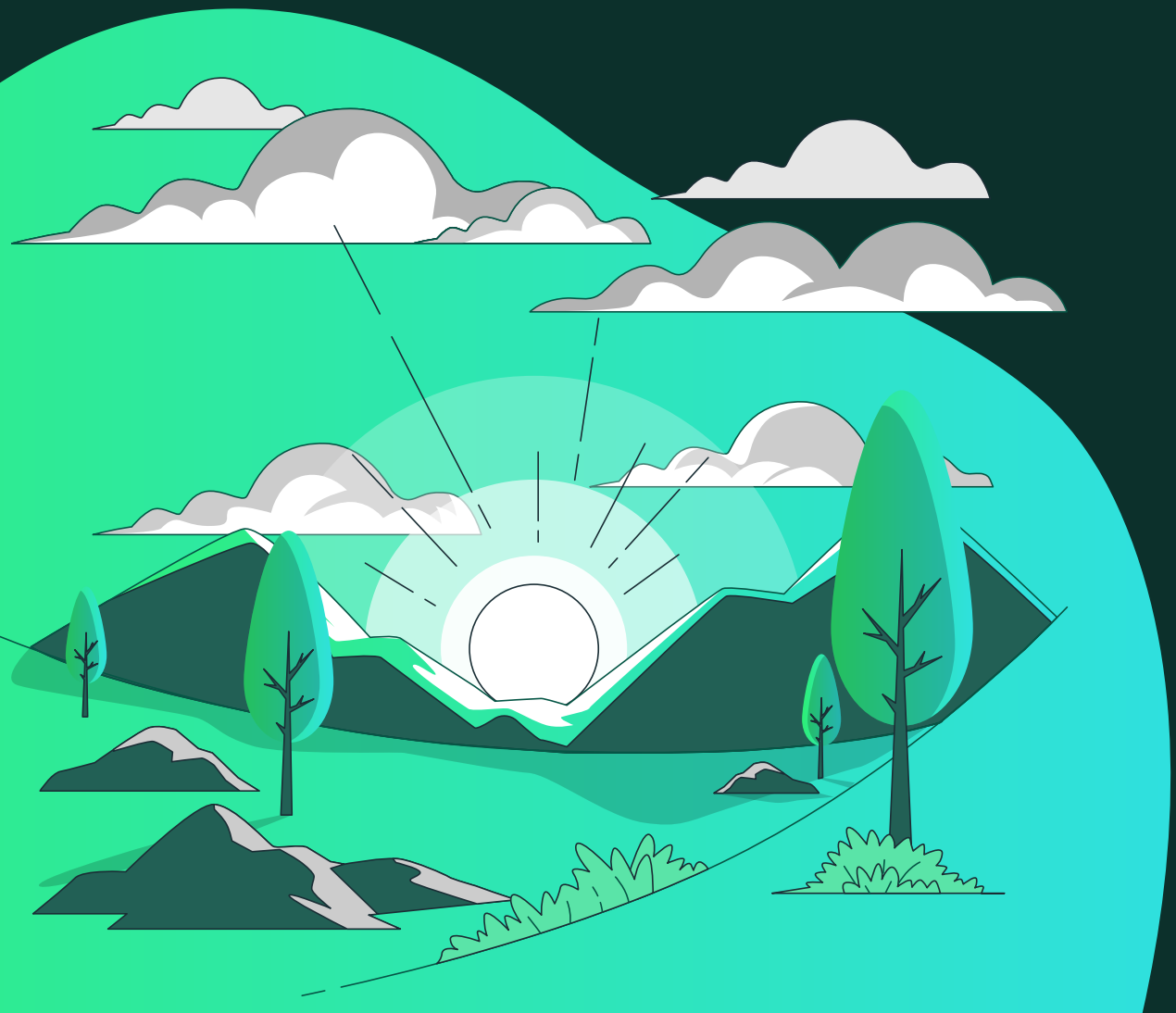
GREEN FINANCE
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REPORT

ON DISCLOSURES OF INFORMATION ABOUT **ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)** ASPECTS OF THE ACTIVITIES OF BULGARIAN COMPANIES IN 2023



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Introduction



The need for an integrated accountability report in 2023 is driven by some key factors that have become relevant in the current context. First of all, these are the changes in the regulatory framework and regulations. In recent years, both European and national requirements for non-financial reporting and sustainability have been significantly tightened. New directives and regulations impose higher standards, and the forthcoming changes to some of them raise numerous questions about accounting practices. An integrated report that brings together analysis from different sectors - banks, state-owned enterprises, public companies, and energy companies - offers a clear picture of the current state of environmental, social, and governance (ESG) reporting. It provides a foundation for future strategies to adapt to new regulations. Secondly, the strong public and investor engagement with ESG issues is a key factor. With growing concerns about environmental, social, and governance risks, transparency and accountability have become essential for maintaining trust in businesses.This report offers a detailed analysis of the current state of non-financial reporting in Bulgaria and includes specific recommendations to support improved practices and stronger corporate responsibility.

The report brings together the results of several studies using a standardized methodology.

This ensures consistent and objective measurement of ESG indicators across the different groups of companies analyzed. The resulting comprehensive database enables assessment of both formal aspects (such as the presence of required reports and sections) and substantive aspects (such as the actual content and indicators) of non-financial reporting. It illustrates how different sectors are addressing sustainability challenges and where improvements are needed.

The integrated report allows a comparison between different types of companies subject to the study and gives an idea of the differences in the requirements for their non-financial performance – from the high regulatory burden in the banking sector to the need for deeper disclosure in state-owned enterprises and energy companies. This helps to identify shared weaknesses and strengths, and serves to guide future policies and initiatives in this area..

Scope of the report

Four main categories of organizations are included: public companies (listed on the Bulgarian Stock Exchange), companies listed on the Independent Bulgarian Energy Exchange, banks, and state-owned enterprises.For each of these groups, the non-financial disclosure practices as of the end of 2023 were analyzed using publicly available sources (annual reports, non-financial statements, official websites, etc.). With the exception of state-owned enterprises, the quality or accuracy of the disclosed information is not evaluated - only the availability and scope of information provided on key sustainability topics.

Methodological approach

For each group of companies, a set of indicators was developed in line with applicable regulatory requirements and sector-specific features. Most questions were designed with a “Yes/No” format to objectively assess the presence of disclosure. The evaluation criteria covered the inclusion of environmental, social, and governance aspects in reports, the presence of key sections (business model description, policies, risks, results, indicators, etc.), and the availability of quantitative data on various topics (e.g., carbon emissions, energy consumption, social indicators). For some groups (e.g., banks), additional quantitative methods such as correlation and cluster analysis were used to more thoroughly examine relationships between indicators and company profiles. For state-owned enterprises, given their specific role and status, a separate methodology was developed, as detailed in the section of the report dedicated to these entities.

In the following sections, the report examines the results for each category of companies separately. All

tables and graphs in the report are based on original calculations using the study’s database.

Finally, the main conclusions and recommendations arising from the analysis are summarized.

PART I.

Public Companies



Public companies listed on exchanges are subject to specific transparency and reporting requirements designed to protect investor interests and ensure market stability. This section of the report considers the characteristics of public companies admitted to trading on a regulated market of the Bulgarian Stock Exchange (BSE) and their disclosure practices – ranging from company size and sectoral distribution to the extent to which sustainability is integrated into their business models.

Despite strong formal compliance with accountability standards, certain areas – such as detailed disclosure of environmental indicators and social initiatives – remain underdeveloped.

Figure 1 illustrates the distribution of different segments of companies within the analyzed sample, which includes a total of 77 public companies divided into three categories. These are companies traded on the two main segments of the BSE Main Market – the "Premium Equities Segment" and the "Standard Equities Segment" – as well as those listed under the "Special Purpose Vehicles Segment" on the same market.

The largest proportion is held by the Standard Equities Segment, which includes 51 companies, or 66% of the entire sample. The second-largest group is the Special Purpose Vehicles Segment on the BSE Main Market, comprising 16 companies, or 21% of the total. The Premium Share Segment includes 10 companies, representing 13% of the sample.

Figure 2 presents the distribution of companies according to their size across four different categories. Out of the total 77 public companies, the largest share is held by small enterprises, which account for 40%. They are followed by large companies – with a share of 36%, while medium-sized companies represent 15%, and microenterprises have the smallest share at 9%.

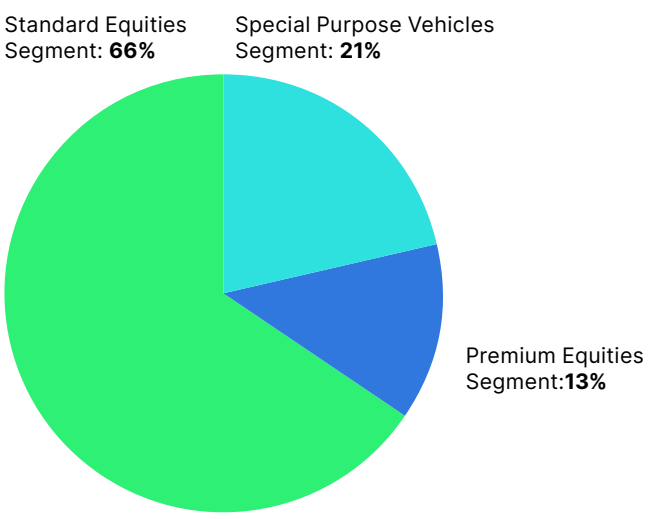


Fig. 1 Companies by segments

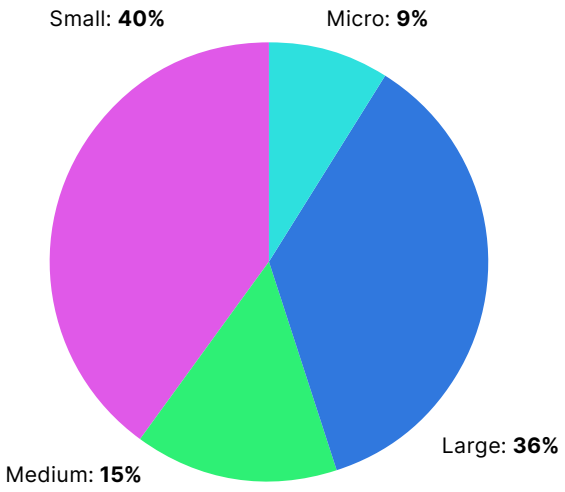


Fig. 2 Companies by size

In the sample, the largest share is held by companies operating in financial and insurance services, which represent 46% of all companies examined (Fig. 3). The manufacturing industry ranks second with 20%. Real estate activities occupy third position with 14%. The remaining sectors are significantly less represented. Trade and repair of motor vehicles and motorcycles, as well as professional activities, each make up 5%. Creative industries and telecommunications account for 4%, while transport, warehousing and postal services represent 3%

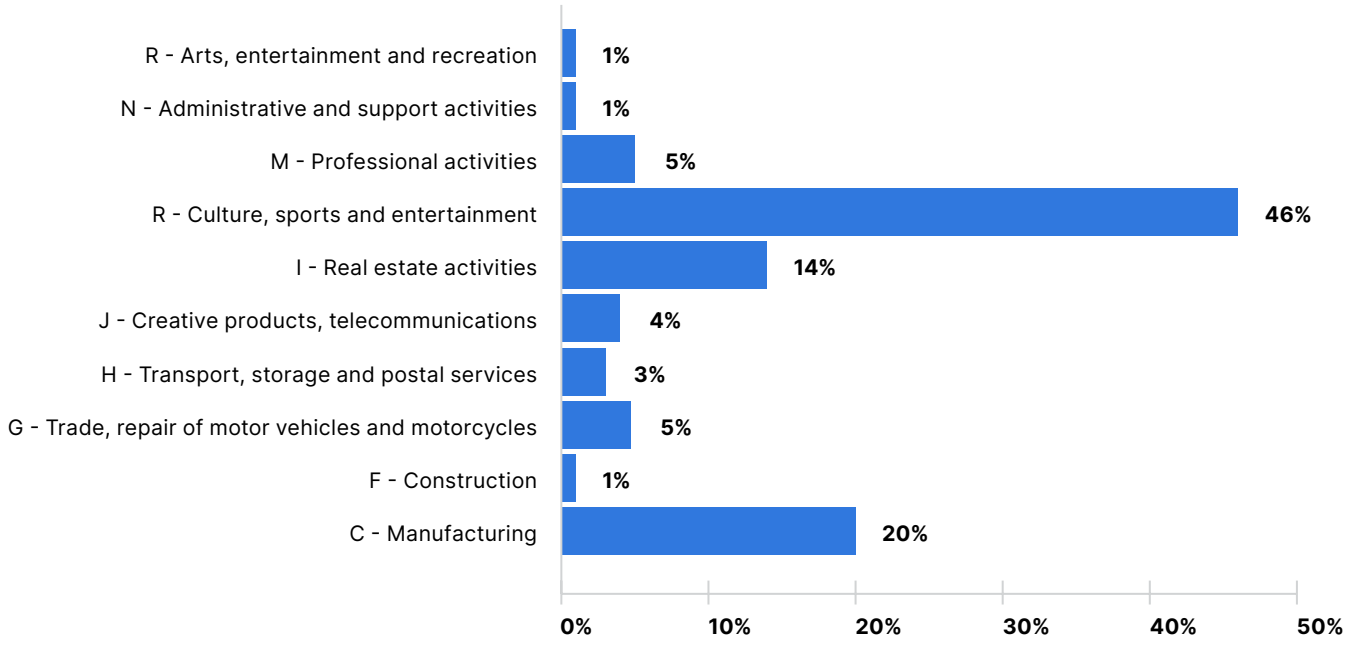


Fig. 3 Distribution of companies by economic sectors

Sustainability Management

Sustainability management includes strategic approaches and policies aimed at the balanced development of the economy, society, and the environment. Disclosures in this context play a key role in ensuring transparency by providing information on organizations' environmental and social impacts, as well as their commitment to sustainable practices.

Out of all the companies surveyed, 32 (or 40%) have prepared their reports based on a regulatory obligation.

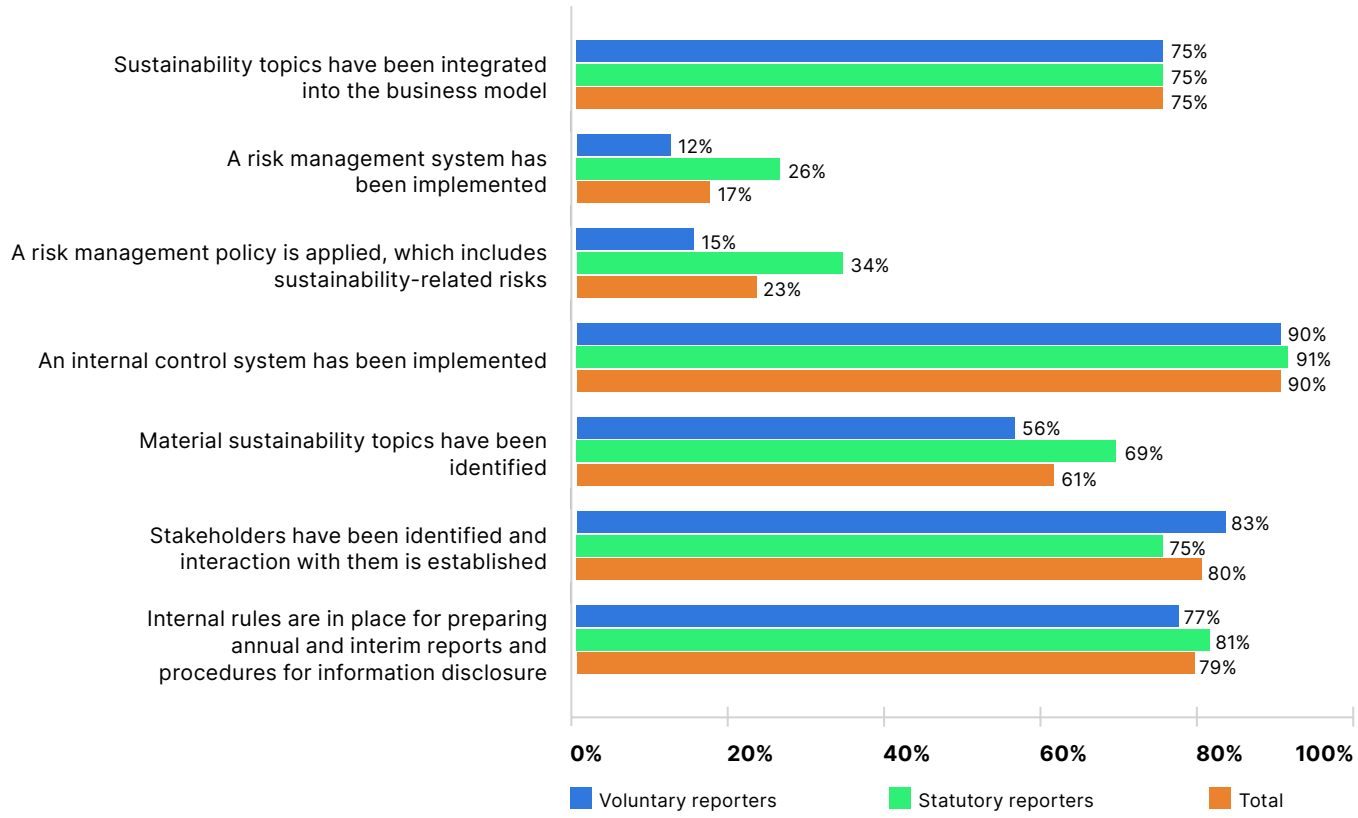


Fig. 4 Sustainability implementation process

Figure 4 provides information on sustainability management across different companies. The indicators include internal accountability rules, stakeholder identification, identification of material sustainability-related topics, internal control, risk management, and the integration of sustainability into the business model. The data reveal significant differences in how organizations approach sustainable management.

Overall, companies apply diverse practices, with the highest levels observed in the implementation of internal control systems – present in 90% of cases. Additionally, 79% of organizations have internal rules for preparing annual and interim reports, and 80% have identified their stakeholders and maintain interaction with them. The integration of sustainability into the business model is also high – at 75%. However, risk management remains underdeveloped – only 23% implement a sustainability-related risk management policy, and just 17% have an operational risk management system.

Companies with non-financial reporting obligations demonstrate higher performance in several key areas. Nine out of ten have an internal control system in place. Furthermore, 81% have established internal reporting rules, and 75% engage with stakeholders. Significantly higher results are observed in the area of risk management – 34% of these organizations implement a risk management policy, and 26% maintain a functioning risk management system. This indicates that companies obliged to report non-financial information show greater commitment to structured sustainability policies compared to those not subject to such requirements.

Among companies that disclose non-financial information voluntarily, the results are more mixed. On one hand, 77% have internal reporting rules and 83% interact with stakeholders – the highest value among all

three categories. On the other hand, only 56% have identified material sustainability-related topics relevant to their business, compared to 69% of companies with reporting obligations. In the area of risk management, the survey shows that only 15% of voluntarily disclosing companies implement risk management policies, and merely 12% have a risk management system in place. This suggests that while voluntary disclosure companies are active in stakeholder communication, they fall behind in systematically managing sustainability-related risks.

In summary, companies obligated to disclose non-financial information demonstrate a more structured approach to sustainability management. In contrast, voluntarily disclosing companies show stronger stakeholder engagement but are less likely to develop risk management systems. This underscores the need for additional incentives and policies to promote better integration of sustainability into the business models of all organizations.

The analysis of the study results concerning engagement in core sustainability activities for the observed period is presented in Table 1 below.

Table 1. Introduction of management processes

The company confirms the following with regard to:	Sustainability	Environmental aspects	Social aspects		Management aspects
			Human rights	Employment	
Risk management system	23%	41%	17%	14%	44%
Process management system	-	%	-	-	6%
Internal control system	90%	%	-	-	-
Firma policy	79%	%	17%	27%	89%
Set goals and objectives	-	40%	27%	18%	-
Improvement measures	-	-	6%	18%	-
Quantitative/qualitative indicators	-	39%	-	-	100%

Environmental Disclosure (E)

The environmental aspects of sustainable development encompass a wide range of issues, such as the protection of natural resources, the reduction of carbon footprint, and the effective management of waste. The way companies address these issues is key to ensuring a long-term balance between economic growth and environmental protection.

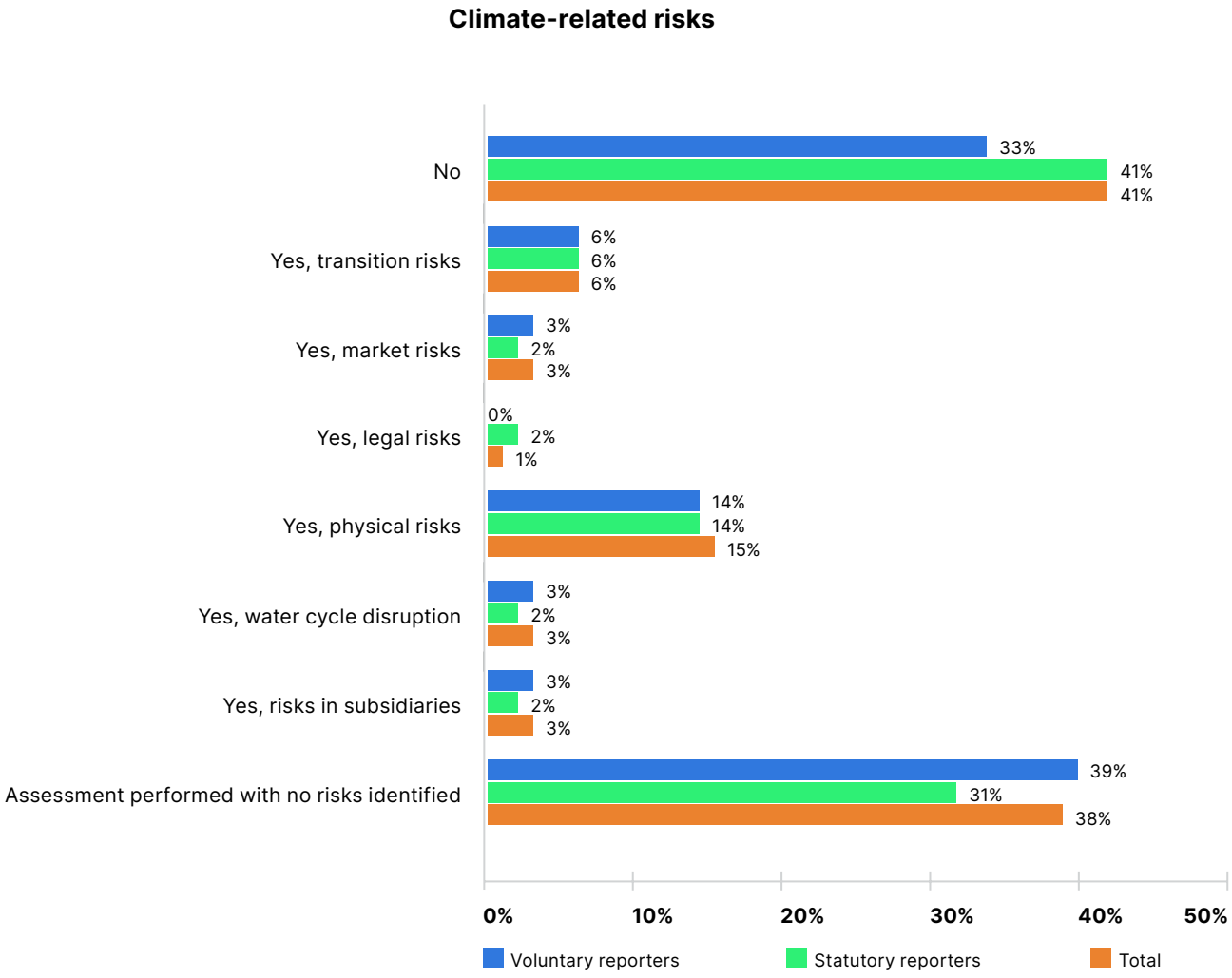


Fig. 5 Climate change-related disclosures

Figure 5 provides detailed information on how the analyzed companies address the environmental aspects of sustainable development. The data covers key indicators such as internal reporting rules, stakeholder identification, identification of material topics, internal control, risk management, and the integration of sustainability into the companies' business models. The row-by-row analysis enables identification of specific characteristics in the management of environmental protection issues.

Internal rules for the preparation of annual and interim reports related to environmental protection and the procedures for information disclosure are present in 79% of the surveyed companies. Among those obliged to disclose non-financial information, this indicator reaches 81% – 2 percentage points higher than the overall average. For companies that disclose voluntarily, the figure stands at 77%, indicating a slight lag compared to regulated entities. This suggests that organizations subject to legal obligations implement stricter internal reporting rules, while voluntary disclosers rely more on their own initiatives in this area.

Stakeholder identification and interaction are observed in 80% of the surveyed companies. For those with mandatory disclosure obligations, the share is 75%, whereas among voluntary disclosers it reaches 83%. This indicates that voluntary disclosure organizations place more emphasis on stakeholder engagement, likely due to a desire to demonstrate transparency and accountability to society and partners. In contrast, companies with legal obligations tend to focus more on formal compliance than on additional initiatives.

The identification of material sustainability-related topics stands at 61% overall. Organizations required to disclose non-financial information show a stronger commitment in this area, at 69%. Among voluntary disclosers, the figure drops to 56%. This suggests that regulatory frameworks encourage organizations to define and analyze material sustainability issues, while in the absence of such requirements, this process is weaker or lacks a consistent methodology.

An internal control system is implemented in 90% of the companies analyzed. Among companies with disclosure obligations, the figure is slightly higher at 91%, while for voluntary disclosers it remains at 90%. This demonstrates that the presence of internal controls is nearly equally prevalent across all organizations, regardless of whether disclosure is mandatory or voluntary. The high values reflect a broad recognition of the importance of internal controls for effective company management.

The implementation of a risk management policy that includes sustainability-related risks is reported by 23% of companies. For those with reporting obligations, the figure is significantly higher at 34%, whereas only 15% of voluntary disclosers have such a policy. The substantial difference of 19 percentage points indicates that most voluntary disclosers do not prioritize sustainability risk management. In this case, regulation plays a critical role in encouraging the development of structured risk policies.

The existence of a dedicated risk management system is the least developed indicator – present in only 17% of companies. Among those obliged to disclose non-financial information, the rate is higher at 26%, while among voluntary disclosers it drops to 12%. The gap clearly reflects the lower level of commitment among voluntary disclosers to formalized risk management.

The integration of sustainability topics into the business model stands at 75% across the board. The value of this indicator is identical for both companies with disclosure obligations and those that disclose voluntarily – 75%. This is the only indicator with no variation between the two categories, suggesting that regardless of regulatory requirements, organizations recognize the strategic importance of integrating sustainability into their long-term business models.

The analysis of the data shows that companies obliged to disclose non-financial information are more likely to comply with requirements for identifying material topics and implementing risk management policies. On the other hand, voluntary disclosers are more active in engaging with stakeholders. The implementation of internal controls is similarly developed across both groups, while sustainability integration into the business model appears to be independent of regulatory pressure. The weakest area in both categories remains risk management – particularly among voluntary disclosers – highlighting the need for additional incentives and regulatory measures to support this process.

