Bulgarian Energy Holding EAD

(incorporated with limited liability in the Republic of Bulgaria, with registered number 831373560)

EUR 550,000,000 4.875 per cent. Bonds due 2021

Issue Price 98.921 per cent.

Bulgarian Energy Holding EAD (the "**Issuer**" or "**BEH**") is issuing EUR 550,000,000 4.875 per cent. Bonds due 2021 (the "**Bonds**").

Interest on the Bonds is payable annually in arrear on 2 August in each year, commencing on 2 August 2017. Except as described under "*Terms and Conditions of the Bonds – Taxation*", payments in respect of the Bonds will be made without any deduction or withholding for or on account of any taxes of Bulgaria.

Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed at their principal amount on 2 August 2021. The Bonds are subject to redemption, in whole but not in part, at their principal amount (together with interest accrued to the date fixed for redemption), at the option of the Issuer at any time in the event of certain changes affecting taxation in the Republic of Bulgaria. See "*Terms and Conditions of the Bonds*". Upon the occurrence of a Change of Control (as defined in Condition 6) of the Terms and Conditions of the Bonds), each Bondholder shall have the option to require that the Issuer redeem (or at the option of the Issuer, purchase (or procure the purchase of)) such Bondholder's Bonds at 101 per cent. of the principal amount thereof plus accrued and unpaid interest, if any, to (but excluding) the Change of Control Put Date (as defined in Condition 6(c) *Change of Control Put Option*) of the Terms and Conditions of the Bonds). The Bonds will constitute direct, general, unconditional, unsecured and unsubordinated obligations of the Issuer. See "*Terms and Conditions of the Bonds*". Unless a Change of Control Put Notice has been given pursuant to Condition 6(c) (*Change of Control Put Option*) of the Terms and Conditions of the Bonds, the Issuer may, at any time, redeem, in whole or in part, the Bonds at a redemption price per Bond equal to the higher of: (i) the principal amount of the Bond; and (ii) the sum of the then current values of the remaining scheduled payments of principal and interest discounted to the Optional Redemption Date on an annual basis (based on the actual number of days elapsed divided by 365 or (in the case of a leap year) by 366) at the Reference Dealer Rate (as defined herein) plus 5.00 per cent., in each case as determined by the Determination Agent (as specified in Condition 6(d) (*Redemption at the Option of the Issuer*) of the Terms and Conditions of the Bonds).

This Prospectus (the "**Prospectus**") has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU) (the "**Prospectus Directive**"). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. Such approval relates only to the Bonds which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area. The regulated market of the Irish Stock Exchange (the "**Market**") is a regulated market for the purposes of Directive 2004/39/EC. Application has been made to the Irish Stock Exchange for the Bonds to be admitted to the official list of the Irish Stock Exchange (the "**Official List**") and trading on its regulated market.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Ac**t") or any U.S. State securities laws and may not be offered or sold in the United States or to, or for the account or the benefit of, U.S. persons as defined in Regulation S under the Securities Act ("**Regulation S**") unless an exemption from the registration requirements of the Securities Act is available and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction.

The Bonds shall be in registered form in denominations of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof. The Bonds will initially be represented by a global certificate (the "**Global Certificate**"), without interest coupons, which will be issued and delivered on or prior to the Issue Date (as defined herein) to, and registered in the name of, a nominee for a common depositary (the "**Common Depositary**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**"). Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their respective participants. Individual bond certificates in definitive form (the "**Individual Bond Certificates**") evidencing holdings of Bonds will only be available in certain limited circumstances. See "*Summary of Provisions Relating to the Bonds While in Global Form*".

The Bonds are expected to be assigned a rating of BB- by Fitch Ratings Limited ("**Fitch**") and Ba2 by Moody's Investors Service, Ltd. ("**Moody's**"). Both Fitch and Moody's are established in the European Union and registered under Regulation (EC) No 1060/2009 as amended by Regulation (EU) No 513/2011 (the "**CRA Regulation**") and are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. **A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.**

Prospective investors should have regard to the factors described under the section headed "*Risk Factors*" in this Prospectus.

Global Coordinator and Joint Lead Manager

J.P. Morgan

Joint Lead Manager

Banca IMI

Co-Managers

Balkan Advisory Company IP EAD

Bank of China

First Financial Brokerage House Ltd.

This Prospectus is dated 29 July 2016.

