1. BACKGROUND CORPORATE INFORMATION

Neochim AD (the 'Company') was established in 1951. It was registered as a joint-stock company in July 1997. The Company has a headquarters and registered address at: Himkombinatska St., East Industrial Zone, Dimitrovgrad and it has been entered in the Commercial Register under UIC 836144932. The latest changes in the Articles of Association were entered in the Register of Commercial Companies on 6 August 2013. The latest changes in the managing bodies were entered in the Commercial Register on 5 August 2020 with an extension of the term of office of the Board of Directors until 13 June 2021. On 21 June 2018, the establishment and authorisation of a Procurator (Authorized Representative) of Neochim AD.

1.1. Ownership and management

Neochim AD is a public company under the Public Offering of Securities Act.
The structure of Company's share capital as at 31 December 2020 was as follows:

- Eco Tech AD - 24.28 %
- Evro Fert AD - 24.03 %
- Feboran EOOD - 20.30 %
- Agrofer International Establishment, Lichtenstein - 7.68 %
- UPF Saglasie - 3.33 %
- Neochim AD (treasury shares) - 2.58 %
- ZPAD Allianz Bulgaria - 2.46 %
- UPF CCB Sila - 2.19 %
- Other - 13.15 %

Neochim AD has one-tier management system with a Board of Directors which consists of 8 members as follows:

Dimcho Staikov Georgiev	Chairperson
Elena Simeonova Shopova	Deputy Chairperson (until 4 August 2020)
Dimitar Stefanov Dimitrov	Member
Tosho Ivanov Dimov	Member
Vasil Jivkov Grancharov	Member
Victoria Ilieva Cenova	Member
Zarneni Hrani Bulgaria AD	Member
Hubert Puchner	Member (until 4 August 2020)
Peter Michael Leitner	Member
Marcus Horcher	Member (as from 5 August 2020)

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

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

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

The members of the Audit Committee are as follows:

Tanya Dimitrova Kovanlashka
Nikolina Zheleva Delcheva
Iordanka Atanasova Nikolova

As at 31 December 2020, the total number of Company's personnel was 723 workers and employees (31 December 2019: 707).

1.2. Principal activities

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

1.3. Main indicators of the economic environment

The main economic indicators of the business environment that affected Company's activities throughout the period 2016 – 2020 are presented in the table below:

Indicator	**2016**	**2017**	**2018**	**2019**	**2020**
GDP in million levs*	95,092	102,308	109,695	119,485	117,899
Actual growth of GDP*	3.8%	3.5%	3.1%	3.8%	-4.4%
Year-end inflation (HICP)	-0.5%	1.8%	2.3%	3.1%	0.0%
Average exchange rate of USD for the year	1.77	1.73	1.66	1.75	1.72
Exchange rate of the USD at year-end	1.86	1.65	1.72	1.76	1.59
Basic interest rate at year-end	0.00	0.00	0.00	0.00	0.00
Unemployment rate at year-end**	8.0%	7.1%	6.1%	5.9%	6.7%
Credit rating of the Republic of Bulgaria by Standard&Poors (long-term)	BB+	BBB-	BBB-	BBB	BBB
Credit rating of the Republic of Bulgaria by Moody's (long-term)	Baa2	Baa2	Baa2	Baa2	Baa1
Credit rating of the Republic of Bulgaria by Fitch (long-term)	BBB-	BBB	BBB	BBB	BBB

** BNB forecast for 2020, prepared as at 22 December 2020; Source: BNB*
***According to data of the Employment Agency*

1.4. COVID-19 pandemic – impact, effects, actions and measures taken

On 11 March 2020 the World Health Organisation declared a COVID-19 pandemic, and on 13 March 2020 the Bulgarian Parliament declared a state of emergency in Bulgaria, as a result of which a number of restrictive measures were adopted.

On 24 March 2020, the State of Emergency Act was promulgated, imposing measures for the period of the pandemic state of emergency in various areas – employment relations and social security, taxation and annual financial close process, default and forced execution, terms and deadlines, etc. Decisions and orders of the Council of Ministers and the Ministry of Health were adopted for introducing anti-epidemic measures on the territory of the country aimed to protect and preserve the population's life and health in relation to: a ban on entering the country and applying measures (quarantine or provision of a negative lab result from a PCR test prior to entering the country) for countries with high COVID-19 rates and significant pandemic spread; following requirements for maintaining physical distance, hand hygiene, disinfection and wearing protective face masks in indoor public places; temporary suspension or restriction of the operations of public sites and/or other sites or services rendered to citizens, etc.

On 10 April 2020 the Bulgarian National Bank ("BNB") approved a "Procedure for deferral and settlement of payables due to banks and their subsidiaries – financial institutions, in relation to the state of emergency imposed by Parliament on 13 March 2020" (the "Procedure"), resulting from the COVID-19 pandemic and consequences thereof. The Procedure allowed borrowers affected by the restrictive measures applied to defer the repayment of their debts to financial institutions. The Procedure initially provided for deferral possibility for up to 6 months, not later than 31 December 2020. Consequently, the Procedure was amended and the period was extended to 31 March 2021. Pursuant to a new BNB decision, dated 10 December 2020, the procedure's effect was extended until 31 December 2021, and borrowers were allowed to defer repayments to financial institutions for a period of 9 months.

As a result of the restrictions imposed in Bulgaria and in most countries around the world, the normal course of businesses in a number of economic sectors was disrupted. There were difficulties with the supplies of raw and other materials from suppliers, shipments to clients, and procuring workforce. Almost all entities, though to a different extent, had to impose certain actions and measures to reorganise business operations, work schedules, business communications and other aspects of their relations to counterparts, partners, and state institutions.

Impact on the Company's operations and financial position

The Company operates in the chemical sector and produces inorganic products, mainly ammonium nitrate – EC fertilizer, but also ammonia, ammonium hydrogen carbonate, sodium nitrate, etc., whose normal functioning was not affected by the restrictive measures imposed.

The Company's operating volumes in 2020 have not been affected by the pandemic situation in Bulgaria and the other countries it has business connections and relations with. Growth in qualitative terms is 39 thousand tons. Revenue from sales of products decreased by BGN 35,570 thousand, which however is due to a decrease in the delivery price of natural gas (the main production raw material), which resulted in a decrease in the cost of products and a decrease in their selling prices. There have been no changes in the structure and range of finished products manufactured and sold.

The management has not dismissed personnel and has not made use of the measures adopted by the State of Emergency Act (“60:40”, etc.).

The Company continues to perform its business activities without significant difficulties in procuring asset supplies (main and auxiliary) and other assets, and to perform sales to customers. No contracts with key suppliers and/or customers have been terminated.

The Company has sufficient financing to meet its liquidity needs.

The Company’s results for the year are as follows:

2020 production volume: 1,254 thousand tons produced, in 2019: 1,183 thousand tons, which is growth by 6,00%;
Sales of products to customers in 2020: BGN 219,168 thousand, in 2019: BGN 254,738 thousand, or a decrease by 13,96%;
Staff as at 31 December 2020: 723 people, and as at 31 December 2019: 707 people;
Post-tax profit: BGN 15,145 thousand, in 2019: a loss of BGN 12,451 thousand.

As at 31 December 2020, the Company has available: cash at the amount of BGN 17,490 thousand (31 December 2019: BGN 1,993 thousand), receivables at the amount of BGN 6,855 thousand (31 December 2019: BGN 9,858 thousand) and unutilized funding under bank loans at the amount of BGN 30,000 thousand.

The same trends have been observed in the beginning of year 2021.

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY

2.1. Basis for preparation of the separate financial statements

The separate financial statements of Neochim AD have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise Financial Reporting Standards and the International Financial Reporting Interpretations Committee (IFRIC) interpretations, approved by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS) and the Standing Interpretations Committee (SIC) interpretations, approved by the International Accounting Standards Committee (IASC), which are effectively in force as from 1 January 2020 and have been accepted by the Commission of the European Union. IFRS endorsed by EU is the generally accepted name of the general purpose framework – the basis of accounting equivalent to the framework introduced with the definition in § 1, p. 8 of the Additional Provisions of the Accountancy Act under the name of "International Accounting Standards" (IASs).

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

The adoption of these standards and/or interpretations, *applicable to entities in Bulgaria for annual reporting periods beginning on 1 January 2020 at the earliest*, has not resulted in changes to the

Company's accounting policy, with the exception of some new and the expansion of already introduced disclosures, without leading to other changes in the classification or measurement of individual reporting items and transactions.

The new and/or amended standards and interpretations include:

- Amendments to the Conceptual Framework for Financial Reporting (the "Framework") and the respective references thereto in various IFRS (in force for annual periods beginning on or after 1 January 2020, endorsed by EC). *These amendments to the Framework include fully revised definitions of "asset" and "liability", as well as new guidance and concepts for their measurement, derecognition, presentation, and disclosure. The amendments to the Conceptual Framework are accompanied by amendments to some references thereto in the International Financial Reporting Standards, including IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32. Some of the references state which version of the Conceptual Framework statements in the respective standards should refer to (the IASC framework adopted by IASB in 2001, the IASB framework of 2010, or the new revised framework dated 2018), while others specifically state that the standard's definitions have not been updated in accordance with the framework's latest amendments.*
- IFRS 3 (amended) "Business Combinations" (in force for annual periods beginning on or after 1 January 2020, endorsed by EC). *This change concerns the definition of "business" provided in the appendices to the standard and is related to the difficulties that acquiring entities experience when determining whether they have acquired a business or a group of assets. The amendment aims: (a) to clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; (b) to narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; (c) to add guidance and illustrative examples to help entities assess whether a substantive process has been acquired; (d) to remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and (e) to add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.*
- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (in force for annual periods beginning on or after 1 January 2020 – endorsed by EC). *These changes relate to providing a more precise definition of 'material' as stated in the two standards. According to them, the new definition of 'material' is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific*

reporting entity". There are three new aspects of the definition which should be noted: (a) "Obscuring". The existing definition only focused on omitting or misstating information, however, the Board concluded that obscuring material information with information that can be omitted can have a similar effect. (b) "Could reasonably be expected to influence". The existing definition referred to 'could influence' which the Board felt might be understood as requiring too much information as almost anything 'could' influence the decisions of some users even if the possibility is remote; and (c) Primary users (existing or potential investors, lenders and other creditors) -the existing definition referred to 'users' which again the Board feared might be understood too broadly as requiring to consider all possible users of financial statements when deciding what information to disclose. Moreover, the amendments stress especially five ways material information can be obscured: (a) if the language regarding a material item, transaction or other event is vague or unclear; (b) if information regarding a material item, transaction or other event is scattered in different places in the financial statements; (c) if dissimilar items, transactions or other events are inappropriately aggregated; (d) if similar items, transactions or other events are inappropriately disaggregated; and (e) if material information is hidden by immaterial information to the extent that it becomes unclear what information is material. Moreover, the amendments clarify that referring to unclear information shall have the same effect as to omitted or missing information, and that materiality shall be assessed by the entity in the context of the financial statements taken as a whole.

- *Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" (in force for annual periods beginning on or after 1 January 2020 – endorsed by EC). These amendments are related to the uncertainty ensuing from the interest rates benchmark reform undertaken by the Financial Stability Board of G20. This reform is aimed at replacing the existing interbank interest rates used as benchmarks in transactions with financial instruments (for instance: Libor, Euribor, Tibor) with alternative benchmarks based on interbank offered rates, and at developing alternative interest rates benchmark that are almost risk-free. The aims is to overcome consequences on the financial reporting resulting from the reform in interest rates benchmark in the period before the replacement of an existing interest rate benchmark with an alternative interest rate benchmark. The amendments envisage temporary and limited relief to the hedge accounting requirements in IFRS 9 and IAS 39 allowing entities to continue observing the two standards while ignoring the reform's effect.*

Additionally, with regard to the stated below new standards, amended/revised standards and new interpretations that have been issued but not yet in force for annual periods beginning on 1 January 2020, the management has judged that they are unlikely to have a potential or significant impact resulting in changes in the accounting policies and the financial statements of the Company:

- Amendments to IFRS 16 “Leases” (in force for annual periods beginning on or after 1 June 2020, endorsed by EC).
- IFRS 17 “Insurance Contracts” (in force for annual periods beginning on or after 1 January 2021 (with an option for deferral to 2022), not endorsed by EC).
- IFRS 10 (amended) “Consolidated Financial Statements” and IAS 28 (amended) “Investments in Associates and Joint Ventures” – regarding the sale or contribution of assets between an investor and its associates or joint ventures (postponed effective date, to be determined by the IASB).
- Amendments to IAS 1 “Presentation of Financial Statements” (in force for annual periods beginning on or after 1 January 2023, not endorsed by EC).
- Amendments to IFRS 3 “Business Combinations” (in force for annual periods beginning on or after 1 January 2022, not endorsed by EC).
- Amendments to IAS 16 “Property, Plant and Equipment” (in force for annual periods beginning on or after 1 January 2022, not endorsed by EC).
- Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” (in force for annual periods beginning on or after 1 January 2022, not endorsed by EC).
- Annual Improvements to IFRSs 2018-2020 Cycle, to IFRS 1 “First-time Adoption of International Financial Reporting Standards”, IFRS 9 “Financial Instruments”, Illustrative Example 13 to IFRS 16 “Leases” and IAS 41 “Agriculture” (in force for annual periods beginning on or after 1 January 2022, not endorsed by EC).
- Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Disclosure”, IFRS 7 “Financial Instruments: Disclosure”, IFRS 4 “Insurance Contracts”, and IFRS 16 “Leases” related to Phase 2 of the Interest Rate Benchmark Reform (in force for annual periods beginning on or after 1 January 2021, not endorsed by EC).
- Amendments to IFRS 4 “Insurance Contracts” (in force for annual periods beginning on or after 1 January 2021, endorsed by EC).

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

2.2. *Consolidated financial statements of the Company*

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

2.3. *Accounting assumptions and estimates*

The presentation of the annual financial statements in accordance with International Financial Reporting Standards requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities, income and expenses and the disclosure of contingent receivables and payables as at the date of the financial statements. These estimates, accruals and assumptions are based on the information, which is available at the date of the financial statements, and therefore, the future actual results might be different from them (whereas in the conditions of financial crisis the uncertainties are more significant). The items presuming a higher level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the financial statements, are disclosed in *Note 2.28*.

2.4. *Comparatives*

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

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

2.5. Functional currency and recognition of exchange differences

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

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

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

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

2.6. Revenue

2.6.1. Recognition of revenue from contracts with customers

The Company's usual revenue is from the sale of finished products produced thereby.