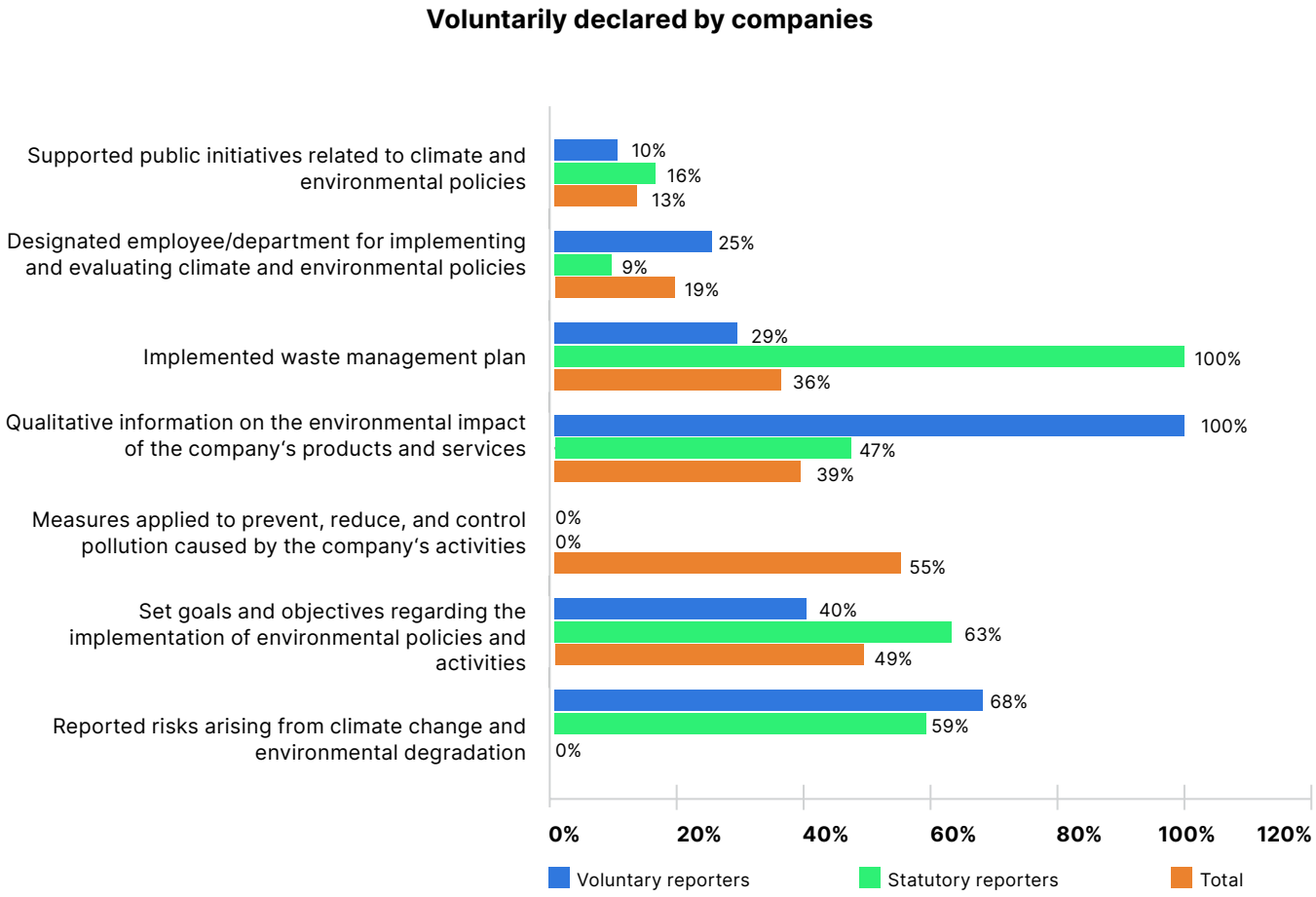


Fig. 6 Disclosures related to environmental protection

Figure 6 provides information on the voluntary disclosures made by companies regarding the climate and environmental aspects of their operations. The analysis of these data reveals important trends in environmental risk management, goal-setting, implementation of measures, provision of quality information, waste management, identification of responsible persons, and support for public initiatives.

The consideration of climate risks and those arising from environmental pollution reaches an average level of 68% among all companies. For companies obliged to disclose non-financial information, this percentage is 59%, while for companies that report voluntarily, it amounts to 67%. This difference indicates that voluntary disclosers pay nearly the same level of attention to climate risk reporting as those under obligation – despite the absence of a legal requirement.

The setting of goals and targets related to environmental policies and activities was reported by 49% of companies. Those obliged to disclose achieved a higher result – 63%, whereas voluntary disclosers scored significantly lower at 40%.

Measures to prevent, reduce, and control pollution caused by company activities were reported by 86% of all analyzed entities.

The availability of quality information on the environmental impact of products and services was reported by 39% of companies. Those obliged to disclose achieved a score of 47%, while voluntary disclosers reached 100%. This clearly shows that companies that voluntarily disclose are more likely to provide qualitative information on the environmental aspects of their products and services. This suggests that such companies perceive transparent reporting on environmental measures as a key part of their corporate social responsibility and as a competitive advantage.

An implemented waste management plan is present in 36% of companies with disclosure obligations and in 29% of voluntary disclosers.

The designation of a person or department responsible for the implementation and monitoring of climate and environmental policies was reported in 19% of companies overall. Among those obliged to disclose, the percentage is 9%, while for voluntary disclosers it rises to 25%. This difference suggests that voluntary disclosure companies are more inclined to assign accountability for environmental policies – a trend that may be driven by reputational and stakeholder engagement motives.

Support for public initiatives related to climate and environmental policies was observed in 13% of all companies. Among those obliged to disclose, the rate is 16%, compared to 10% among voluntary disclosers.

The analysis of the results reveals several key features in companies' approaches to environmental management. Firstly, companies subject to disclosure obligations tend to perform better on indicators tied to regulatory compliance, such as waste management and environmental goal-setting. At the same time, voluntary disclosers demonstrate a stronger commitment to transparency – particularly in providing high-quality information on environmental impacts.

Of particular concern is the finding that neither group reported any percentage for the application of pollution prevention and control measures. This may indicate either regulatory gaps or a lack of effective implementation, even among companies that voluntarily commit to sustainability principles.

The high proportion of companies with mandatory obligations that have adopted waste management plans confirms that regulatory pressure can lead to tangible actions in this area. Meanwhile, companies disclosing voluntarily appear more proactive in fostering transparency and assigning responsibility for environmental efforts.

It is notable that companies with legal obligations mainly act in response to regulatory requirements, while voluntary disclosers often undertake unregulated but meaningful sustainability initiatives that enhance their reputation and long-term performance. The differences in outcomes between the two groups underscore the importance of balancing mandatory and voluntary approaches for effective environmental management.

The overall share of companies that have developed at least one business activity classified as environmentally sustainable under the European Taxonomy for Sustainable Activities is 16%. The distinction between obligated and voluntary reporters in this category is clearly visible.

The overall conclusion drawn from the data is that the regulatory framework plays a key role in promoting the identification and reporting of environmentally sustainable economic activities. At the same time, voluntary disclosers also demonstrate a degree of commitment – albeit to a lesser extent. The gap in accountability between the two groups highlights the importance of regulatory requirements as a driving force for sustainable business practices.

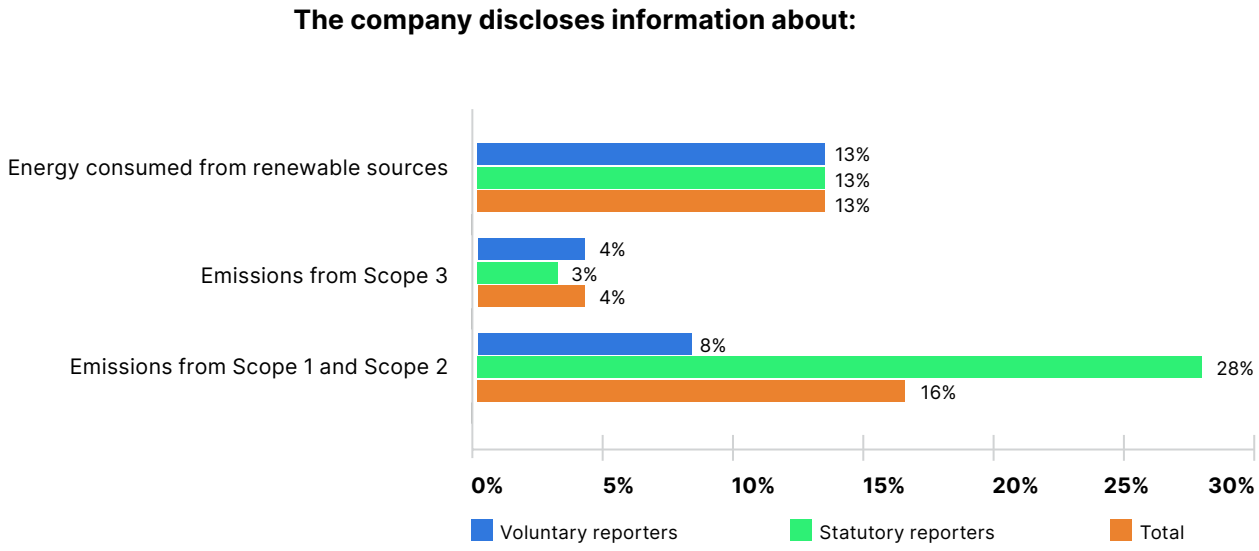


Fig. 7 Share of companies disclosing quantitative environmental indicators

The data in Figure 7 shows the share of companies that disclose information on their carbon emissions and consumption of renewable energy. The analysis distinguishes between the overall percentage, the share for companies obliged to disclose non-financial information, and the share for companies that disclose voluntarily – reflecting the level of transparency in these key areas of sustainability.

The overall percentage of companies reporting Scope 1 and Scope 2 emissions is only 16% (28% for those required to disclose and 8% for voluntary disclosers). The data clearly demonstrates that regulatory requirements have a strong impact on the extent to which emissions data are disclosed. Companies subject to disclosure obligations are understandably much more committed to reporting these indicators compared to those doing so voluntarily.

Accountability for Scope 3 emissions is even weaker. Only 4% of companies disclose this information, meaning very few report indirect emissions related to their supply chain or the use of their products. The difference between obligated and voluntary disclosers in this category is negligible – 3% for those required

to disclose and 4% for those doing so voluntarily. This near-identical reporting suggests that even with regulatory obligations, companies struggle or hesitate to provide information on Scope 3 emissions. This may be due to the complexity of data collection, the need to coordinate with numerous suppliers, or the lack of pressure from stakeholders.

Energy consumption from renewable sources was reported by 13% of companies. This figure is the same for both companies with and without disclosure obligations. This suggests that mandatory reporting does not significantly influence companies' decisions to disclose information about their use of renewable energy. A possible explanation is that companies – whether subject to regulatory requirements or not – view the use of renewables as a competitive advantage or a core element of their corporate social responsibility strategy.

Based on these findings, several conclusions can be drawn. First, mandatory reporting results in greater transparency regarding Scope 1 and Scope 2 emissions. However, when it comes to Scope 3 emissions, there is virtually no difference between regulated and voluntary disclosures – likely due to the challenges involved in data collection and reporting, regardless of legal obligations. Second, the disclosure of renewable energy use appears to be driven more by internal motivations than by regulatory pressure. Third, although some companies disclose emissions and energy data, overall levels of transparency remain relatively low. This highlights the need for additional incentives and regulatory measures to encourage more sustainable business practices.

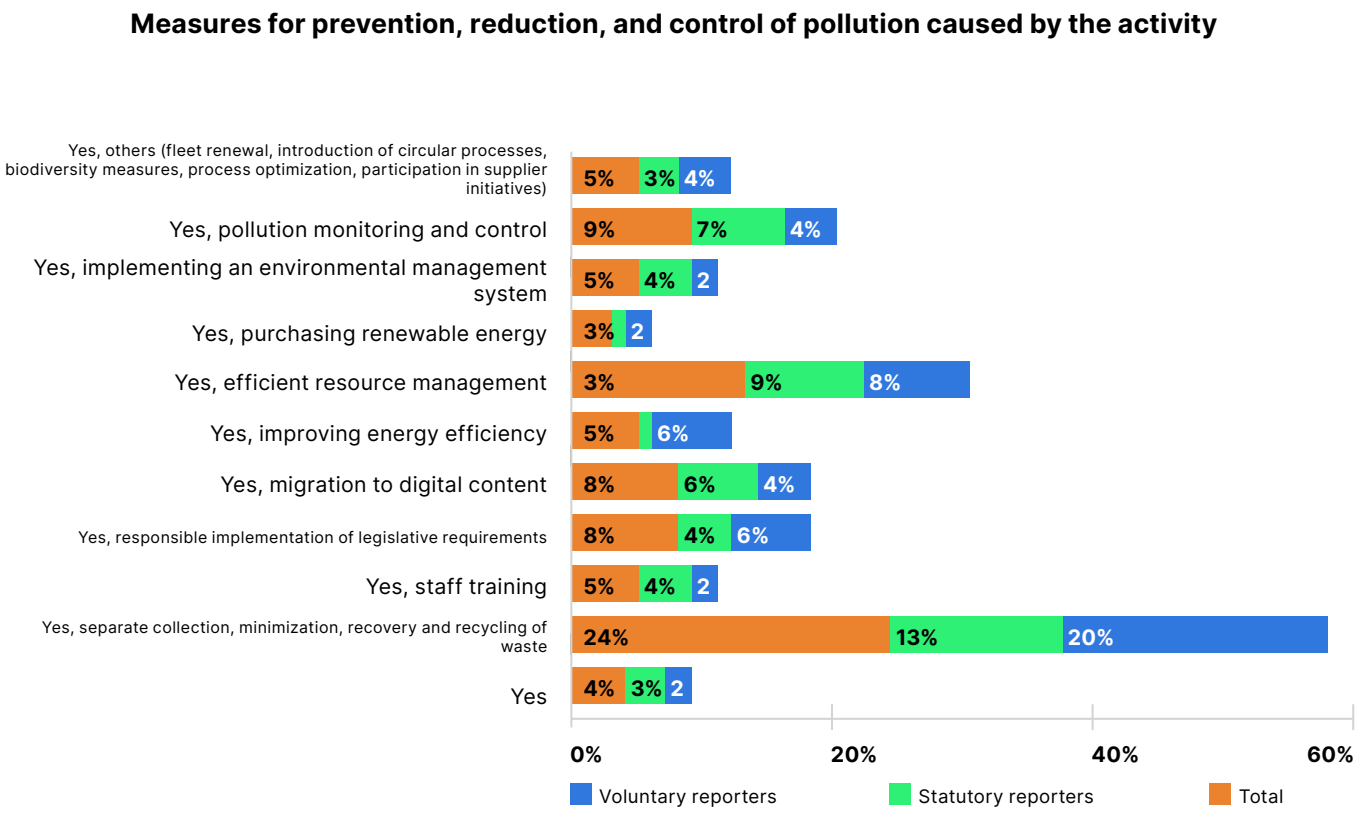


Fig.8 Measures for the prevention and management of environmental pollution

The analysis of the information provided on companies' sustainable management practices reveals certain trends in their approaches to the environmental, social, and governance (ESG) aspects of sustainability (Figure 8). The data clearly show that there are differences between companies with disclosure obligations and those that disclose voluntarily, which affects their level of commitment and transparency.

First, in the context of sustainability management, 40% of companies report preparing sustainability reports based on regulatory requirements. This percentage is a key indicator of corporate commitment to transparency and accountability. However, only 23% of these companies implement a sustainability-related risk management policy – indicating that many still do not place sufficient importance on identifying and managing ESG risks.

Secondly, environmental data show that 68% of companies take climate-related risks into account. At the same time, only 49% of this group set specific environmental targets, suggesting room for improvement in their commitment to sustainable development.

The data also indicate that only 14% of companies consider risks related to social issues and employment. Voluntary disclosure companies show even less engagement in this area, which may be attributed to the absence of regulatory incentives or to the specific priorities of their industries.

In summary, the data highlight the need for more comprehensive integration of sustainability into the business models of all organizations. Regulatory frameworks play an important role in encouraging companies to adopt sustainable governance practices, but companies must also take proactive steps to improve their transparency and accountability.

It is recommended to introduce new initiatives to motivate companies to set specific sustainability-related goals and to enhance their risk management systems. Additional efforts in promoting corporate social responsibility, employee sustainability training, and increased shareholder engagement will contribute to building a more sustainable business environment.

It is essential for companies to understand that sustainability is not only a regulatory obligation – it is also a significant opportunity for innovation and long-term growth.

Social Responsibility and Human Rights Disclosure (Social - S)

The analysis shows differences between the overall percentage of companies reporting on various social aspects and the share of those that do so on a regulatory or voluntary basis (Figure 9).

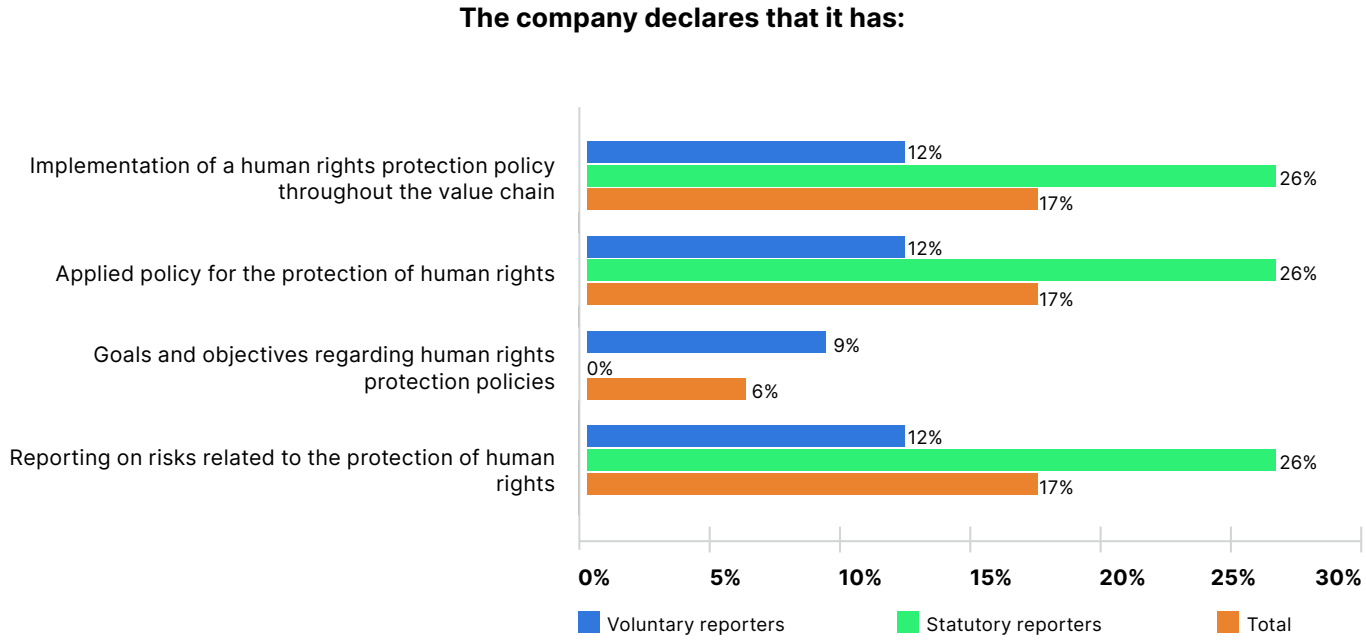


Fig. 9 Companies' commitment to human rights issues

A total of 17% of companies declare that they take into account the risks related to the protection of human rights. Among those obliged to disclose non-financial information, this percentage is 26%, while among voluntary disclosers it is 12%. This indicates that companies subject to regulatory requirements are more likely to recognize and report risks in this area.

When it comes to setting goals and targets related to human rights policies, the overall percentage of companies doing so is significantly lower – only 6%. Notably, among those obliged to disclose non-financial information, this share is 0%, while among voluntary disclosers it reaches 9%. This suggests that regulatory requirements do not encourage companies to set specific objectives, and that voluntary commitment is the main driver of activity in this area.

With regard to the implementation of human rights protection policies, a total of 17% of companies report having such a policy. Again, there is a difference between the two groups – 26% among those required to disclose non-financial information and 12% among voluntary disclosers. This aligns with the risk reporting data, showing that while regulation contributes to policy adoption, it does not guarantee universal implementation.

Implementation of a human rights policy across the entire value chain is also reflected in the data – 17% of companies report this practice. Among them, 26% are companies with disclosure obligations, and only 12% disclose voluntarily. These results indicate that such policies are more common among companies subject to regulation. However, even within this group, not all companies extend their policies throughout the full value chain.

The analysis reveals several important interdependencies. First, companies obliged to disclose non-financial information are generally more active in reporting and adopting human rights policies compared to those that disclose voluntarily. However, they do not appear to set clear goals and objectives in this area, which may suggest a formal compliance approach rather than one grounded in strategic planning. Second, voluntary disclosure companies, while overall less engaged, are more likely to set specific targets when they do act.

The data suggest that while regulatory requirements contribute to increased policy adoption and risk reporting, they do not necessarily lead to strategic action or goal-setting. Conversely, although voluntary

disclosure companies are less likely to implement such policies, those that do often take more concrete steps to improve human rights protection.

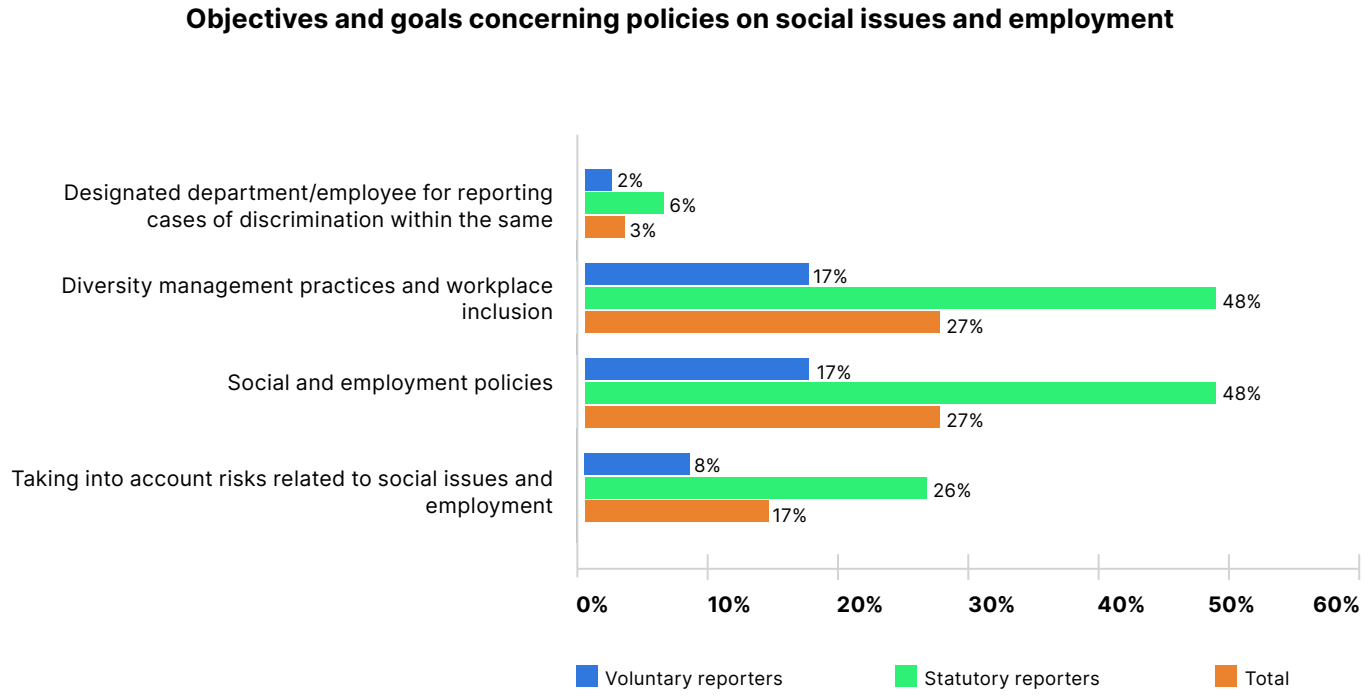


Fig. 10 Companies' engagement with social issues and employment

Analysis of data on companies' social and employment-related disclosures reveals significant differences between obligated and voluntary disclosers.

A total of 14% of companies report that they take into account risks related to social issues and employment. Among companies obliged to disclose non-financial information, this figure is significantly higher – 26% – while among voluntary disclosers it is only 8%. This indicates that regulatory requirements play a key role in encouraging companies to recognize and report such risks. The fact that only 8% of voluntary disclosure companies engage in this process may suggest that they do not perceive social risks as significant or that there is insufficient stakeholder pressure to disclose them publicly.

Regarding the existence of policies addressing social matters and employment, 27% of all companies report having such policies. Among those with disclosure obligations, this figure rises to 48%, whereas among voluntary disclosers it is only 17%. The conclusion is that nearly half of regulated companies adopt formal policies in this area, while among voluntary disclosers, the share remains significantly lower.

A similar trend is observed in the implementation of diversity and inclusion practices in the workplace. A total of 27% of companies report engaging in such practices. Again, 48% of obligated companies report

action in this area, compared to only 17% of voluntary disclosers. This suggests that regulatory frameworks stimulate the development of diversity and inclusion policies, yet nearly half of obligated companies have not implemented specific mechanisms in this domain.

Data concerning the assignment of a department or responsible staff member to handle discrimination reporting show even lower levels of engagement. Only 3% of companies report having such a mechanism. Among companies with disclosure obligations, the share is 6%, and among voluntary disclosers, only 2%. This reflects the overall lack of institutional support for addressing discrimination, even among companies that are legally required to disclose. The low numbers suggest that most companies do not view the establishment of such mechanisms as necessary.

Overall, companies obliged to disclose non-financial information demonstrate a higher level of engagement with the social aspects of sustainability. However, a significant portion still lacks comprehensive and systematic policies and mechanisms to address social and employment-related issues. Meanwhile, voluntary disclosure companies show substantially lower engagement, which may be attributed to the absence of regulatory pressure or the specific priorities of the industries in which they operate.

Does the company disclose consolidated information regarding its objectives and targets in relation to policies on social matters and employment

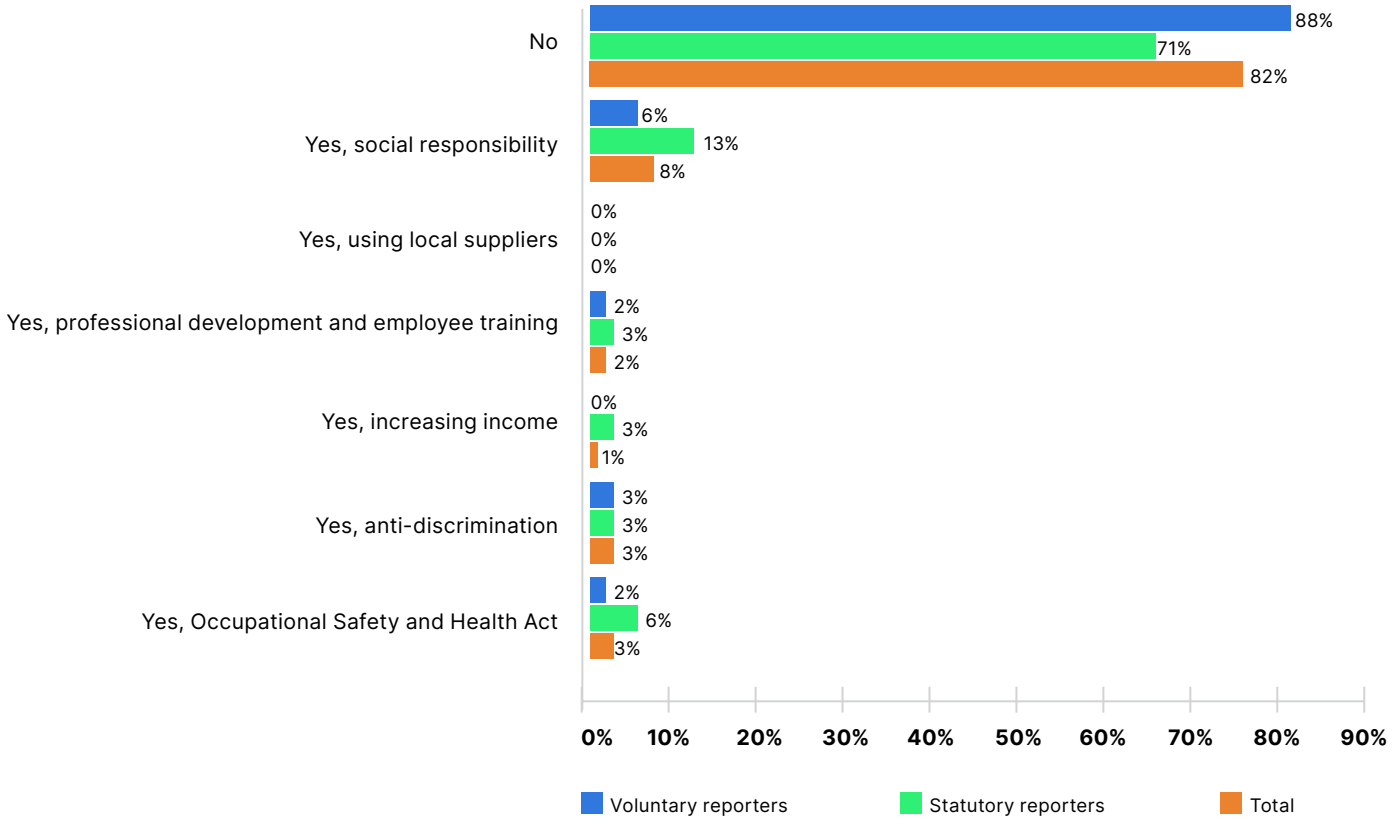


Fig. 11 Social and employment goals and targets of companies

In the analysis of the information provided on companies' social affairs and employment policies, the data reveal important aspects of organizational engagement in these areas. The figures presented in Figure 11 offer a clear picture of how companies address social responsibility, anti-discrimination, income growth, career development, and the use of local suppliers.

