | | |
| Salaries, including bonuses | 344 | 272 |
| Social security costs | 30 | 21 |
| Social costs | 32 | 29 |
| Allowances | (6) | 46 |
| Tantièmes | 37 | - |
| Total remunerations | 437 | 368 |

36. Adjustment of liabilities resulting from financial activity

The changes in the Company's liabilities resulting from financing activity could be classified, as follows:

| | Long-term borrowings BGN '000 | Short-term borrowings BGN '000 | Financial lease liabilities BGN '000 | Total BGN '000 |
|--------------------------|-------------------------------------|--------------------------------------|--|----------------------|
| 1 January 2019 | 33,127 | 33,890 | - | 67,017 |
| Cash flows: | | | | |
| Payments | - | (34,386) | (116) | (34,502) |
| Non-cash changes: | | | | |
| Fair value | - | - | 910 | 910 |
| Re-classification | (22,248) | 22,248 | - | - |
| Accrued interest | | 1,081 | - | 1,081 |
| 31 December 2019 | 10,879 | 22,833 | 794 | 34,506 |

| | Long-term borrowings BGN '000 | Short-term borrowings BGN '000 | Total BGN '000 |
|--------------------------|-------------------------------------|--------------------------------------|-------------------|
| 1 January 2018 | 66,132 | 40,056 | 106,188 |
| Cash flows: | | | |
| Payments | - | (40,727) | (40,727) |
| Non-cash changes: | | | |
| Re-classification | (33,005) | 33,005 | - |
| Accrued interest | | 1,556 | 1,556 |
| 31 December 2018 | 33,127 | 33,890 | 67,017 |

37. Cashless transactions

In 2019, the Company did not engage in any investment and financial transactions where no cash or cash equivalents were used.

38. Commitments and contingent liabilities

Capital commitments

As at 31 December 2019 the Company has capital commitments amounting to BGN 70,422 thousand. (31 December 2018: BGN 53,510 thousand) related to the acquisition of property, plant, and equipment.

As at 31 December 2019 the amount of contractual commitments related to the acquisition of nuclear fuel is BGN 211,234 thousand. (31 December 2018: BGN 117,065 thousand).

Legal claims

Legal claims for the amount of BGN 230 thousand were brought against the Company (31 December 2018: BGN 235 thousand). None of the above claims is set out in details herewith, so as not to have a serious impact on the Company's position in dispute resolution.

Guarantees

Bank guarantees and cash collaterals to the amount of BGN 95,977 were opened for the benefit of the Company as at 31 December 2019 (31 December 2018: BGN 87,508 thousand).

As at 31 December 2019, the Company had provided the following guarantees and collaterals:

- Guarantee collateral under a contract for organised exchange market (monetary guarantee) - BGN 3,200 thousand.
- Guarantee collateral on the provision of a financial limit when initiating a CMBC bid for electricity (monetary guarantee) - BGN 350 thousand;
- Guarantee collateral on the provision of a financial limit for participation on IBEX CMBC segment amounting to BGN 1,498 thousand;
- Guarantee for concluding electricity trade transactions (monetary guarantee) - BGN 75 thousand.
- Guarantee collateral for participation on the electricity exchange market (monetary guarantee) - BGN 50 thousand.
- Guarantee obligations to society, for trading in electricity /monetary guarantee/ - BGN 566 thousand.
- Guarantee collateral under a balancing contract /monetary guarantee/ - BGN 326 thousand.
- Guarantee collateral under contract for access and transmission of electricity /monetary guarantee/ - BGN 7 thousand.
- Guarantee collateral on securing financial limit to cover transactions - BGN 5,500 thousand.