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

Measurement of contracts with customers

The Company accounts for a *contract with a customer* only if upon its enforcement:

a. it has commercial essence and rationale;

b. the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform it;

c. each party's rights can be identified;

d. the payment conditions can be identified; and

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

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

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

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

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

2.6.2. Measurement of revenue under contracts with customers

Revenue is measured based on the *transaction price* determined for each contract.

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

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

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

2.6.3. Performance obligations under contracts with customers

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

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

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

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

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

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

Revenue from the sale of goods

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

Revenue from the sale of services

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

Transport of the products sold

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

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

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

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

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

IT and other services

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

2.6.4. Transaction price and payment terms

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

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

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

2.6.5. *Contract balances*

Trade receivables and contract assets

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

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

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

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

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

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

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

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

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

2.8. Property, plant and equipment

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

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

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

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

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

Subsequent measurement

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

Depreciation methods

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

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

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

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

Subsequent costs

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

Impairment of assets

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount might permanently differ from their recoverable amount. If any indications exist that the estimated recoverable amount of an asset is lower than its carrying amount, the latter is adjusted to the recoverable amount of the asset. The recoverable amount of property, plant and equipment is the higher of fair value less costs to sell or the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions and assessments of the time value of money and the risks, specific to the particular asset. Impairment losses are recognised in the item 'Impairment and write-off of non-current assets' in the statement of comprehensive income (within profit or loss for the year). In cases where, in the course of the impairment review, it is determined that an asset has recovered its value, the impairment loss recognized in prior periods is recognized in the statement of comprehensive income. The carrying amount of an asset increased as a result of a reversed impairment loss does not exceed the carrying amount as it would have been (after deducting depreciation) if no impairment loss had been recognized for the asset in previous years.

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

2.9. Intangible assets

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

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

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

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

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

EU emissions trading scheme and units of reduced emissions
On initial acquisition the allocated quotas for greenhouse gases from the National register for trade with greenhouse gas emissions in relation to the third period from the EU emissions trading scheme (EU ETS) are recognised as intangible assets at nominal value (zero value). The purchased quotas are recognised on initial acquisition at cost and are classified as current or non-current ones depending of

the intents for their use. The Company has chosen to apply the cost model for subsequent measurement of non-current emission quotas, i.e. costs less accumulated impairment losses. Current emission quotas are recognised within expenses (cost of finished products) when they are written-off within the current reporting period. In addition, the Company recognises a liability in the statement of financial position when the level of noxious gases for a certain period exceeds the level of allocated and available quotas. The liability is measured at the acquisition cost of purchased quotas – until reaching the level of the quotas held by the Company, and are revalued at current market price at the date of the statement of financial position – for the excess over the available quotas whereas the changes in the liability amount are recognised in the statement of comprehensive income (within the profit or loss for the year).

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

2.10. Investments in subsidiaries

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

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

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

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

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

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

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

2.11. Other long-term equity investments

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

Initial measurement

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

Subsequent measurement

The Company's equity investments, representing shares in other companies (minority interest), are measured at fair value through other comprehensive income. The effects therefrom are transferred to retained earnings upon disposal of the respective investment.

2.12. Inventories

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

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

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

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

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

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

2.13. Trade receivables

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

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

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

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

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

The impairment of receivables (respectively its reversal) is accrued and stated through the respective corresponding allowance account for each type of receivable within "Reversed/Accrued impairment of financial assets, net" on the face of the statement of comprehensive income (within profit or loss for the year).

2.14. Non-current assets held for sale

The Company classifies a property as "held-for-sale" when it expects that its carrying amount will be recovered through disposal thereof rather than through continuing use in the Company's operations, and depends on the Company's intention and plans for the realization of the respective assets. The main condition to classify an asset as such is that the sale is highly probable. The sale is highly probable when the management has committed to a plan to sell and find a buyer, the asset is actively offered for sale at a price similar to its current (present) fair value and the sale is expected to take place within a year from the classification. Moreover, the asset should be available for immediate sale in its present condition.

Following their initial recognition, these assets are recognised at the lower of their current carrying amount or their fair value less disposal costs. No depreciation is charges for these assets.

The revenue from sales of assets classified as held-for-sale assets is stated in Other operating income, net.

2.15. Cash and cash equivalents

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

Subsequent measurement

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

For the purpose of the statement of cash flows:

- cash proceeds from customers and cash paid to suppliers are presented at gross amount, including value added tax (20%);
- interest under investment loans received are included as payments for financing activities, and the interest under loans servicing current operations (working capital) are included within operating activities;
- payments related to leases (interest and principals) related to right-of-use assets are stated within financing operations.
- the VAT paid under purchases of non-current assets from foreign suppliers is stated in the "taxes paid" line, and the VAT paid under purchases of non-current assets from local suppliers – in the "payable to suppliers" line within cash flows from operating activities, in as far as it is involved and recovered together and as part of the Company's operational flows for the respective period (month);
- cash permanently blocked for over 3 months is not treated as cash and cash equivalents;
- payments for the purchase of greenhouse emission quotas classified as current are included as payments for operating activities (payments to suppliers);
- the grant received (mainly for electricity) is included in cash flows from financing activities.

2.16. *Trade and other payables*

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

2.17. Interest-bearing loans and other borrowings

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

Interest costs are recognised for the term of the financial instrument based on the effective interest method.

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

2.18. Leases

The Company performs analysis and assesses whether the contract is, or contains, a lease, at the lease inception, which is the earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease. A contract is, or contains, a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

2.18.1. Lessee

The Company applies a uniform model for recognition and measurement of all leases, except for short-term leases (leases with a lease term of 12 months or less and which do not contain a purchase option) and leases of low value assets (such as tablets, personal computers, telephones, office equipment, etc.).

The Company has not elected to apply the practical expedient of IFRS 16, which allows a lessee, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component. For contracts that contain a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

a) right-of-use assets

The Company recognises right-of-use assets in the statement of financial position at the commencement date of the lease, i.e. the date on which a lessor makes an underlying asset available for use by the lessee.

Right-of-use assets are presented in the statement of financial position at acquisition cost, less the accumulated depreciation, impairment losses and adjustments resulting from remeasurement and adjustments to the lease liability. The acquisition cost includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Company in its capacity as lessee;
- costs for dismantling and removing the underlying asset, restoring the site on which the asset is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The Company depreciates the right-of-use asset to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If ownership of the asset is transferred under the lease by the end of the lease term, the Company shall depreciate it to the end of the useful life. Depreciation shall be charged from the commencement date.

The depreciation terms of leases are from 2 to 5 years.

The Company has elected to apply the acquisition cost model for all of its right-of-use assets.

Right-of-use assets are tested for impairment in accordance with IAS 36 *Impairment of Assets*, by applying an impairment determination and reporting policy analogous to the one for property, plant, and equipment. The recoverable amount of right-of-use assets is the higher of the fair value less disposal costs, or value in use. To determine assets' value in use, future cash flows are discounted to their present amount, by applying a pre-tax discount rate reflecting the market conditions and time value of money and the risks inherent to the respective asset. Impairment losses are determined as the difference between the recoverable and carrying amount (when the recoverable account is lower than the carrying amount) and are presented in the statement of comprehensive income as depreciation and amortisation expenses (within profit or loss for the year).

Right-of-use assets are presented on a separate line in the statement of financial position, and depreciation thereof – within depreciation and amortisation expenses in the statement of comprehensive income.

b*) lease liabilities*

The Company recognises lease liabilities at the commencement date, measured at the present value of the lease payments that are not paid at this date. They include:

- fixed lease payments (including in-substance fixed payments), less any lease inceptives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the exercise price of the purchase options, if the lessee is reasonably certain to exercise this option;

- payments of penalties for terminating the lease, of the lease term reflects the exercise of an option to terminate the lease;
- the amount expected to be payable by the Company to lessor under residual value guarantees.

Variable lease payments that do not depend on an index or a rate, but are dependent on performance or use of the underlying asset, are not included in the measurement of the lease liability and the right-of-use asset. They are recognised as current expenses in the period when the event or circumstance resulting in these payments arises and are stated within hired service expenses, within profit or loss for the year.

Lease payments are discounted using the interest rate implicit in the lease, of that rate can be readily determined, or the Company's incremental borrowing rate, which it would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Lease payments (instalments) contain a certain ratio of the finance cost (interest) and the respective portion of the lease liability (principal). Interest costs for the lease are presented in the statement of comprehensive income (within profit or loss for the year) for the lease period on a periodic basis, so as to achieve constant periodic rate of interest on the remaining balance of the lease liability, and are presented as "finance costs".

Lease liabilities are stated on a separate line in the statement of financial position.

The Company subsequently measures the lease liability by:

- increasing the carrying amount to reflect the interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made;
- remeasuring the carrying amount to reflect any reassessment or lease modifications of the lease;
- residual value guarantees are reviewed and if necessary, adjusted, at the end of each reporting period.

The Company remeasures the lease liabilities (and makes corresponding adjustments to the related right-of-use assets) whenever:

- the lease term has changes or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a residual value guarantee, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged (original) discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);

- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of modification.

2.18.2. Lessor

Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease; all other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging obtaining an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The underlying asset which is us subject to the lease shall remain and be stated within the Company's statement of financial position.

When the contract contains both lease and non-lease components, the Company applies IFRS 15 to allocate the total consideration between the separate components.

2.19. Employee benefits

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

Short-term benefits

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

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

Long-term retirement benefits

Defined contribution plans

The major duty of the Company in its capacity as an employer is to make the mandatory social security contributions for the hired employees to the Pensions Fund, the Supplementary Mandatory Pension

Security (SMPS) Fund, to the General Diseases and Maternity (GDM) Fund, the Unemployment Fund, the Labour Accident and Professional Diseases (LAPD) Fund and for health insurance. The rates of social security and health insurance contributions are defined under the Social Security Code, as well as under the Law on the Budget of State Social Security and the Law on the Budget of National Health Insurance Fund for the respective year. The contributions are split between the employer and employee in line with rules of the Social Security Code (SSC) at the ratio 60:40 (2019: 60:40).

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

There is no established and functioning private voluntary social security fund at the Company. The contributions payable by the Company under defined contribution plans for social security and health insurance, are recognised as a current expense in the statement of comprehensive income (within profit or loss for the year) unless a particular IFRS requires this amount to be capitalised to the cost of an asset, and as a current liability at their undiscounted amount along with the accrual of the respective employee benefits to which the contributions refer and in the period of rendering the underlying service.

Defined benefit plans
In accordance with the Labour Code, the Company in its capacity as an employer in Bulgaria is obliged to pay to its personnel compensation at an amount of the gross remuneration of the respective employee for two months upon termination of employment due to retirement. In case the employee has acquired in the enterprise or in the same group of enterprises ten years of service in the last twenty years, the compensation is equal to the gross remuneration for six months. In their nature these are unfunded defined benefit schemes.

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

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

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

Termination benefits
According to the provisions of the labor and insurance legislation in Bulgaria, the Company in its capacity of employer has an obligation to pay upon termination of the employment contract of its employees, before retirement, certain types of benefits. The Company recognises employee benefit obligations on employment termination before the normal retirement date when it is demonstrably committed, based on publicly announced plan (eg for restructuring), to terminating the employment contract with the respective individuals without possibility of withdrawal or in case of formal issuance of documents for voluntary redundancy. Termination benefits due more than 12 months are discounted and presented in the statement of financial position at their present value.

Other long-term benefits
The members of the Board of Directors, who are entrusted with the management of the Company, have the right to receive, in addition to fixed remuneration, variable remuneration. In determining the fixed and variable remuneration, the financial results of the company for the last three financial years, the working conditions, the average amount of remuneration for full-time employees and the monetary incentives for carrying out the Company's activities are taken into account. The payment of the deferred part of the variable remuneration may be made proportionally, or by gradual increase during the rescheduling period, as 40% of the variable remuneration of the executive directors shall be rescheduled for a period of 3 years. The Company recognises income payable 12 months or more after the end of the period in which they have been earned as other non-current liabilities based on their present value at the date of the statement of financial position.

2.20. Share capital and reserves

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

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

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

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

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

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

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

2.21. Income taxes

Current income taxes are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act. The nominal income tax rate for year 2020 was 10% (2019: 10%).

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

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

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

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

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

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

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

The deferred income tax liabilities of the Company as at 31 December 2020 were assessed at a rate valid for 2021, at the amount of 10%.

2.22. Earnings /(loss) per share

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

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

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

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

2.23. Provisions

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

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

2.24. Government grant (grant from public institutions)

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

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

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

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

2.25. Financial instruments

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

Financial assets

Initial recognition, classification and measurement

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

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

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

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

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

The company has determined a business model, under which the assets are held in order to collect the contractual cash flows. This model includes cash and cash equivalents and trade and other receivables.

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

The Company measures a financial asset at amortised cost if both of the following conditions are met:
- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

Derecognition
A financial asset (or, when applicable, a portion of a financial asset or a group of similar financial assets) is derecognised from the Company's statement of financial position, when:
- the rights to cash flows from the asset have expired, or
- the rights to cash flows from the asset have been transferred or the Company has assumed an obligation to pay in full the cash flows received, without undue delay, to a third party under a transfer agreement, in which: a) the Company has transferred substantially all risks and rewards from ownership of the asset; or b) the Company has neither transferred nor retained substantially all risks and rewards from ownership of the asset, but has transferred control thereon.

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

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

Impairment of financial assets

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

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

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

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

Financial liabilities

Initial recognition, classification and measurement

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

Subsequent measurement

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

Loans and borrowings (incl. payables to suppliers)

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

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

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

2.26. Fair value measurement

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

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

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

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

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

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques that use inputs other than directly quoted prices but are observable, either directly or indirectly, including where the quoted prices are subject to significant adjustments; and

- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

2.27. Segment reporting

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

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

2.28.1. Main price factors. Going concern

The Company's financial statements have been prepared on a going concern basis. The following key factors have been taken into consideration in management's assessment of this principle:

2.28.1.1. Natural gas price

Impact of natural gas price on profitability and on the financial results

Natural gas is the Company's main production raw material, and the price of natural gas has always significantly impacted the Company's profitability and financial results, as far as about 65% (2019: 74%) of the cost of finished products is formed by this raw material. For the current period, the price of gas decreased compared to the prior period by an average of BGN 17.91 per 1 MWh (2019: increase by BGN 7.33 per 1 MWh), which is a decrease by 37.82% (2019: increase by 18.31%), and the expenses on natural gas decreased by about BGN 55,041 thousand (2019: increase by BGN 20,076 thousand). In addition, during the current period, gross cash outflows (including VAT) for natural gas supplies amount to BGN 133,686 thousand (2019: BGN 194,179 thousand).