First, it is evident that only 3% of companies report disclosing aggregated information on occupational safety and health (OSH). In this context, 6% of obligated organizations acknowledge the existence of such policies, and 2% of voluntary disclosers confirm the inclusion of this information in their annual reports. These statistics show that only a small proportion of companies actively communicate their efforts in the area of workplace safety and health.

Regarding anti-discrimination policies, again 3% of companies report providing such information. Notably, 3% of both obligated and voluntary disclosers confirm the existence of anti-discrimination measures. This indicates that some companies recognize the importance of addressing discrimination in the modern workplace.

When it comes to income growth, only 1% of companies state that they disclose information in this area. Among companies required to report non-financial information, 3% have acknowledged taking such action, while none of the voluntary disclosers have reported on this topic.

In the area of professional development and employee training, only 2% of companies disclose relevant information. Among obligated organizations, the share is 3%, and among voluntary disclosers – 2%. This suggests that initiatives in this area are not widely communicated.

It is noteworthy that 0% of companies report disclosing information on the use of local suppliers. This may indicate a lack of emphasis on supporting the local economy and highlights untapped potential for encouraging local business partnerships.

At the other end of the spectrum, 8% of companies report disclosing information on social responsibility. Among companies with non-financial reporting obligations, 13% confirm having such policies, and 6% of voluntary disclosers also report on the topic. These figures suggest that social responsibility is a relevant issue for many organizations, as they recognize the need for transparency and active involvement in social matters.

In summary, a significant portion – 82% – of companies do not disclose consolidated information on social issues and employment. Among organizations with reporting obligations, 71% do not provide such information, and among voluntary disclosers, the figure reaches 88%. This indicates substantial room for improvement in transparency and corporate engagement in these areas.

This information reinforces the need to expand corporate commitments to social and employment-related issues, especially in light of growing societal expectations around corporate responsibility and accountability.

Governance and Transparency Disclosures (Governance - G)

The analysis of the data on information disclosed by companies regarding the management aspects of sustainable development and sustainability in general reveals a significant commitment to good corporate conduct and ethical standards. According to the information provided, 100% of companies apply a code of good corporate governance. Among them, 75% are companies obliged to disclose non-financial information, while 75% of voluntary disclosers also adhere to such a code (Figure 12).

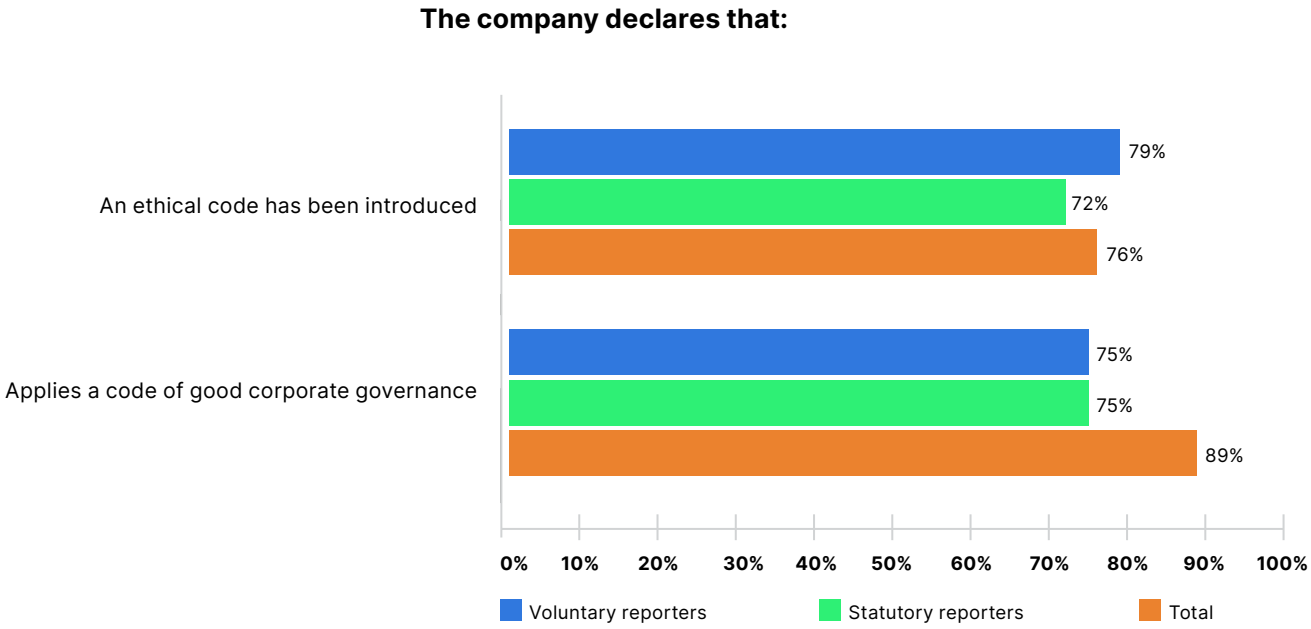


Fig. 12 Company Commitment to Ethical Corporate Governance

Data on the existence of a code of ethics show that 76% of companies have adopted one. Among companies obliged to disclose non-financial information, 72% have such a code, while among voluntary disclosers, the percentage is slightly higher – 79%. This indicates that, despite differences in disclosure obligations, corporate ethics remains a priority in the governance practices of most organizations.

The analysis of data on anti-corruption policies reveals important insights into companies' commitment to combating corruption. Only 5% of all companies recognize the risks associated with corruption – an alarmingly low percentage, which suggests that most organizations either lack awareness or do not actively consider the potential threats in this area. At the same time, 44% of companies report awareness of these risks, indicating a degree of recognition and engagement with anti-corruption issues.

The implementation of anti-corruption policies is more encouraging, with 44% of all companies confirming the existence of such a policy. This percentage is the same for both obligated and voluntary disclosure companies, showing that regardless of reporting requirements, organizations acknowledge the importance of actively addressing corruption. Although the presence of policies is a positive indicator, the fact that so few companies identify corruption-related risks points to a significant awareness gap. This underscores the need for increased education and capacity-building around anti-corruption practices to achieve more effective prevention of unethical conduct in business.

The analysis of data on anti-corruption policies reveals both challenges and opportunities for improvement (Figure 13). Only 5% of all companies recognize the risks that necessitate the implementation of anti-corruption policies.

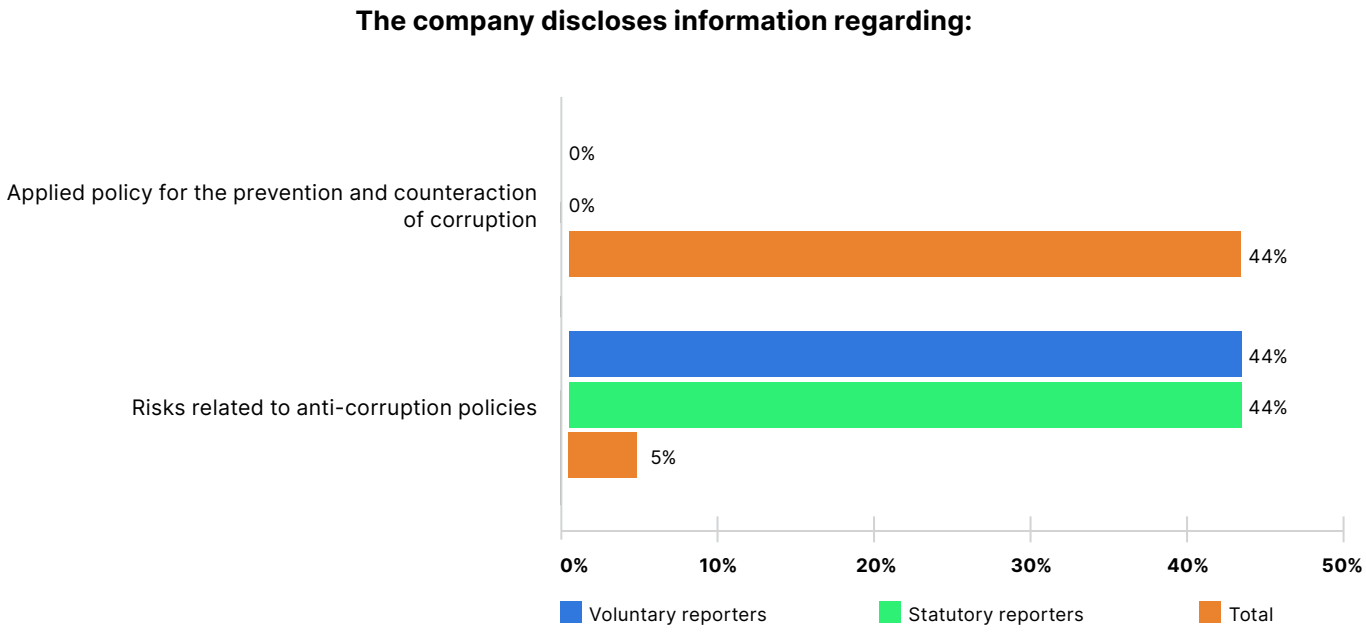


Fig. 13 Policies and approaches related to anti-corruption activities

When we look specifically at companies with non-financial reporting obligations, this percentage is even lower – at just 3% – while 6% of voluntarily disclosing companies report awareness of corruption-related risks. This data suggests that many companies may not be fully aware of the potential threats and vulnerabilities associated with corrupt practices. The low levels of risk awareness highlight the need for targeted awareness-raising initiatives within the sector.

On the other hand, 44% of companies confirm that they have implemented a policy to prevent and counteract corruption. This percentage is consistent across both groups of companies. The presence of such policies is a positive sign, indicating that companies recognize the need to formalize anti-corruption measures. However, the noticeable gap between risk awareness and policy implementation points to the need for more active education and training for employees in order to make anti-corruption approaches effective in practice. This situation underscores the importance of embedding anti-corruption efforts into corporate culture and the day-to-day operations of businesses.

The analysis of the data disclosed by companies regarding governance, transparency, and shareholder engagement offers valuable insight into corporate culture and practices in this area (Figure 14). Based on the information provided, we can form a detailed overview of the various aspects of corporate governance that influence shareholder trust and the overall performance of organizations.

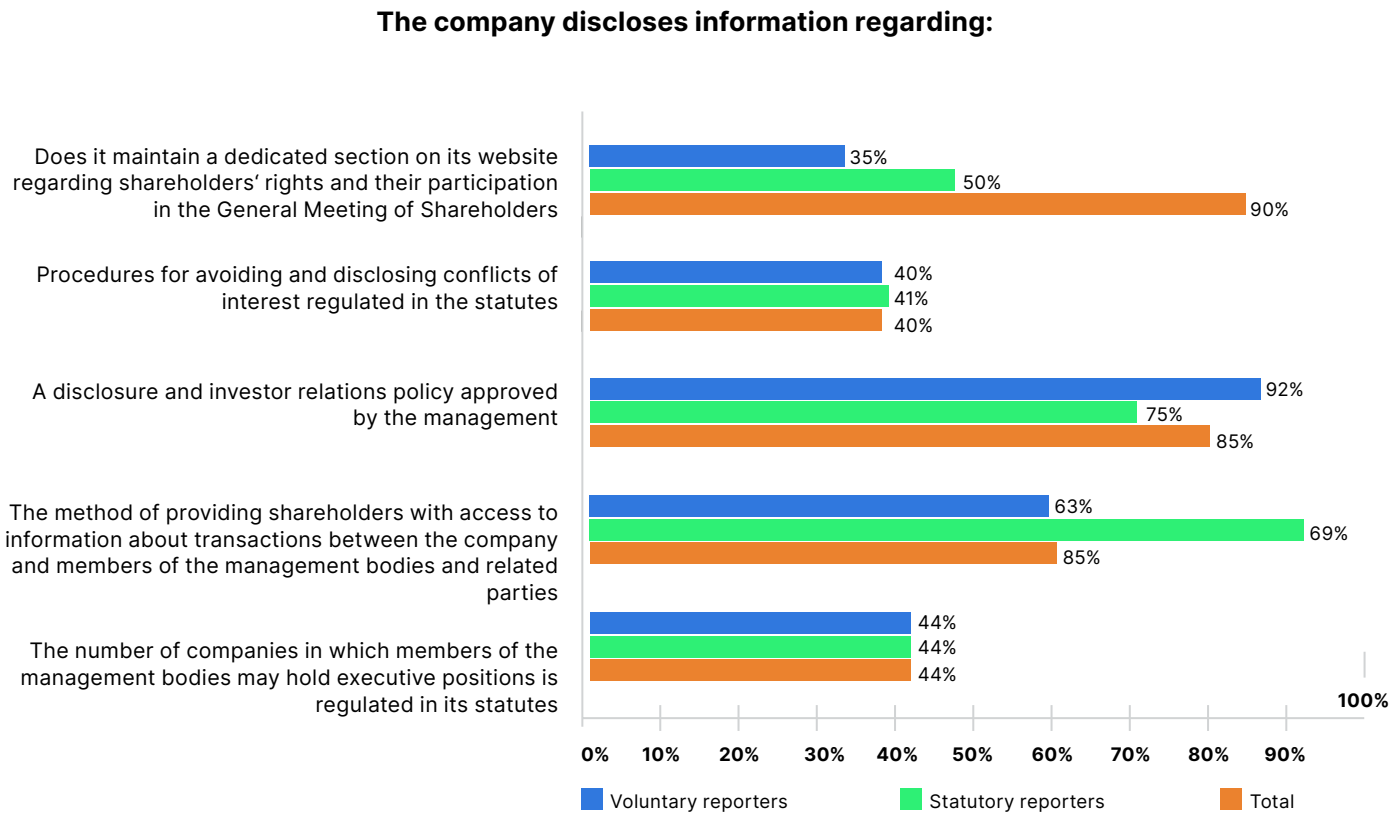


Fig. 14 Approaches to protecting shareholder rights

Starting with the number of companies that have statutes regulating whether members of management bodies may hold executive positions, 44% of all companies indicate that they disclose such information. This percentage is identical for both companies obliged to disclose non-financial information and those that disclose voluntarily. This demonstrates a shared commitment to transparency and conflict-of-interest prevention, while providing shareholders with clarity on the structure of corporate governance. The existence of formal restrictions on holding managerial positions is a key element in promoting ethical governance and maintaining trust between shareholders and company leadership.

The next aspect – how companies provide shareholders with access to information about transactions between the organization and members of the management board – shows that 65% of companies disclose such data. Among companies with reporting obligations, 69% provide this information, compared to 63% of voluntary disclosers. This type of disclosure is essential, as it gives shareholders the ability to evaluate potential conflicts of interest and make informed decisions. Although the percentage is relatively high, there remains room for improvement, particularly given the growing demand for transparency in corporate governance. Enhancing access to transaction information could strengthen shareholder trust and reduce the risk of undisclosed conflicts.

Regarding the existence of a management-approved disclosure and investor relations policy, 85% of companies report having such a policy. This includes 75% of companies with non-financial reporting obligations and 92% of voluntary disclosers. Interestingly, companies that disclose voluntarily appear more committed to transparency and investor communication. Such a disclosure policy is a critical tool for building trust between the company and its shareholders, ensuring that investors are kept informed of key

decisions and developments. Maintaining open channels of communication with investors is essential to foster confidence and support long-term investment.

As for procedures to prevent and disclose conflicts of interest as defined in company statutes, 40% of companies report having and disclosing such procedures – with 41% among obligated companies and 40% among voluntary disclosers. The presence of clear, transparent procedures for managing conflicts of interest is vital for upholding ethical standards and protecting shareholder interests. Companies should continue improving their internal frameworks to ensure that conflicts are properly identified, disclosed, and addressed.

Finally, 90% of companies (50% of obligated and 35% of voluntary disclosers) maintain a dedicated section on their websites addressing shareholders' rights and their participation in General Meetings. Ensuring that this information is readily accessible is critical for enabling shareholders to take an active role in corporate governance. Providing clear and comprehensive information can increase shareholder engagement and contribute to better overall company performance.

In conclusion, the data underscores the importance of transparency and corporate accountability to shareholders. In several areas – including the existence of disclosure policies and anti-corruption measures – a significant portion of companies report such practices. However, attention should also be directed toward increasing awareness of business risks and enhancing the management of conflicts of interest. Companies should continue to improve governance practices and encourage active shareholder involvement in order to build stronger, more sustainable trust.

Conclusion and recommendations

The analysis of the information provided on companies' disclosures regarding sustainable management reveals important insights into their approaches to environmental, social, and governance (ESG) issues. Significant differences emerge across most indicators between the two categories of companies – those legally required to disclose non-financial information and those that do so voluntarily.

Firstly, 40% of companies report that they prepare sustainability reports due to regulatory obligations. This percentage is a key indicator of corporate commitment to transparency and accountability. However, only 23% of organizations have implemented a risk management policy related to sustainability, suggesting a broad area for potential improvement.

Secondly, environmental data show that 68% of companies take into account risks associated with climate change, and 49% have set specific goals within their environmental policies. This indicates opportunities to enhance engagement with sustainable development. Greater awareness of climate and environmental risks can help companies not only manage financial risk more effectively but also identify new business opportunities. In this regard, there is a clear need for training and guidance to support companies in this process.

The analysis also shows that only 14% of companies consider risks related to social issues and employment. In general, companies that disclose voluntarily show lower engagement in social disclosures – which is understandable given the lack of regulatory requirements in this area, and may also reflect the relatively low level of social risk in certain industries.

In conclusion, the analysis points to the need for deeper integration of sustainability into the business models of all companies surveyed. Regulatory frameworks play a crucial role in encouraging sustainable management, but companies should also take proactive steps to improve their transparency and accountability. It is

recommended to introduce new initiatives that incentivize companies to set specific sustainability-related goals and enhance their risk management strategies.

Additional efforts to promote corporate social responsibility, provide sustainability training for employees, and strengthen shareholder engagement will contribute to the development of a more sustainable business environment. It is essential for companies to recognize that sustainability is not just a regulatory obligation – it is also a valuable opportunity for innovation and long-term growth.

PART II.

Energy Companies



Energy companies play a strategic role in the national economy and have a significant environmental impact due to their activities in energy production and distribution. This section examines the specific characteristics of energy companies' non-financial disclosures, focusing on the environmental risks associated with their operations, as well as the social and governance practices that influence their sustainability. While all companies identify key ESG topics relevant to their activities, the degree of integration and the specificity of reported measures and policies vary significantly, highlighting the need for more structured and detailed disclosures.

A total of 96 trading participants registered on the Independent Bulgarian Energy Exchange (IBEX) EAD have been analyzed. Of these, 43% are large companies, 9% are medium-sized, 39% are small, and 9% are microenterprises (Figure 15).

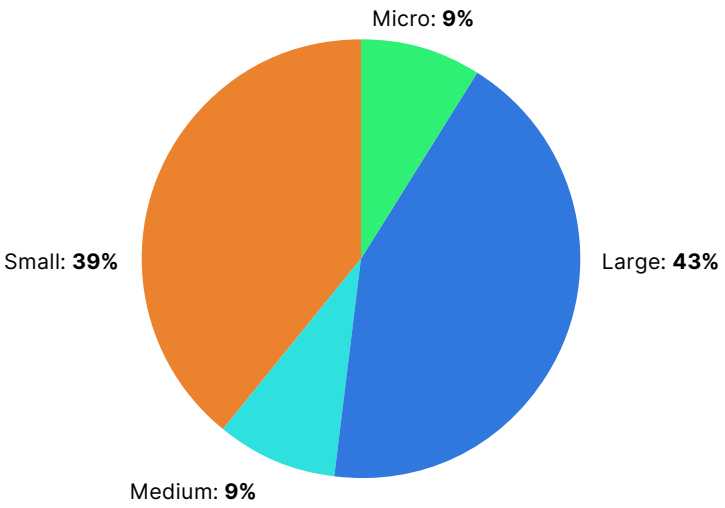


Fig.15 Companies by sizes

The distribution of companies by economic sectors is presented in Figure 16, with the majority – 74% – operating in the field of electricity, heat, and gas production and distribution.

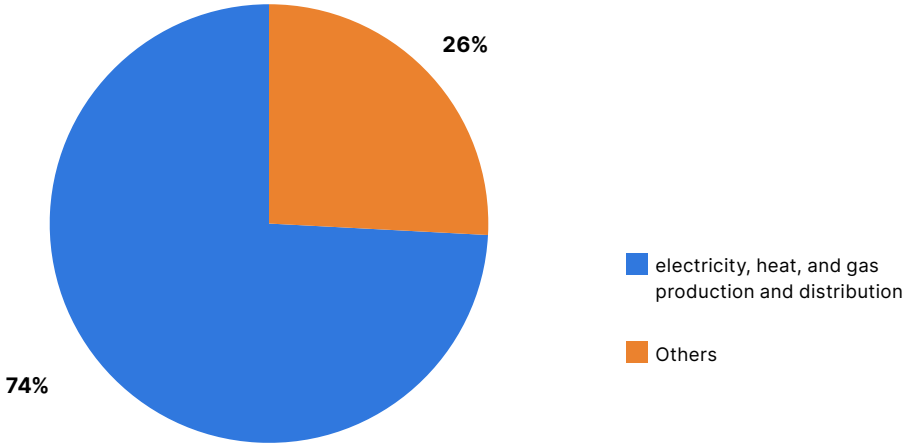


Fig.16 Distribution of companies by economic sector

Sustainability Management

In today's business environment, transparency and accountability play a key role in building trust among investors and shareholders. The analysis of corporate governance data reveals significant differences between companies that are legally required to disclose non-financial information and those that do so voluntarily.

According to the figures presented in Figure 17, every second company has internal rules for the preparation of annual and interim reports, as well as procedures for information disclosure. This percentage is significantly higher among companies obliged to disclose non-financial information – 77% – while only 46% of voluntary disclosers follow such rules. The difference highlights the stronger commitment of regulated companies to compliance with established procedures, whereas voluntary disclosers have greater flexibility but often a lower degree of structured accountability.

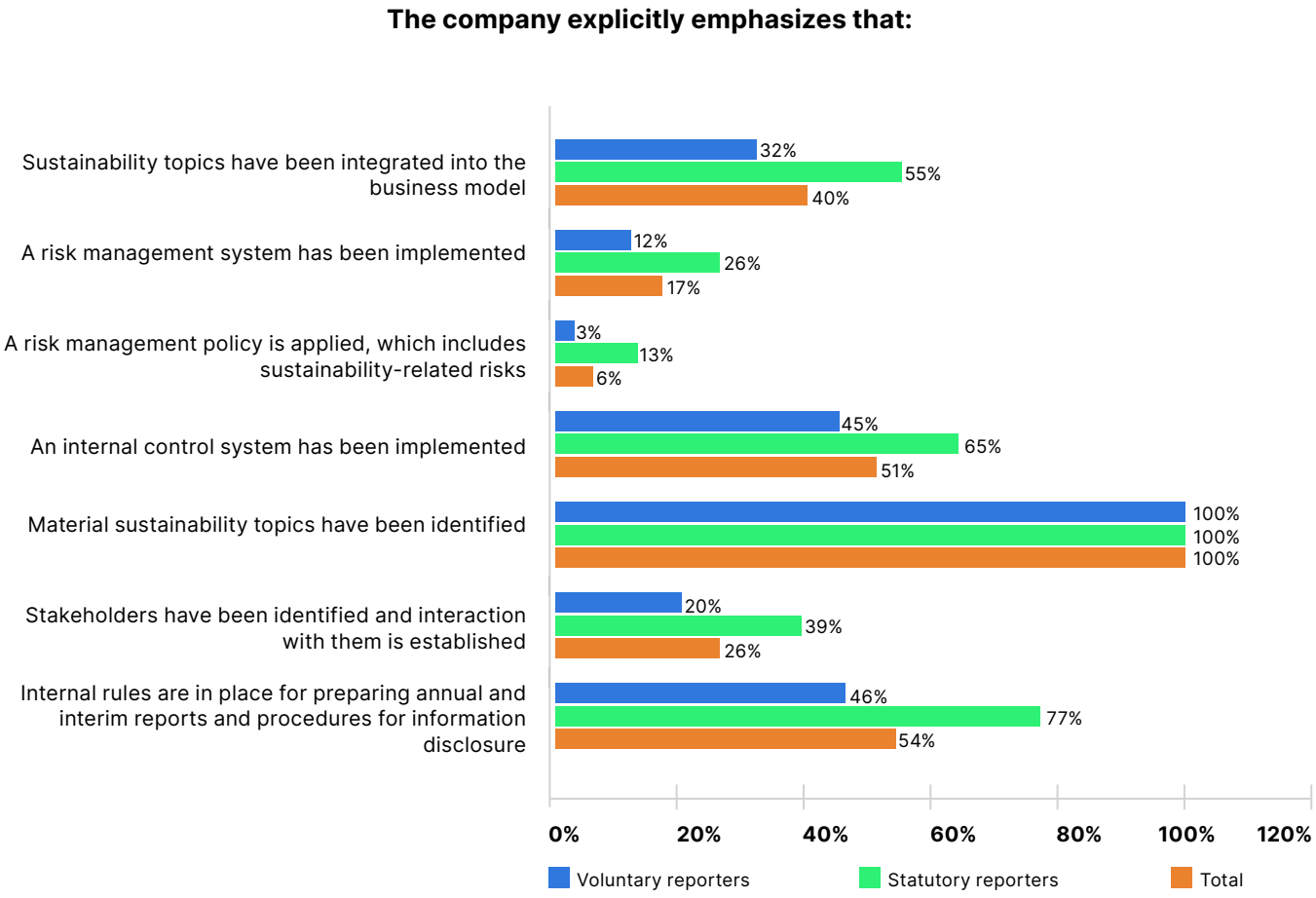


Fig. 17 Level of implementation of sustainable development policies and practices

While all companies identify significant sustainability-related topics, only 26% report having identified stakeholders and disclosed interaction with them. Among voluntary disclosers, the figure is even lower – just 20%. This information is critical, as stakeholder identification forms the foundation for building sustainable and responsible business governance.

The data show that every second company has implemented an internal control system. This percentage is higher among companies obliged to disclose non-financial information – 65% – compared to 45% among those that disclose voluntarily. Internal control systems are essential for managing financial and operational

risks, and their higher prevalence among regulated companies underscores the importance of the regulatory framework in encouraging best practices.

In the area of risk management, only 6% of all companies have implemented a risk management policy that includes sustainability-related risks. Here too, companies subject to reporting obligations perform better – 13% – while only 3% of voluntary disclosers have adopted such a policy. In addition, 17% of all companies (26% of obligated and half as many voluntary disclosers) have a dedicated risk management system in place. These figures indicate that companies with reporting obligations are more likely to embed risk management processes into their operational structures.

Integrating sustainability topics into the business model is a vital factor for long-term corporate success. Notably, 40% of all companies report having integrated sustainability into their business models – 55% of those obliged to disclose, and 32% of voluntary disclosers. This difference reflects the stronger pressure on obligated companies to align with legislative requirements and investor expectations.

It is important to highlight that 65% of companies do not apply a code of good corporate governance. This includes 39% of companies with disclosure obligations and 77% of voluntary disclosers.

Additionally, 67% of companies – including 32% of obligated companies and 83% of voluntary disclosers – do not have a code of ethics in place. Moreover, 93% of companies (94% of obligated and 92% of voluntary disclosers) do not disclose information about risks related to anti-corruption policies. These findings emphasize the need to raise awareness around risk management and the development of anti-corruption frameworks.

The initial overview of the thematic strands reveals the following results for all companies analyzed:

Table 2 Introduction of sustainability management processes

The company confirms the following with regard to:	Resilience	Environmental aspects	Social aspects		Management aspects
			Human rights	Employment	
Risk management system	17%	14%	17%	27%	7%
Process management system	-	21%	-	-	18%
Internal control system	51%	38%	-	-	25%
Internal policy	100%	8%	17%	27%	35%
Set goals and objectives	-	24%	6%	8%	-
Improvement measures	-	22%	-	27%	-
Quantitative/qualitative indicators	100%	8%	-	-	8%

Environmental Disclosure (E)

With growing attention to climate change and its consequences, the identification of environmental risks is becoming increasingly important for corporate governance. The data presented below reveal significant differences between companies that disclose information under regulatory obligation and those that do so voluntarily, and highlight key characteristics in climate risk disclosures.

According to the data obtained (Figure 18), 86% of companies have not conducted an analysis and therefore have not identified risks arising from climate change. When broken down by category, the data show that 92% of voluntary disclosers and 74% of companies obliged to disclose non-financial information have not identified material climate-related risks. This indicates a general trend among companies to overlook the potential direct impacts of climate change on their resources and operations.