This Prospectus comprises a prospectus for the purposes of Article 5 of the Prospectus Directive as implemented in Ireland by the Prospectus (Directive 2003/71/EC) Regulations 2005 (the "**Prospectus Regulations**") and for the purpose of giving information with regard to the Issuer, the Issuer and its subsidiaries and affiliates taken as a whole (the "**Group**") and the Bonds which, according to the particular nature of the Issuer, the Group and the Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Group and of the rights attaching to the Bonds.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

In addition, the Issuer has confirmed to the Managers that (i) this Prospectus, as at the date hereof, contains all information with respect to the Issuer, the Group and the Bonds that is material in the context of the issue and offering of the Bonds; (ii) the statements contained in this Prospectus, as at the date hereof, relating to the Issuer and the Group are in every material particular true and accurate and not misleading; (iii) the opinions and intentions expressed in this Prospectus, as at the date hereof, with regard to the Issuer and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Issuer, the Group or the Bonds the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this Prospectus misleading in any material respect; and (v) all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

This Prospectus has been prepared on the basis that any offer of Bonds in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Bonds. Accordingly, any person making or intending to make an offer in that Relevant Member State of Bonds which are the subject of the offering contemplated in this Prospectus may only do so in circumstances in which no obligation arises for the Issuer or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor the Managers have authorised, nor do they authorise, the making of any offer of Bonds in circumstances in which an obligation arises for the Issuer or the Managers to publish or supplement a prospectus for such offer.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Managers to subscribe or purchase any of the Bonds. The distribution of this Prospectus and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions.

This Prospectus may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. For a description of further restrictions on offers and sales of Bonds and distribution of this Prospectus, see "*Subscription and Sale*" below.

No person is authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer or the Managers. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Group since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Group since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Bonds is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

To the fullest extent permitted by law, the Managers accept no responsibility whatsoever for the contents of this Prospectus or for any other statement made or purported to be made by a Manager or on its behalf in connection with the Issuer or the issue and offering of the Bonds. Each Manager accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement. Without limitation to the generality of the foregoing, the contents of the Group's website, in addition to any other websites referred to in this Prospectus, as at the date hereof or as at any other date do not form any part of this Prospectus (and, in particular, are not incorporated by reference herein).

The Bonds have not been and will not be registered under the Securities Act and are subject to U.S. tax law requirements. Subject to certain exceptions, Bonds may not be offered, sold or delivered within the United States or to U.S. persons.

This Prospectus has been filed with and approved by the Central Bank as required by the Prospectus Regulations. Any investment in the Bonds does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Central Bank. The Issuer is not and will not be regulated by the Central Bank as a result of issuing the Bonds.

The contents of this Prospectus should not be construed as legal, financial, business or tax advice. Each prospective investor should consult his or her own legal adviser, financial adviser or tax adviser for legal, financial or tax advice in relation to any purchase or proposed purchase of Bonds.

The language of this Prospectus is English. Any foreign language text that is included with or within this document has been included for convenience purposes only and does not form part of this Prospectus.

In connection with the issue of the Bonds, J.P. Morgan Securities plc (the "**Stabilising Manager**") (or any person acting on behalf of any Stabilising Manager) may, to the extent permitted by applicable laws and directives, over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date of the Bonds and 60 days after the date of the allotment of the Bonds. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The Group prepared its audited consolidated financial statements as at and for the year ended 31 December 2015 (the "**2015 Financial Statements**") and as at and for the year ended 31 December 2014 (the "**2014 Financial Statements**" and together with the 2015 Financial Statements, the "**Financial Statements**") in accordance with International Financial Reporting Standards ("**IFRS**"), as adopted by the EU and as issued by the International Accounting Standards Board (the "**IASB**").