Adverse factors and risks in prior periods
The price of this raw material is determined and regulated on a state level. This fact prevented the Company's management in prior years in optimising expenses for this main production resource by negotiating new delivery prices reflecting the movement in international market price and/or negotiating natural gas deliveries from different sources. Therefore, the Company was exposed to a significant price

risk of adverse changes (increase) in the price of its main production raw material, which it cannot influence, and this has a negative impact on the structure of cost and volume of cash outflows.

Positive changes to the price formation mechanism and supply negotiations
In March 2020, a new mechanism was agreed between Bulgargaz EAD and OOO Gazprom Export (Russia) for formation of the supply price according to a hybrid formula including a petroleum component and hub market indexation, which prevails in the formula. Moreover, since April, the price of natural gas for the Company is changed on a monthly basis, as the price is equal to the one proposed for approval by the Energy and Water Regulatory Commission and it depends on the formula stated above that is already comparable to the price on European gas exchanges. Since January 2021, price formation also involves Azeri gas. In the meantime, the Company already has various actual opportunities for negotiating natural gas supplies both through direct negotiations with suppliers and through the has hub (exchange) in Bulgaria.

In addition, as a result of the above-mentioned agreement between Bulgargaz EAD and OOO Gazprom Export (Russia), EWRC approved a backdated natural gas price decrease, for the period from 05.08.2019 to 31.03.2020, which also had a positive effect on the Company's financial result for the current period (*Note 4 and Note 5*).

In 2020, the average delivery price of natural gas, at which the Company supplied its main material, amounted to BGN 29.42 / MWh, while in 2019 and 2018 it amounted to BGN 47.37 / MWh and BGN 40.04 / MWh respectively. In the first three months of 2021, the average delivery price of natural gas amounted to BGN 31.42 / MWh.

The management of the Company has made an approximate calculations, which can be summarised as follows:

- by a 10% increase in the price of natural gas, the effect on the financial result for 2020 would be an decrease of about BGN 9,700 thousand.
- by a 10% decrease in the price of natural gas, the effect on the financial result for 2020 would be an increase of about BGN 9,700 thousand.

The Company is not exposed to a significant risk of adverse changes in the prices of other raw materials and materials, because according to its contractual relations with suppliers, these are subject to periodic analysis and discussions for review and update based on market changes.

2.28.1.2. Carbon emission quotas price

The Company is also exposed to a price risk related to the price of carbon emission quotas. The Company manages this risk by daily monitoring the quotas' exchange rates. This process is monitored and managed on an ongoing basis.

Quotas' market prices as at 31 December for a period of four prior years is, as follows:

31.12.2017 - 8.14 EUR (15.92 BGN)
31.12.2018 - 24.64 EUR (48.19 BGN) and 202.7% growth versus 2017
31.12.2019 - 24.48 EUR (47.88 BGN) and 201% growth versus 2017; insignificant decrease versus 2018 – 0.6%
31.12.2020 – 32.54 EUR (63.64 BGN) and 33% growth versus 2019

The significant increase in carbon emission quotas price has a negative impact on the Company's results.

The cash flows related to the carbon emmisions quotas for 2020 are BGN 14,125 thousand (2019: BGN 5,528 thousand), and the recognised costs in the statement of comprehensive income are BGN 10,087 thousand (2019: BGN 7,063 thousand).

As at the date of issue of these financial statements according to the approved Rules for free allocation of emission quotas and under a ***forecast*** cross-sectoral correction factor, the expected quantity of free quotas for Neochim AD for the 2021 should be less by about 7% compared to 2020 towards the total amount of generated quotas. Data on the cross-sectoral correction factor have not yet been published at European level. The expectations are that the free quotas for the year 2021 should be around 60.5% towards the total amount of generated quotas (2020: 67.6%).

A change in phase 4 compared to the previous approach for allocation of free quotas (phase 3) is that the allocation will be dependent on the activity levels of the installations and not on their capacity, ie increase / decrease of the production will reflect on the amounts of free quotas. Phase 4 (after 2020) is divided into two periods of five years, each of which will have a separate distribution. To date, the process allocation of free quotas for the participants in the first five-year period of Phase 4 has been launched but not yet finalized. The Phase foresees an annual reduction of free quotas by 2.2%, but the formula includes a number of other indicators, so at this stage it is still not possible to determine what the expected real reduction for the period 2021-2030 will be. The expectations of the Company are for a step-by-step reduction of the used free quotas by around 2.2% each year until the end of the first period of the new phase (year 2025) while maintaining the level of activity of the installations within a deviation of 15%. The free allocation of quotas for the second period 2026-2030 will be subject to verification of the second baseline for the period 2019-2023.

The management of the Company has made approximate calculations, which can be summarised that by a 10% increase of the price of quotas for 2021 towards the average selling price for 2020, the effect on costs would be an increase by about BGN 1,168 thousand, respectively the financial result of the company would be reduced by the same amount, respectively if there is a decrease of the price of the quotas, the effect would be reversed.

In 2020, the Company acquires carbon emission quotas at an average price of BGN 52.24, while the purchased quotas in 2021 are at an average price of BGN 68.93, which is an increase of BGN 16.69 (32%) (Note 41).

According to the management, there are no other negative price factors that might impact its operations, and it will continue to perform all its activities and planned volumes.

2.28.2. Calculation of expected credit losses for trade receivables and cash and cash equivalents

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

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

Regarding trade receivables, including from related parties
The Company uses a provisioning matrix to calculate expected credit losses from trade receivables. The provision rates are based on days past due for groups from different customer segments (portfolios) sharing similar loss models (type of client by sector).

Each provisioning matrix is initially based on detailed historical observation of default rates in the Company's receivables and the movement of receivables by delay groups. Usually, historical data is used for at least three years as per the financial statement's date. Additionally, the Company calibrates the matrix so as to adjust historically ascertained dependence for credit losses with forecast information by also using probability scenarios. For instance, if forecast economic conditions are expected to aggravate in the next year, which might result in delays for a certain sector, the historic default rates are adjusted. At each reporting date, the observable historical default rates are updated and the effects of changes in the estimates are accounted for.

The assessment of the relation between observable historical default rates, the forecast economic conditions and expected credit losses is a significant accounting judgement. The amount of expected credit losses is sensitive to changes in circumstances and forecast conditions. The Company's historical credit closes and the forecast economic conditions may deviate from actual collection rates in the future.

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

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

2.28.3. Recognition and measurement of provisions

Quotas for greenhouse gases

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

Production waste repositories

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

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

In order to determine the amount of the provision, the Company has assigned certified experts-ecologists to prepare an estimate of costs by type of activity necessary for the execution of the obligation and to issue a special purpose report and a budget account. The amounts, expected to be utilised over a period longer than one year, are discounted. The discount rate is determined on the basis of the average interest rate of the long-term investment loans received by the Company.

2.28.4. Impairment of inventories

At the end of each financial year, the Company reviews the state, useful life and usability of the existing inventories. When the companies identify inventories the assessment of which shows that it is highly probable for them to be not realised at their current carrying amount in the following reporting periods, these inventories are impaired to net realisable value. As a result of annual review, impairment of inventories has been stated at the amount of BGN 427 thousand (Note 9).

2.28.5. Actuarial calculations

Calculations of certified actuaries have been used every year when determining present value of long-term payables to personnel upon retirement on the basis of assumptions for mortality rate, staff turnover rate, future salaries level and discount factor (Note 29).

2.28.6. Impairment of investments in subsidiaries

The management makes an analysis and an assessment on whether indications for impairment of Company's investments in subsidiaries exist. The following are accepted as indicators for impairment: significant reduction in the volume or discontinuing of investee's operations; reporting of losses for a longer period of time, as well as stating of negative net assets or assets at an amount below the registered share capital.

The tests and assessments of the management on the impairment of investments have been made through the prism of its plans and intents as to the future economic benefits, which are expected from the subsidiaries, including trade benefits and production experience, position on foreign markets, expectations for future sales, etc.

For this purpose, different scenarios of the forecasts are done, which incorporate differing assumptions for the risks, uncertainties and probabilities for the future realization of the cash flows and earnings from these investments. These scenarios are carefully analysed by the Management and the results from them are weighted in the calculations of the recoverable value of the investments.

2.28.7. Impairment of non-current tangible and intangible assets

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

As a result of the annual review performed, impairment has been stated of buildings and equipment for which a decision was made in the reporting period that they will not be used in the Company's operations, at the amount of BGN 856 thousand (Note 10).

2.28.8. Recognition of tax assets

Upon recognition of deferred tax assets by the Company's management, the probability of separate deductible temporary differences to reverse in the future and the Company's perspective possibility to generate sufficient tax profits to offset these profits are assessed.

In the prior two reporting periods the Company states tax losses; therefore, the management has determined that an uncertainty exists as to whether and to what extent within the legal term for tax loss carry forward (5 years) it will generate sufficient taxable profit. Therefore, a more conservative approach has been applied and as at 31 December 2019, no assets were recognised for deferred tax at the amount of BGN 1,087 thousand related to tax losses. Moreover, as at 31 December 2019, in total with accumulation no assets were recognised for deferred taxes at the amount of BGN 2,139 thousand, related to the impairment of investments in and receivables from subsidiaries, since the management has determined it is improbable that the temporary difference will arise in the foreseeable future.

The Company has recognised a deferred tax asset in relation to the depreciation, amortisation and impairment of non-current tangible and intangible assets, as it has determined that there is no legally defined timeframe for the reversal of the temporary difference and that it will be able to use this temporary difference in the future.

For the remaining deferred tax assets recognised the Company performs an impairment review for impairment, as far as there is no legally set term for the reversal of temporary differences, and in the future, they may be offset against future gains or taxable temporary differences.

2.28.9. Related to leases

Upon identification and classification of a lease or a lease component of a contract, the Company's management makes a number of important judgements:

- whether there is a lease, i.e. whether the contract contains an identifiable asset and whether it transfers the right of control over this asset for the contract term;
- determining the lease term;
- determining leases' incremental interest rate.

The management has analysed the leases concluded and has determined there are 12 leases containing identified assets and that these transfer control over the asset used over the lease term. The identified assets under these leases are:

- office rental;
- shop rental;
- parking lot rental;
- train carriages rental;
- car leases – seven leases of motor vehicles,
- telescopic telehandler.

Upon determining the lease term, the management has considered the non-cancellable period of the lease, together with periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. Regarding these options and the probability of their exercising or non-exercising, the management has considered a number of factors, such as: the significance of the asset for the Company's operation, costs related to termination of the lease and identifying a new asset for the Company's needs, prior experience with such assets and lessor, etc.

For three of the leases (office, shop, parking lot), the Company has determined that their term is the term set in the lease – 5 years, as far as: there is no extension option, there are possibilities for early termination of the lease in case of non-payment, with the parties' mutual consent, etc., but the management determines that no early termination is planned at this stage. For one of the leases (train carriages) the lease term has been determined by the management to be 2 years based on previous experience, as far as the Company's practice is to renegotiate the use of carriages on an annual basis.

With regard to the car leases, the lease term is determined on the basis of the term specified in the contracts - 60 months, with no option for extension.

Upon occurrence of an important event or a significant change in the circumstances under the Company's control which concern the extension/termination options, it reassesses the lease term.

The Company has assumed that the incremental interest rate of leases is 2.81%. This interest rate has been determined based on the analysis of the interest rates of long term bank loans received.

As at the date of the financial statements, the Company's management performs an impairment review of right-of-use assets. If indicators exist that the approximate recoverable amount is lower than their carrying amount, the latter is impaired to the recoverable amount of assets.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers includes:

	2020	***2019***
	BGN '000	***BGN '000***
Domestic market sales of finished products	112,722	90,103
Export of finished products	106,446	164,635
Revenue from the sales of goods	65	46
Revenue from the sales of services	17	22
	219,250	**254,806**

Sales by product – domestic market

	2020	***2019***
	BGN '000	***BGN '000***
Ammonium Nitrate – EC Fertilizer	107,372	85,988
Ammonia	3,755	1,854
Sodium Nitrate	534	752
Ammonia water	303	244
Nitric Acid	221	329
Carbon dioxide	193	373
NPK EC Fertilizer	158	384
Ammonium Hydrogen carbonate	154	145
Oxygen	11	10
Other	21	24
	112,722	**90,103**

Sales by product – export	***2020***	***2019***
	BGN '000	***BGN '000***
Ammonium Nitrate – EC Fertilizer	80,732	125,590
Ammonia	20,603	34,003
Ammonium Hydrogen carbonate	3,052	2,588
Sodium Nitrate	2,026	2,454
Ammonia Water	24	-
Nitric Acid	9	-
	106,446	**164,635**

The allocation of product sales by markets is as follows:

	2020	*2019*
	BGN '000	*BGN '000*
European Union (including Bulgaria)	144,529	120,873
Europe (including Turkey)	66,878	92,240
Asia and Africa	7,761	41,608
America	-	17
	219,168	**254,738**

Information on major clients

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

	2020	*2019*
Client	*BGN '000*	*BGN '000*
Client 1	96,154	69,117
Client 2	26,270	38,536
Client 3	20,263	26,266
Client 4	12,567	7,149
Client 5	10,157	1,993
Client 6	5,960	-
Client 7	4,927	-
Client 8	4,707	3,568
Client 9	4,555	-
Client10	3,987	5,464

Revenue for 2020 includes revenue at the amount of BGN 12,230 thousand which was recognised as contract liabilities at the beginning of the reporting year.

Performance obligations under contracts with customers

The obligations are disclosed in detail in *Note 2.6.3*.

All unsatisfied and/or partially satisfied performance obligations of the Company as at 31 December 2020 are under contracts with estimated delivery period of one year or less.

Contract balances

	2020	***2019***
	BGN '000	***BGN '000***
Receivables under contracts with customers – third parties, net of impairment (*Note 21)*	1,785	8,553
Receivables under contracts with customers – related parties, net of impairment (*Note 20)*	281	417
Liabilities under contracts with customers – related parties (*Note 32)*	9,162	7,955
Liabilities under contracts with customers – third parties (*Note 32)*	477	4,275

The receivables under contracts with customers – third parties decreased due to a decrease in sales revenue at the end of the reporting period, which is the result of lower selling prices, and of the lower volume of products sold. The receivables under contracts with customers – related parties are decreasing mainly due to the improved collection of receivables from the Turkish subsidiary, including the collection of impaired receivables in prior years.

Liabilities under contracts with customers – related parties and third parties, include advance payments from customers in relation to sales of finished products.