A lack of understanding of the importance of climate risks may result in financial consequences for businesses due to damage from extreme weather events and/or the gradual shifts and irregular patterns of seasonal cycles, which can impact customer behavior and demand. It is therefore recommended that companies gradually build internal capacity to address this topic more effectively.

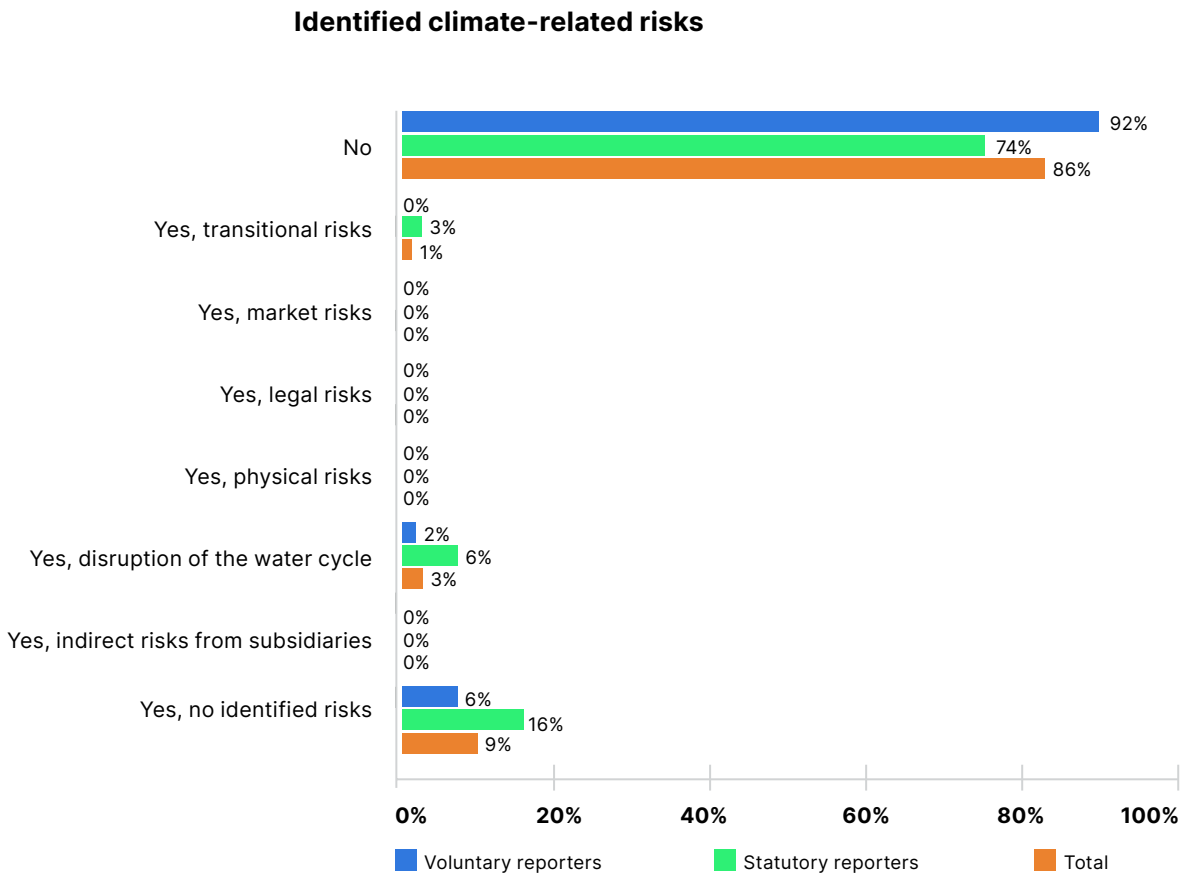


Fig. 18 Identification of climate risks by companies

The percentage of identified risks related to the water cycle is even lower – only 3% of the companies included in the survey (6% of those obliged to disclose non-financial information and 2% of voluntary reporters) state that they understand the consequences of these risks. This trend is concerning, as water resources are critical for many industries, and climate change can significantly affect both the availability and quality of water.

Only 1% of surveyed companies (3% of those obliged to disclose non-financial information) have identified climate transition risks related to their activities. This result is more understandable, given that a large share of companies may have low direct exposure to transition risks.

The analysis of the data in Figure 19 shows that a significant proportion of companies still do not disclose information on key environmental topics.

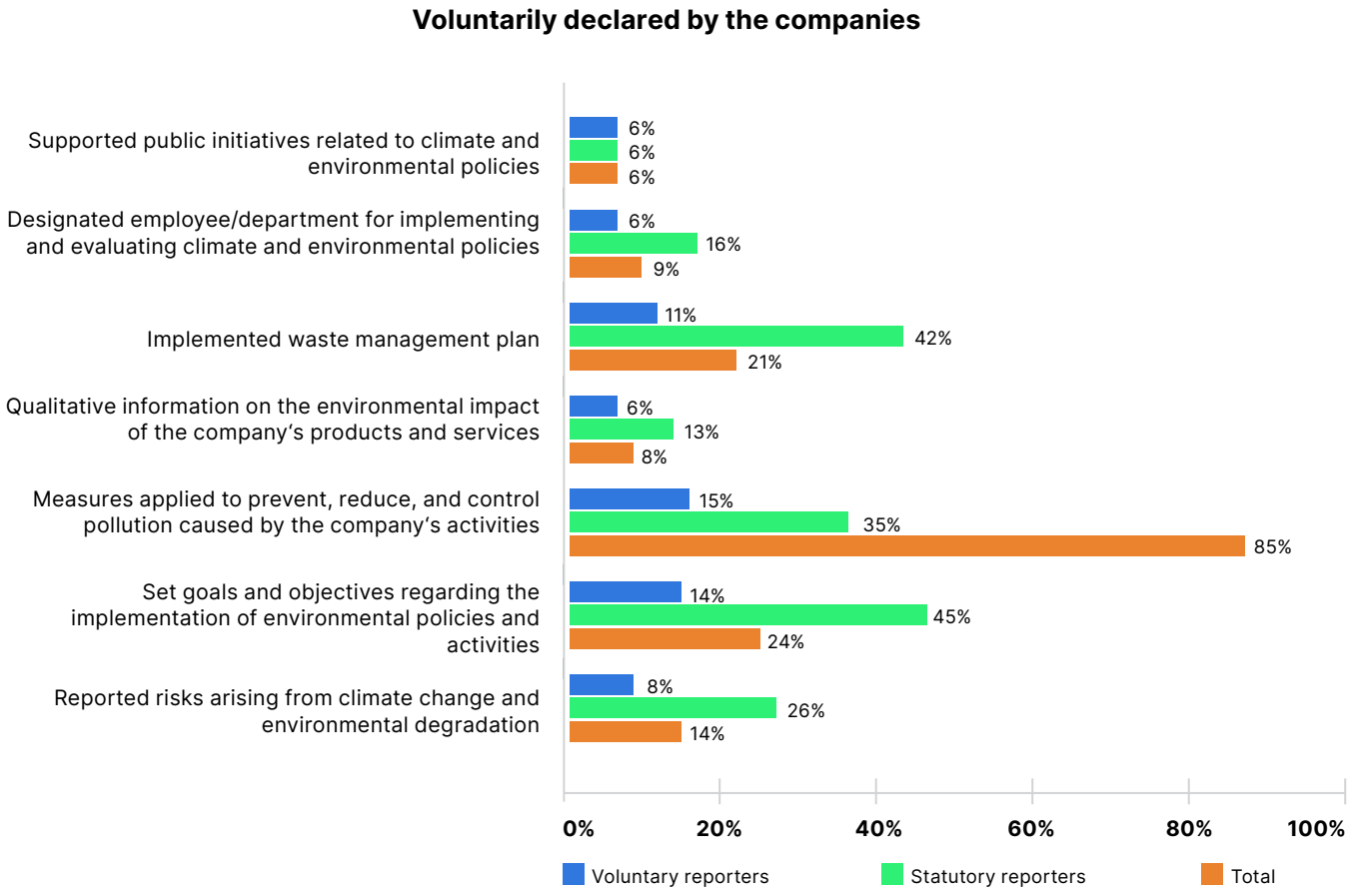


Fig. 19 Disclosure of information on environmental protection

According to the survey data, 94% of companies do not disclose information about their support for public initiatives related to climate and environmental policies. The lack of transparency in this area is significant, as supporting climate protection initiatives plays an important role in building trust among shareholders and the wider public.

In addition, 92% of companies do not report quantitative or qualitative information on the environmental impact of the products and services they produce and offer.

There is also a notable absence of information on risks associated with climate change and environmental degradation – 88% of companies do not disclose such risks, and the figure rises to 92% among those that disclose voluntarily. This situation underscores the need for improved identification and management of environmental risks.

Furthermore, 79% of companies do not have a waste management plan in place, and 78% do not disclose information about the measures they take to prevent, reduce, and control pollution caused by their operations.

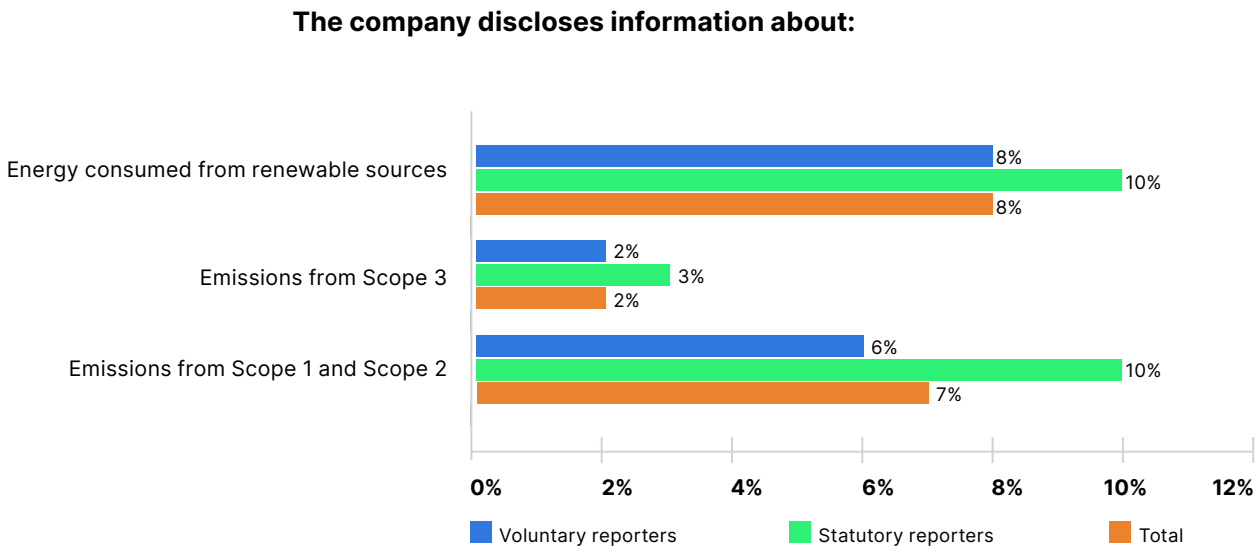


Fig. 20 Quantitative indicators related to the environmental performance of companies

Similarly, the disclosure of data on carbon footprint follows the same trend (Figure 20). A total of 93% of companies do not disclose information about their Scope 1 and 2 emissions, and 98% do not provide data on Scope 3 emissions. In addition, 92% of companies do not report information on energy consumption from renewable sources. This type of information is increasingly monitored by shareholders and other stakeholders, as the use of renewable energy is a key factor for sustainable development.

Another important aspect is that 76% of companies do not disclose information about even one of their activities that can be defined as environmentally sustainable. This highlights the limited understanding or prioritization of the proactive role companies can play in advancing sustainable development.

Figure 21 provides information on the share of companies that disclose data on their activities and measures in the field of environmental protection.

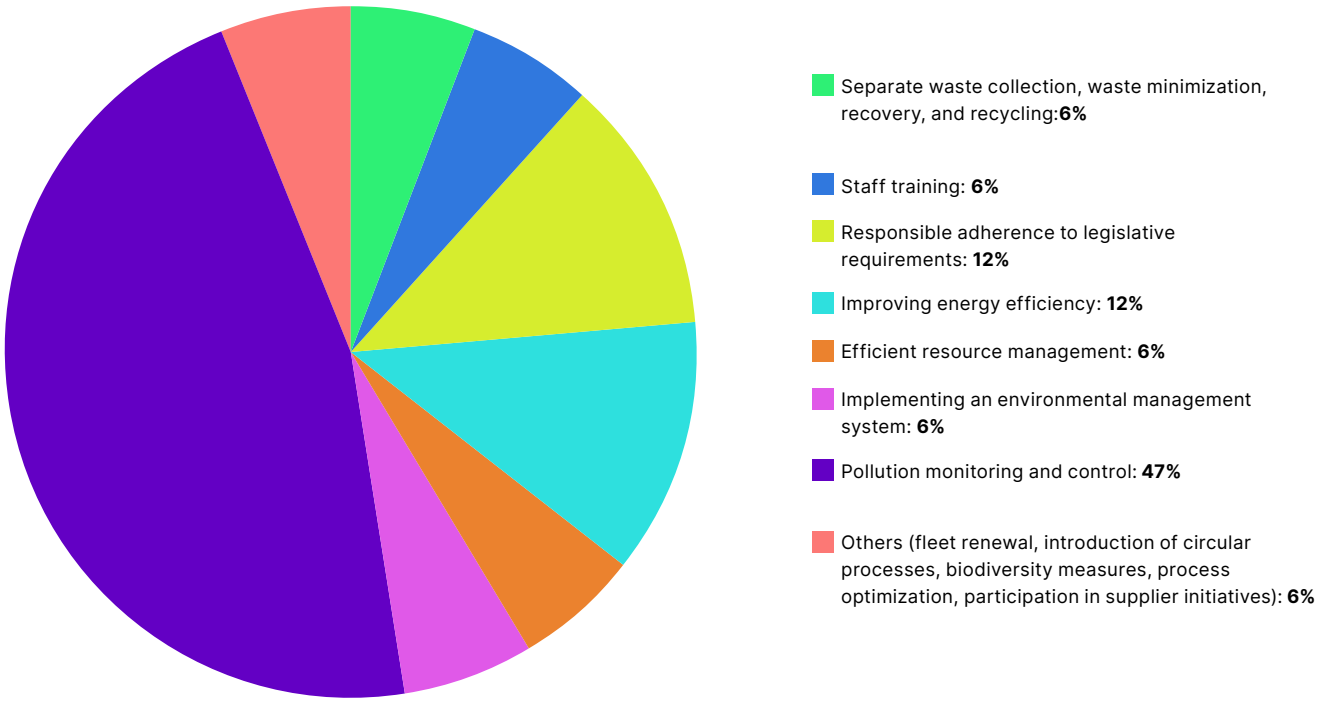


Fig. 21 Activities aimed at protecting the environment

A total of 78% of the surveyed companies (65% of those legally obliged and 85% of those that disclose voluntarily) do not provide any information about activities in this area. Among the measures reported by some companies are: pollution monitoring and control; separate collection, minimization, recovery, and recycling of waste; improving energy efficiency; fleet renewal; implementation of circular processes; biodiversity conservation measures; process optimization; and participation in supplier initiatives.

Companies obliged to disclose non-financial information have not implemented externally certified environmental impact management systems and do not report conducting training for their teams on this topic.

Social Responsibility and Human Rights Disclosure (Social - S)

In general, the majority of companies do not consider social issues and employment to be priority topics for public disclosure. Although regulatory requirements lead to a certain degree of accountability, even among obligated companies, reporting levels remain relatively low. This may indicate the need for additional regulations or incentives to encourage greater transparency and the more active inclusion of social aspects in companies' public reporting.

Looking ahead, companies are expected to face growing demands to improve their social accountability, especially in the context of increasing attention to sustainability and corporate social responsibility.

Governance and Transparency Disclosures (Governance - G)

The analysis of the data presented in Fig. 22 reveals differences in the levels of disclosure of information on good management practices among companies, with significant differences between those obliged and those who voluntarily disclose.

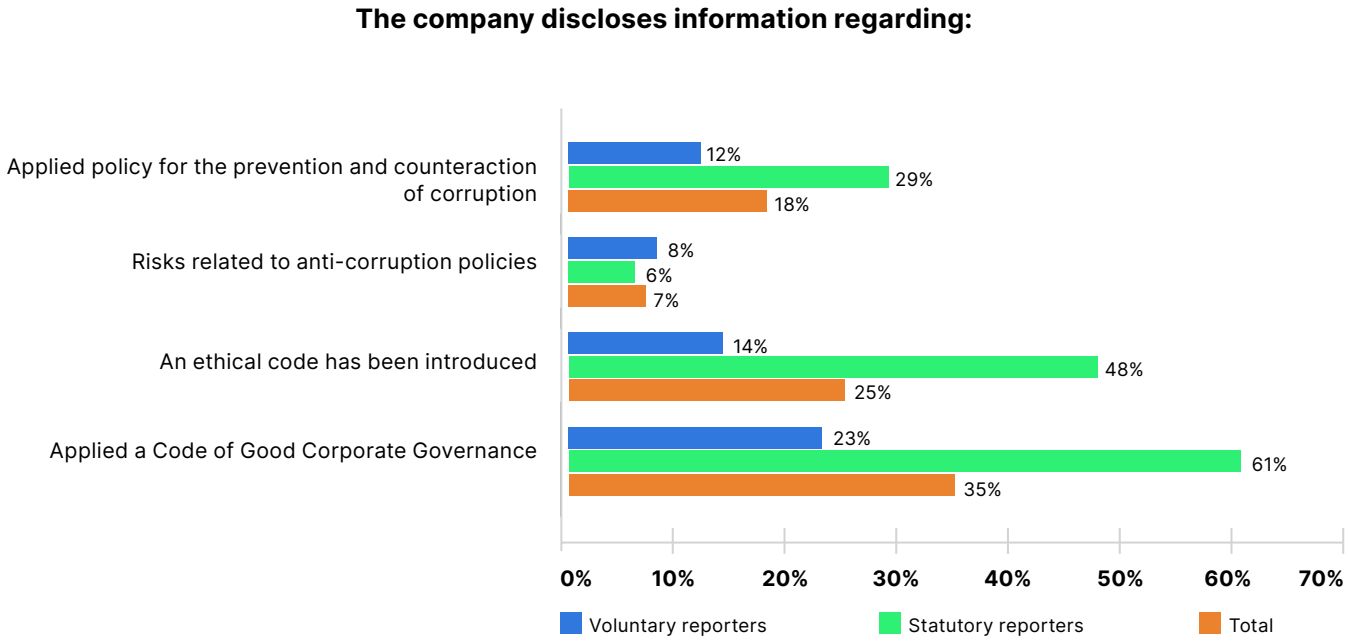


Fig. 22 Information that companies disclose on ethical corporate governance

Although some good management practices are implemented by certain companies, their dissemination remains limited—particularly among those not subject to mandatory reporting. This may be due to a lack of regulatory pressure or differing governance priorities. In the future, with growing requirements for transparency and corporate social responsibility, more companies are expected to be motivated to adopt and publicly disclose their governance codes.

The existence of anti-corruption policies is a key aspect of corporate governance, directly affecting business transparency and ethics. Disclosing information about corruption risks and the measures taken to prevent them plays a vital role in building trust in companies and their management practices. The analysis of the data in Figure 22 shows that accountability levels on these issues vary depending on companies' reporting obligations.

In total, 7% of all companies disclose information about corruption-related risks. The difference between companies obliged to disclose non-financial information and those reporting voluntarily is relatively small: 6% of obligated companies provide data on corruption risks, compared to 8% of voluntary disclosers. This suggests that, regardless of legal obligations, most companies show limited engagement in reporting on potential corruption threats.

When it comes to the implementation of policies for the prevention and counteraction of corruption, the share of reporting companies is higher—at 18% overall. However, there is a significant gap between the two groups. Among companies obliged to disclose non-financial information, 29% report having such a policy,

while only 12% of voluntary disclosers do. This indicates that legal requirements are a strong motivator for companies to adopt anti-corruption measures.

While companies with reporting obligations are more likely to disclose information about their anti-corruption policies, those that disclose voluntarily show lower levels of commitment to transparency in this area. Although some companies have adopted anti-corruption measures, the overall level of disclosure remains relatively low—highlighting the need for stronger accountability policies and controls for managing corruption risks.

The disclosure of information on management practices, corporate governance policies, and access to decision-making data serves as an indicator of the level of accountability and regulatory maturity in an organization. Based on the data analyzed, there are significant differences between companies obliged to disclose non-financial information and those that report voluntarily in terms of transparency and the scope of disclosed governance information (Figure 23).

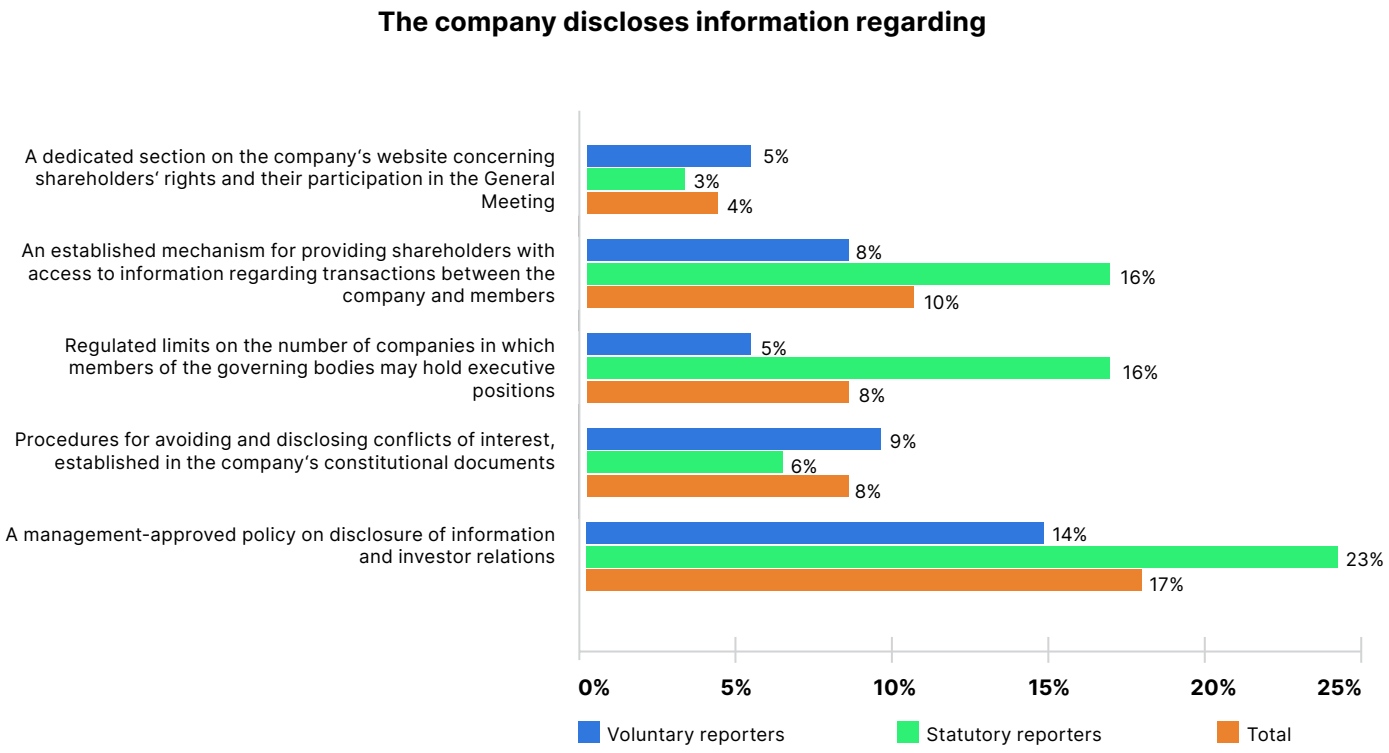


Fig. 23 Management Practices Disclosures

A total of 8% of companies report that their statutes regulate the number of companies in which members of management bodies may hold executive positions. The difference between companies obliged to disclose non-financial information and those that disclose voluntarily is significant. Among obligated companies, 16% provide such information, compared to only 5% of voluntary disclosers.

The method for providing shareholders with access to information about transactions between the company

and its management, as well as related parties, is disclosed by 10% of all companies. Once again, there is a noticeable difference between the two groups: 16% of companies obliged to disclose non-financial information report on this aspect, compared to 8% of voluntary disclosers. This suggests that even among companies not subject to mandatory reporting, there is some interest in providing access to such information, though on a more limited scale.

A policy on disclosure and investor relations approved by management exists in 17% of companies. Here, obligated companies show greater commitment – 23% have such a policy, while the figure for voluntary disclosers is 14%. This demonstrates that, although not all companies are legally required to disclose this information, some are voluntarily taking steps to ensure transparency and build trust with investors.

Statutory regulation of procedures for avoiding and disclosing conflicts of interest is reported by 8% of companies. Interestingly, voluntary disclosers are slightly more active in this area – 9% report having such procedures, compared to 6% of obligated companies. This may indicate that some voluntary reporters are making proactive efforts to manage potential conflicts of interest and maintain ethical standards.

Maintaining a dedicated section on shareholders' rights and their participation in General Meetings on the company website is one of the least commonly disclosed practices. Only 4% of companies report having such a section. The difference between the two groups is marginal: 3% of obligated companies and 5% of voluntary disclosers maintain such information online. This suggests that both groups pay limited attention to online communication with shareholders, potentially reducing transparency and stakeholder awareness.

In summary, companies obliged to disclose non-financial information generally disclose more than voluntary reporters, particularly in areas such as management practices, transaction transparency, and investor relations. At the same time, in certain areas – such as conflict-of-interest disclosure – voluntary disclosers show relatively greater engagement. Despite some progress, overall levels of transparency remain low, indicating the need for further regulatory measures and initiatives to promote accountability in corporate governance.

Conclusion and recommendations

The analysis of the survey data shows that both companies obliged to disclose non-financial information and those that do so voluntarily demonstrate a certain degree of alignment with the requirements set out in legislation and voluntary reporting standards. However, the findings also highlight the need to specify and elaborate on disclosures in order to achieve greater clarity regarding the direction of corporate governance overall.

Understandably, there is a noticeable difference in the nature and granularity of disclosures between the two groups. Companies obliged to disclose non-financial information generally provide more detailed and specific information across most categories of the questionnaire compared to those that disclose voluntarily.

Nonetheless, there remains a need for greater transparency regarding anti-corruption policies in both groups. The regulation of conflicts of interest is underdeveloped across the board, and both categories of companies should also enhance the level of disclosure concerning shareholders' rights and participation in governance.

One of the main commonalities between regulatory and voluntary disclosures is the demonstrated need to expand non-financial reporting overall. Although both groups show some level of engagement with anti-corruption measures, disclosures on this issue remain insufficient. Similarly, conflict-of-interest regulation is underrepresented in both categories, indicating a broader need for improved accountability practices.

There is a clear need to raise awareness and strengthen companies' commitment to identifying and manag-

ing climate and environmental risks. Companies should take concrete steps to improve accountability in this area. As a first step, it is recommended that companies conduct a materiality analysis of climate risks—both physical and transition-related—as well as other types of environmental risks relevant to their specific activities.

The results of such an analysis will help identify the key areas for action, which in turn will inform the disclosures related to the activities undertaken during the year in the next reporting cycle. Identifying significant climate and environmental risks and focusing on appropriate management strategies will enhance the quality of overall financial risk management and support companies in uncovering new business opportunities.

PART III.

Banks



The banking sector is one of the most heavily regulated in Bulgaria, and banks are required to comply with strict non-financial disclosure obligations. This section focuses on the key environmental, social, and governance (ESG) aspects of ESG reporting in the banking sector. Banks, categorized into two groups based on size and assets, demonstrate a high level of formal regulatory compliance. However, they face challenges in delivering in-depth and meaningful reporting, particularly in the areas of risk management and anti-corruption practices.

Regulatory framework

Non-financial disclosure in the banking sector is regulated by a number of frameworks that ensure transparency and accountability regarding the environmental, social, and governance (ESG) aspects of banks' activities. These frameworks include both European legislation and national laws and regulatory guidelines. The main regulations covered in this analysis are:

- **Directive 2014/95/EU (NFRD – Non-Financial Reporting Directive)** – introduces an obligation for banks to disclose non-financial information related to sustainable development, social policies, human rights, and anti-corruption measures.
- **Regulation (EU) 2019/2088 (SFDR – Sustainable Finance Disclosure Regulation)** – sets mandatory requirements for disclosing sustainability information within the investment decision-making process. Banks and other financial institutions are required to demonstrate how sustainability is integrated into their investment strategies in order to identify and manage risks related to climate change and social challenges.
- **EU Taxonomy Regulation (Regulation (EU) 2020/852)** – establishes criteria for defining environmentally sustainable economic activities and sets disclosure requirements regarding financial institutions' alignment with the EU's sustainable investment objectives.