QUALIFICATIONS AND EMPHASES OF MATTER IN 2014 AND 2015 FINANCIAL STATEMENTS

2015 Financial Statements

HLB Bulgaria OOD. (**HLB Bulgaria**) has audited the Group's 2015 Financial Statements. HLB Bulgaria's audit opinion, included in the 2015 Financial Statements, contains the following qualifications and emphasis of matter paragraphs:

"Basis for Qualified Audit Opinion

1. The Group has concluded an agreement, for the construction of a nuclear power plant, with a third party, disclosed in Note 18 "Property, plant and equipment" to the consolidated financial statements. As at 31 December 2015, the total carrying value of property, plant and equipment, related with the nuclear power plant, amounts to BGN 1,391,177 thousand, of which BGN 1,305,948 thousand are assets under construction. As at 31 December 2015, the Group's advance payments to and receivables from the principal contractor of the nuclear power plant amount to BGN 198,490 thousand, the accrued liabilities to the contractor amount to BGN 98,434 thousand and the unrecognised liabilities, arising from received invoices for works, executed in compliance with Annex 5 to the contract, amount to BGN 202,522 thousand. On 29 March 2012 the Government of the Republic of Bulgaria decided to discontinue the construction of the nuclear power plant. Pursuant to a Decision of the 41st National Assembly, dated 27 February 2013, the National Assembly supported the decision of the Government for the termination of the project for construction of a new nuclear power plant at the "Belene" platform. The Group is currently in legal disputes with the principal contractor and the architect — engineer, under the project, as disclosed in Note 40 "Commitments and contingent liabilities". The Group is not in a position to reliably estimate and hence it has not recognised provisions for liabilities or impairment losses of the recognised assets in the consolidated financial statements, related with the construction of the nuclear power plant. We were unable to obtain sufficient and appropriate audit evidence regarding the recoverable amount of the above stated assets of the Group and of the completeness of the recognised liabilities to the principal contractors under the project.

2. No actions have been taken to ensure the funding, which is necessary for the completion of the assets under construction disclosed in Note 18 "Property, plant and equipment" to the consolidated financial statements with net book value of BGN 37,794 thousand as at 31 December 2015,. We were unable to obtain sufficient and appropriate audit evidence regarding the recoverability of the above stated assets, which would provide us with reasonable assurance about their amount, whether any adjustments are necessary and what would be the possible amount of the impairment.

3. The Group has filed a reimbursement claim to the Energy and Water Regulatory Commission (the "**EWRC**"). The claim refers to the reimbursement of incurred expenses, associated with the cancelled "Methodology to offset the cost of public service providers and end suppliers, resulting from the imposed on such public service obligations for purchasing electricity from renewable energy sources at preferential rates", for the period beginning from July 2012 until July 2013, for the total amount of BGN 397,649 thousand. In accordance to the EWRC's Decision No II-12 dated 30 June 2014, the costs for renewable electricity should be recovered within the next 5 regulatory periods, until 30 June 2019. Pursuant to EWRC's Decision dated 31 July 2015, the costs, incurred by the public service providers, under the same methodology, shall be compensated by the "Energy System Security Fund". The expenses, subject to compensation for the pricing period from 1 August 2015 until 31 July 2016 are estimated at BGN 79,500 thousand. The recovered expenses through revenue from sales in 2015

and proceeds from the Ministry of Energy, pursuant to paragraph 9 of the State Budget Act, amount to BGN 107,525 thousand (compared to BGN 34,666 thousand in 2014). In accordance with Decision No. TS-12 dated 30 June 2014 and Decision TS-27 dated 31 July 2015 issued by EWRC, the corresponding amounts were also recognised as current expenses and current liabilities to the electricity supply companies. The unrecognised and not fully compensated expenses, incurred under the methodology, amount to BGN 238,561 thousand as at 31 December 2015. We were not able to obtain sufficient and appropriate audit evidence on the presented values and whether any adjustments are necessary.

4. As at 31 December 2015, the Group has recognised trade receivables from electricity supply companies amounting to BGN 245,618 thousand, trade receivables from other counterparties amounting to BGN 16,579 thousand and trade payables from electricity supply companies amounting to BGN 89,665 thousand, which have not been confirmed by the respective counterparties (Note 40 "Commitments and contingent liabilities"). We were unable to obtain sufficient and appropriate audit evidence about their carrying value and whether any adjustments are necessary as at this date.

5. The Group recognises provisions for a number of obligations arising from its activities. As at 31 December 2015, the Group has recognised a provision for recovery and re-cultivation of exploited plots of land, related to the mining operations of Mini Maritsa-Iztok EAD, amounting to BGN 101,261 thousand (as at 31 December 2014 – BGN 83,933 thousand). We were unable to obtain reasonable assurance for the completeness of the recognised provision, as well as evidence, supporting the underlying assumptions, used in its calculation, in accordance with the requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". The Group does not recognise costs, and respectively — provisions for the decommissioning of nuclear facilities. According to the legislation currently in force and other international agreements, a portion of these costs could be financed by national and international funds. In accordance with the requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", the Group should recognise provisions for the nuclear facilities' decommissioning, and a separate asset for its rights to receive reimbursement of the costs, incurred in case the asset's value can be measured reliably. We were not presented with an assessment of these future costs and any related reimbursement. Consequently, we were not able to obtain sufficient and appropriate assurance about the estimated amount of the provisions and the related reimbursement assets as at 31 December 2015 and as at 31 December 2014.