The change in contract liabilities in 2020 is as follows:

Contract liabilities	***2020***	***2019***
	BGN'000	***BGN'000***
***Balance at 1 January** (Note 32)*	**12,230**	**10,394**
Revenue stated which has been recognised as contract liabilities	(12,230)	(10,394)
Received payments from customers (excluding those recognised as revenue over the period)	9,639	12,230
Balance at 31 December	**9,639**	**12,230**

The service revenue at the amount of BGN 17 thousand is from the provision of IT services (31 December 2019: BGN 22 thousand).

Revenue from the sale of goods at the amount of BGN 65 thousand is mostly from the sale of fertilizers, preparations, etc. (2019: BGN 46 thousand).

4. OTHER OPERATING INCOME, NET

	2020	***2019***
	BGN '000	***BGN '000***
Revenue from decrease of price gas for year 2019	5,275	-
Revenue from the sales of materials	1,409	1,722
Carrying amount of the materials sold	(488)	(1,039)
Gain on sales of materials	**921**	**683**
Revenue from sale of non-current assets held for sale	388	264
Carrying amount of non-current assets held for sale sold	(386)	(234)
Gain on sale of non-current assets held for sale	**2**	**30**
Revenue from sale of PPE	28	66
Carrying amount of PPE sold	(3)	(13)
Gain on sale of PPE	**25**	**53**
Revenue from liquidation of PPE	452	558
Government funding	442	1,587
Rental income	290	309
Occupational health services	47	41
Industrial services	46	107
Reversed impairment of other receivables *(Note 22)*	27	-
Transport services	22	13
Bonus from a mobile operator	11	7
Payables written-off	11	2
Surplus of assets	7	42
Income from fines and penalties	2	13
Foreign exchange gains / (losses)	(334)	317
Reversed impairment of inventories	-	107
Released provision accrued in prior periods	-	72
Other	226	38
	7,472	**3,979**

Revenue from decrease of the natural gas price

In the beginning of March 2020, an annex was signed to the contract between Bulgargaz EAD and OOO Gazprom Export (Russia) concerning a new natural gas price formation, as well as the recovery of amounts to Bulgragaz EAD backdated as from 5 August 2019.

In order to regulate the mechanism of recovering amounts for prior periods along the Bulgargaz EAD supply chain to clients thereof, an amendment was approved to the Energy Act, promulgated by the State Gazette, issue 34 dated 24 April 2020. Pursuant to this amendment, a mechanism was approved in the Law on Amendment and Supplement to the Energy Act, whereby the Energy and Water Regulatory Commission approved new supply prices for the period from 05.08.2019 to 31.03.2020. Due to the backdated change in the price of natural gas, on 9 June 2020 Neochim AD concluded two contracts with Bulgargaz EAD for recovery of the amounts paid in excess in the above mentioned period.

The amount reimbursed to the Company for the period from 05.08.2019 to 31.12.2019 was carried to the current financial result as other operating income, in as far as it refers to a prior period. The amount is BGN 5,275 thousand. The price decrease for this past period is as follows:

- By means of Decision No Ц-15 dated 08.05.2020, EWRC approved a natural gas price for the period from 5 August 2019 to 31 August 2019 of **29,28 BGN / MWh**. (excluding excise and VAT), which is **15,62 BGN / MWh** less than the price approved for the same period;
- By means of Decision No Ц-16 dated 08.05.2020 г., EWRC approved a natural gas price for the period from 1 September 2019 to 30 September 2019 of **29,49 BGN / MWh** (excluding excise and VAT), which is **15,41 BGN/ MWh** less than the price approved for the same period;
- By means of Decision No Ц-17 dated 13.05.2020 г. EWRC approved a natural gas price for the period from 1 October 2019 to 31 October 2019 of **35,01 BGN / MWh** (excluding excise and VAT), which is **9,84 BGN / MWh** less than the price approved for the same period;
- By means of Decision No Ц-18 dated 13.05.2020 г. EWRC approved a natural gas price for the period from 1 November 2019 to 30 November 2019 of **38,62 BGN / MWh** (excluding excise and VAT), which is **6,23 BGN / MWh** less than the price approved for the same period;
- By means of Decision No Ц-19 dated 13.05.2020 г. EWRC approved a natural gas price for the period from 1 December 2019 to 31 December 2019 of **40,21 BGN / MWh** (excluding excise and VAT), which is **4,64 BGN/ MWh** less than the price approved for the same period.

The amount reimbursed to the Company for the period from 1 January 2020 to 31 March 2020 was stated as a decrease in cost of materials, due to the change in the delivery price of the main raw material, respectively, as a decrease in the cost of finished products. The amount is BGN 9,245 thousand (*Note 5*).

Government grants comprise:

- Energy grant to the amount of BGN 388 thousand (31 December 2019: BGN 1,471 thousand) – a state aid for reducing the burden of renewable energy costs, for which the Company was approved under the Ordinance on Reducing the Burden of Renewable Energy Costs. The term of this grant according to the current normative documents is until 31.12.2020. The Company has applied for funding for the period 01 January – 31 December 2021. As at the date of approval of the financial statements no order for state aid granted has been received.

- Funding under Operational Programmes for sites in relation to the Company's energy efficiency, to the amount of BGN 37 thousand (31 December 2019 – BGN 37 thousand) (Note 30).

- Funding under OP "Labour Conditions Fund" at the amount of BGN 17 thousand (31 December 2019: Human Resource Development Operational Programme at the amount of BGN 79 thousand – project "Improving the knowledge and skills of the employees of Neochim AD by acquiring a professional qualification").

The sold assets held for sale are buildings (flats, garages and basements).

Gain on sales of materials includes:	***2020***	***2019***
	BGN '000	***BGN '000***
Metal scrap	839	639
Processed oil	12	7
Ammonium sulphate	(13)	(84)
Other	83	121
	921	**683**

5. RAW MATERIALS AND CONSUMABLES USED

Expenses on materials include:

	2020	***2019***
	BGN '000	***BGN '000***
Main raw materials and consumables	117,125	175,545
Fuel and energy	13,198	13,810
Auxiliary materials	996	1,066
Spare parts	723	1,424
Other materials	170	215
	132,212	**192,060**

Main raw materials and consumables include:	***2020***	***2019***
	BGN '000	***BGN '000***
Natural gas	105,920	160,961
Packaging	4,755	4,972
Precious metals	1,624	1,108
Magnesit	1,151	1,436
Lubricants	1,138	1,118
Calcinated soda	802	1,017
Methyl diethanolamine	476	378
Sodium hydroxide	417	435
Sulphuric acid	188	174
Catalysts	148	143
Magnesium bicarbonate	85	65
Quicklime	76	66
Antifoaming agent	53	116
Monoammonium phosphate	40	73
Kalium chloride	37	60
Diammonium phosphate	30	110
Calcium carbonate	4	11
Ammonia from ezternal suppliers	-	3,277
Other raw materials and consumables	181	25
	117,125	**175,545**

Due to the backdated change in the natural gas price for the period from 1 January 2020 to 31 March 2020, the amount of BGN 9,245 thousand has been stated as a decrease in the cost of materials. The decrease in the price of natural gas for the period from 1 January 2020 to 31 March 2020 is as follows:

- By means of Decision No Ц-20 dated 20.05.2020, EWRC approved a natural gas price for the period from 1 January 2020 to 31 January 2020 of **37,82 BGN / MWh** (excluding excise and VAT), which is **6,22 BGN / MWh**. less than the price approved for the same period;
- By means of Decision No Ц-21 dated 20.05.2020, EWRC approved a natural gas price for the period from 1 February 2020 to 29 February 2020 of **33,81 BGN / MWh** (excluding excise and VAT), which is **10,23 BGN / MWh** less than the price approved for the same period;
- By means of Decision No Ц-22 dated 20.05.2020, EWRC approved a natural gas price for the period from 1 March 2020 to 31 March 2020 of **30,10 BGN / MWh** (excluding excise and VAT), which is **13,94 BGN / MWh** less than the price approved for the same period.

Natural gas expenses over the reporting year decreased compared to the previous one by BGN 55,041 thousand, which is mainly related to: a decrease resulting from the change in natural gas price – BGN 55,177 thousand, decrease in the natural gas price for the period from 1 January 2020 to 31 March 2020 under contracts with Bulgargaz EAD – BGN 9,245 thousand (*Note 4*) and an increase due to increase in the gas volumes used – BGN 9,381 thousand (2019: increase of BGN 20,076 thousand, mainly related to: an increase resulting from the change in natural gas price – BGN 24,906 thousand and a decrease due to the decrease in gas volumes used – BGN 4,830 thousand).

6. HIRED SERVICES EXPENSE

Hired services expense includes:	***2020***	***2019***
	BGN '000	***BGN '000***
Transportation	9,487	9,342
Ocean freight	3,828	11,909
Repairs of PPE	3,332	2,329
Insurance	1,202	1,197
Security	1,200	1,204
Cargo handling costs	884	877
Fire safety	718	718
Taxes and charges	609	581
Porters' and port costs	546	1,692
Subscribed servicing and technical control	538	384
Cleaning and landscaping	308	284
Consulting services	183	496
Bank fees and charges	178	183
Communications	164	69
Dismantling of buildings and facilities	109	41
Waste recovery/disposal	65	41
Control of goods	49	63
Civil contracts and fees	42	30
Spedition fees	26	75
Demurrage	12	73
Leases	8	77
Training courses	6	14
Other services	185	237
	23,679	**31,916**

The accrued expenses for 2020 on obligatory audit amount to a total of BGN 142 thousand, including BGN 87 thousand in relation to audit for year 2019 and BGN 55 thousand for audit for year 2020 (2019: 157 thousand, including BGN 103 thousand in relation to audit for 2018 and BGN 54 thousand in relation to audit for 2019), agreed-upon procedures: pursuant to Ordinance Е-РД-04-06 dated 28.09.2016 on reducing the burden related to expenses for energy from renewable sources for the sixth price period at the amount of BGN 3 thousand (2019: BGN 3 thousand, for the fifth price period), The contractual amount for audit of 2020 is BGN 136 thousand.

7. EMPLOYEE BENEFITS EXPENSE

Personnel costs include:	***2020*** ***BGN '000***	***2019*** ***BGN '000***
Salaries	19,883	19,684
Social security contributions	4,169	4,103
Food for personnel	1,043	977
Accruals for long-term payables to personnel (*Note 29*)	365	341
	25,460	**25,105**

Remuneration costs include:	***2020*** ***BGN '000***	***2019*** ***BGN '000***
Current wages and salaries	19,754	19,825
Accrued/(Reversed) amounts for unused paid leaves	129	(141)
	19,883	**19,684**

Social security contributions include:	***2020*** ***BGN '000***	***2019*** ***BGN '000***
Social security contributions	4,138	4,139
Accrued/(Reversed) amounts for state social security on unused paid leaves	31	(36)
	4,169	**4,103**

8. REVERSED/(ACCRUED) IMPAIRMENT OF FINANCIAL ASSETS, NET

Impairment of financial assets and contract assets, net:	***2020*** ***BGN '000***	***2019*** ***BGN '000***
Credit losses accrued – related parties	(117)	(56)
Reversed credit losses – related parties	649	140
Credit losses accrued – third parties	(202)	(173)
Reversed credit losses – third parties	136	52
	466	**(37)**

9. OTHER OPERATING EXPENSES

Other operating expenses include:	***2020*** ***BGN '000***	***2019*** ***BGN '000***
Carbon emissions written-off (hazardous gas quotas – current year)	11,557	3,550
Provision for carbon emissions (hazardous gas quotas – current year) (Note 28)	118	3,513
Price difference for the purchase of provisioned carbon emissions for hazardous gas quotas in the current period	(1,588)	-
Carbon emissions expenses	**10,087**	**7,063**
Accruals related to provisions for depot recultivation (Note 28)	519	-
Impairment of inventories	427	6
Fines and penalties related to natural gas contract	264	317
Remuneration to BD members – legal entities and individuals	146	120
Unrecognised VAT credit	40	83
Environmental pollution sanctions	38	12
Carrying value of the goods sold	25	33
Business trips	22	86
Materials and finished products scrapped and shortage	20	169
Entertainment costs	10	57
Training expenses	1	6
Impairment of advances granted for supplies	-	34
Participation at conferences	-	12
Other	19	27
	1,531	**962**
	11,618	**8,025**

Carbon emissions expense

At 31 December 2020, the price at which the provision was measured was BGN 64.15 per carbon quota (based on the exchange purchase price of the quotas repaying the obligation) (*Note 21*), and as at 31 December 2019 – BGN 47.88 per carbon quota (based on the exchange purchase price as at 31 December).

Upon carrying out its operations, the Company generates carbon emissions. In 2020, the emission quotas' price has increased as compared to prior periods. The increase in the quota prices impacts the cost of products, respectively – the financial result realised by the Company.

Impairment of inventories

The expenses for impairment of inventories include impairment of materials at the amount of BGN 426 thousand (2019: BGN 6 thousand) and impairment of finished products – BGN 1 thousand (2019: none). Over the current period, impairment of materials was stated, mainly spare parts which will not be used in operations due to the Company's management's decision to decommission the PPE (Note 10 and Notte 14) to which the realization of these materials is related.

10. IMPAIRMENT AND DERECOGNITION OF NON-CURRENT ASSETS

The impairment and derecognition of non-current assets are as follows:

	2020	***2019***
	BGN '000	***BGN '000***
Impairment of PPE	856	1,190
PPE written-off	65	58
Expenses for PPE acquisition written-off	-	69
Impairment of costs for acquisition of PPE	-	61
Reversed impairment of expenses for PPE acquisition	(46)	-
	875	**1,378**

As at 31 December 2020 the Company has impaired non-current tangible assets, which the management has made a decision to use in the Company's activity.

11. FINANCE COSTS

The finance costs constitute:

	2020	***2019***
	BGN '000	***BGN '000***
Interest costs on bank loans received	411	653
Interest costs on right-of-use assets	21	30
	432	**683**

12. INCOME TAX (EXPENSE)/SAVING

Statement of comprehensive income (profit or loss for the year)	***2020***	***2019***
	BGN '000	***BGN '000***
Tax profit/ (loss) for the year as per return	-	(1,051)
Current income tax for the year – 10% (2019: 10%)	-	-
Deferred income taxes		
Related to origination and reversal of temporary differences	(556)	1,234
Total (expense)/ saving from income tax recognised in the statement of comprehensive income (profit or loss for the year)	**(556)**	**1,234**

Reconciliation of income tax expense applicable to the accounting profit or loss:	***2020***	***2019***
	BGN '000	***BGN '000***
Accounting profit/(loss) for the year	*15,701*	*(13,685)*
Income tax (expense)/savings – 10% (2019: 10%)	(1,570)	1,369
Non-deductible amounts under tax return		
Related to increases – BGN 77 thousand (2019: BGN 344 thousand)	(8)	(30)
Decucted amounts in the income tax return for which no deferred tax assets were previously recognised (tax losses and impairment)	1,022	-
Unrecognised deferred tax asset for loss	-	(105)
Total (expense)/saving from income tax carried to the statement of comprehensive income (within profit or loss for the year)	**(556)**	**1,234**
Effective tax rate	**3.54%**	**-9.02%**

Other comprehensive income

Other comprehensive income includes only components which will not be reclassified to profit or loss – the effects of subsequent retirement benefit plans. No tax effect has been accounted for, because according to the applicable legislation, a tax effect shall only occur for the amounts which are effectively accounted for through the financial result.