To align with European legislation, Bulgarian law has also introduced non-financial reporting requirements for banks, which are set out in several key legal and regulatory acts:

- **Credit Institutions Act (CIA)**
- **Accountancy Act**
- **Regulations of the Bulgarian National Bank (BNB).**

In the 2023 reporting year, all banks are required to report under Article 48 of the Accountancy Act and the EU Taxonomy Regulation. However, banks are also subject to additional sector-specific requirements, which influence the depth and scope of their reporting.

These specific requirements are not the focus of this study, as the aim of the report is to track general trends not only among banks but also among organizations from other sectors. For this reason, the emphasis is placed on the implementation of common regulatory requirements that apply across all reporting entities.[1].

[1] For example, in the disclosure there are mandatory requirements of the European Banking Authority in relation to the fulfillment of their obligations under Pillar 3 of Basel III, (a total of 10 EBA templates in relation to ESG.

Overall assessment of the status of disclosure

The analysis of bank disclosures for 2023 shows high levels of reporting across the different thematic areas and among both first and second group banks (Figure 24). The highest level of disclosure is observed in the area of corporate governance, followed by environmental management, and social responsibility and human rights. Reporting on anti-corruption policies is less common across the banking system. However, among first group banks, all institutions provide the required information (100%).

Within the three thematic areas, there are notable differences in the values of specific indicators, but for all indicators, disclosure levels remain high—exceeding 50%.

Due to varying regulatory requirements, disclosure levels are assessed separately for both groups of banks. Nonetheless, in 2023, there was a clear ambition among second group banks to enhance their disclosures, with some performing at levels comparable to first group banks.

First group banks fully comply with most regulatory requirements, both formally—through the presence of relevant documents and policies—and in substance, by providing comprehensive and high-quality information. The highest levels of disclosure are observed in environmental management at 90.0%, followed by corporate governance, anti-corruption policies, and risk management at 83.3%, and social responsibility and human rights at 75.0%.

Second group banks report the highest disclosure levels in corporate governance at 60.0%, environmental management at 49.0%, and social responsibility and human rights at 46.7%. As with first group banks, the area with the lowest level of disclosure is anti-corruption policy.

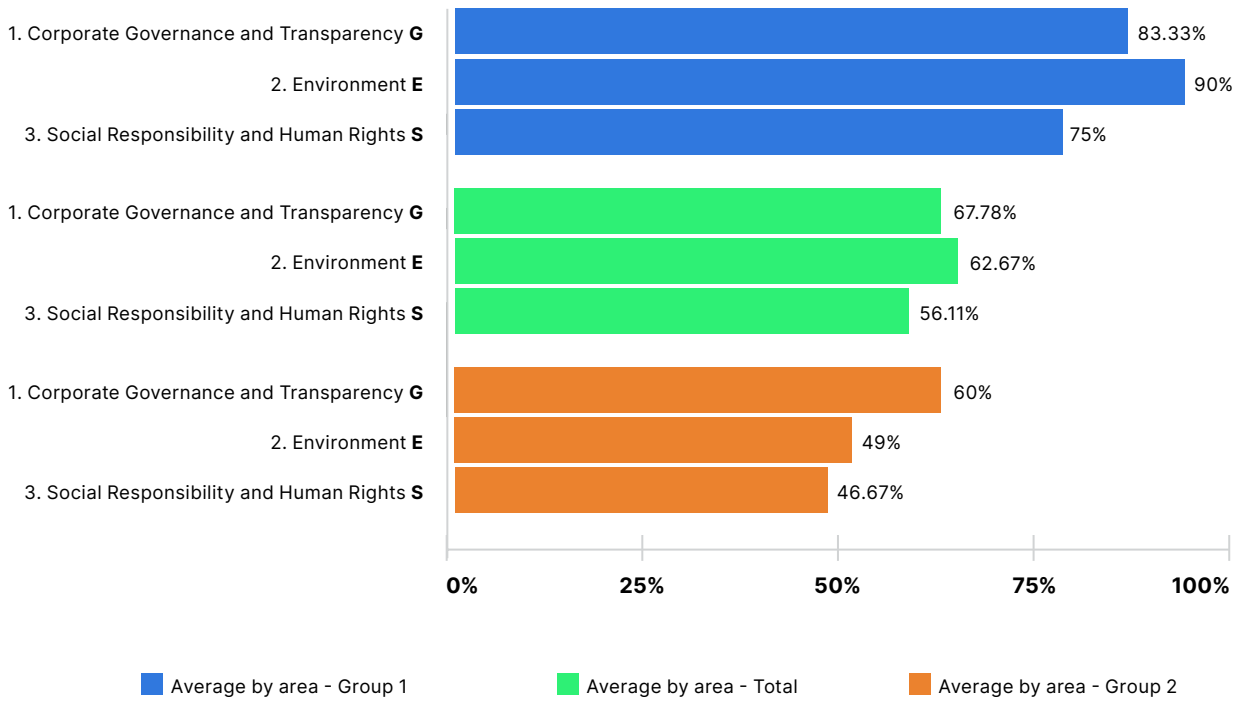


Fig. 24 Performance of banks by sustainability domains and by BNB classification

The results show that first group banks report higher values than the average for both groups across all analyzed areas. These differences are primarily due to the stricter regulatory requirements applicable to first group banks. For example, the most significant positive difference is observed in disclosures related to the application of the Taxonomy of key performance indicators (KPIs).

In the social and corporate governance aspects, there is greater alignment between the two groups of banks. This is expected, given that the reporting requirements in these areas are generally uniform and not heavily dependent on the specific characteristics of individual banks. In contrast, with regard to the fulfilment of environmental criteria, the results show greater variation. These differences stem from the particular features of each institution's lending and investment portfolios, as well as the level of ambition in their overall approach to environmental protection.

Environmental Disclosure (E)

Banks' environmental disclosures reflect the extent of their commitment to a range of environmental issues.

Non-financial statements prepared by banks are, by their nature, an important source of information for public authorities, the general public, and counterparties. They serve to disclose banks' sustainable development strategies and environmental policies. These statements provide insight into how banks manage their environmental impact, including through internal environmental practices, the assessment of climate and environmental risks in their lending and investment portfolios, and the promotion of green finance.

Figure 25 presents a comparative analysis of environmental reporting in the banking sector, showing the average values of the disclosed information for all banks, as well as separately for the first and second groups of banks. The left side of the chart displays the overall averages for all institutions, while the right side illustrates the differences between the two groups—revealing the level of transparency regarding key environmental indicators in ESG reporting.

Environmental reporting by bank groups and total for both groups

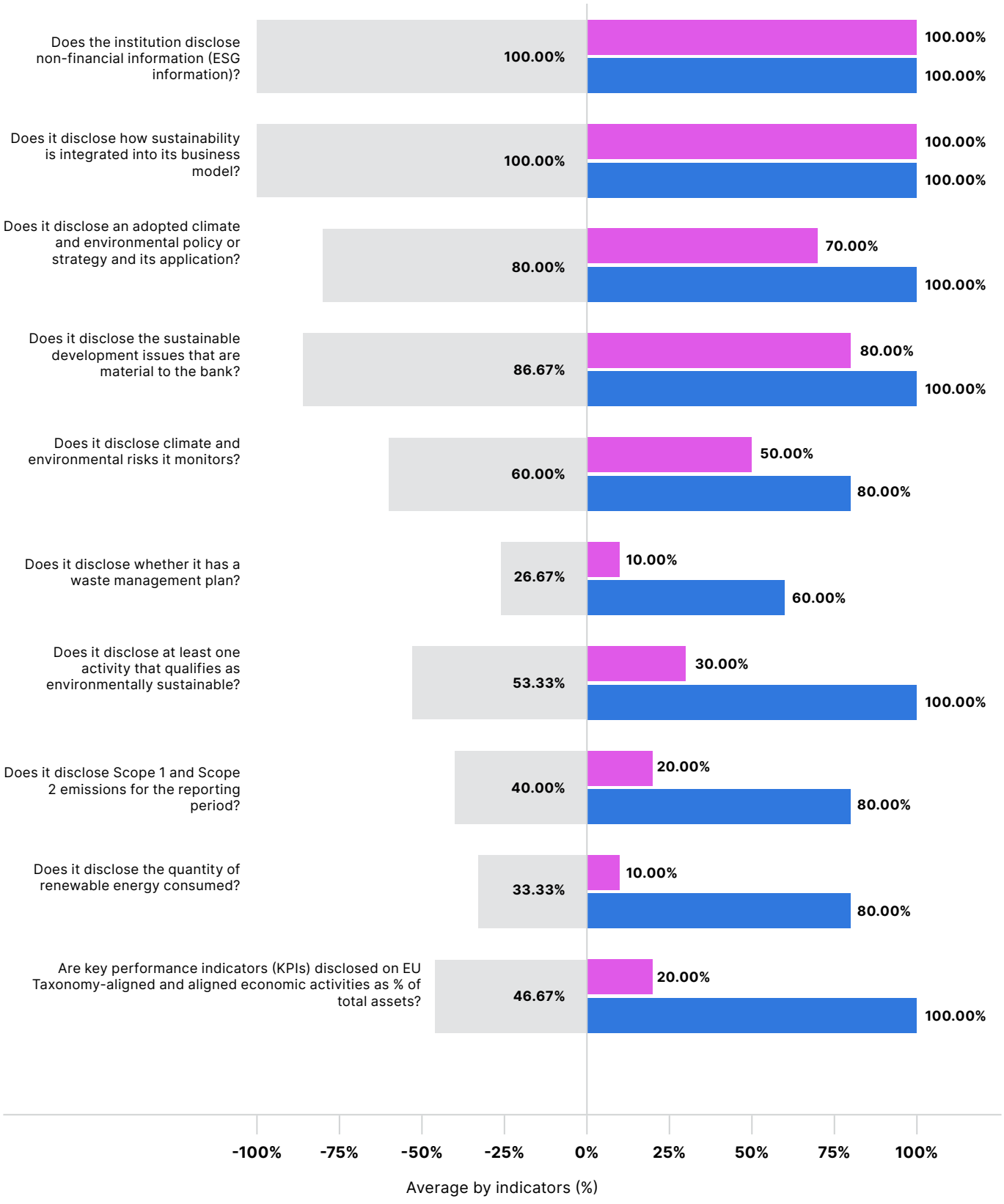


Fig. 25 Comparison Chart for Banks' Environmental Reporting

All banks disclose information about their environmental activities in their annual activity reports, in the non-financial statement (when it is prepared as a separate document from the activity report), and some also publish separate documents—strategies and reports—dedicated to their commitment to climate and environmental issues. For two of the most important indicators in this area, both first and second group banks achieve the maximum score. For two other indicators, the overall system-wide compliance exceeds 80%. Among first group banks, six out of a total of nine indicators reach the maximum score.

Information from the 2023 annual reports confirms that most banks, although to varying degrees, have integrated sustainability topics into their business models. The description of the business model itself is often linked to environmental protection. In several banks, ESG factors are already embedded in the credit assessment process.

All banks, with the exception of three smaller institutions, have adopted a policy or strategy related to climate and environmental issues. Their annual disclosures also address the implementation and enforcement of these policies.

Most banks (60%) disclose information on the materiality of issues related to sustainable development—particularly environmental protection and climate change mitigation. The annual reports provide a framework for managing climate and environmental risks and their relationship to banks' inherent risks (credit, market, operational). Climate risks are considered in their two main forms—physical and transition risks—including an assessment of their materiality for the specific institution.

Disclosures are both formal—in terms of the presence of relevant reports—and substantive, offering qualitative and quantitative information on the measurement and value of key indicators. Key performance indicators (KPIs) are disclosed in accordance with Articles 8 and 10 of the Delegated Regulation supplementing the EU Taxonomy Regulation. Banks follow the recommendations of the European Banking Authority (EBA).

There are significant challenges in disclosing exposures to economic activities that are eligible or non-eligible under the EU Taxonomy. In their reporting under Regulation (EU) 575/2013 on the Capital Requirements Regulation (CRR) and Regulation (EU) 2021/451 setting technical standards for Pillar 3 ESG risk disclosures, most banks take a conservative approach—if there is insufficient data to assess whether an activity is Taxonomy-aligned, it is classified as non-aligned with environmental sustainability criteria.

In most banks, the Green Asset Ratio (GAR) is reported as 0%, primarily because a large portion of bank clients are either not subject to Regulation (EU) 2020/852—especially micro, small, and medium-sized enterprises, which make up a significant share of the client base—or do not disclose sufficient information. Renewable energy projects, while eligible under the Taxonomy, often cannot be included in disclosures or financed under current conditions because such companies usually operate through special purpose vehicles (SPVs). It is currently difficult to include real estate loans and household electric vehicles in green asset reporting due to insufficient data on the underlying assets. For example, information on building characteristics (e.g., energy certificates) is essential to assist both banks and their clients in the financing process when buildings are used as collateral.

The lack of publicly available data on asset quality, as well as on environmental and climate factors more broadly, presents a major challenge for managing environmental and climate risks. Disclosure merely reflects this state of affairs.

Only a small portion of banks (26.7%) have developed a dedicated waste management plan, although this activity is generally not considered material in terms of real environmental impact. Additionally, 33% of banks provide comprehensive information on their consumption of renewable energy.

Approximately 40% of banks fully report Scope 1 and Scope 2 carbon emissions for the reporting period. All banks indicate that they are taking action and making investments to reduce their carbon footprint—such as digitizing internal processes to reduce paper usage, improving building energy efficiency, reducing water consumption, restructuring fuel use, and lowering fuel consumption overall. In general, the rapid pace of digitalization in banking activities and services contributes significantly to reducing emissions and waste. For this reason, investments in digitalization currently have a more tangible effect on sustainability than direct investments in green energy.

First group banks demonstrate significantly higher levels of disclosure on certain indicators compared to second group banks. One of the most notable differences is seen in climate risk reporting and the disclosure of carbon emissions data (Scope 1 and Scope 2). The average disclosure level for all banks is 40%, with first group banks at 80% and second group banks at 20%.

Taxonomy-related disclosures are a crucial element of banking transparency and play a central role in advancing the green transition. Quantitative indicators—primarily the Green Asset Ratio (GAR) and the Banking Book Taxonomy Alignment Ratio (BTAR)—allow for a clear and measurable assessment of reporting. All first group banks disclose this information (100%), fully meeting regulatory requirements. Overall, 20% of all banks report these indicators in full, while the remaining institutions show significant progress.

Heatmap of environmental management indicators in banks

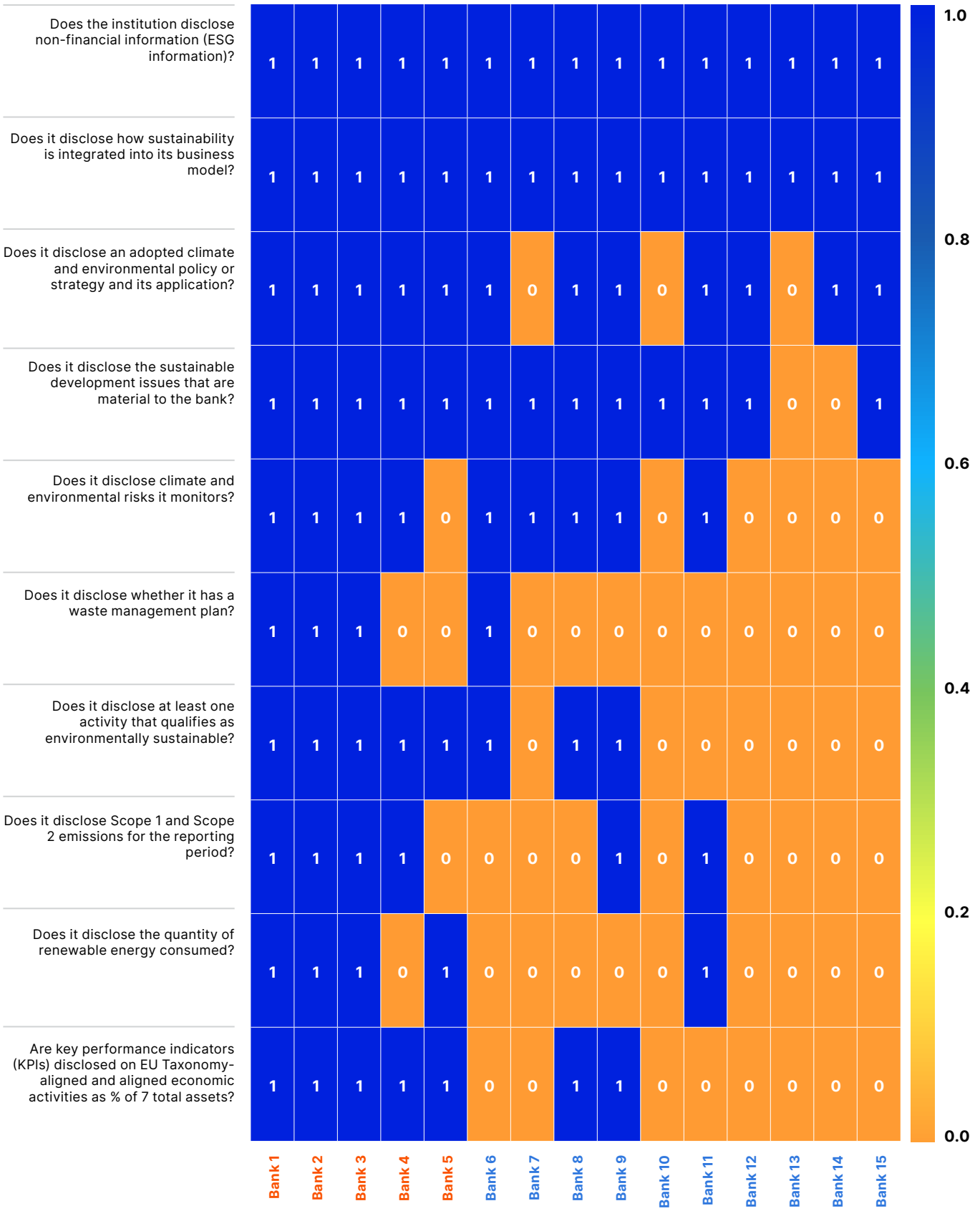


Fig. 26 Heatmap of environmental management indicators in banks

Note: Fig. 26 presents a heatmap visualization of the disclosure of environmental performance in banks, analysing the level of transparency by key criteria for environmental protection. Each bank is marked with a 1 (disclosure of information) or 0 (no disclosure of information), which allows a clear distinction between Group 1 (red) and Group 2 (blue) banks in terms of environmental reporting.

The analysis of the interlinkages between the different indicators shows that banks that disclose information on identified sustainable development issues also provide information on adopted policies or strategies related to climate and environmental protection. When a bank commits to identifying key environmental factors relevant to its business model, it is more likely to formulate and publicly communicate specific policies for managing these factors, as well as to report on the outcomes of those policies.

There is also a strong correlation between the disclosure of carbon emissions data and the use of renewable energy. Almost all banks that report emissions also disclose the share of green energy in their energy mix. This indicates that institutions which monitor and measure their carbon footprint are also actively seeking ways to reduce it—such as transitioning to more sustainable energy sources.

Banks with clear strategies for managing climate-related issues tend to publish more comprehensive non-financial statements, including details on how ESG principles are integrated into their business models. This confirms that environmental reporting is not an isolated practice, but part of a broader corporate sustainability policy.

Some smaller banks are also developing methodologies for assessing exposure to climate and environmental risks, as well as evaluating the vulnerability of their loan portfolios to these risks. A key challenge for all banks lies in collecting the necessary information and data from borrowers to properly assess exposure vulnerabilities to climate and environmental factors.

In response, some banks are working on defining limits for the effective management of climate and environmental risks, supported by regular monitoring and escalation procedures, and are integrating these measures into their overall risk management frameworks..

Social Responsibility and Human Rights Disclosure (Social - S)

As part of the ESG reporting study, the social aspect encompasses financial institutions' commitments to social responsibility, human rights protection, equality, and engagement with society. In this context, banks play a key role not only as economic actors but also as socially responsible organizations capable of positively influencing their employees, customers, and broader stakeholder communities.

Banks' annual reports and non-financial statements disclose information on social responsibility policies, labor practices, corporate ethics, and measures to protect the rights of employees and customers. These disclosures include policies related to human capital management, equity and inclusion, as well as corporate social responsibility (CSR) initiatives that demonstrate banks' societal commitments. The disclosure of such information is essential to this analysis, as it provides an objective basis for evaluating banks' social responsibility. It also helps identify both good practices and challenges related to transparency in social policy reporting.

The format and structure of reporting vary between banks, and the relevant information is often fragmented across different sections of the annual reports. The level of detail also differs significantly. In some cases, limited or absent information may result from a bank's internal assessment of materiality, leading to declarations that no such issues occurred, rather than comprehensive disclosures.

The analysis of social reporting reveals that the highest levels of disclosure—80% and above—are found in the areas of diversity and inclusion practices in the workplace, social and employment policy management, data protection, and consumer protection. Out of the six social indicators evaluated, first group banks achieve maximum disclosure in three of them.

In contrast, disclosure related to employment and social risks is more limited, which may be attributed to the generally low exposure of the banking sector to such risks.

No bank reported any cases of discrimination. Only 6.7% of banks provided information indicating the appointment of a designated employee responsible for handling discrimination-related issues. However, this does not necessarily mean that such policies do not exist. With increasing regulatory demands for more extensive non-financial reporting, including the creation of new roles for ESG professionals, responsibilities for managing these issues are often assigned to human resources departments.

Discrimination and diversity remain among the least reported topics, which reflects banks' general assessment of these issues as not materially significant.

Banks in the first group demonstrate greater thoroughness and detail in reporting social indicators compared to those in the second group. The differences are particularly pronounced in disclosures related to diversity, human rights, social policies, and consumer protection. In terms of addressing social issues, first group banks achieve 100% compliance in three out of the six evaluated indicators.

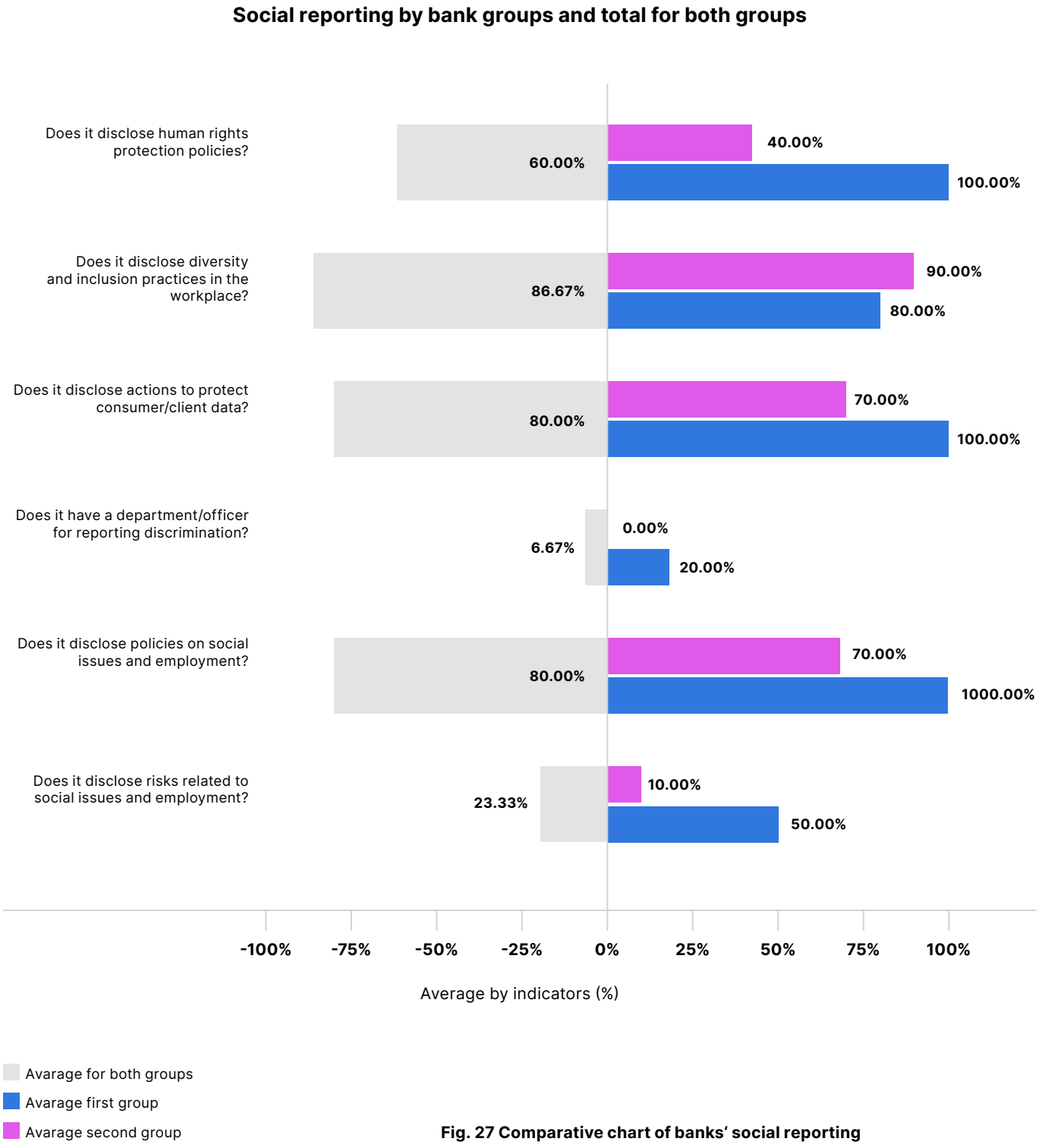


Fig. 27 Comparative chart of banks' social reporting

The analysis of the level of reporting on social issues by individual banks (Figure 27) reveals both the fragmented nature of these disclosures and the structural interconnections and dependencies within the social dimension of sustainability.

Heatmap of social governance indicators in banks

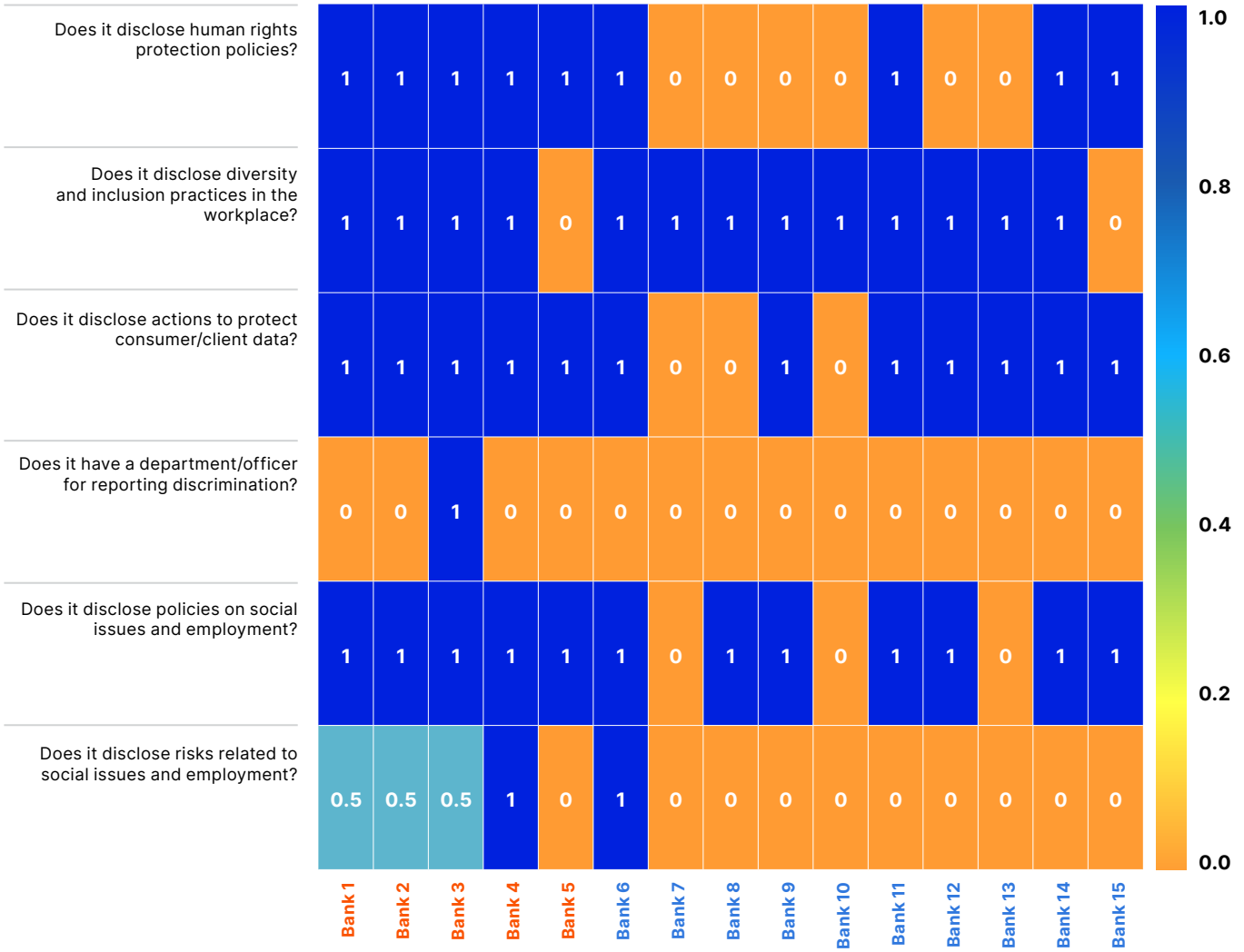


Fig. 28 Heatmap of Social Management Indicators in Banks

The analysis of the heatmap visualization reveals significant interdependencies between various indicators of banks' social governance, aiming to uncover latent relationships between different aspects of social responsibility and accountability (Figure 28).