Insurance policies

The Safe Use of Nuclear Energy Act specifies a limit on the liability of the operating organisation for nuclear damages. The Act limits the liability of the operator to BGN 96,000 thousand per accident. Pursuant to the Vienna Convention on Civil Liability for Nuclear Damage, the operator is required to maintain insurance or other financial security for nuclear damage for the period of operation of the nuclear facility. The Company has an insurance policy covering the limits stipulated by the law. The Insurance Contract with the Bulgarian National Insurance Pool was signed on 27 July 2017, with one-year coverage – from 1 August 2017 to 01 August 2018. The insurance amount is BGN 794 thousand, of which BGN 779 thousand insurance premium and BGN 15 thousand tax on premium. As of 31 July 2018, a new one-year contract was concluded for the period 01 August 2018 – 01 August 2019. The insurance amount is BGN 794 thousand (BGN 779 thousand insurance premium and BGN 15 thousand tax on premium). The Company took out a property insurance policy against industrial fire covering the period from 1 January 2016 to 31 December 2020. For the period 01 January 2019 to 31 December 2019 the insurance sum amounts to BGN 15,369 thousand (EUR 7,858 thousand).

Others

The tax administration bodies may at any time revise the Company within 5 years after the end of the financial year and may impose additional tax liabilities and fines.

39. Categories of financial assets and financial liabilities

The carrying amounts of the Company's financial assets and financial liabilities can be presented in the following categories:

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| Financial assets | Note | 31 December 2019 BGN '000 | 31 December 2018 BGN '000 |
|---|-------------|--|--|
| Equity instruments at fair value through other comprehensive income (OCI) | 10 | 457 | 466 |
| Debt instruments measured at amortised cost – current and non-current | | | |
| Trade and other receivables | 9.14 | 73,188 | 45,012 |
| Loans granted to related parties | 35.2 | 10,663 | 12,085 |
| Related parties receivables | 35.1 | 53,924 | 115,338 |
| Cash and cash equivalents | 15 | 395,583 | 239,725 |
| Total financial assets | | 533,815 | 412,626 |
| Financial liabilities | Note | 31 December 2019 BGN '000 | 31 December 2018 BGN '000 |
| Financial liabilities carried at amortised cost – current and non-current: | | | |
| Borrowings | 18 | 33,712 | 67,017 |
| Retentions on construction contracts | 19 | 4,188 | 5,834 |
| Trade and other liabilities | 22 | 77,814 | 57,926 |
| Payables to related parties | 35.1 | 5,424 | 1,589 |
| Total financial liabilities | | 121,138 | 132,366 |

Refer to Note 4.1 for information on the accounting policy for each category of financial instruments. The Company's policy and objectives for management of the risk associated with the financial instruments are described in Note 40.

40. Risks related to financial instruments

Management objectives and policies in respect of risk management

The Company is exposed to various risks, associated with its financial instruments. The most significant financial risks which the Company is exposed to are the market risk, credit risk, and liquidity risk.

The Company's risk management is a responsibility of the Company's Central Administration with the assistance of the Board of Directors. Management priority objective is to ensure short-term and mid-term cash flows while reducing financial market expositions. Long-term financial investments are managed in a manner ensuring their long-term return.

The most significant financial risks that the Company is exposed to are described below.

40.1. Market risk analysis

By using financial instruments, the Company is exposed to market risk and more specifically to the risk of changes in the foreign currency exchange rates, interest risk, as well as risk of changes in specific prices, resulting from the operating and investment activities of the Company.

40.1.1. Currency risk

The Company carries out purchases, sales, lending and borrowing amounts denominated in foreign currency – euro, US Dollars, and British Pounds. Most of those operations are denominated in Euro. Since the BGN to EUR exchange rate is fixed at 1.95583, the currency risk related to the Company's Euro exposure is minimal.

40.1.2. Interest risk

The Company's policy is focused on managing and decreasing the existing interest risk for long-term investments.

As at 31 December 2019 the Company's cash flows are exposed to interest risk, arising due to changes in the market interest rates of the three tranches still to be repaid, denominated in Euro, under the Loan Agreement with EURATOM, dated 29.05.2000, at contracted floating interest rate, equal to six-month EURIBOR + margins in the range between 0.079% to 0.09%.

The Company provided to Kozloduy HPP EAD a loan at a floating interest rate based on the BIR plus a margin of 2.5%.

All other financial assets and financial liabilities of the Company are with fixed interest rates.