13. NET PROFIT /(LOSS) PER SHARE

	2020	***2019***
	BGN '000	***BGN '000***
Weighted average number of shares based on days	2,585,964	2,585,964
Profit /(Loss) for the year (BGN’000)	15,145	(12,451)
Net profit /(loss) per share (BGN)	**5.86**	**(4.81)**

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings		*Plant and equipment*		*Motor vehicles*		*Other*		*PPE and IA in progress*		*Total*	
	2020	***2019***	***2020***	***2019***	***2020***	***2019***	***2020***	***2019***	***2020***	***2019***	***2020***	***2019***
	BGN'000	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***	***BGN'000***
Book value												
Balance on 1 January	**24,783**	**23,077**	**178,215**	**177,101**	**8,698**	**8,043**	**1,161**	**1,221**	**3,044**	**3,511**	**215,901**	**212,953**
Additions	-	15	-	-	1,166	687	-	-	3,535	3,491	4,701	4,193
Disposals	(1)	(139)	(692)	(496)	(82)	(32)	(29)	(66)	-	(69)	(6,862)	(802)
Transfer to non-current assets held for sale	(313)	(443)	-	-	-	-	-	-	-	-	(313)	(443)
Transfer from acquisition costs	40	2,273	6,001	1,610	-	-	17	6	(6,058)	(3,889)	6,058	-
Balance at 31 December 2020	**24,509**	**24,783**	**183,524**	**178,215**	**9,782**	**8,698**	**1,149**	**1,161**	**521**	**3,044**	**219,485**	**215,901**
Accumulated depreciation												
Balance on 1 January	**11,340**	**10,010**	**118,893**	**109,528**	**7,612**	**7,052**	**1,094**	**1,111**	**61**	**-**	**139,000**	**127,701**
Depreciation charge for the year	809	822	9,126	9,323	466	592	34	47	-	-	10,435	10,784
Impairment charged	356	707	499	480	-	-	1	-	-	61	856	1,248
Transfer to non-current assets held for sale (depreciation and impairment)	(71)	(62)	-	-	-	-	-	-	-	-	(71)	(62)
Impairment written-off/ reversed (Note 10)	-	(115)	(56)	(32)	-	-	-	-	(46)	-	(102)	(147)
Depreciation written-off of derecognised assets	-	(22)	(569)	(406)	(82)	(32)	(28)	(64)	-	-	(679)	(524)
Balance at 31 December 2020	**12,434**	**11,340**	**127,893**	**118,893**	**7,996**	**7,612**	**1,101**	**1,094**	**15**	**61**	**149,439**	**139,000**
Carrying amount on 31 December 2020	**12,075**	**13,443**	**55,631**	**59,322**	**1,786**	**1,086**	**48**	**67**	**506**	**2,983**	**70,046**	**76,901**
Carrying amount on 1 January	**13,443**	**13,067**	**59,322**	**67,573**	**1,086**	**991**	**67**	**110**	**2,983**	**3,511**	**76,901**	**85,252**

Company's tangible fixed assets as at 31 December 2020 include land at the amount of BGN 3,630 thousand (31 December 2019: BGN 3,630 thousand) and buildings of carrying amount BGN 8,445 thousand (31 December 2019: BGN 9,813 thousand).

As at 31 December 2020, buildings include flats, garages and basements, regarding which the Company’s management has made a principal decision for sale, but it is unclear when these would be sold; the carrying amount thereof is BGN 443 thousand (31 December 2019: BGN 697 thousand).

Tangible fixed assets as at 31 December 2020 include assets of book value BGN 50,556 thousand, which have been fully depreciated but still in use in Company's activities (31 December 2019: BGN 45,527 thousand).

As at 31 December 2020, there are contractual mortgages of immovable property with a carrying amount of BGN 4,803 thousand (31 December 2019: BGN 5,275 thousand) and a pledge on machinery and equipment with a carrying amount of BGN 9,458 thousand (31 December 2019: BGN 10,838 thousand) established as collateral under used bank loans (*Note 26*).

As at 31 December 2020, the expense for fixed assets additions include advances to suppliers at the amount of BGN 189 thousand (31 December 2019: BGN 1,272 thousand) and ongoing projects at the amount of BGN 317 thousand (31 December 2019: BGN 1,711 thousand).

The ongoing projects are as follows:	***31.12.2020 BGN '000***	***31.12.2019 BGN '000***
Replacement of a nitrogen acid pump 30/3	91	70
Development of a human resource management system based on the BORA BUSINESS SUITE software	70	70
Deflagmator inv. 401410	66	-
Replacement of operator station at Controller S7-400 Siemens-	30	-
Replacement of support systems of catalyst networks of contactor 2	28	-
Modernisation of the revolution regulation system of turbo compressor pos.403 at unit 608	22	22
Covered area for temporary storage of chemical products – packaged ammonium nitrate	-	1,341
Installation of concrete complete transformer 1	-	106
Replacement of a nitrogen acid pump 35/1	-	58
Project for installation of a suction pumping aggregate at pos.H152-1	-	29
FFS machine and robot for palletisation of ammonium bicarbonate	-	13
Other	25	63
Impairment of expenses for PPE acquisition	(15)	(61)
	317	**1,711**

15. INTANGIBLE ASSETS

	Software
Book value	
On 1 January 2019	**1,026**
Additions	58
Disposals	(11)
31 December 2019	**1,073**
Additions	6
Disposals	-
31 December 2020	**1,079**
Accumulated amortisation and impairment	
On 1 January 2019	**944**
Amortisation charge for the year	65
Amortisation written-off	(11)
31 December 2019	**998**
Amortisation charge for the year	43
Amortisation written-off	-
31 December 2020	**1,041**
Carrying amount on 31 December 2019	**75**
Carrying amount on 31 December 2020	**38**

Greenhouse gas emissions

In 2020, the Company purchased 295 thousand quotas of emissions at the amount of BGN 13,482 thousand (2019: 161 thousand quotas of emissions at the amount of BGN 5,528 thousand).

	31.12.2020	***31.12.2019***
	BGN '000	***BGN '000***
Balance at the beginning of the year	**-**	**-**
Newly acquired	13,482	5,528
Written-off as current expense (Note 9)	(11,557)	(3,550)
Written-off in relation to provision (Note 9)	(1,925)	(1,978)
Balance at the end of the period	**-**	**-**

16. RIGHT-OF-USE ASSETS

The Company has non-cancellable commitments under leases and recognises right-of-use assets:

	Real estate	*Motor vehicles*	*Total*
	BGN '000	*BGN '000*	*BGN '000*
Book value			
1 January 2019	**264**	**907**	**1,171**
Increases/additions	255	114	369
Decreases/disposals	-	-	-
31 December 2019	**519**	**1,021**	**1,540**
Increases/additions	-	559	559
Decreases/disposals	-	(50)	(50)
Balance at 31 December 2020	**519**	**1,530**	**2,049**
Accumulated depreciation			
1 January 2019	**-**	**11**	**11**
Depreciation charge for the period	90	413	503
31 December 2019	**90**	**424**	**514**
Depreciation charge for the period	91	445	536
Depreciation written-off		(50)	(50)
Balance at 1 January 2020	**181**	**819**	**1,000**
Carrying amount at 1 January 2020	**429**	**597**	**1,026**
Carrying amount at 31 December 2020	**338**	**711**	**1,049**

Company's leases

The Company rents real estate properties (offices and a parking lot) and motor vehicles (cars and rail vehicles). Lease assets may not be used as collateral in other contracts.

17. INVESTMENTS IN SUBSIDIARIES

Company name	*Location of registration*	*Carrying amount*	*% of interest*	*Carrying amount*	*% of interest*
		31.12.2020		*31.12.2019*	
		BGN '000		*BGN '000*	
Neochim Tarim Ltd.	Turkey	83	99.92	83	99.92
Neochim Protect EOOD	Bulgaria	5	100	5	100
		88		**88**	

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

18. DEFERRED TAX ASSETS

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

	temporary difference	***tax***	***temporary difference***	***Tax***
	31.12.2020 BGN '000	***31.12.2020 BGN '000***	***31.12.2019 BGN '000***	***31.12.2019 BGN '000***
Property, plant and equipment, including from:	9,178	918	12,353	1,235
**Land revaluation upon transition to IFRS*	*46*	*5*	*46*	*5*
**Impairment of buildings, machines, facilities and equipment*	*4,289*	*429*	*3,507*	*351*
**Impairment of expenses for PPE acquisition and advance payments*	*15*	*1*	*61*	*6*
Impairment of intangible assets	148	15	148	15
Impairment of inventories	2,730	273	2,686	269
Provision for emissions (quotas for harmful gases)	118	12	3,513	351
Accruals for retirement benefit obligations to personnel	658	66	661	66
Accruals for unpaid benefits to physical persons	743	74	596	60
Provision for repositories recultivation	558	56	42	4
Impairment of advances for supplies	8	1	35	3
Right-of-use assets	32	3	9	1
Accruals for unused paid leaves	255	25	95	10
Provisions for credit losses	451	45	301	30
Total deferred tax assets	**14,879**	**1,488**	**20,439**	**2,044**

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

Deferred tax assets/(liabilities)	***Balance at 1 January 2020***	***Recognised in profit or loss for the year***	***Balance at 31 December 2020***
	BGN '000	***BGN '000***	***BGN '000***
Property, plant and equipment	1,235	(317)	918
Impairment of intangible assets	15	-	15
Provision for emissions (greenhouse gas quotas)	351	(339)	12
Accruals for retirement benefit obligations to personnel	66	-	66
Impairment of inventories	269	4	273
Provision for remuneration of foreign physical and legal persons	4	52	56
Accruals for unused paid leaves	35	(11)	24
Accruals for unpaid benefits to local physical persons	10	15	25
Provision for repository costs	25	25	50
Provisions for credit losses on receivables	30	15	45
Impairment of advances for supplies	3	(2)	1
Right-of-use assets	1	2	3
Total tax assets	**2,044**	**(556)**	**1,488**

Deferred tax assets	***Balance at 1 January 2020***	***Recognised in profit or loss for the year***	***Balance at 31 December 2019***
	BGN '000	***BGN '000***	***BGN '000***
Property, plant and equipment	40	1,195	1,235
Impairment of intangible assets	15	-	15
Provision for emissions (greenhouse gas quotas)	198	153	351
Accruals for retirement benefit obligations to personnel	82	(16)	66
Impairment of inventories	285	(16)	269
Provision for repositories recultivation	37	(33)	4
Provision for remuneration of foreign physical and legal persons	29	6	35
Accruals for unused paid leaves	27	(17)	10
Accruals for unpaid benefits to local physical persons	70	(45)	25
Provision for repository costs	1	(1)	-
Provisions for credit losses	26	4	30
Impairment of advances for suppliers	-	3	3
Right-of-use assets	-	1	1
Total tax assets	**810**	**1,234**	**2,044**

No deferred tax assets have been recognised for:

	temporary difference	***tax***	***temporary difference***	***Tax***
	31.12.2020 BGN '000	***31.12.2020 BGN '000***	***31.12.2019 BGN '000***	***31.12.2019 BGN '000***
Impairment of investments in and receivables from subsidiaries	(20,754)	2,075	(21,386)	2,139
Deductible losses	(1,286)	129	(10,873)	1,087
Total	**(22,040)**	**2,204**	**(32,259)**	**3,226**

19. INVENTORIES

	31.12.2020 BGN '000	***31.12.2019 BGN '000***
Materials	19,239	20,966
Work in progress	2,969	3,493
Finished products	300	6,336
Goods	6	12
Main materials in transit	503	-
	23,017	**30,807**

Materials include:	***31.12.2020 BGN '000***	***31.12.2019 BGN '000***
Precious metals	7,993	8,622
Spare parts and bearings	5,391	5,582
Auxiliary materials	3,442	3,519
Main materials	1,371	2,130
Packaging materials	668	544
Automobile tyres	35	35
Catalysts	4	206
Other materials	335	328
	19,239	**20,966**

Main materials	***31.12.2020 BGN '000***	***31.12.2019 BGN '000***
Kalium chloride	455	493
Magnesit	312	486
Lubricant	171	161
Calcium carbonate	59	63
Chemicals catalysts	45	106
Methyl diethanolamine	30	247
Sodium hydroxide	28	36
Quicklime	23	14
Monoammonium phosphate	3	45
Ammonium sulphate	1	103
Calcinated soda	-	156
Other	244	220
	1,371	**2,130**

Finished products	***31.12.2020 BGN '000***	***31.12.2019 BGN '000***
Ammonium Hydrogen carbonate	204	59
Ammonium Nitrate – EC Fertilizer	69	6,232
Ammonia Water	18	18
Sodium Nitrate – technical grade	5	22
Other	4	5
	300	**6,336**

Work in progress	***31.12.2020 BGN '000***	***31.12.2019 BGN '000***
Ammonia	2,709	3,297
Nitric Acid	206	137
Ammonium Nitrate	12	7
Other	42	52
	2,969	**3,493**

There are established pledges on inventories as at 31 December 2020 as collateral for used bank loans as follows:

- Precious metals – BGN 7,993 thousand (31 December 2019: BGN 8,622 thousand);
- Finished products (Ammonium Nitrate) – BGN 69 thousand (31 December 2019: BGN 6,232 thousand);
- Work in progress (Ammonia) – BGN 2,260 thousand (31 December 2019: BGN 2,901 thousand).

In the review of available inventories an impairment of materials was recognised as at 31 December (Note 9).