A clear correlation is observed between the first three and the last two indicators. The first notable relationship is between the disclosure of human rights and diversity policies and the disclosure of diversity management and social inclusion practices. Banks that report on their human rights policies almost always also disclose information about diversity in the workplace. This indicates that a commitment to social accountability is generally embedded within the institution's overall strategy rather than being limited to isolated declarations.

A strong correlation is also evident between the disclosure of measures to protect customer data and the publication of social and employment policies. Banks that prioritize data protection tend to demonstrate greater transparency in their social policies as well. This suggests that customer protection and social responsibility are integrated within a broader model of good corporate governance.

On the other hand, the disclosure of information about the existence of a designated department or employee for reporting discrimination cases shows little correlation with other social indicators. This may explain why it is often neglected or omitted in reporting.

A close relationship is observed between the disclosure of employment policies and the publication of diversity and inclusion measures. Banks that have well-developed employment strategies almost always include policies promoting diversity, indicating that these two areas are closely linked within the framework of corporate social responsibility.

Gender equality and women's access to leadership positions are topics receiving increasing attention both in the regulatory landscape and in global corporate policy trends. Information presented in annual reports highlights a significant degree of feminization in the Bulgarian banking sector, with women making up the majority of employees across all banks (Figure 29)[2]. There is a conceptual issue in the assessment of gender equality within banks, particularly in relation to their management bodies. Typically, the number of members on bank management boards is odd - meaning that men and women will inevitably be unequally represented, and exact gender parity is structurally unachievable with an odd number of members.

The inclusion of the heatmap chart helps to visualize the distribution of these values by banks, revealing the unevenness in the representation of women in the governing bodies between the individual banks.

[2] The graph shows the percentage participation of women in bank management, representing not only the averages but also the variation of the data through lower and upper bounds, median and quintiles in values

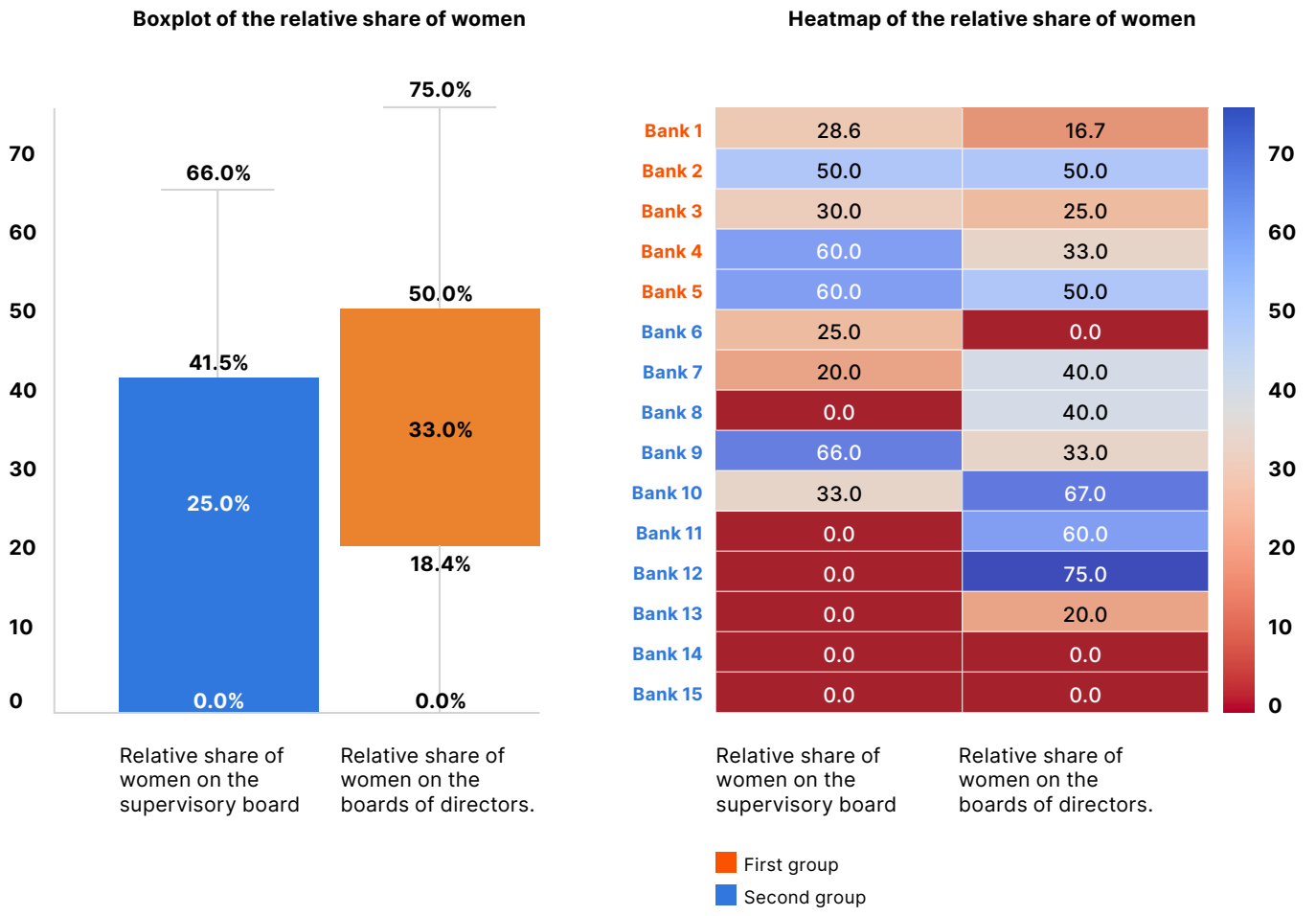


Fig. 29 Analysis of the relative share of women in the management bodies of banks: Comparison by groups

Note: In addition to the vertical group bar chart and heatmap chart, which visualize the disclosure of ESG information, a figure combining a boxplot chart and a heatmap chart as subcharts is also included, which presents the distribution of the relative share of women on banks' supervisory and management boards in detail.

The boxplot chart presents the distribution of the relative share of women on the supervisory boards and management boards of all banks in Bulgaria, illustrating the median, interquartile range, and the minimum and maximum values of these indicators.

For the relative share of women on banks' supervisory boards (left chart), the median is 25%, meaning that half of the banks have female representation at or below this level. The maximum reaches as high as 66%, indicating that in some institutions, women make up more than half of the supervisory board. In five out of fifteen banks, there is not a single woman on the supervisory board, and only in three banks does the female representation exceed 50%.

Women are more strongly represented on management boards. Regarding the share of women on management boards (right chart), in more than half of the banks, women hold at least one-third of management positions. The maximum value reaches 75%, showing that some banks have exceptionally high female representation in senior management. In three banks, women outnumber men on the management board, two banks show complete gender parity, and in two others there are no women on the board at all.

A comparison between the two indicators shows that women are better represented on management boards

than on supervisory boards, with a higher median share on the former (33% vs. 25%). In two banks, there are no women on either the supervisory or management board. In four banks, women are not present on the supervisory board but are included in the management board. In two banks, there is gender parity across both governing bodies.

Overall, banks in Group II—where Bulgarian-owned institutions are more prevalent—demonstrate a higher average level of female participation in management, particularly in management boards.

Governance and Transparency Disclosures (Governance - G)

Corporate governance and transparency play a key role in the sustainable development of banks and the sector as a whole. Within ESG reporting, the Governance (G) aspect focuses on good governance, accountability, ethical standards, and compliance with the legislative and regulatory framework applicable to financial institutions. Banks are facing growing expectations in the area of corporate governance.

Figure 30 presents the average disclosure values for each bank group, along with summary information for the sector as a whole.

Due to the overarching regulatory requirements applicable to banks in this area, the sector demonstrates relative homogeneity and a high level of disclosure. For two of the indicators, the score reaches the maximum, while for six out of nine indicators, disclosure exceeds 50%. Banks in the first group achieve the maximum score on seven indicators.

Banks perform best on indicators related to the existence of a code of ethics and rules for good corporate governance. Ethical standards and adherence to principles of sound governance remain a top priority for banks.

Corporate reporting by bank groups and total for both groups

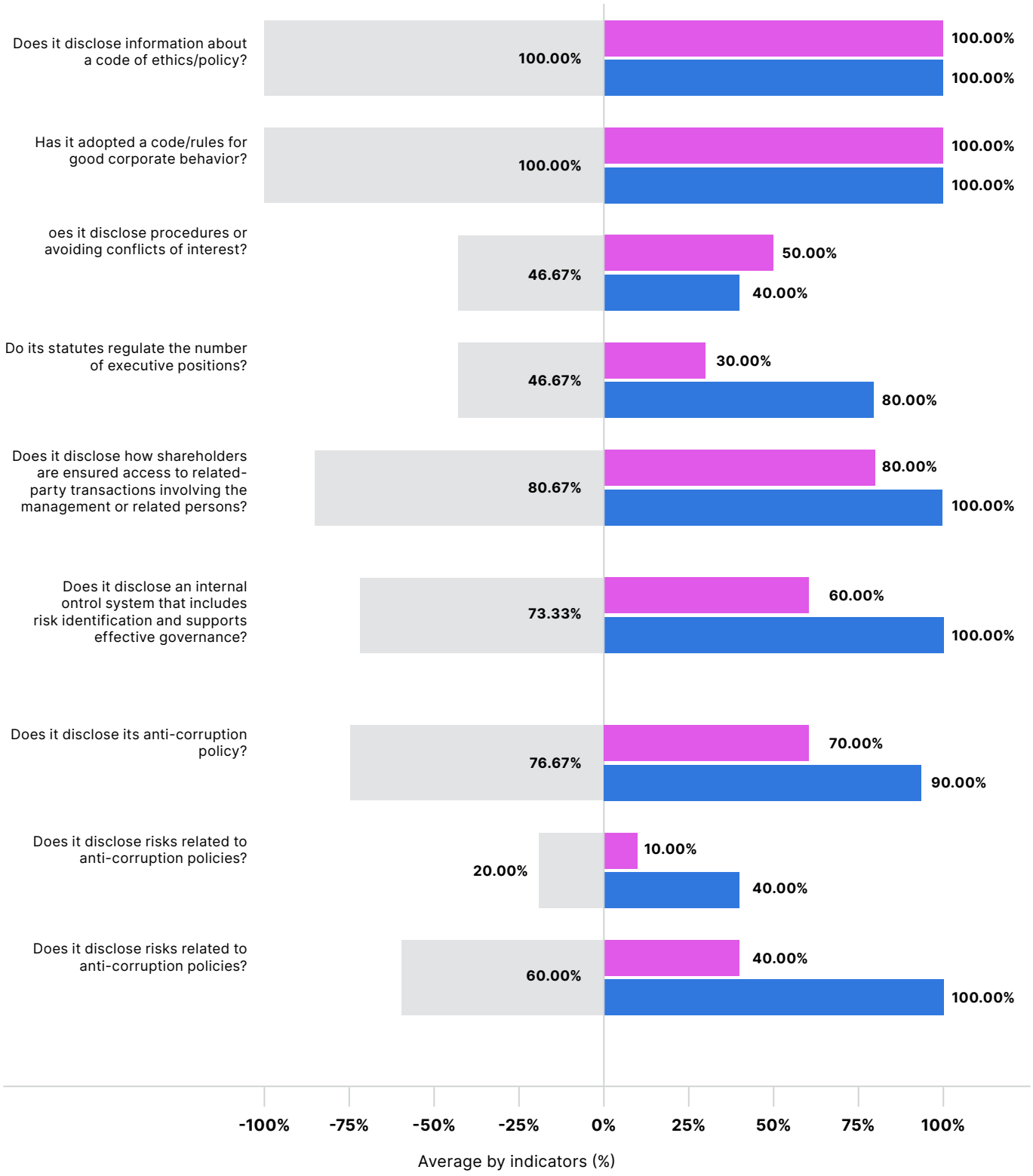


Fig. 30 Comparative chart for corporate reporting of banks

Low transparency is observed in the disclosure of information regarding procedures for avoiding conflicts of interest and the regulation of the number of management positions. Eight banks from both groups do not provide sufficient information on effective mechanisms in place to prevent conflicts of interest. In many cases, the absence of identified conflicts is cited as the reason for omitting such disclosures. This may reflect the perception that this type of risk has low materiality within the banking system. As a result, a significant number of banks do not report detailed information about their mechanisms for conflict of interest prevention.

Banks do, however, publish information on internal control systems (73%) and on their capacity to identify risks related to their operations, as well as the extent to which these systems help mitigate various types of risk.

Only two banks did not include sufficient information in their 2023 annual reports regarding how shareholders are granted access to information about transactions between the bank and members of its governing bodies.

Figure 31 presents all analyzed banks and the values of their indicators related to corporate governance.

Heatmap of corporate governance indicators in banks

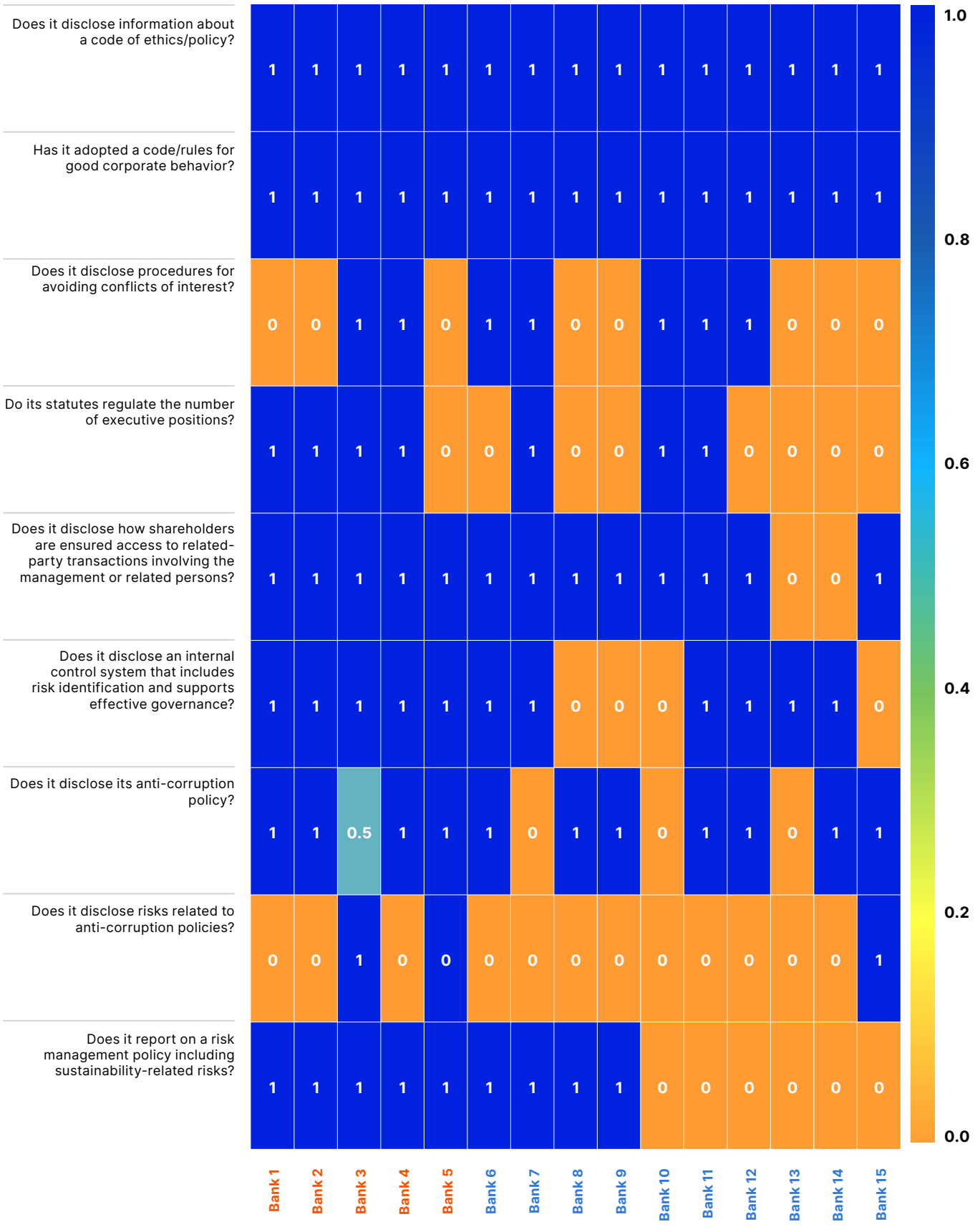


Fig. 31 Heatmap of corporate governance indicators in banks

Within the framework of ESG indicators and their reporting, the analysis of the governance aspect ("Governance" – G) also includes financial institutions' commitments to anti-corruption policy. This is the area with the lowest level of disclosure. Only three banks published detailed information on identified risks related to anti-corruption activities, while only three banks did not disclose any anti-corruption policies. The disclosure of corruption-related risks shows weak correlation with other indicators that are considered more material for the sector than corruption.

Banks have established effective financial risk management systems in line with the sector's regulatory framework. Non-financial risks are increasingly being incorporated into the general risk management policies of most banks—this is the case for all first group banks and for 40% of banks in the second group. Sustainability risks are being integrated into the management of traditional risk categories, although the pace of this integration is slower among smaller institutions.

Ten banks reported information on the implementation of their risk management policies, which include sustainability risks. Among them are five banks from the second group.

Conclusion and recommendations

Banks play a key role as financial intermediaries—not only in adhering to the principles of transparency and accountability in their own operations, but also in encouraging their clients to follow these same standards. The analysis of ESG reporting in the banking sector highlights the interconnections between the three pillars of sustainability: environmental protection, human rights protection, and good governance. Using a complex toolkit[3] the degree of convergence in the reporting and disclosure of non-financial indicators can be assessed. The combination of methods enables a detailed analysis of ESG reporting, allowing for the identification of potential inconsistencies and critical areas, as well as the recognition of good practices and the extent of their implementation.

The correlation matrix (Figure 32) provides a detailed view of the relationships between banks, enabling the analysis of dependencies both within and between groups. The data reveal structural differences in ESG reporting, which can be attributed to the degree of regulatory requirements in the respective ESG areas, as well as to the ambition of certain banks to disclose information beyond the specific regulations applicable to them.

[3] Correlation analysis, cluster analysis, and dimensionality reduction by principal components (PCA) are used. Each of these methods is applied in order to reveal dependencies, identify groups of banks with similar characteristics, and visualize the relations between them.

- The first analysis, presented through the Phi Correlation Matrix, measures the degree of similarity between banks in certain indicators. The correlation coefficient used makes it possible to establish whether banks have similar reporting models and disclosure of ESG information. The visualization shows both highly correlated banks (warm colors) and those with a weaker correlation (cool colors). High correlations suggest that certain banks share common transparency and risk management strategies, while lower values reveal differences in reporting practices.
- The second tool, hierarchical cluster analysis, represented by a dendrogram, is used to identify groups of banks (clusters) based on their similarities. The algorithm measures the distance between banks by multiple ESG indicators and groups them hierarchically, which allows distinguishing similar institutions. Branch spacing indicates the extent to which banks in a cluster share common characteristics, with closer banks having more similar reporting and governance models.
- The last method, dimensionality reduction by principal components (PCA), was used for two-dimensional visualization of the clusters. Through this technique, multidimensional ESG data is converted into two main components, allowing for easy interpretation of similarities and differences between banks. The dots in the chart represent the banks, and their positioning shows the structural similarities and differences. Banks located close to each other have similar ESG characteristics, while those that are more distant show significant differences.

Banks in Group II exhibit greater variation in correlation values, indicating that they do not follow a unified ESG reporting model. While some banks—such as Bank 8 and Bank 9 (correlation of 0.83), or Bank 7 and Bank 10 (correlation of 0.79)—show strong alignment, others like Bank 12, Bank 13, and Bank 15 demonstrate low correlations with the rest. This suggests heterogeneity ESG disclosure and differences in approaches to transparency and the management of sustainability-related risks.

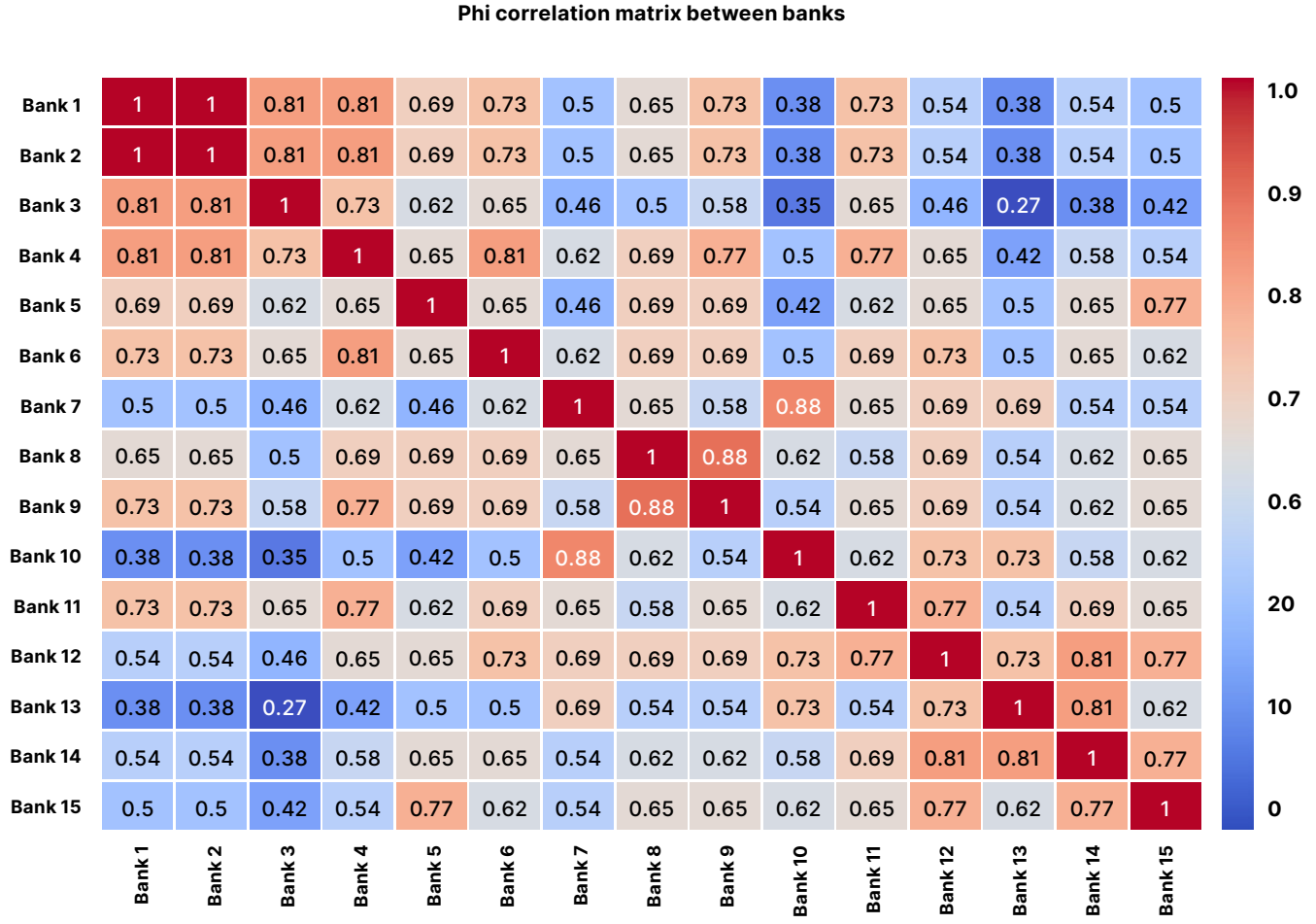


Fig. 32 Correlation matrix for all indicators

Note: Banks from 1 to 5 are part of the first group, and banks from 6 to 15 are part of the second group

The intragroup analysis shows a high degree of convergence between certain banks, indicating the presence of similar ESG reporting models and corporate governance practices. The highest correlation is observed between Bank 1 and Bank 2 (0.9), as well as between Bank 3 and Bank 2 (0.79). This suggests that these banks apply identical or highly similar approaches to ESG reporting.

Banks in Group I demonstrate higher intragroup correlations, indicating a more uniform model of ESG disclosure and transparency. In contrast, Group II banks show greater variability—some, such as Bank 7 and Bank 9, are well integrated into ESG reporting practices, while others, such as Bank 12, Bank 13, and Bank 15, lag behind in this area.

Figure 33 presents the results of the cluster analysis, visualized for clearer interpretation. The cluster analysis identifies distinct groups of banks that share similar ESG practices and reporting characteristics. The dendrogram illustrates the hierarchical structure and shows how closely each bank is connected to the others, indicating the similarity of their ESG profiles.

Some banks—such as Bank 7, Bank 10, Bank 13, Bank 14, and Bank 12 and 11—form a single cluster, suggesting they follow comparable standards in ESG practices, risk management, or corporate reporting. Another cluster includes Bank 4, Bank 6, Bank 3, Bank 2, and Bank 1, indicating a different but internally consistent approach to ESG disclosure. Bank 9, Bank 15, Bank 5, and Bank 8 form a separate third cluster, which may reflect distinctive ESG policies setting them apart from other institutions.

As a result, three clear clusters emerge. Group I banks are almost entirely positioned within the second cluster, alongside Bank 6 from Group II. Bank 5, however, is part of the third cluster, suggesting a divergence in its ESG approach compared to the rest of its group.

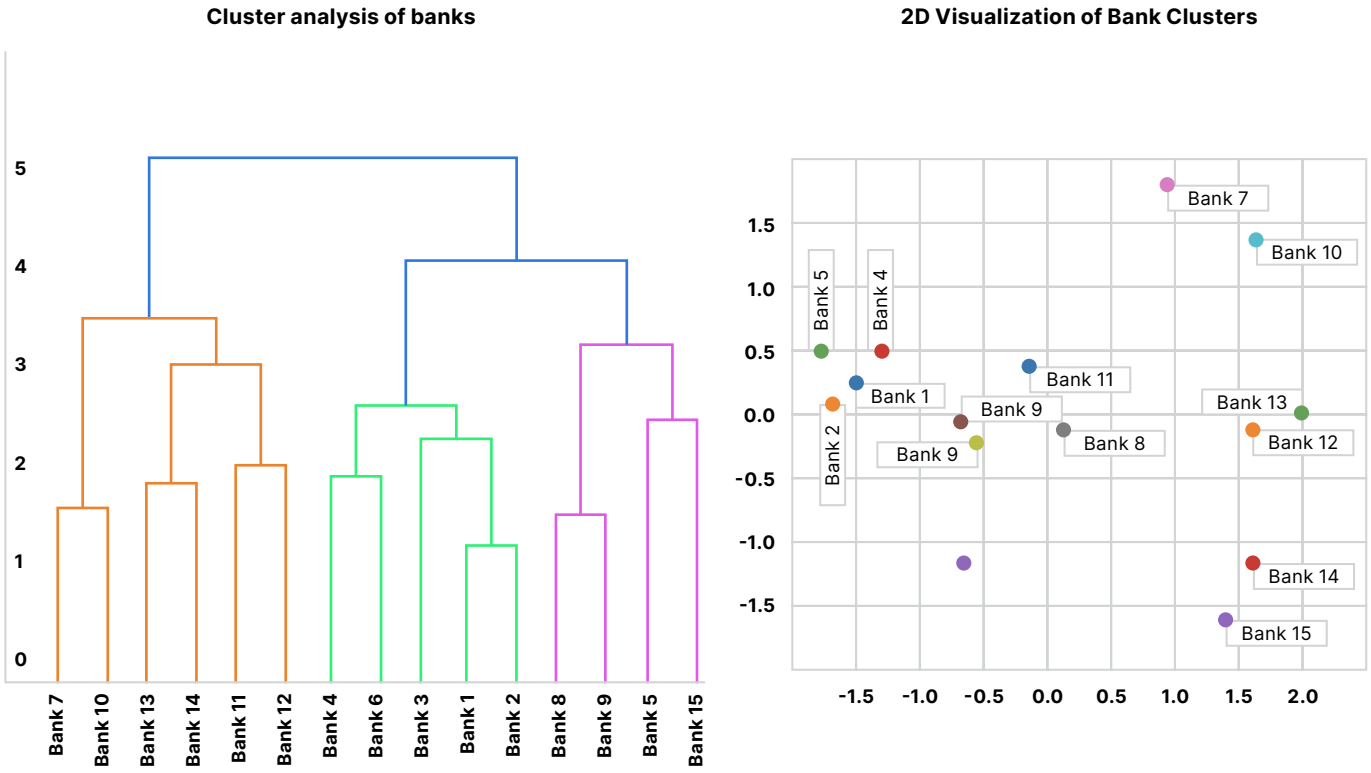


Fig. 33 Cluster analysis between all indicators for banking groups

Visualization using the PCA (Principal Component Analysis) method presents the distribution of banks in a two-dimensional space, reducing multidimensional ESG data to two principal components. This graphical representation allows for a clear distinction between different groups, showing that some banks—such as Bank 7 and Bank 10—are significantly distant from the others, indicating that they follow different ESG practices compared to most institutions. In contrast, banks such as Bank 1, Bank 2, Bank 4, and Bank 6 are positioned relatively close to one another, confirming the dendrogram results and indicating similar ESG reporting models. Bank 5 and Bank 15 are positioned furthest from the rest, revealing significant differences in their corporate policies and approach to sustainability management.