The tables below show the sensitivity of the annual net financial result after taxation as well as of the equity to possible changes in the interest rates of loans with floating interest rates based on the Bulgarian BIR, amounting to +/- 0.01% (for 2018: +/- 0.01%) and of loans with floating interest rates based on the EURIBOR, amounting to +/- 0.1% (for 2018: +/- 0.1%) Those changes are considered possible on the basis of observations of the established variations in the BIR and EURIBOR in 2018 and 2019. The calculations are based on the change of the average market interest rate as well as on the financial instruments used by the Group as at the end of the reporting period which are sensitive to interest rate variations. All other parameters are considered fixed.

The calculations are in compliance with the contract clauses of the Euratom Agreement whereby in case of unfavourable market conditions the Lender determines an interest rate which must include administration fee for each tranche, amounting to 0.08 percentage points, i.e. this is the minimum annual interest rate under which its value may not vary. With a view to the current restricting conditions, the impact of the decreased interest costs on the financial result is estimated at BGN 0.

Regarding the given financial assets denominated in BGN, the effect of decreased interest income on the financial result is estimated at BGN 0, in relation to the applicable BNB regulations, which do not allow base interest rates lower than 0.00% annually, as established during the year.

The effect of the Company's loans floating interest rates drop or rise is represented as profit or loss, respectively and it has a similar effect on the equity based on the profit/loss component for the current year

31 December 2019

| | Net financial result BGN '000 | | Equity thousands of BGN | |
|---|-------------------------------|-----------------------|----------------------------|-----------------------|
| | Interest rate rise | Interest rate drop | Interest rate rise | Interest rate drop |
| Loans granted in BGN (BIR +/- 0.01%) | 1 | 0 | 1 | 0 |
| Loans obtained in EUR (EURIBOR +/- 0.1%) | (27) | 0 | (27) | 0 |

31 December 2018

| | Net financial result BGN '000 | | Equity thousands of BGN | |
|--|-------------------------------|-----------------------|----------------------------|-----------------------|
| | Interest rate rise | Interest rate drop | Interest rate rise | Interest rate drop |
| Loans granted in BGN (BIR +/- 0.01%) | 1 | 0 | 1 | 0 |
| Borrowings in Euro (EURIBOR +/- 0.1%) | (56) | 0 | (56) | 0 |

40.2. Credit risk analysis

The credit risk refers to the possibility that a particular counterparty does not make the expected payment to the Company. The Company is exposed to this risk in relation to various financial instruments, e.g. granting of loans, receivables from customers, cash deposits, investments in securities, etc. The Company's credit risk exposure is limited to the carrying amount of the financial assets approved at the end of the reporting period as specified below:

| | 31 December 2019 | 31 December 2018 |
|--|---------------------|---------------------|
| | BGN '000 | BGN '000 |
| Groups of financial assets – carrying amounts: | | |
| Equity instruments at fair value through other comprehensive income (OCI) | 457 | 466 |
| Debt instruments measured at amortised cost – current and non-current | | |
| Trade and other receivables | 73,188 | 45,012 |
| Loans granted to related parties | 10,663 | 12,085 |
| Related parties receivables | 53,924 | 115,338 |
| Cash and cash equivalents | 395,583 | 239,725 |
| Carrying amount | 533,815 | 412,626 |

The Company closely monitors for outstanding payables by customers and other counterparties, identified individually or in groups, and uses this information to manage the credit risk. The Company trades only with recognised and creditworthy counterparties. The Company's policy requires that all customers who wish to conclude trade transactions with deferred payment, undergo procedures to verify their solvency. Furthermore, the balances of trade receivables are continuously monitored, thus the Company's exposure to doubtful debts and bad debts is insignificant.

The expected credit losses are calculated on the date of each reporting period.