20. RECEIVABLES FROM RELATED PARTIES

	31.12.2020 BGN '000	***31.12.2019 BGN '000***
Receivables on sales in foreign currency	2,380	3,251
incl. receivables under contract with customers in foreign currencies	*2,380*	*3,251*
Provision for impairment of expected credit losses from uncollected receivables in foreign currencies, incl.:	(2,109)	(2,953)
- provision for impairment of credit losses on receivables under contracts with customers in foreign currencies	*(1,914)*	*(2,898)*
- effect of revaluation of foreign currency items	(195)	*(55)*
Receivables from sales in BGN	149	140
incl. receivables under contracts with customers in BGN	*149*	*140*
Provision for impairment of expected credit losses on receivables in BG, incl.:	(139)	(21)
- provision for impairment of credit losses on receivables under contracts with customers in BGN	*(139)*	*(21)*
	281	**417**

The receivables from related parties in foreign currency at carrying amount are denominated in USD: USD 170 thousand – BGN 271 thousand); (31 December 2019: USD 172 thousand – BGN 298 thousand), and in BGN: BGN 10 thousand (31 December 2019: BGN 119 thousand).

The receivables from related parties at 31 December 2020 include receivables from subsidiaries at a carrying amount of BGN 271 thousand (31 December 2019: BGN 298 thousand) and receivables from the group of a shareholder with significant influence, at the amount of BGN 9 thousand (31 December 2019: BGN 118 thousand – shareholder with significant influence) and receivables from main shareholder at a carrying amount of BGN 1 thousand (31 December 2019: BGN 1 thousand).

The Company has set a payment term for receivables from subsidiaries of up to 270 days, and from other related parties – 20 days.

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

	31.12.2020	***31.12.2019***
	BGN '000	***BGN '000***
up to 30 days	56	334
from 31 to 90 days	224	-
from 91 to 180 days	-	-
from 181 to 365 days	-	-
Provision for impairment of credit losses	-	(34)
	280	**300**

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

	31.12.2020	***31.12.2019***
	BGN '000	***BGN '000***
up to 30 days	-	-
from 31 to 90 days	-	-
from 91 to 180 days	-	139
from 180 to 365 days	1	-
over 365 days	2,248	2,918
Provision for impairment of credit losses	(2,248)	(2,940)
	1	**117**

The impairment model under IFRS 9 is based on recognition of impairment provisions based on "expected credit losses". The Company applies the simplified approach under IFRS 9 to measure expected credit losses for trade receivables from related parties by recognizing expected lifetime losses for all receivables.

The table below provides summarised data about expected credit losses in the allowance (provision) for impairment of receivables from related parties:

31 December 2020	Regular	1 to 30 days past due	31 to 90 days past due	91 to 180 days past due	181 to 365 days past due	Over 1 year past due	Total BGN'000
Expected average percentage of credit losses	0.00%	-	-	-	-	100.00%	88.89%
Trade receivables (gross carrying amount)	280	-	-	-	1	2,248	2,529
Expected credit loss	**-**	**-**	**-**	**-**	**-**	**2,248**	**2,248**

31 December 2019	Regular	1 to 30 days past due	31 to 90 days past due	91 to 180 days past due	181 to 365 days past due	Over 1 year past due	Total BGN'000
Expected average percentage of credit losses	10.18%	-	-	15.83%	-	100%	87.70%
Trade receivables (gross carrying amount)	334	-	-	139	-	2,918	3,391
Expected credit loss	**34**	**-**	**-**	**22**	**-**	**2,918**	**2,974**

Movement of the allowance for impairment:	*31.12.2020 BGN '000*	*31.12.2019 BGN '000*
Opening balance of the allowance for expected credit losses as at 1 January	**2,974**	**3,008**
Increase in the allowance for expected credit losses recognised within profit or loss for the year	117	56
Decrease in the allowance for expected credit losses recognised within profit or loss for the year	(649)	(140)
Uncollectable impaired receivables written-off	-	(5)
Effect of revaluation of foreign currency positions	(194)	55
Balance at the end of the year	**2,248**	**2,974**

21. TRADE RECEIVABLES

	31.12.2020	***31.12.2019***
	BGN '000	***BGN '000***
Receivables on sales to foreign clients	2,228	8,697
incl. receivables under contracts with foreign clients	*1,991*	*8,562*
Provision for impairment of expected credit losses on receivables from foreign clients, incl.:	(302)	(245)
- *provision for impairment of expected credit losses on receivables from foreign clients*	*(293)*	*(244)*
- *effect of revaluation of foreign currency items*	*(9)*	*(1)*
Receivables on sales to local clients, incl.:	118	280
- *receivables under contracts with local clients*	*98*	*237*
Provision for impairment of expected credit losses on receivables from local clients, incl.:	(2)	(2)
- *provision for impairment of expected credit losses on receivables from local clients*	*(2)*	*(2)*
	2,042	8,730
Advances granted to local suppliers	3,862	670
Impairment of advances granted to local suppliers	(7)	(7)
Advances granted to foreign suppliers	677	75
Impairment of advances granted to foreign suppliers	-	(27)
	6,574	**9,441**

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

- in BGN – BGN 3,972 thousand (31 December 2019: BGN 941 thousand);
- in EUR – BGN 2,579 thousand (EUR 1,319 thousand) (31 December 2019: BGN 600 thousand (EUR 306 thousand));
- in USD – BGN 11 thousand (USD 3 thousand), (31 December 2019: BGN 7,855 thousand (USD 4,627 thousand)).
- in RUB – BGN 12 thousand (RUB 416 thousand), (31 December 2019: BGN 45 thousand (RUB 1,816 thousand)).

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

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

	31.12.2020	***31.12.2019***
	BGN '000	***BGN '000***
up to 30 days	1,933	4,247
from 31 to 90 days	20	-
Provision for impairment of credit losses	-	(3)
	1,953	**4,244**

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

	31.12.2020	***31.12.2019***
	BGN '000	***BGN '000***
up to 30 days	10	4,346
from 31 to 90 days	68	68
from 91 to 180 days	4	-
from 181 to 365 days	97	206
over 365 days	214	110
Provision for impairment of credit losses	(304)	(244)
	89	**4,486**

The impairment model under IFRS 9 is based on recognition of impairment provisions based on "expected credit losses". The Company applies the simplified approach under IFRS 9 to measure expected credit losses for trade receivables by recognizing expected lifetime losses for all trade receivables.

The table below provides summarised data about expected credit losses in the allowance (provision) for impairment of receivables of sales from clients as at 31 December 2020 and 31 December 2019:

31 December 2020	**Regular**	**1 to 30 days past due**	**31 to 90 days past due**	**91 to 180 days past due**	**181 to 365 days past due**	**Over 1 year past due**	**Total BGN'000**
Expected average percentage of credit losses	0.00%	0.00%	4.41%	0.00%	96.91%	96.73%	12.96%
Receivables from sales (gross carrying amount)	1,953	10	68	4	97	214	2,346
Expected credit loss	**-**	**-**	**3**	**-**	**94**	**207**	**304**

31 December 2019	**Regular**	**1 to 30 days past due**	**31 to 90 days past due**	**91 to 180 days past due**	**181 to 365 days past due**	**Over 1 year past due**	**Total BGN'000**
Expected average percentage of credit losses	0.07%	0.73%	0.00%	-	49.51%	100.00%	2.75%
Receivables from sales (gross carrying amount)	4,247	4,388	26	-	206	110	8,977
Expected credit loss	**3**	**32**	**-**	**-**	**102**	**110**	**247**

Movement in the impairment allowance (provision):	***31.12.2020 BGN '000***	***31.12.2019 BGN '000***
Opening balance of the allowance for expected credit losses at 1 January, calculated under IFRS 9	**247**	**125**
Increase in the allowance for expected credit losses recognised within profit or loss for the year	202	173
Decrease in the allowance for expected credit losses recognised within profit or loss for the year	(136)	(52)
Effect of revaluation of foreign currency items	(9)	1
Balance at the end of the year	**304**	**247**

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

	31.12.2020 BGN '000	***31.12.2019 BGN '000***
Materials	3,847	708
Services	43	3
Carbon emissions quotas	642	-
	4,532	**711**

On 30 December 10,000 carbon emission quotas were paid at the price of 32.80 EUR per 1 EUA quota, received at the operational account of Neochim AD in the European Community Register on 4 January 2021.

22. OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments include:

	31.12.2020 BGN '000	***31.12.2019 BGN '000***
Prepayments	599	568
Paid deposits	401	25
Receivables under an Operational Programme	26	-
Court and awarded receivables	11	11
VAT refundable	-	1,897
Impairment of court and awarded receivables	(1)	(1)
Other	13	30
	1,049	**2,530**

Prepayments are comprised of:

	31.12.2020	*31.12.2019*
	BGN '000	***BGN '000***
Insurance	513	537
Finance costs	46	-
Subscriptions	39	22
Business trips	-	8
Other	1	1
	599	**568**

Prepaid finance costs constitute a one-off commission under a short-term credit line in a revolving loan of the amount of up to BGN 30,000. As at 31 December 2020 the Company has no payables under short-term loans (*Note 31*).

The principal amounts included as deposits paid are money transferred to guarantee payments to a supplier at the amount of BGN 370 thousand under contracts for:

- Purchase and sale of balancing natural gas – BGN 170 thousand (31 December 2019: none);
- Natural gas access and transit – BGN 120 thousand (31 December 2019: BGN 22 thousand);
- Operation on an organized energy exchange – BGN 80 thousand (31 December 2019: none).

23. CASH AND CASH EQUIVALENTS

	31.12.2020	*31.12.2019*
	BGN '000	***BGN '000***
Current accounts	17,474	1,970
Cash in hand	16	23
Cash and cash equivalents stated in the statement of cash flows	**17,490**	**1,993**

The cash available at 31 December 2020 is held at the Company’s accounts in the following banks: UniCredit Bulbank AD, Central Cooperative Bank AD, and UBB AD.

Cash in current account is as follows: in BGN – BGN – 11,540 thousand (31 December 2019: BGN 43 thousand), in EUR – BGN 2,490 thousand (31 December 2019: BGN 886 thousand) and in USD – BGN 3,444 thousand (31 December 2019: BGN 1,041 thousand). Cash in hand is only in BGN.

As a result of the analyses made and the methodology applied to estimate expected credit losses for cash and cash equivalents, the management has determined that the impairment of cash and cash equivalent would amount at close to zero. Therefore, the Company has not recognised a provision for the impairment of expected credit losses, at 31 December 2020 or at 31 December 2019.

24. NON-CURRENT ASSETS HELD FOR SALE

The Company states as non-current assets held for sale buildings (flats, garages and basements) for which a decision was made in 2019 by the Board of Directors to be sold, and for which the sale is determined as reasonably certain within a year.

	Buildings	*Buildings*
Book value		
31 December 2019	**169**	**-**
Transfer from PPE	313	443
Assets sold	(482)	(274)
31 December 2020	**-**	**169**
Accumulated depreciation		
31 December 2019	**25**	**-**
Transfer from PPE	71	62
Written-off depreciation of assets sold	(75)	(40)
Impairment written-off	(21)	(3)
31 December 2020	**-**	**25**
Carrying amount at 31 December	**-**	**144**

25. SHARE CAPITAL AND RESERVES

Share capital

As at 31 December 2020, the registered share capital of Neochim AD amounted to BGN 2,654 thousand, distributed in 2,654,358 ordinary, registered shares with right of vote, dividend and liquidation share with nominal value of BGN 1 per share.

The ***treasury shares*** are 68,394 at the amount of BGN 3,575 thousand (31 December 2019: 68,394 shares – BGN 3,575 thousand).

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

The ***component from remeasurement of defined benefit pension plan obligation*** is formed in relation with the requirements of IAS 19 (Note 2.19).

The net profit realised by the company for 2020 at the amount of BGN 15,145 thousand fully covers the loss realized by the company for the previous 2019 - (BGN 12,451 thousand) and partially covers the loss realized in 2018 - (BGN 19,157 thousand). The decrease of the price of natural gas in 2020 with retroactive effect, as of 05.08.2019 positively affected the financial result and cash flows of the Company for the current year.

The equity is at a significant amount, BGN 94,130 thousand, and significantly exceeds the liabilities of the Company at the total amount of BGN 27,010 thousand. The Company repays its payables on a regular basis and has no past due payables as at the balance sheet date. It has good relations with the creditor banks, observes contractual loan conditions, and in case of need of short-term funding uses bank overdraft. According to the management, there are no adverse factors that might impact the Company's operations, except from the ones described in *Note 2.28*.

26. LONG-TERM BANK LOANS

	31.12.2020 ***BGN '000***	***31.12.2019*** ***BGN '000***
Non-current payables under bank loans		
Bank loans	2,756	3,260
	2,756	**3,260**
Current portion of long-term bank loans		
Bank loans	2,632	2,102
Deferred charges for loan management and administration	(20)	(27)
	2,612	**2,075**
Total payables under interest-bearing loans	**5,368**	**5,335**

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

Loan	***31.12.2020*** ***BGN '000***	***BGN '000***	***Contracted amount in Currency***	***Maturity***	***Interest rate***
1	3,161	1,324	BGN 3,460 thousand	20.09.2023	ADI* plus 2.250% minimum 2.34%
2	2,207	3,678	BGN 5,900 thousand	20.06.2022	ADI* plus 2.432% minimum 2.60%
3	-	333	BGN 4,000 thousand	20.04. 2020	ADI* plus 3.082% minimum 3.25%
	5,368	**5,335**			

**ADI – Average Deposit Index*

The funds were granted primarily for the purpose of repairs and renewal of production facilities for Ammonia and for the construction of the site "Covered area for temporary storage of chemical products, packaged mineral fertilisers and loading and unloading" at the Company.

Reconciliation of liabilities arising from financial activities

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

	01/01/2020	**Changes in cash flows from financing activities**	**Non-cash changes** *New liabilities under leases*	**Other changes**	**31/12/2020**
	BGN‘000	**BGN‘000**	**BGN‘000**		**BGN‘000**
Bank loans, including short-term loans (Note 26, 31)	20,360	(15,033)	-	41	5,368
Leases (Note 27)	1,022	(530)	559	21	1,072
Dividends (Note 37)	72	(1)	-	-	71
	21,454	**(15,564)**	**559**	**62**	**6,511**

	01/01/2019	**01.01.2019 following transition to IFRS 16* (Note 41)**	**Changes in cash flows from financing activities**	**Non-cash changes** *New liabilities under leases*	**Other changes**	**31/12/2019**
	BGN‘000		**BGN‘000**	**BGN‘000**		**BGN‘000**
Bank loans, including short-term loans (Note 26, 31)	19,074	-	1,295	-	(9)	20,360
Leases (Note 27)	21	1,133	(523)	361	30	1,022
Dividends (Note 37)	76	-	(4)	-	-	72
	19,171	**1,133**	**768**	**361**	**(21)**	**21,454**

*Other changes: include the accrual of interest and payments of bank fees and charges and payments and written off dividends.