Cluster analysis confirms distinct differences in ESG reporting among banks. The differences between groups highlight that some institutions are significantly more advanced in implementing ESG standards, while others have yet to fully integrate these principles into their strategies. The data indicate that some banks follow a consistent and structured approach to ESG reporting, while others apply varying or limited ESG practices—resulting in visible differences in cluster classification.

In summary, all banks demonstrate a high degree of transparency and consistency in ESG disclosure. There is no bank that refrains from ESG reporting entirely, although the level and scope vary. The data show a particular emphasis on the environmental component of ESG reporting, compared to the social and governance dimensions.

First group banks are significantly more active in **environmental reporting** than those in the second group—mainly due to stricter regulatory requirements. The adoption of standardized frameworks for reporting the environmental footprint of banking activities, the development of models for assessing environmental risks, and the inclusion of new ESG reporting components demonstrate that these banks have begun to build comprehensive models for integrating environmental considerations into their operations.

In their annual reports, banks indicate that in 2024 they will continue working on the development and adaptation of their internal systems to comply with the EU Taxonomy Regulation for classifying economic activities as environmentally sustainable. All banks cite a major challenge: the lack of sufficient data from their clients about their carbon footprint (which, for banks, constitutes Scope 3 emissions), as well as insufficient information regarding their overall environmental performance. Despite their critical role in advancing the green transition, banks are expected to ensure synchronized ESG reporting across all their exposures—even though their clients span diverse economic sectors, where the pace and scope of environmental regulation adoption vary significantly.

Most banks have integrated sustainability risks into their investment decision-making processes, viewing them as ESG events or conditions that, if materialized, could negatively affect the value or return of investments. Banks are increasingly focused on incorporating environmental considerations into credit and market risk assessments, as well as expanding green lending. Institutions with a high level of ESG commitment follow an integrated approach that encompasses all three pillars of sustainable development.

Social reporting shows high levels of transparency, especially regarding human rights protection, social policies, and customer data security. However, disclosures on discrimination prevention mechanisms, social risks, human rights commitments, and diversity—though often cited as core values—are less prominent.

In a highly feminized banking sector, women remain underrepresented on supervisory boards—25%—compared to 33% representation on management boards. In two banks, women have no participation in management at all, indicating that gender equality in leadership is not a universally established practice. Interestingly, Group II banks show a higher average representation of women on boards compared to Group I. Female representation among foreign members of bank management bodies remains rare.

Banks demonstrate high levels of transparency in corporate governance—particularly in areas such as internal control systems and conflict of interest management. However, the formal adoption of corporate policies does not always equate to genuine transparency in governance. While nearly all banks disclose the existence of a code of ethics and rules for good corporate governance, many do not provide information on procedures for avoiding conflicts of interest.

When banks assess certain risks as immaterial, the disclosure of policies and practices related to their management tends to be limited. Banks in the first group exhibit a high degree of homogeneity in terms of disclosure and follow a similar, standardized ESG reporting model. Group II banks display greater heteroge-

neity—some institutions significantly lag behind in ESG reporting. Nevertheless, all banks, including smaller institutions, are preparing for the anticipated expansion of reporting requirements.

However, certain disclosure requirements may be unsuitable for the banking sector and create unnecessary administrative burdens without contributing meaningfully to sustainability performance. These include, for example, anti-corruption reporting obligations and recommendations for appointing specialists in specific areas.

Given the current deterioration of the external environment and the growing financial risks faced by banks, simplifying and reducing some disclosure requirements could help lower compliance costs and support institutions in focusing on their core business activities

PART IV.

State-owned Enterprises



Research methodology

Regulatory Requirements for Non-Financial Reporting of State-Owned Enterprises

The requirements for non-financial reporting by state-owned enterprises as of 2023 are set out in the Accountancy Act (AA)[4] and the Public Enterprises Act (PEA)[5]. The Accountancy Act incorporates the provisions of Directive 2014/95/EU on the disclosure of non-financial information[6].

According to this legislation, the non-financial statement must provide information on the development, performance, and position of the enterprise, as well as the impact of its activities. At a minimum, this must cover environmental, social, and employee-related matters, respect for human rights, and anti-corruption and bribery efforts.

More specifically, the information must be structured to include the following sections:

- business model of the enterprise;
- a description of the policies pursued by the company with regard to environmental, social and employee issues, respect for human rights, anti-corruption and anti-bribery;
- the results of the implementation of these policies;
- the main risks related to environmental, social and employee issues, respect for human rights, the fight against corruption and bribery;
- key non-financial performance indicators.

It is stipulated that when an entity does not apply or does not follow any of the policies required for disclosure in the non-financial statement, it must provide a reasoned explanation. An exception is allowed, enabling undertakings to withhold information about upcoming changes to their policies if those changes are still under negotiation and the disclosure of such information would cause harm to the undertaking. In such cases, the management of the enterprise is required to provide a reasoned opinion explaining why the information has not been disclosed.

Undertakings are required to disclose their non-financial statements on their websites by 30 September of the year following the reporting period. The non-financial statement may be published as a standalone document or its content may be integrated into the annual activity report.

Similar to individual non-financial statements, the Accountancy Act also sets requirements for the preparation and submission of consolidated non-financial statements. These are mandatory for public interest entities that are parent companies of a large group which, as of 31 December, exceeds an average consolidated number of 500 employees.

The Public Enterprises Act also establishes requirements regarding the content of non-financial information. These include reports on risk assessment, human resources and labour relations, sustainability, environmental impact, transactions with related parties, and a report on the members of management and supervisory bodies, including a remuneration report. Additionally, it requires reporting on the fulfilment of assigned public service obligations and public policy objectives. In this way, the Public Enterprises Act broadens the scope of non-financial information that state-owned enterprises must disclose.

4 Accounting Act. published in the State Gazette, issue 95 of 8 December 2015.
5 Public Enterprises Act. published in the State Gazette, issue 79 of October 8, 2019.
6 DIRECTIVE 2014/95/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 22 October 2014 amending Directive 2013/34/EU as regards the disclosure of non-financial and diversity information by certain large undertakings and groups.

Analysis algorithm

Performing an analysis of non-financial disclosure is a challenging and time-consuming research task that involves the collection and systematization of individual information from numerous enterprises, along with both quantitative and qualitative analysis and synthesis of this information. To carry out this process effectively, a clear algorithm must be developed and consistently applied by all members of the research team.

The first step of the algorithm involves defining the object of analysis. Out of the 265 state-owned enterprises in operation[7], a sample of 50 state-owned enterprises was made that had to disclose consolidated non-financial declarations. State-owned enterprises engaged in activities with no significant environmental footprint were excluded from the group. These include "Information Services" AD, Sofia; "State Consolidation Company" EAD, Sofia; the State Enterprise "Bulgarian Sports Totalizator"; "Bulgarian Water Supply and Sewerage Holding" EAD, Sofia; "National Palace of Culture – Congress Center Sofia" EAD, Sofia; and others. As a result, 26 state-owned enterprises were identified and included in the study. By sector, they represent energy, transport and communications, healthcare, public works, infrastructure, and military production—areas where state-owned enterprises have the largest presence.

The second step of the algorithm involves determining the quantitative parameters for assessing the non-financial disclosure of the selected state-owned enterprises. For this purpose, a specific methodology was developed, comprising two groups of indicators: formal and substantive. The definition of these indicator groups is based on the regulatory requirements for non-financial reporting by state-owned enterprises. The goal is to assess the extent to which these enterprises fulfill the requirement for transparency and accountability in their operations.

Following this logic, 14 formal indicators are defined::

1. Availability of a publicly accessible individual Non-Financial Declaration under Art. 48 of the Accountancy Act (AA);
2. Availability of a publicly accessible consolidated Non-Financial Declaration under Art. 51 of the AA;
3. Availability of a publicly accessible individual Non-Financial Declaration under Art. 29, para. 4 of the Public Enterprises Act (PEA);
4. Availability of a publicly accessible consolidated Non-Financial Declaration under Art. 29, para. 4 of the PEA;
5. Availability of a section/subsection describing the business model of the enterprise;
6. Availability of a section/subsection describing the policies followed by the enterprise regarding environmental, social and employee-related issues, respect for human rights, anti-corruption and anti-bribery;
7. Availability of a section/subsection presenting the outcomes of the policies pursued in relation to environmental, social and employee-related issues, respect for human rights, anti-corruption and anti-bribery;
8. Availability of a section/subsection outlining the main risks related to environmental, social and employee-related issues, respect for human rights, the fight against corruption and bribery, and the methods by which the enterprise manages these risks;
9. Availability of a risk assessment report;
10. Availability of a sustainability report;
11. Availability of a report on human resources and labour relations;
12. Availability of an environmental impact report;
13. Availability of a report on transactions with related parties and a report on members of the management and supervisory bodies, including a report on their remuneration;
14. Availability of a report on the fulfilment of assigned public service obligations and public policy objectives.

7 APPK. 2023. ANNUAL SUMMARY REPORT ON STATE-OWNED PUBLIC ENTERPRISES FOR 2022 https://appk.government.bg/bg/55

The second group of indicators focuses on evaluating the quality of the information disclosed. The following 10 indicators are used:

1. The section on the business model includes a brief description;
2. The section on environmental, social and employee-related issues, respect for human rights, anti-corruption and anti-bribery outlines the enterprise's policies on these matters;
3. The section presents the results from implementing the policies regarding environmental, social and employee-related issues, respect for human rights, the fight against corruption and bribery;
4. The section on key risks includes identification of risks related to environmental, social and employee-related issues, respect for human rights, anti-corruption and anti-bribery, and how the enterprise manages and mitigates them;
5. The risk assessment report includes a description of the main risks facing the enterprise, their evaluation, and the related policies and mitigation measures;
6. The sustainability report provides a summarized assessment of the economic, social, and environmental progress of the state-owned enterprise;
7. The human resources report contains information on the status, policies, and outcomes related to human capital and labour relations;
8. The environmental report includes an evaluation of the environmental impact of the enterprise's activities and the policies in place to reduce this impact;
9. The report on transactions with related parties and on members of the management and supervisory bodies, including their remuneration, provides information on transactions during the reporting period and the individual remuneration of board members;
10. The report on the fulfilment of assigned public service obligations and public policy objectives discloses the extent to which these services and objectives have been met.

The third step of the algorithm involves the creation of a database comprising information from the selected enterprises. The database includes non-financial statements, annual activity reports, and, in some cases, additional documents such as corporate governance statements, sustainability reports, management performance reports, risk assessment reports, related party transaction reports, human resources reports, and other documents related to non-financial disclosure. All documents refer to the most recent reporting year—2023.

The fourth step of the algorithm is the analysis of the documents and the performance of a quantitative assessment. For each indicator, three answer options are used as the evaluation scale: "completed," "partially completed," and "not completed." To quantify the level of indicator performance, a scoring system was applied, with the responses assessed as follows:

1 p. - fulfilled

0.5 pts - partially executed

0 points - not fulfilled

One point is awarded when the first group of indicators is addressed in the non-financial statement or annual activity report. For quality indicators, one point is awarded when complete and detailed information is provided in the relevant section. In cases of partial or incomplete information, or when the section is only partially covered, 0.5 points are given.

Out of the 26 selected state-owned enterprises, 15 are required to submit an individual non-financial statement, while the remaining 11 must submit both an individual and a consolidated non-financial statement, as

they constitute an economic group. Accordingly, for state-owned enterprises that form an economic group, 24 indicators are applicable, whereas for the remaining enterprises, 22 indicators apply.

To establish a unified basis for comparing the total score obtained by both groups of state-owned enterprises, the results are scaled to a 100-point system using the following formula:

Rin = *100,Pi/Pmax

Where:

Pin – normalized number of points per enterprise i

Pi – Total number of points per undertaking I

Pmax – maximum number of points per undertaking I according to whether it is an economic group or not..

Another feature of quantitative assessments is the different weights of the two types of indicators. To focus on quality indicators, the sum of the points for them is multiplied by 0.8. By 0.2 the sum of the points on the formal indicators is multiplied. Thus, the maximum number of points that an economic group can receive are:

0,2x14 + 0,8×10 = 2,8 + 8,0 = 10,8 т.

Accordingly, an undertaking which is not an economic group may receive:

0,2x12 + 0,8×10 = 2,4 + 8 = 10,4 т.

If two enterprises, one of which is an economic group and the other is not an economic group, do not have the same number of points, for example, 6, after using the formula for equalizing the points, what is an economic group will have:

P = *100 = 55.6 points,6/10,8

while the other, which is not an economic group, will have:

P = *100 = 57.7 tons.6/10,4

After calculating the individual results, the quantitative assessments are calculated as a whole - for all selected state-owned enterprises, separately - for each individual enterprise, as well as for each indicator and by sectors of the selected state-owned enterprises.

Assessment Summaries

As a result of an in-depth review of non-financial statements, annual reports, and other relevant documents, and following the application of the selected methodology, it was found that state-owned enterprises meet, on average, 57% of the requirements for reporting on environmental, social, and corporate governance matters. The median of the assessment distribution is 66%, which represents a significant deviation from the average. Combined with a coefficient of variation of 39%, this indicates substantial disparities among the surveyed enterprises.

Table 3. Main indicators

Indicator	Value
Average score	57%
Median	66%
Standard deviation	22%
Coefficient of variation	39%

Such deviations are also reflected in the distribution of average scores by enterprise (Figure 34). The best-performing enterprises achieve scores of 90–91%, while the lowest-scoring enterprise reaches only 12%. Two distinct clusters emerge on either side of the overall average score. On the upper end, eight state-owned enterprises score between 72% and 81%, placing them above the overall average. At the lower end, seven state-owned enterprises record low scores ranging from 27% to 35%.

It is notable that only one enterprise has a score of 59%, which closely aligns with the overall average. A total of 14 enterprises perform above the average score, while 12 fall below it.

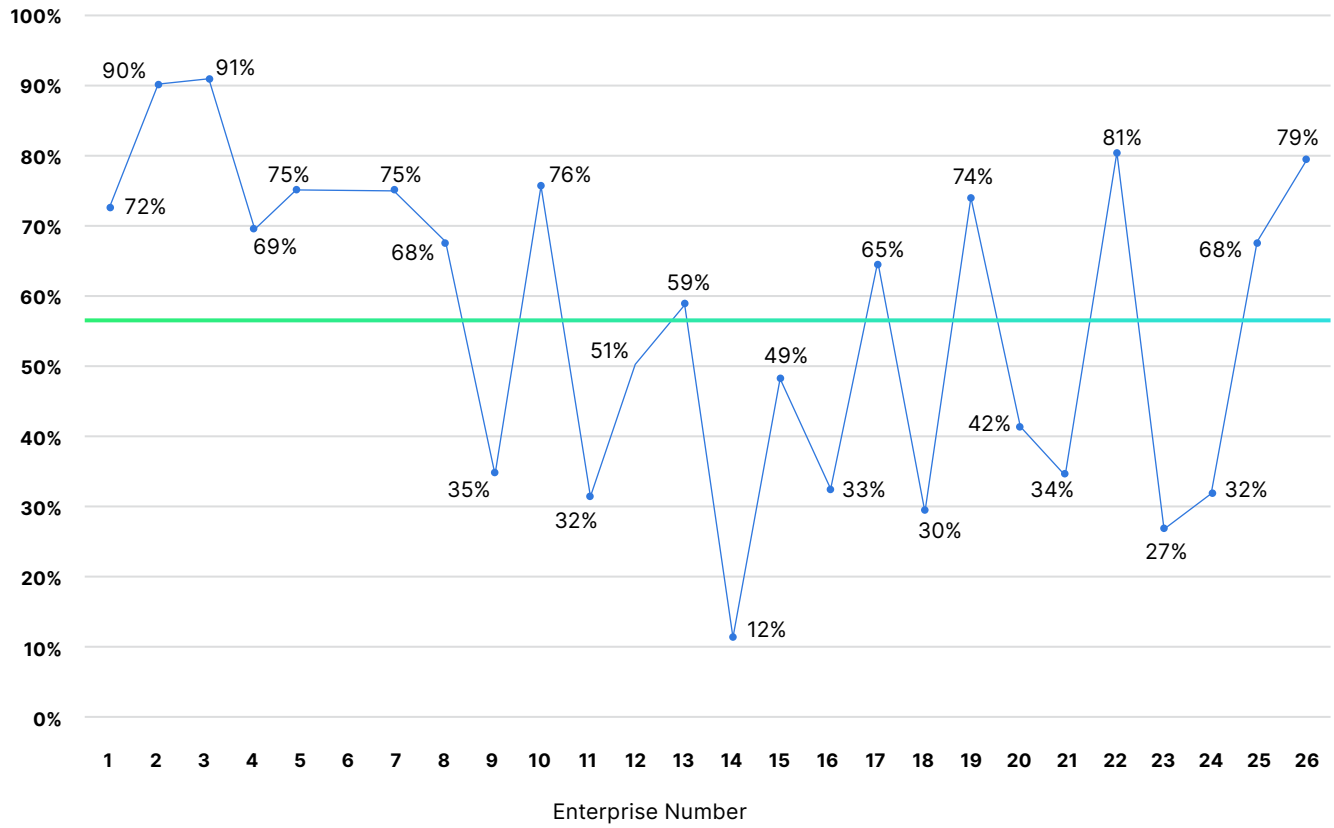


Fig. 34 Distribution of valuations by state-owned enterprises

The histogram of the distribution of scores across six groups deviates significantly from a normal distribution (Figure 35). Most enterprises are concentrated in the zones below the highest rating ranges. Seven state-owned enterprises received scores between 25% and 38%, and ten fall within the range of 64% to 78%. Only four enterprises are situated in the middle of the distribution, while the extremes include one enterprise at the lowest end and four at the highest.

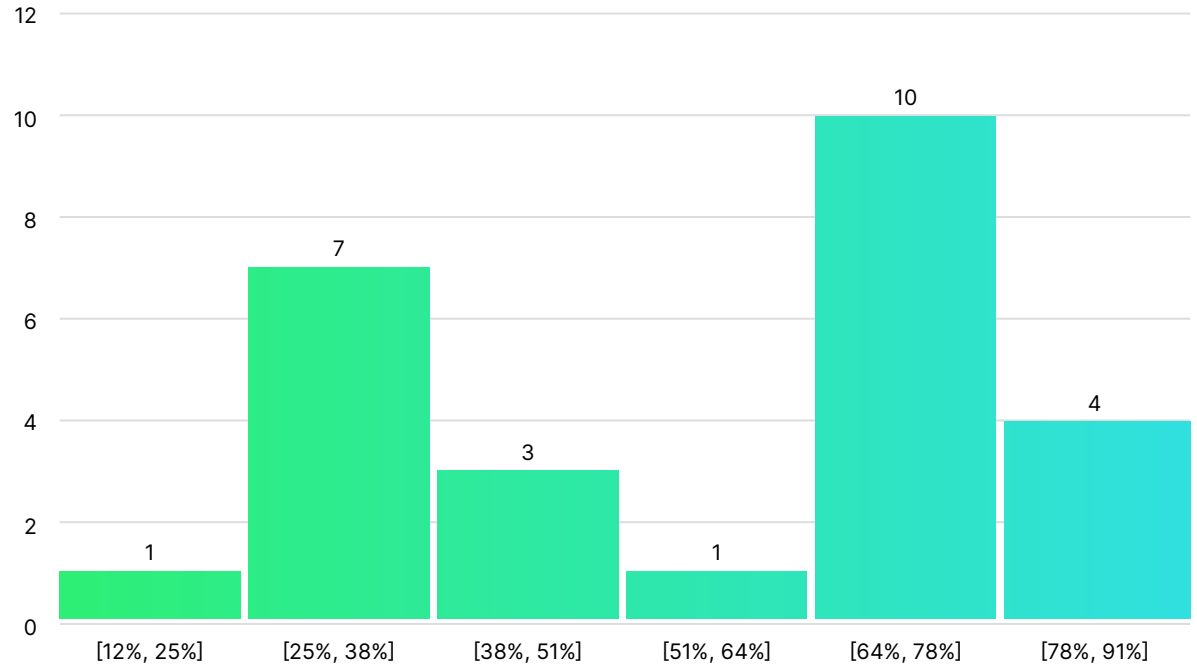


Fig. 35 Histogram of the distribution of grades

The best performance is observed among state-owned enterprises in the energy sector, with an overall score of 79% (Figure 36). Companies in the public works and infrastructure sector—specifically those in water supply and sewerage—received scores equal to the overall average.

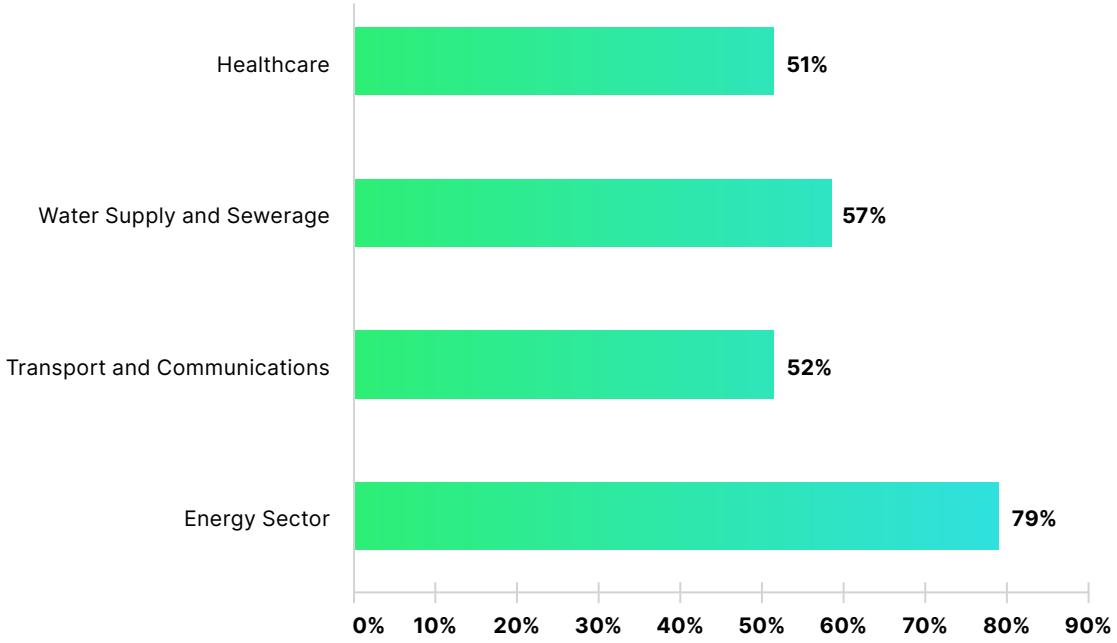


Fig. 36 Average score by sector

Enterprises from the healthcare, transport, and communications sectors remain below the average rating, with nearly identical scores. Enterprises from the best-performing sectors are subject to strict regulation by the Energy and Water Regulatory Commission (EWRC), which requires them to systematize extensive information about their operations, ensure continuous reporting, and undergo regular oversight of their reports and activities. This regulatory framework is the key factor contributing to their high scores and the extensive disclosure of non-financial information.

When comparing the two groups of indicators, reporting is more advanced for formal indicators than for substantive ones. The average performance on formal indicators is 81%, while the average for substantive indicators is 61%.

The highest performance among formal indicators is observed in the following areas: the publication of a report on human resources and labor relations – 87%; a description of the enterprise's business model – 79%; and a description of the policies followed by the enterprise regarding environmental, social, and employee issues, respect for human rights, and anti-corruption and bribery – 77% (Figure 37).

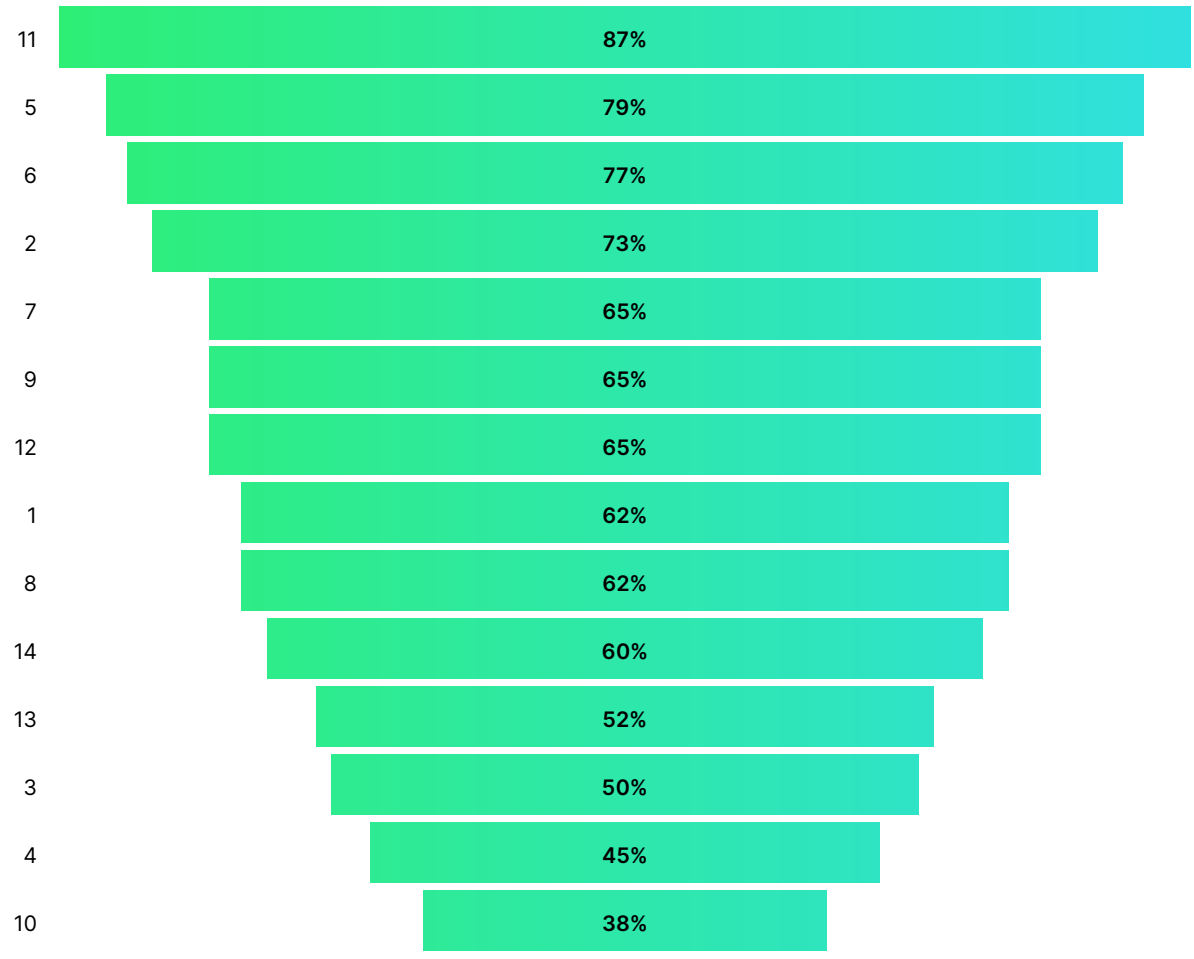


Fig. 37 Level of implementation of formal indicators

Legend: *1 – Availability of a publicly available individual Non-Financial Declaration under Art. 48 of the Accountancy Act (AA); 2 – Availability of a publicly available consolidated Non-Financial Declaration under Art. 51 of the AA; 3 – Availability of a publicly available individual Non-Financial Declaration under Art. 29,*

para. 4 of the Public Enterprises Act (PEA); 4 – Availability of a publicly available consolidated Non-Financial Declaration under Art. 29, para. 4 of the PEA; 5 – Availability of a section/subsection with a description of the enterprise's business model; 6 – Existence of a section/subsection describing the policies followed by the enterprise with regard to environmental, social, and employee issues, respect for human rights, anti-corruption, and anti-bribery; 7 – Existence of a section/subsection presenting the outcomes of the policies pursued by the enterprise in relation to environmental, social, and employee issues, respect for human rights, anti-corruption, and anti-bribery; 8 – Existence of a section/subsection outlining the main risks related to environmental, social, and employee issues, respect for human rights, the fight against corruption and bribery, and how the enterprise manages these risks; 9 – Availability of a risk assessment report; 10 – Availability of a sustainability report; 11 – Availability of a report on human resources and labor relations; 12 – Availability of an environmental impact report; 13 – Availability of a report on transactions with related parties and a report on members of the management and supervisory bodies, including a remuneration report; 14 – Availability of a report on the fulfillment of assigned public service obligations and public policy objectives.