The table below contains information about the credit risk exposure related to receivables from customers of non-related and related parties of the Company, by using the expected credit loss provision matrix, as of 31 January 2019 and 31 December 2018, respectively.

| 31 December 2019 | Expected credit loss percentage | Gross value of receivables from customers | Impairment for expected credit loss | Net value of receivables from customers |
|----------------------|------------------------------------|---|---|---|
| | % | BGN '000 | BGN '000 | BGN '000 |
| Non-matured | 7.34% | 99,105 | (4,973) | 94,132 |
| From 30 to 90 days | 0% | 4,432 | (135) | 4,297 |
| From 90 to 180 days | 0% | 1,221 | (2) | 1,219 |
| From 180 to 360 days | 0% | 9,868 | (4,304) | 5,564 |
| Over 360 days | 33.76% | 28,414 | (6,514) | 21,900 |
| | | 143,040 | (15,928) | 127,112 |
| 31 December 2018 | Expected credit loss percentage | Gross value of receivables from customers | Impairment for expected credit loss | Net value of receivables from customers |
| | % | BGN '000 | BGN '000 | BGN '000 |
| Non-matured | 0% | 91,741 | (8) | 91,733 |
| From 30 to 90 days | 1% | 93 | (1) | 92 |
| From 90 to 180 days | 0% | 26 | - | 26 |
| From 180 to 360 days | 6% | 410 | (24) | 386 |
| Over 360 days | 92% | 14,997 | (13,739) | 1,258 |
| Under agreements | 3% | 69,240 | (2,385) | 66,855 |
| | | 176,507 | (16,157) | 160,350 |

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As at the date of the separate financial statements, the age structure of the receivables is as follows:

As at 31 December 2019

| | Not overdue | 30-90 days | 90-180 days | 180-360 days | >360 days | Total |
|-----------------------------|---------------|---------------|----------------|-----------------|---------------|----------------|
| | BGN '000 | BGN '000 | BGN '000 | BGN '000 | BGN '000 | BGN '000 |
| Trade and other receivables | 50,367 | 3,559 | 12 | 5,532 | 13,718 | 73,188 |
| Related parties receivables | 43,765 | 738 | 1,207 | 32 | 8,182 | 53,924 |
| | 94,132 | 4,297 | 1,219 | 5,564 | 21,900 | 127,112 |

As at 31 December 2018

| | Not overdue | 30-90 days | 90-180 days | 180-360 days | >360 days | Renegotiat ed | Total |
|--------------------------------|----------------|---------------|----------------|-----------------|--------------|------------------|----------------|
| | BGN '000 | BGN '000 | BGN '000 | BGN '000 | BGN '000 | BGN '000 | BGN '000 |
| Trade and other receivables | 39,654 | 92 | 26 | 351 | 1,258 | 3,631 | 45,012 |
| Related parties receivables | 52,079 | - | - | 35 | - | 63,224 | 115,338 |
| | 91,733 | 92 | 26 | 386 | 1,258 | 66,855 | 160,350 |

The change in the impairment of trade and other receivables from third parties may be presented as follows:

| | 2019 | 2018 |
|--|---------------|---------------|
| | BGN '000 | BGN '000 |
| Balance at 1 January | 14,724 | 7,329 |
| Adjustments from the initial application of IFRS 9 | - | 1,038 |
| Balance at 1 January (restated) | 14,724 | 8,367 |
| Impairment loss | 1,365 | 7,176 |
| Recovering of impairment loss | (244) | (820) |
| Other adjustments | - | 1 |
| Balance at 31 December | 15,845 | 14,724 |

Information about the change in the impairment of the trade and other receivables from related parties is presented in Note 35.3.

The carrying amounts of the above mentioned financial assets represent the maximum possible credit risk exposure of the Company with regards to these financial instruments.

40.3. Liquidity risk analysis

Liquidity risk refers to the possibility that the Company fails to settle its obligations when they fall due. The Company provides the liquid resources it needs by carefully monitoring the payments under the long-term financial liabilities repayment schedules, as well as the cash inflows and outflows arising in the course of its ordinary activities. The needs of cash resources are compared with the available borrowings in order to identify surplus or deficits. This analysis determines whether the available borrowings will suffice to cover the Company's needs for the period.

In order to manage the liquidity risk, the Company collects its receivables, controls its cash outflows, thus ensuring sufficient working capital. The resources for the long-term liquidity needs are provided through borrowings of relevant size.