The long-term and short-term loans (*Note 26 and Note 31*) are secured with the following assets owned by the Company:

- real estate with carrying amount of BGN 4,803 thousand (31 December 2019: BGN 5,275 thousand) (Note 14);
- equipment with carrying amount of BGN 9,458 thousand (31 December 2019: BGN 10,838 thousand) (Note 14);
- precious metals with carrying amount of BGN 7,993 thousand (31 December 2019: BGN 8,622 thousand) (Note 19);
- finished products (ammonium nitrate) with carrying amount of BGN 69 thousand (31 December 2019: BGN 6,232 thousand) (Note 19);
- work in progress (ammonia) with carrying amount of BGN 2,260 thousand (31 December 2019: BGN 2,901 thousand) (Note 19);
- proceeds from future receivables under concluded sales contracts at the amount of up to BGN 60,000 thousand (31 December 2019: BGN 60,000 thousand).

27. LEASES

In the statement of financial position right of use of motor vehicles, real estate and rail vehicles are presented within “Right-of-use” assets.

Lease liabilities	***31.12.2020***	***31.12.2019***
	BGN '000	***BGN '000***
Current	475	506
Non-current	597	516
	1,072	**1,022**

Maturity structure	***31.12.2020***	***31.12.2019***
	BGN '000	***BGN '000***
Year 1	496	528
Year 2	410	199
Year 3	120	136
Year 4	82	121
Year 5	-	81
	1,108	**1,065**

The Company is not faced with significant liquidity risk with respect to its lease liabilities. All lease liabilities are denominated in BGN.

The Company has lease liabilities to a related party – shareholder, at the amount of BGN 335 thousand, including non-current – BGN 249 thousand, and current – 86 thousand (31 December 2019: BGN 502 thousand, including non-current – BGN 418 thousand, and current – BGN 84 thousand).

Expenses recognised in the statement of comprehensive income

	Notes	***2020***	***2019***
		BGN'000	***BGN'000***
Depreciation expense for right-of-use assets (IFRS 16)	***16***	536	503
Interest expense for lease liabilities – IFRS 16 (included within finance costs)	***11***	21	30
Expenses related to short-term leases (included in hired services expense) – IFRS 16	***6***	8	77
Revenue from real estate and moveable property leases	***4***	290	309

The total cash outflow for leases in 2020 amounts to BGN 538 thousand (2019: BGN 590 thousand), including leases related to right-of-use assets – BGN 530 thousand (2019: BGN 523 thousand) and under short term lease contracts – BGN 8 thousand (2019: BGN 77 thousand).

Company's leases and reporting thereof

Lessee

The Company leases real estate (office, shop and a parking lot) and transport vehicles (cars and rail vehicles). Leases are concluded for 2 to 5 years. Leases are negotiated on an individual basis and contain a significant number of conditions and clauses. The leases do not contain compulsory indicators and ratios. Underlying right-of-use assets may not be used as collateral under other contracts.

Extension and termination options

The leases do not contain extension and termination options. The Company has determined for most of the lease that their term is the term set in the lease – 5 years, as far as: there is no extension option, there are possibilities for early termination of the lease in case of non-payment, with the parties' mutual consent, etc., but the management determines that no early termination is planned at this stage. For one of the leases (train carriages) the lease term has been determined by the management to be 2 years based on previous experience, as far as the Company's practice is to renegotiate the use of carriages on an annual basis (*Note 2.28*).

Short-term leases

The Company has elected the exemption from recognition of right-of-use assets and lease liabilities under the standard for short-term leases (leases whose term is up to 12 months, including from the date of commencement, without a purchase option).

Lessor

The Company has lease contracts as a lessor for the leasing of premises, apartments and equipment. The contracts have a residual term of 1 to 7 years, with the expected payments under the lease agreements, for which the Company is a lessor, as follows:

31 December 2020	**Up to 1 year**	**1 to 3 years**	**3 to 7 years**	**Total**
Expected payments	276	450	604	**1,330**

31 December 2019	**Up to 1 year**	**1 to 3 years**	**3 to 7 years**	**Total**
Expected payments	290	445	848	**1,583**

28. PROVISIONS

	Provision for carbon emissions		*Recultivation provision*		*Provision for penalties*		*Total*	
	31.12.2020	*31.12.2019*	*31.12.2020*	*31.12.2019*	*31.12.2020*	*31.12.2019*	*31.12.2020*	*31.12.2019*
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Balance at 1 January	**3,513**	**1,978**	**42**	**370**	**-**	**7**	**3,555**	**2,355**
Accrued	118	3,513	519	-	-	-	637	3,513
Released	(3,513)	(1,978)	(2)	(328)	-	(7)	(3,515)	(2,313)
Balance at the end of the period	**118**	**3,513**	**559**	**42**	**-**	**-**	**677**	**3,555**
including non-current portion	-	-	*553*	*39*	-	-	***553***	***39***
including current portion	*118*	*3,513*	*6*	*3*	-	-	***124***	***3,516***

Provisions include:

- recultivation provisions, including:
  - provision for the obligation of alignment /closure/ of waste depositories and for recultivation and monitoring of these closed depositories. The provision for landfills used by the Company in previous periods (mainly monitoring costs), determined on the basis of an expert assessment of the amount of the expected costs for fulfillment of the obligation, amounts to BGN 60 thousand, and the present value as of 31.12.2020, at which it is presented in the statement of financial position is BGN 41 thousand (31.12.2019: BGN 42 thousand).
  - provision for closure and recultivation of new "Depository for hazardous and production non-hazardous solid waste on the territory of Neochim AD," which the Company has been using since 2020. The amount of the provision, for the amount of expenses expected under the obligation for the new repository, has been determined based on an expert assessment and is BGN 829 thousand, and the present value carried to the statement of financial position is BGN 518 thousand (31.12.2019 – none). According to the predefineed plan, the significant part of the cash outflows will be made in 2030 and 2047, BGN 272 thousand. and BGN 426 thousand respectively.
  - The present value of the provision for all depositories has been calculated on the basis of the present value of all future cash payments discounted with interest of 2.45%;
- provision for a liability to MOEW for carbon emissions, classified as current one, at the amount of BGN 118 thousand (31 December 2019: BGN 3,513 thousand);
- there is no provision for penalty imposed for environment pollution resulting as a result of production activities as at 31 December 2020.

As other long-term receivables, the Company states BGN 18 thousand transferred in 2020 to a third parties' account opened by the Haskovo Regional Environmental Protection Directorate (2019: none). The transfers (deductions) refer to the commissioning in 2020 of "Repository for hazardous and production non-hazardous solid waste on the territory of Neochim AD". The transfered amounts represent securities, which in accordance with Ordinance No 7 on the procedure and method for calculation and determining the amount of compensations and deductions required for waste deposition will be used by the Company in carrying out recultivation and monitoring activities.

29. RETIREMENT BENEFIT OBLIGATIONS

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

In accordance with the Labour Code in Bulgaria, every employee is entitled to an indemnity on retirement at the amount of two gross monthly salaries, and if he or she has worked for the same employer for 10 years in the last 20 years of their service the indemnity amounts to six gross monthly salaries at the time of retirement. This is a defined benefits plan. (Note 2.19).

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

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

	2020	***2019***
	BGN '000	***BGN '000***
Present value of the obligations at 1 January	**2,506**	**2,603**
Interest cost	9	21
Current service cost	325	344
Net actuarial loss/(gain) recognised for the period	31	(24)
Payments for the year	(367)	(501)
Remeasurement (gains)/ losses for the year, including:	69	63
Actuarial losses arising from changes in financial assumptions	*28*	*116*
Actuarial losses /(gains) arising from experience adjustments	*41*	*(53)*
Liability recognised in the statement of financial position at 31 December	**2,573**	**2,506**

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

	2020	***2019***
	BGN '000	***BGN '000***
Current service cost	325	344
Interest cost	9	21
Net actuarial loss/(gain) recognised for the year	31	(24)
Components of defined benefit plan costs recognised in profit or loss	**365**	**341**
Actuarial losses arising from changes in financial assumptions	28	116
Actuarial losses arising from changes in demographic assumptions	-	-
Actuarial losses /(gains) arising from experience adjustments	41	(53)
Components of defined benefit plan costs recognised in other comprehensive income	**69**	**63**
Total	**434**	**404**

The actuarial losses / (gains) are changes in the present value of obligations to pay defined fixed income arising from:

- experience and actual adjustments resulted in an actuarial loss for 2020 at the amount of BGN 41 thousand. The impact of the changes in the actuarial assumptions – change in the discount percentage has resulted in a loss at the amount of BGN 28 thousand. The change is due to the decrease in interest rates on long-term government securities (with a 10-year maturity) at the time of preparing the valuation.

The following actuarial assumptions are used in calculating the present value of the liability as at 31 December 2020:

- mortality rate – biometrical tables have been used in accordance with Art. 6, Para 2 of Ordinance No 19 on mortality, according to Decision No 919-POD dated 16 December 2020 of the Deputy Chairman of the FSC, head of Insurance Supervision division;
- staff turnover rate – from 0% to 23% for the five age groups formed with the Company.
- discount factor – the rate applied is based on the effective annual interest rate i = 0.20% (2019: i = 0.35%). The assumption is based on yield data for long-term government securities with 10-year maturity.
- the assumption for the future level of working salaries is based on the information provided by the Company's management and amounts by year as follows:
  - for 2021 – growth of 5% against the level in 2020;
  - for 2022 – growth of 5% against the level in 2021;
  - for 2023 – growth of 5% against the level in 2022;
  - for 2024 – growth of 5% against the level in 2023;
  - for 2025 – growth of 5% against the level in 2024.

The assumption in the previous year was as follows:

- for 2020 – growth of 5% against the level in 2019;
- for 2021 – growth of 5% against the level in 2020;
- for 2022 – growth of 5% against the level in 2021;
- for 2023 – growth of 5% against the level in 2022;
- for 2024 – growth of 5% against the level in 2023.

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

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

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

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

	2020		***2019***	
	Increase	***Decrease***	***Increase***	***Decrease***
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Change in salary growth	191	(172)	188	(169)
Change in discount factor	(178)	203	(175)	200
Change in staff turnover	(170)	182	(167)	178

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

	2020		***2019***	
	Increase	***Decrease***	***Increase***	***Decrease***
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Change in salary growth	17	(15)	18	(16)
Change in interest rate	13	(15)	(11)	13
Change in staff turnover	(12)	13	(13)	14

The average duration of the long-term payable to personnel under the defined benefit plan is 8.08 years (31 December 2019: 8.33 years).

The expected payments as indemnities upon retirement under the defined benefit plan for the next 5 years amount to BGN 572 thousand, including BGN 264 thousand for 2021.

30. GOVERNMENT GRANTS

The obtained financing is under operational programmes for projects related to Company's energy efficiency and amounts to BGN 476 thousand (31 December 2019: BGN 476 thousand). The recognised income from financing until 31 December 2020 amounts to BGN 401 thousand while the financing that will be recognised as income in subsequent reporting periods is BGN 75 thousand.

	31.12.2020	***31.12.2019***
	BGN '000	***BGN '000***
Up to 1 year (current portion) (Note 37)	37	37
Over 1 year (non-current portion)	38	75
	75	**112**

The current portion of the financing will be recognised as current income over the following 12 months from the date of the statement of financial position and presented in Other current liabilities (*Note 37*).

31. SHORT-TERM BANK LOANS

	31.12.2020 *BGN '000*	*31.12.2019* *BGN '000*
Bank loans	-	15,071
Deferred charges for loan management and administration	-	(46)
	-	**15,025**

The Company has been granted a credit line under a revolving loan agreement at the amount of up to BGN 30,000 thousand, expiring on 20 April 2021, interest rate – ADI (average deposit index) plus 1.77 points p.a., minimum – 1.90%.

The collateral provided for the loans is disclosed in Note 26.

32. CONTRACT LIABILITIES

	31.12.2020 *BGN '000*	*31.12.2019* *BGN '000*
Liabilities under contracts with customers (related parties)	9,162	7,955
Liabilities under contracts with local customers (other)	55	251
Liabilities under contracts with foreign customers in foreign currencies	422	4,024
	9,639	**12,230**

Contract liabilities are mainly for the delivery of finished products.

Liabilities under contracts with customers – related parties are from a main shareholder with considerable influence, at the amount of BGN 7,435 thousand (31 December 2019 – BGN 7,874 thousand), subsidiaries of a main shareholder with considerable influence, at the amount of BGN 1,725 thousand (31 December 2019: BGN 79 thousand), and a subsidiary – BGN 2 thousand (31 December 2019: BGN 2 thousand).

33. TRADE PAYABLES

	31.12.2020 *BGN '000*	*31.12.2019* *BGN '000*
Local suppliers	2,814	2,598
Foreign suppliers	925	518
	3,739	**3,116**

The payables to suppliers are regular and interest-free. BGN-denominated payables amount to BGN 2,814 thousand (31 December 2019: BGN 2,598 thousand), EUR-denominated payables amount to BGN 923 thousand (31 December 2019: BGN 478 thousand), USD-denominated – none (31 December 2019: BGN 40 thousand), in HUF – BGN 2 thousand (31 December 2019: none).

The Company has no past due trade payables.

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

34. PAYABLES TO RELATED PARTIES

The payables to related parties at the amount of BGN 247 thousand (31 December 2019: BGN 255 thousand) are for supplies for materials, fuel, and services. They are denominated in BGN, current and interest-free. The Company has no past due payables to related parties.

The Company has a lease liability to a related party – shareholder, as stated in *Note 27 and 40*.

35. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

	31.12.2020 ***BGN '000***	***31.12.2019*** ***BGN '000***
Payables to personnel, including:	1,319	1,180
Current payables	*1,112*	*1,102*
Accruals for unused paid leaves	*207*	*78*
Payables for social security/health insurance, including:	742	529
Current payables	*694*	*512*
Accruals for unused paid leaves	*48*	*17*
	2,061	**1,709**

36. TAX PAYABLES

	31.12.2020 ***BGN '000***	***31.12.2019*** ***BGN '000***
Tax payables under Personal Income Taxation Act	316	295
VAT	48	-
Other	30	29
	394	**324**

The tax payables are regularly settled.

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

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

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

37. OTHER CURRENT LIABILITIES

Other current liabilities include:	***31.12.2020*** ***BGN '000***	***31.12.2019*** ***BGN '000***
Remuneration payable to foreign and local individuals	255	374
Guarantees received	386	332
Water usage charge	153	148
Dividend payable	71	72
Deductions from work salaries	70	70
Deposits from clients	59	61
Government grants (Note 30)	37	37
Other liabilities	170	158
	1,201	**1,252**

The guarantees received at the amount of BGN 386 thousand (31 December 2019: BGN 332 thousand) constitute guarantees from the members of the Board of Directors, for civil works, for packaging, etc.