Note: Indicators 1 and 3 refer only to economic groups.

The second group in terms of the degree of fulfillment of formal indicators—with scores between 60% and 65%—includes: the presence of a section presenting the outcomes of the policies followed by the enterprise in relation to environmental, social, and employee issues, respect for human rights, the fight against corruption and bribery; the risk assessment report; the environmental impact report; the consolidated non-financial declaration under the Accountancy Act; the presence of a section on the main risks related to environmental, social, and employee issues, respect for human rights, anti-corruption and anti-bribery, and the ways in which the enterprise manages these risks; and the report on the fulfillment of assigned public service obligations and public policy objectives.

The lower end of the distribution of formal indicator assessments includes: the report on transactions between related parties and the report on the members of the management and supervisory bodies, including a report on their remuneration; the consolidated and individual non-financial declarations under the Public Enterprises Act. At the very bottom of the distribution is the sustainability report, found in only 10% of state-owned enterprises.

Among the content indicators, the description of the business model stands out, ranking highest with a performance rate of 77% (Figure 38). It is followed by: risk assessment; human resources reporting; disclosure of policies related to environmental, social, and employee matters, respect for human rights, anti-corruption and anti-bribery; and reporting on the fulfillment of assigned public service obligations and public policy objectives.

The most unsatisfactory performance is again associated with the sustainability report, which has a fulfillment rate of just 31%. Also at the bottom of the distribution are: the reporting of the outcomes of the policies pursued by the enterprise regarding environmental, social and employee issues, respect for human rights, anti-corruption and anti-bribery; the environmental report; the report on transactions with related parties and on members of the management and supervisory bodies, including their remuneration; the identification and mitigation of key risks related to ESG areas; and, again, the sustainability report.

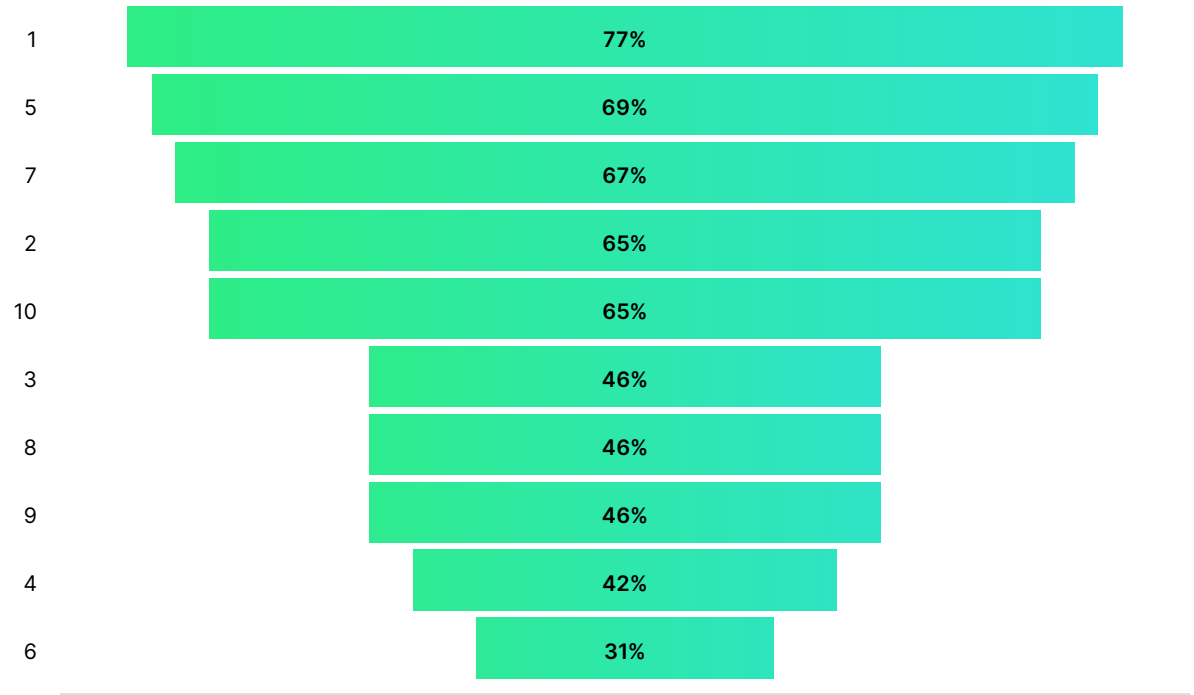


Fig. 38 Degree of implementation of the content indicators

Legend: *1 – The section on the business model provides a brief introduction; 2 – The section on environmental, social and employee issues, respect for human rights, anti-corruption, and anti-bribery presents the company's policies in these areas; 3 – The section presents the results of the implementation of the policies pursued by the company regarding environmental, social and employee issues, respect for human rights, the fight against corruption and bribery; 4 – The section outlines the main risks related to environmental, social and employee issues, respect for human rights, anti-corruption, and anti-bribery, as well as how these risks are identified and mitigated by the company; 5 – The risk assessment report includes a description of the key risks facing the enterprise, their evaluation, and the policies and measures taken to mitigate them; 6 – The sustainability report provides a summary assessment of the economic, social, and environmental progress of the state-owned enterprise (SOE); 7 – The human resources report includes information on the status of the policy concerning human resources and labour relations; 8 – The environmental report presents an assessment of the environmental impact of the SOE's activities and the policies in place to reduce this impact; 9 – The report on transactions between related parties and the report on the members of the management and supervisory bodies, including their remuneration, provides information on transactions carried out during the reporting period and on individual remuneration amounts; 10 – The report on the fulfillment of assigned public service obligations and public policy objectives reflects the extent to which these services and objectives have been achieved.*

Environmental Disclosure (E)

Information related to the environmental performance of businesses is a specific component of the broader disclosure on progress toward sustainable development and corporate social responsibility. This is primarily due to the heterogeneity of the environmental impacts generated by state-owned enterprises. These impacts depend on the characteristics of the sector in which the enterprise operates, as well as on the specific features of its internal functioning. For example, the environmental impact of hospitals differs significantly from that of enterprises in the energy, transport, or communications sectors. Moreover, the severity of both direct and indirect environmental effects varies across sectors. Therefore, the focus of analysis and evaluation of disclosures should be tailored accordingly for each sector.

Furthermore, the environmental performance information disclosed by enterprises reflects not only compliance with legislative requirements but also the scope of activities undertaken during the year and the level of ambition and commitment demonstrated by the enterprise's management. As a result, substantial variation exists in both the quantity and quality of environmental information disclosed, even within the same sector. While some enterprises meet only the minimum regulatory requirements, others go significantly beyond them—demonstrating consistent efforts toward environmental protection and operational efficiency.

These differences in disclosure levels are clearly evident in the sectoral analysis. State-owned enterprises in the energy sector stand out for providing the most detailed information on their environmental performance. All enterprises in this sector demonstrate a high level of compliance with both formal and substantive indicators. This reflects both the high level of environmental risk inherent to the sector and a strong awareness of the importance of responsible environmental stewardship. Several of these enterprises have voluntarily obtained environmental certifications. For instance, Kozloduy Nuclear Power Plant implements a "Non-Radiological Environmental Management Program" in accordance with BDS ISO EN 14001:2015. Similarly, ISO 14001:2015 "Environmental Management Systems" has been implemented at the enterprise "Radioactive Waste."

In contrast, a broad range of opportunities for improvement in environmental disclosure exists among state-owned enterprises in the healthcare sector. This sector demonstrates the greatest heterogeneity in disclosures across the entire sample. About 45% of the surveyed hospitals show a clear understanding of their environmental impact and recognize the importance of managing it. This is reflected in their fulfillment of all five formal and five substantive indicators. At the same time, 36% of the hospitals surveyed disclosed no information on their environmental performance, while 18% provided only partial information. According to various classifications[8], health services have a medium degree of environmental risk, mainly due to the toxic substances used for the various medical procedures, as well as bio-waste. These substances and types of waste must be handled in specific ways, and this is consistently done by hospitals, as they have obligations in this area under national legislation. Therefore, the relevant disclosures should be included in the annual reports of those institutions that have not yet done so, even though they carry out the respective activities.

A similar situation is observed in the Public Works and Infrastructure sector, which is represented by the water supply and sewerage companies in the largest cities in the country after the capital—Plovdiv, Varna, and Burgas. The analysis shows that 67% of these enterprises have published only partial information, while 33% have not disclosed any specific information in the field of environmental protection. Given that sewerage-related activities are high-risk, this lack of disclosure is particularly concerning.[9] Therefore, it is necessary for water supply and sewerage companies to systematically manage this risk—not only to meet corporate accountability requirements, but primarily to protect public health.

8 Ibid
9 Ibid

The transport and communications sector comprises various state-owned enterprises: two engaged in port management, two part of the state railway system, and one operating in postal services. All state-owned enterprises in this group disclose information on their environmental performance, which reflects a good understanding of the importance of managing their environmental impact.

As with the previous two groups of state-owned enterprises, there are significant differences in the level of detail and the structure of the disclosed information. These differences stem both from the specific nature of the enterprises' activities and from the degree of managerial commitment to environmental issues.

In terms of composition, 40% of the state-owned enterprises in this sector are involved in port management, 40% belong to the Bulgarian State Railways (BDZ) system, and 20% operate in telecommunications. The fact that all enterprises in this group disclose environmental performance data further demonstrates their recognition of the relevance of environmental impact management.

However, as in the previous groups, there are considerable differences in the depth and format of reporting. These differences are due to the operational specifics of each enterprise and the extent of their commitment to the topic. For example, postal and courier services, as well as railway transport (passenger and freight), are associated with low environmental risk, whereas maritime freight transport carries a high level of environmental risk.

This naturally calls for differentiated approaches to managing environmental impact across these various modes of transport and helps explain the varying degrees of commitment observed in their respective disclosures.

Postal and courier services, as well as rail, passenger and freight transport, are characterized by low risk, but maritime freight transport has a high environmental risk.[10] This requires differentiation in the approach to managing the environmental impact of each of these modes of transport.

The only company in the sample from the machine-building and manufacturing sector—VMZ Sopot—has provided detailed information on the management of environmental risks. This is understandable given the high degree of environmental risk associated with the activities of the enterprise, but it also reflects the strong commitment of its management to addressing these risks. The actions taken and the well-structured environmental reporting are particularly noteworthy, demonstrating in-depth understanding and a systematic approach to compiling the information.

As a result of the analysis, the following key features of the state of environmental disclosure among state-owned enterprises can be outlined:

- There is pronounced heterogeneity in both the volume and type of information disclosed by enterprises, both across sectors and between individual enterprises within the same sector;
- Disclosures are primarily focused on the direct environmental impacts of the enterprises' operations;
- The information is mainly concentrated in the non-financial statements of the enterprises, though in some cases, environmental considerations are also addressed in other sections of the annual activity reports, such as those covering risk and business models;
- In most cases, the information disclosed is qualitative in nature, while quantitative indicators of environmental performance are present in relatively few reports;
- There is a noticeable trend toward collecting quantitative data and compiling various key performance indicators on environmental matters—this trend is expected to grow in the coming years in light of new reporting requirements.

10 Ibidem

- The relatively good understanding of the scope of the environmental impact of state-owned enterprises (i.e., the so-called materiality assessment) is noteworthy. This is evident in the strategic choices and actions undertaken in the area of environmental protection, as well as in the disclosure of the outcomes of these efforts.

Social Responsibility and Human Rights Disclosure (Social - S)

A high proportion—87%—of state-owned enterprises disclose information on human resources and labour relations. The best-performing sectors in this regard are energy and healthcare, where 100% and 95% of enterprises, respectively, provide such stand-alone reports. In the transport and communications sector, the share is 80%. The overall picture is negatively influenced by the water supply and sewerage companies, where disclosure on human resources and labour relations stands at 60%.

Regarding the quality of the information provided, 67% of state-owned enterprises offer substantive reporting on the status of human resources policies and outcomes. Again, the energy sector demonstrates the highest performance at 100%, followed by transport and communications at 60%, water supply and sewerage companies at 53%, and hospitals at 59%.

Reports on human resources and labour relations typically cover topics such as staff composition and turnover, challenges in recruitment and retention, remuneration, occupational health and safety, professional development, and social programmes.

Staff dynamics are consistently addressed in annual reports. These commonly include data on the total workforce, breakdowns by management units and education levels, as well as information on new hires, terminations, and retirements. Enterprises also share difficulties in recruiting qualified personnel, such as water supply engineers, nurses, and doctors.

Regarding working conditions, reports often describe investments and improvements made, alongside identifying problems in the work environment and issues related to the equipment used for production, diagnostics, and control.

University hospitals show the greatest focus on professional and career development. In addition to training and specialization for personnel—common to other state-owned enterprises—they also report on training programmes for students, postgraduates, and doctoral candidates, as well as the attainment of academic degrees and titles. Scientific publications and participation in conferences and congresses are also reported. This is expected, given the accreditation standards for university hospitals, which in turn support the systematic collection of information for annual disclosures in activity reports and non-financial statements.

With respect to remuneration, there are instances of comparisons between enterprise-level figures and those stipulated in the sector's collective agreement, as seen in the non-financial declaration of University Hospital "St. Ekaterina", Sofia. Generally, remuneration data are disclosed by staff groups and also as an average for the enterprise.

Some state-owned enterprises, such as "Bulgarian Posts" EAD, report on the implementation of social programmes, including social benefits, monthly food vouchers, and assistance for medical treatment. In "Water Supply and Sewerage" Ltd., Varna, staff are provided with company housing, canteen services, access to concerts and performances, and the enterprise also engages in voluntary initiatives to improve local infrastructure.

A key issue in the disclosure of labour relations is the lack of alignment with the human resources management cycle, which spans recruitment, career development, and termination of employment.

Reports on human rights policies are included in 77% of state-owned enterprises, usually within a shared section on environmental, social and employee matters, as well as anti-corruption and anti-bribery. A smaller share—65%—present the outcomes of these policies in a broader section.

By sector, the highest level of disclosure is again seen in energy enterprises, followed by water supply and sewerage, and transport and communications. The healthcare sector ranks last.

The share of enterprises that provide quality information on human rights policies is 65%, of which 46% is included within the consolidated section on environmental, social, and employee issues and anti-corruption. The highest quality of reporting in this area is found in the water supply and sewerage companies, followed by transport and communications.

When addressing human rights, enterprises typically disclose the principles they observe. Most often, this includes the prevention of direct or indirect discrimination on the grounds of gender, race, nationality, ethnicity, citizenship, origin, religion or belief, education, convictions, age, sexual orientation, personal or social status, financial status, or other grounds.

This is usually followed by a general declaration that all such principles are respected and that no human rights violations have occurred.

Beyond these rights, other human rights—such as the right to fair and favourable working conditions, freedom of association, and the right to rest and leisure—are rarely or never mentioned.

Governance and Transparency Disclosures (Governance - G)

A separate section dedicated to the business model exists in 79% of the surveyed state-owned enterprises, with full coverage in the energy sector, 93% in water and sewerage companies, and only 68% in hospitals.

There are no clear guidelines regarding the structure and content of business model reports, which affects the quality of disclosures. Formally, all enterprises describe their activities—products and services, customer base, market positioning, and quality of goods and services. About half include this information outside the non-financial statement, and the term “business model” is often associated with “mission,” “strategy,” or “vision.” Different views on what a business model entails reflect sector-specific interpretations. A small number of described business models fully integrate the environmental, social, and economic aspects of sustainability. Almost all state-owned enterprises define their mission as ensuring high quality in products and services and maintaining financial stability.

An example of good practice in business model reporting is the Ministry of Energy, which provides guidance to state-owned enterprises in the sector on how to structure and contextualize their reports.

Corruption in state-owned enterprises is a topic of high public interest. Transparency, public accountability, and disclosure are essential to its prevention and to maintaining a good corporate image. The fight against corruption and bribery is regulated through several legal acts. Enterprises are required to establish internal financial management and control systems in line with the Financial Management and Control in the Public Sector Act. A Code of Ethical Conduct for persons employed in public enterprises has also been adopted by the Agency for Public Enterprises and Control, in accordance with the Roadmap for the Implementation of the National Strategy for Prevention and Counteraction of Corruption 2021–2027. A total of 48 enterprises have introduced codes of ethics. Only two companies reported three cases where the principles set out in the code were applied.

Formal requirements for the establishment of procedures for preventing and disclosing conflicts of interest

are met by 38 enterprises, but many of them rely solely on their codes of ethics and lack specific rules on conflict-of-interest avoidance.

An essential part of combating corruption is having an effective mechanism for reporting violations, corruption, and abuse. Enterprises' internal rules and measures generally confirm the existence of such mechanisms.

In line with the Whistleblower Protection Act, the vast majority of state-owned enterprises—44 in total—have introduced measures to protect and ensure the anonymity of whistleblowers and reporting citizens.

Implementation of the adopted policies and internal rules regarding internal control processes and the resources allocated for corruption prevention has not yet been substantiated with concrete data. Only three companies reported having detected cases of corruption. Corruption-related legal proceedings are ongoing in two enterprises, and five have conducted training on corruption prevention. The "Sectoral Anti-Corruption Plan in the Energy Sector" developed by the Ministry of Energy can be considered a good practice.

Disclosure of related-party transactions, reporting on management and supervisory board members, and their remuneration has a low implementation rate of 52% across the 26 selected state-owned enterprises. The quality of information is even lower—46%. This trend is present across all sectors. While the situation is slightly better in the energy and healthcare sectors, reporting quality is poorest in transport and communications.

The information provided about related-party transactions and remuneration is highly fragmented. Most often, enterprises issue declarations of no such transactions or affirm adherence to ethical practices. Private legal entities are sometimes mistakenly identified as related parties.

When reporting on the control of related-party transactions, no specific data is usually provided—only general statements that there were no "unusual transactions" or that if they occurred, they were conducted at market prices.

A good practice in some enterprises is detailed reporting on public procurement procedures in their annual reports.

In 74% of cases, remuneration disclosures include only the total compensation received by management, without individual breakdowns.

An analysis of annual reports reveals inconsistent risk classifications, including among enterprises with similar activities. Risk disclosures are found in multiple sections of reports—financial statements, annual activity reports, non-financial statements, and standalone risk reports—sometimes duplicating information.

In 65% of state-owned enterprises' reports, there is a section on risks related to environmental and social issues, employees, human rights, and anti-corruption. In the energy sector, 92% of enterprises include such a section, compared to 63% in water and sewerage, 59% in healthcare, and only 40% in transport. These discrepancies reflect differing sector-specific risk assessments.

A standalone risk assessment report is available in 62% of state-owned enterprises, again with notable sec-

13 Закон за финансовото управление и контрол в публичния сектор, ДВ. бр. 21 от 10 март 2006 г.
14 Кодекс за етично поведение на лицата, заети в публичните предприятия. https://appk.government.bg/bg/35.
15 Предвид високата обществена значимост на проблема с корупцията в държавните предприятия тук се представя информация за оповестяването на свързаната с този въпрос информация от 52 държавни предприятия от общо 265.
16 Закон за защита на лицата, подаващи сигнали или публично оповестяващи информация за нарушения, ДВ. бр. 11 от 2 февруари 2023 г.

toral differences: 92% in energy, only 20% in water and sewerage, 60% in transport and communications, and 73% in healthcare.

Although often incomplete, these reports usually provide a basic description of identified risks and, to a lesser extent, mitigation measures. They feature diverse classifications such as internal/external and systematic/non-systematic risks. Some reports include detailed macroeconomic risk analyses; others mention currency risk, even when not applicable to the enterprise's activities. Many state-owned enterprises identify political risks as relevant to their operations.

In terms of risk measurement, many enterprises lack systematic methodologies. Some use models like the Altman Z-Score, while others rely on metrics such as the number of inspections or imposed sanctions.

Disclosure is most detailed in risk descriptions, less so in policy implementation, and weakest in measuring policy outcomes. Some companies integrate environmental risks into their risk assessments where these are material to operations. For instance, public hospitals list specialist shortages as sustainability-related risks and hazardous waste management as an addressed risk.

Different sectors prioritize risks based on relevance: environmental risks dominate in the energy sector; human resource issues in healthcare; and social/market risks in water and sewerage.

A key challenge lies in identifying links between financial and economic risks (e.g., credit, liquidity, currency, operational) and sustainability risks. Additionally, disclosures of preventive and monitoring measures are limited.

Reports on the fulfillment of public service obligations and public policy objectives are available in 60% of state-owned enterprises. All energy enterprises include such a report, compared to 55% of hospitals and 50% of transport and communications enterprises. The lowest reporting rate is in the water and sewerage sector at just 17%.

A slightly larger share—65%—mention fulfilling public service obligations and policy goals in reports other than the non-financial statement, typically within the annual activity report.

There are two ways of reporting on the performance of public services and public policy objectives. The first approach primarily provides quantitative information on overall revenues and expenditures, as well as details on the public services delivered and policy objectives pursued. For example, hospitals report funding from the Ministry of Health for the maintenance of infectious disease and emergency departments, treatment of HIV/AIDS patients, conducting expert evaluations through the TEMC, and other similar services.

The second approach describes the specific public services that have been assigned, how these services are implemented, and what the main outcomes of these activities are.

Conclusion and recommendations

In summarizing the analysis of disclosures of non-financial information by state-owned enterprises, the following conclusions can be drawn:

- The existing legal framework regulating the reporting and disclosure of non-financial information by state-owned enterprises is formulated in two laws – the Accountancy Act and the Public Enterprises Act,

as well as in the Regulations for the Implementation of the Public Enterprises Act. These two laws set different requirements for the reporting of non-financial information by state-owned enterprises. They require enterprises to publish two separate non-financial reports, respectively under Art. 49 and Art. 51 of the Accountancy Act, and under Art. 29(4) of the Public Enterprises Act. The content requirements of these reports also differ. For example, the Public Enterprises Act requires the inclusion of a sustainability report, a report on related party transactions and on members of the management and control bodies, including their remuneration, as well as a report on the fulfillment of public service obligations and public policy objectives — none of which are required by the Accountancy Act. Even where both laws require similar sections (e.g. risk reporting), the phrasing leads to different expectations. Furthermore, some parts of the non-financial statements duplicate information from annual activity reports — for example, human resources reporting, risk assessment, and business model descriptions. Additionally, under Art. 100n(7), item 1 of the Public Offering of Securities Act, enterprises classified as "large" and those tasked with delivering public services and/or public policy goals must also submit a corporate governance declaration. This document overlaps with the non-financial statement's requirements concerning disclosure of governance bodies, individual remuneration, anti-corruption reporting, and public policy implementation.

- State-owned undertakings in the public interest that are parent companies of large groups, which as of 31 December have more than 500 employees on a consolidated basis, must submit both individual and consolidated non-financial statements. In the case of hospitals with Diagnostic-Consultative Centres (DCCs), this results in unnecessary duplication between the individual and consolidated reports.

- The method of disclosing non-financial reports differs under the two laws. According to the Accountancy Act, enterprises must publish the declarations on their own websites, while the Public Enterprises Act requires publication on the website of the Agency for Public Enterprises and Control (APEC).

- The structure and content of the non-financial statement, as well as the indicators it should include, are not defined, and there are no promoted best practices. Non-financial statements are not subject to audit. As a result, declarations differ significantly in structure, content, and volume. Some enterprises do not prepare a separate non-financial statement at all but integrate the required information within their annual activity reports.

- These shortcomings in the existing disclosure framework should be addressed. Doing so will improve the transparency and accuracy of non-financial information and reduce duplication across reporting documents. Measures to improve the quality and utility of reporting could include the preparation of structured guidance on content and format, sharing of good practices and models, and promotion of these through ministries and APEC. It is also recommended to organize training for state-owned enterprise staff to build capacity in non-financial reporting and disclosure.

- The overall assessment of the state of non-financial reporting in state-owned enterprises shows that they meet an average of 57% of the prescribed requirements. There are large disparities between individual enterprises, evidenced by high variability in their scores. A significant gap exists between the formal and substantive indicators, with substantive (quality) indicators lagging behind by 20 percentage points. This points to a need for improved depth and relevance in the content of reports.

- Of the four sectors analyzed, the best performance is in the energy sector, followed by water supply and sewerage companies. Enterprises in the transport, communications, and healthcare sectors perform below average. This ranking may be attributed to the role of the Energy and Water Regulatory Commission,

which not only sets standards and regulations but also fosters a culture of transparency and accountability in the enterprises it oversees.

- The analysis of non-financial information also revealed many good practices and initiatives by state-owned enterprises — in environmental protection, human resources and labor relations, and corporate governance. These practices deserve recognition, dissemination, and encouragement.

Conclusion

The analysis of non-financial sustainability disclosures in 2023 found that organisations across sectors – public companies, energy companies, banks and state-owned enterprises – are demonstrating significant successes, but are also facing challenges that require further efforts to increase transparency and efficiency in reporting. The main findings can be summarized in the following highlights:

Public companies. There is a high level of formal reporting, and it is noteworthy that the overall corporate governance and internal control indicators remain with some gaps in the disclosure of anti-corruption practices and measures to prevent conflicts of interest. This highlights the need for further regulatory steps to promote fuller disclosure in these areas.

Energy companies. All companies identify significant topics related to sustainable development, but only a fraction of them integrate these topics into their business models and apply clear reporting rules. The lack of structured risk management systems and the insufficient disclosure of specific environmental indicators, such as emissions and renewable energy consumption, demonstrate that there is room for improvement in transparency in environmental reporting.

Banks. The comparison between the largest banks and the rest shows that banking institutions subject to stricter regulatory requirements achieve significantly higher results in the field of ESG reporting. However, the challenges related to insufficient disclosure of climate change risks and customer emissions remain relevant, highlighting the need to establish uniform reporting standards, as well as support from relevant institutions in the country to ensure access to the data necessary for banks for the purposes of the risk assessments they need to make.

State-owned enterprises. The results of the analysis of state-owned enterprises demonstrate an average implementation of 57% of the requirements. The gap between formal and substantive indicators is clearly visible, indicating that thorough and qualitative reporting is still a challenge. The specific approach aimed at reporting public obligations shows the potential to increase transparency and improve the quality of information.

The overall results of the analysis highlight that the regulatory framework has a significant impact on the level of disclosure – companies that are obliged to disclose non-financial information perform higher in many key areas. At the same time, those who disclose information voluntarily tend to focus on additional initiatives and interaction with stakeholders, despite the lower degree of structure in risk management.

To achieve a more sustainable corporate responsibility, it is essential for companies to strengthen transparency, especially in the areas of environmental and social practices, as well as in the management of corporate risks. It is recommended to develop additional guidelines and regulations to stimulate full and detailed reporting, as well as to undertake educational initiatives to raise awareness among organizations about the importance of quality non-financial reporting. It is essential for companies to consider the benefits of this type of reporting, which will motivate them and make additional efforts to improve it.

Finally, this integrated report provides an up-to-date database of information that will be useful for both regulators and investors, as well as for companies themselves in adapting to future regulatory requirements and promoting sustainable business practices. The recommendations derived from the analysis aim to focus on areas where further improvement is needed and to support efforts to build more transparent and accountable organisational models capable of meeting the challenges of the future.

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