As at 31 December, the maturity dates of the Company's contractual liabilities are summarised as follows:

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| 31 December 2019 | <3 months | 3-12 months | 1-5 years | Total |
|---|----------------|---------------|---------------|----------------|
| | BGN '000 | BGN '000 | BGN '000 | BGN '000 |
| Borrowings | 2,445 | 6,452 | 24,815 | 33,712 |
| Retained amounts under construction contracts | - | 978 | 3,210 | 4,188 |
| Trade and other liabilities | 96,260 | 47,489 | 13,181 | 156,930 |
| Payables to related parties | 5,413 | 11 | - | 5,424 |
| | <u>104,118</u> | <u>54,930</u> | <u>41,206</u> | <u>200,254</u> |
| 31 December 2018 | <3 months | 3-12 months | 1-5 years | Total |
| | BGN '000 | BGN '000 | BGN '000 | BGN '000 |
| Borrowings | 11,246 | 22,644 | 33,127 | 67,017 |
| Retained amounts under construction contracts | - | 4,971 | 863 | 5,834 |
| Trade and other payables | 25,664 | 13,606 | 18,656 | 57,926 |
| Payables to related parties | 1,508 | 73 | - | 1,581 |
| | <u>38,418</u> | <u>41,294</u> | <u>52,646</u> | <u>132,358</u> |

The amounts, disclosed in this analysis of the liabilities maturity, represent non-discounted cash flows under the relevant contracts that could differ from the carrying amounts of the liabilities as at the reporting date.

41. Fair value measurement of non-financial assets

The Company groups its assets and liabilities, carried at fair value, into three levels based on the significance of the input information used in measuring the fair value of the assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: Market prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Input data, other than market prices, included in Level 1 that can be observed for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. based on prices); and
- Level 3: Input data for the asset or liability that are not based on observed market data.

A financial asset or liability is classified at the lowest level of significant input information used in its fair value measurement.

The following table represents the hierarchic levels of non-financial assets at 31 December, periodically measured at fair value:

| | 31 December 2019 | 31 December 2018 |
|---|---------------------|---------------------|
| | BGN '000 | BGN '000 |
| Property, plant, and equipment (Level 3): | | |
| - Land | 13,600 | 13,226 |
| - Buildings | 439,185 | 449,946 |
| - Machines, plant, and equipment | 1,757,486 | 1,830,992 |
| - Transport vehicles | 7,619 | 5,677 |
| Investment properties (Level 2): | 4,120 | 4,100 |
| Financial instruments at fair value through other comprehensive income (OCI) (Level 3) | 457 | 466 |
| | <u>2,222,467</u> | <u>2,304,407</u> |

The fair value of the respective groups of assets of property, plant and equipment, investment properties and financial instruments of the Company is determined based on reports of independent certified appraisers, as at 31 December 2018.

As at 31 December 2018 appraisers conducted a review for impairment. According to the review, the carrying amount of the assets does not differ significantly from the fair value of the revalued assets as at the end of the reporting period.

Significant unobserved data are related to the adjustment in the Company's assets specific factors. The degree and direction of this adjustment depends on the number and characteristics of the observed market transactions with similar assets that are used for valuation purposes. Despite the fact that these data are subjective, the Management believes that the final valuation would not be significantly affected by other possible assumptions.

As at 31 December 2019 the Company has performed a fair value measurement of the non-current assets of the property, plant, and equipment group in relation to their classification as Non-current assets held for distribution to owners.

The table below presents the hierarchic levels of the non-financial assets as at 31 December 2019 measured periodically at fair value; it shows the fair value of non-current assets held for distribution to owners to the amount of:

Property, plant, and equipment (Level 3):

| | |
|--|---------------|
| - Buildings | 1,069 |
| - Machines, plant, and equipment | 8,667 |
| - costs for acquisition of tangible fixed assets | 47,541 |
| | <u>57,277</u> |

42. Capital management policy and procedures

The main objective of the Company's capital management is to ensure a stable credit rating and capital indicators, with a view of the continuing operations and maximisation of its value for the Sole owner.