The other non-current liabilities at the amount of BGN 1 thousand (31 December 2019: BGN 10 thousand) represent a part of accrued one-off additional remuneration to the Executive Director, deferred for payment after 31 December 2021 as per a decision of the Board of Directors. The short-term portion of this remuneration at the amount of BGN 9 thousand is included as other current payables in *Remuneration payable to foreign and local individuals.*

38. CONTINGENT LIABILITIES AND COMMITMENTS

Guarantees granted

As at 31 December 2020, the Company has bank guarantees at the amount of BGN 238 thousand issued in favour of trade counterparts (31 December 2019: BGN 2,048 thousand). The collateral provided is disclosed in Note 26

39. FINANCIAL RISK MANAGEMENT

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

The structure of financial assets and liabilities as at 31 December 2020 is as follows:

Financial assets at amortised cost	***31.12.2020 BGN '000***	***31.12.2019 BGN '000***
Cash and cash equivalents	17,490	1,993
Loans and receivables, incl.:	2,742	9,182
Receivables from related parties (Note 20)	*281*	*417*
Trade and other receivables (Notes 21 and 22)	*2,461*	*8,765*
Long-term equity investments	2	2
	20,234	**11,177**

Financial liabilities at amortised cost	***31.12.2020 BGN '000***	***31.12.2019 BGN '000***
Financial liabilities at amortised cost, including:	**10,942**	**25,218**
Short-term and long-term bank loans (Notes 26 and 31)	*5,368*	*20,360*
Lease liabilities (Note 27)	*1,072*	1,022
Trade and other payables (Notes 33, 34 and 37)	*4,502*	*3,836*

The impairment losses related to financial assets recognised in the statement of comprehensive income for 2020 and 2019 are as follows:

Movement in the impairment provision (allowance):	***31.12.2020 BGN '000***	***31.12.2019 BGN '000***
Opening balance of the allowance for expected credit losses at 1 January	**3,221**	**3,133**
Increase in the allowance for expected credit losses, recognized within profit or loss for the year	319	229
Decrease in the allowance for expected credit losses, recognized within profit or loss for the year	(785)	(192)
Impaired uncollectable receivables written-off	-	(5)
Effect of remeasurement of foreign exchange items	(203)	56
Balance at the end of the year	**2,552**	**3,221**

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

Market risk

Foreign currency risk

The Company usually performs its activities with an active exchange with foreign suppliers and clients. The Company is exposed to currency risk in respect of USD. As at 31 December 2020 approximately 18% (31 December 2019: approximately 81%) of Company's financial assets are formed from assets denominated in USD, and receivables related to export of finished products contracted as payable in USD are 1% (31 December 2019: 72%). The currency risk is related with the adverse floating of the exchange rate of USD against BGN in future business transactions as to the recognised assets and liabilities denominated in foreign currency and as to the net investments in foreign companies.

Currency structure analysis

31 December 2020	***in EUR***	***in USD***	***in HUF***	***in BGN***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Financial assets					
Cash and cash equivalents	2,490	3,444	-	11,556	17,490
Loans and receivables	1,914	282	-	546	2,742
Long-term equity investments	-	-	-	2	2
	4,404	**3,726**	**-**	**12,104**	**20,234**
Financial liabilities					
Financial liabilities at amortised cost	**923**	**-**	**2**	**10,017**	**10,942**

31 December 2019	***in EUR***	***in USD***	***in HUF***	***in BGN***	***Total***
	BGN '000	***BGN '000***	***BGN '000***	***BGN '000***	***BGN '000***
Financial assets					
Cash and cash equivalents	886	1,041	-	66	1,993
Loans and receivables	706	8,044	-	432	9,182
Long-term equity investments	-	-	-	2	2
	1,592	**9,085**	**-**	**500**	**11,177**
Financial liabilities					
Financial liabilities at amortised cost	**580**	**40**	**-**	**24,598**	**25,218**

Foreign currency sensitivity analysis

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

In case of 10% increase in the rate of USD to BGN, the final effect on post-tax profit of the Company would be an increase by BGN 336 thousand (2019 the final effect on the loss would be a decrease with BGN 814 thousand) attributable to the cash in USD and receivables from clients denominated in foreign currency. Respectively, the impact on equity would be the same.

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

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

Price risk

Natural gas price risk

Despite the positive changes in 2020 compared to previous periods (Note 2.28.1.1), the Company is exposed to price risk for negative changes in the prices of the main raw material for production - natural gas, as this price is approved by the Energy and Water Regulatory Commission, and the main gas supplier has a share in the company's supplies of over 82%. The Company is not exposed to a significant risk of adverse changes in the prices of other raw materials and materials, because according to its contractual relations with suppliers, these are subject to periodic analysis and discussions for review and update based on market changes.

Carbon emission quotas price risk

The Company is exposed to price risk to the price of the carbon emission quotas (Note 2.21.1.2)

Credit risk

The main financial assets of the Company are cash in hand and at bank accounts, trade and other receivables. Credit risk is mainly the risk that any of the Company's clients (and other counterparts) will fail to discharge in full and within the normally envisaged terms the amounts due under trade and other receivables.

Collectability and concentration of receivables are strictly monitored on an ongoing basis by the Sales Department in accordance with the credit policy adopted by the Company. For this purpose, the open exposures by client, the observance of contractual payment terms, and the proceeds received are subject to review on daily basis. In addition, receivables that have not been paid within the set terms are also followed.

The Company's usual policy is to negotiate advance payments, including up to 100% for some of its main customers, which reduces credit risk. Regarding the other sales, the Company tries to negotiate short payment terns, usually from 10 to 20 days.

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

- For the domestic market – two distributors: Distributor 1 –85%, Distributor 2 – 11%. It is an usual practice is to agree 100% advance payment of the transaction amount;
- In 2020, 60% of the export made by the Company is performed with main clients: Client 1 – 25%, Client 2 – 12%, Client 3 – 10%, Client 4 – 8%, and Client 5 – 6%.

The Company's management currently monitors and analyses the trade practices established with the main distributors and clients. On the basis of experience, the sales to Neochim Tarim Ltd., Turkey, have been regarded as bearing higher risk due to the economic environment in this country and therefore, these receivables are subject to specific current consideration and assessment. The receivables from Neochim Tarim Ltd., Turkey (12% of the receivables under sales) are assessed by the management as concentration of credit risk, in as far as they include payables past due, also repaid in the reporting period.

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

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

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

Liquidity risk

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

Maturity analysis

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

31 December 2020	**up to 1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**Total**
Financial liabilities							
Financial liabilities at amortised cost	4,277	545	804	2,101	2,325	1,074	**11,126**

31 December 2019	**up to 1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**Total**
Financial liabilities							
Financial liabilities at amortised cost	18,651	522	613	1,829	1,949	1,949	**25,513**

The financial liabilities at amortised cost at 31 December 2019, which mature in up to one month, represent trade payables and payables under the current portion of investment and revolving bank loans. As of 31 December 2020, the Company has no liabilities inregard to a revolving bank loan (Note 31).

Risk of interest-bearing cash flows

In general, the Company does not have a significant portion of interest-bearing assets except for cash and cash equivalents. During the last few reporting periods, banks do not pay or pay minimal interest on cash balances. Since it does not maintain significant amounts of free cash, its income and operating cash flows are largely independent from the changes in market interest rates.

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

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

Interest analysis

31 December 2020	***Interest-free***	***With floating interest %***	***With fixed interest %***	***Total***
Financial assets				
Cash and cash equivalents	16	17,474	-	17,490
Loans and receivables	2,742	-	-	2,742
Available-for-sale investments	2	-	-	2
	2,760	**17,474**	**-**	**20,234**
Financial liabilities				
Financial liabilities at amortised cost	**4,502**	**5,368**	**1,072**	**10,942**

31 December 2019	***Interest-free***	***With floating interest %***	***With fixed interest %***	***Total***
Financial assets				
Cash and cash equivalents	23	1,970	-	1,993
Loans and receivables	9,182	-	-	9,182
Available-for-sale investments	2	-	-	2
	9,207	**1,970**	**-**	**11,177**
Financial liabilities				
Financial liabilities at amortised cost	**3,836**	**20,360**	**1,022**	**25,218**

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

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

31 December 2020	***With floating interest %***	***Interest rate increase***	***Effect on net profit post-tax***	***Effect on equity***
Financial assets				
BGN	-	0.5	-	-
Financial liabilities				
EUR	-	0.5	-	-
BGN	5,368	0.5	(24)	(24)
	5,368		**(24)**	**(24)**

31 December 2019	***With floating interest %***	***Interest rate increase***	***Impact on post-tax financial result***	***Impact on equity***
Financial assets				
BGN	-	0.5	-	-
Financial liabilities				
EUR	-	0.5	-	-
BGN	20,360	0.5	(92)	(92)
	20,360		**(92)**	**(92)**

On interest rate decrease by 0.5%, the final impact on Company's post-tax profit (2019: loss) would be equal and reciprocal to the stated above. The above table does not include cash and cash equivalents for which the effect of increase or decrease in the floating interest rate would be insignificant.

Capital risk management

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

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

	31.12.2020 BGN '000	***31.12.2019 BGN '000***
Total borrowings, including:	6,440	21,382
Bank loans *(Notes 26 and 31)*	5,368	20,360
lease liabilities *(Note 27)*	1,072	1,022
Less: cash and cash equivalents	17,490	1,993
Net debt	(11,050)	19,389
Total equity	94,130	79,054
Total capital	83,080	98,443
Gearing ratio	***-13.30%***	***19.70%***

There is a difference in the debt ratios for the two reporting periods, since as at 31.12.2020 the Company has significant cash, which exceeds and fully covers the debt capital, and as well as at 31.12.2020 there is a decrease in the debt capital compared to the same period of 2019 by 70%.

BGN thousand	**2020**	**2019**
Equity / Total liabilities	3.49	1.70
Cash and cash equivalents / Total liabilities	0.65	0.04

It is characteristic for both periods that the Company finances its activity both from its own generated retained earnings and by maintaining a certain level of trade and other liabilities and bank loans. The ratios of equity to total liabilities and cash to total liabilities for 2020 have improved compared to the previous reporting period.

Fair value measurement

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

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

An exception to this are investments in other long-term equity investments in Ecobulpack AD Sofia, at the amount of BGN 2 thousand. Interest in Ecobulpack is measured at about BGN 35 thousand based on the net value of assets.

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

40. RELATED PARTY TRANSACTIONS

The Company's related parties are as follows:

Related parties	**Relation type**
Shareholders:	
Eco Tech AD	Main shareholding company (24.28%)
Evro Fert AD	Main shareholding company (24.03%)
Feboran EOOD	Main shareholding company (20.30%)
Subsidiaries:	
Neochim Tarim Ltd. – Turkey	99.92% owned by the Company
Neochim Protect EOOD	100% owned by the Company
Other:	
Terachim – Dimitrovgrad EOOD	100% owned by Evro Fert AD
Neo Kiten EOOD	100% owned by Evro Fert AD
Neoplod EOOD	100% owned by Evro Fert AD
Borealis L.A.T.	(Borealis AG) – Austria, holding 100% of the capital of Feboran EOOD

Supplies from related parties	***31.12.2020 BGN '000***	***31.12.2019 BGN '000***
Materials		
Main shareholding company	**74**	**87**
Services		
Subsidiaries	1,200	1,200
Main shareholding company	3	3
	1,203	**1,203**
Right-of-use assets		
Main shareholder	**94**	**90**
Total	**1,371**	**1,380**

Sales to related parties	***31.12.2020 BGN '000***	***31.12.2019 BGN '000***
Finished products		
Main shareholding company	96,068	69,117
Subsidiaries	2,742	2,195
Other related parties (considerable influence through relation with a main shareholder)	20,263	26,266
	119,073	**97,578**
Services		
Main shareholding company	53	55
Subsidiaries	30	33
	83	**88**
Other		
Main shareholding company	33	328
Other related parties	-	9
	33	**337**
Total	**119,189**	**98,003**

Leases

During the reporting period, the Company has recognised assets, liabilities, expenses and payments in relation to leases to/from related parties, as follows:

Lease liabilities to related parties as at 31 December are as follows:

	2020 BGN '000	***2019 BGN '000***
Lease liabilities at 1 January	446	269
Additions	-	268
Payment of lease liabilities in the period	(94)	(91)
Lease liabilities as at 31 December	**352**	**446**

Right-of-use assets to related parties as at 31 December are as follows:

	2020 BGN '000	***2019 BGN '000***
Right-of-use asset as at 1 January	414	258
Additions		243
Depreciation charge	(87)	(87)
Right-of-use assets as at 31 December	**327**	**414**

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

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

	31.12.2020 BGN '000	***31.12.2019 BGN '000***
Receivables on sales in foreign currency		
Subsidiaries	271	298
Including book value	*2,379*	*3,250*
impairment charged	*(2,108)*	*(2,952)*
Other related parties (considerable influence through relation with a main shareholder)	-	-
Including book value	*1*	*1*
impairment charged	*(1)*	*(1)*
	271	**298**
Receivables on sales in BGN		
Other related parties (considerable influence through relation with a main shareholder)	9	118
Including book value	*148*	*139*
impairment charged	*(139)*	*(21)*
Main shareholding company	1	1
	10	**119**
Total	**281**	**417**

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

Contract assets (Advances received for sale of finished products)	***31.12.2020 BGN '000***	***31.12.2019 BGN '000***
Main shareholding company	7,435	7,874
Other related parties (considerable influence through relation with a main shareholder)	1,725	79
Subsidiaries	2	2
	9,162	**7,955**
Payables under supplied assets and services		
Subsidiaries	240	240
Main shareholding company	7	15
	247	**255**
Total	**9,409**	**8,210**

Remuneration of key management personnel:

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

	2020	***2019***
	BGN '000	***BGN '000***
Salaries and other short-term benefits	1,211	1,218

41. EVENTS AFTER THE END OF THE REPORTING PERIOD

Wagon rental agreement

On February 26, 2021, the Company signed a contract with a supplier for renting 44 railway wagons for transportation of finished products. As a result of this modification, the right-of-use assets, as well as the leasing liabilities, will increase to the amount of BGN 548 thousand. (Note 16 and Note 27).

Purchased carbon emission quotas

In 2021 the Company has acquired new 78,000 carbon emission quotas at the amount of BGN 5,377 thousand, with an average purchase price of a quote of BGN 68.93, as the purchase prices of quotas vary in the price range from BGN 64.15 to BGN 84.06. of a quote (Note 2.28.1.2).