The Company manages its capital structure and amends it, as necessary, depending on the changing economic environment. In order to maintain, or change, its capital structure, the company may adjust the payment of dividends to the sole shareholder, to redeem treasury shares, to reduce or increase its share capital, by a decision of the Sole owner.

The Company monitors its capital through the realised financial result for the reporting period, as follows:

| | 2019 | 2018 |
|---------------------------------------|----------|----------|
| | BGN '000 | BGN '000 |
| Profit for the year, after tax | 324,892 | 163,546 |

The Company shall comply with the externally imposed capital requirements relating to the debt ratio, in accordance with a signed bank loan agreement. This ratio shall not exceed 2.

Debt servicing

According to the Loan Agreement with Euratom of 10 May 2000, the financial covenants - Debt Service Cover Ratio and Gearing Ratio, are observed in order to monitor whether they are within the acceptable ranges.

In accordance with the terms of the Loan Agreement, the Debt Service Cover Ratio is calculated as a correlation between the free cash flow for the year and debt servicing amount, including interests and principals for the respective year. This ratio shall not be less than 1.5. For 2019 the ratio amounted to 16.18 (2018: 8.47).

| | 2019 | 2018 |
|--------------------------------|----------|----------|
| | BGN '000 | BGN '000 |
| Free cash flow | 555,534 | 344,928 |
| Debt servicing | 34,390 | 40,727 |
| Coverage of the debt servicing | 16.15 | 8.47 |

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Another indicator that is monitored in compliance with the obligations of the Company as a Borrower is the Gearing Ratio calculated as a correlation between the Company's total borrowings and the equity as at the end of the respective year. This ratio shall not exceed 2. As of 31 December 2018 the correlation amounted to 0.01 (31 December 2018: 0.03).

| | <u>31 December 2019</u> BGN '000 | <u>31 December 2018</u> BGN '000 |
|---------------------|-------------------------------------|-------------------------------------|
| Borrowed capital | 33,712 | 67,017 |
| Equity | 2,681,323 | 2,611,209 |
| Indebtedness | 0.01 | 0.03 |

The above indicators are monitored on an annual basis. They are calculated based on the annual financial statements of the Company submitted to the bank. The Management shall immediately notify the bank in the event of non-performance. The Management believes that the Company complies with the required levels of financial indicators stipulated in the signed Loan Agreement.

During the presented reporting periods, the Company has not changed its capital management objectives, policies, and processes, nor the method for determining the capital.

43. Post-reporting date events

In the end of 2019 for the first time China came forward with new information about COVID-19 (Corona virus) when a limited number of cases of unknown virus were reported to the World Health Organisation. During the first several months of 2020 the virus spread worldwide and its negative impact gathered speed.

On 11 March 2020, after cases of people infected with the new corona virus strains were registered in 114 countries, the World Health Organisation (WHO) declared the outbreak of COVID-19 a pandemic.

On 13 March, on a request of the Government, the National Assembly declared a state of emergency in Bulgaria due to the corona virus. The Management considers this a non-adjusting post-reporting date event, since it believes that it would not bring in question the capability of the Company to continue its operation as a going concern.

Kozloduy NPP undertakes all necessary measures to protect the employee's health and to ensure reliable operation of the nuclear power units.

The measures are in compliance with the instructions by the National Operations Task Force and the orders by all national authorities are strictly implemented.

There are no other adjusting or non-adjusting post-reporting date events that require additional disclosure or adjustment in the financial statements of Kozloduy NPP EAD as at 31 December 2019.

44. Disclosure pursuant to statutory requirements

These Separate Financial Statements were audited by the audit firm HLB Bulgaria OOD based on a contract concluded between the Bulgarian Energy Holding EAD and HLB Bulgaria OOD. The Company does not accrue amounts for independent financial audit. The Consolidated Financial Statements of the Bulgarian Energy Holding EAD disclose the accrued amounts for rendering of services by the registered auditor for independent financial audit. The registered auditor did not render any other services during the relevant period.

45. Approval of the Separate Financial Statements

The Separate Financial Statements as at 31 December 2019 (including comparison data) were approved for issue by the Board of Directors on 20 March 2020.