6. The consolidated statement of financial position includes non-current receivables from Corporate Commercial Bank AD – in insolvency, with a gross book value of BGN 137,541 thousand and accrued impairment of BGN 22,762 thousand as at 31 December 2015. The Group's management has concluded that there are many uncertainties, associated with determining the recoverable amount of this claim and has determined as reasonable to recognise partial impairment loss for the period (Note 21 "Trade and other receivables"). Despite the performed alternative procedures we were not able to obtain sufficient audit evidence, which would provide us with reasonable assurance about the value of these receivables presented in the consolidated financial statements and whether any adjustments to its amount are necessary.

7. As at 31 December 2015, the Group has obtained an investment loan, granted by the European Atomic Energy Community ("**EURATOM**"), which is guaranteed by the Government of the Republic of Bulgaria (Note 28 "Loans and finance lease"). In accordance with the requirements of IAS 39 "Financial Instruments: Recognition and Measurement", the loan should have been initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method. The Group has not measured the loan under this method. This is a violation of the provisions of IAS 39 "Financial Instruments: Recognition and Measurement". As a result, the accumulated loss, and respectively the liabilities of the Group at 31 December 2015 are understated by approximately BGN 9,327 thousand.

Qualified opinion

In our opinion, except for the possible effect of the matters 1 to 6, and the effect of the matter under point 7, described in the paragraph "Basis for qualified audit opinion", the consolidated financial statements give a true and fair view of the financial position of the "BULGARIAN ENERGY HOLDING" EAD, and its subsidiaries, as at 31 December 2015, as well as of the financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards, adopted by the European Commission.

Emphasis of Matter Paragraph

1. We draw attention to Note 18 "Property, plant and equipment", where it is disclosed that during the period, a revaluation of the main part of the Group's property, plant and equipment was conducted, appointing for the purpose an independent licensed appraiser. The specifics of the Group's assets and the dynamic economic environment in the energy sector could lead to variations in the assumptions and judgments used in determining the fair value.

2. The Group uses property and equipment (Note 18 "Property, Plant and Equipment") with a carrying value amounting to BGN 923,624 thousand as at 31 December 2015, which are under the regulation of the Water Act and are public state property. The Act has provisions for the separate management of such assets by entities with a hundred per cent public ownership or legal entities with joint state and municipal participation, where the state has a majority share.

3. We draw attention to the lands and buildings with carrying amount of BGN 24,816 thousand, which are disclosed in Note 18 "Property, Plant and Equipment", and for which the Group does not have unconditional ownership rights as at 31 December 2015 because they are in pending procedure of issuing acts of ownership.

4. We draw attention to the Group's commitments under a concession contract for the exploration and extraction of coals, as disclosed in Note 40 "Commitments and contingent liabilities". According to Order of the Ministry of Economy, Energy and Tourism issued in 2010, the obligation to finance the expenses leads to securing a special guarantee deposit, which can be used only for the purpose for which it was created. As at 31 December 2015, the Group has not deposited the required amount in this special guarantee bank account.

Our opinion is not modified in relation to these matters."

2014 Financial Statements

Grant Thornton OOD ("**Grant Thornton**") audited the Group's 2014 Financial Statements. Grant Thornton's audit opinion, included in the 2014 Financial Statements, contains the following qualifications and emphasis of matter paragraphs:

"Basis for Qualified Opinion

1. The Group has signed an agreement for the construction of a nuclear power plant with a third party, disclosed in note 19 "Property, plant and equipment" to the consolidated financial statements. As at 31 December 2014 the total amount of property, plant and equipment, related to the nuclear power plant, is BGN 1,389,028 thousand, of which BGN 1,305,958 thousand are assets under construction. As at 31 December 2014 the advance payments and receivables from the main contractor for the nuclear power plant are BGN 198,477 thousand. The accrued liabilities thereto, amount to BGN 98,434 thousand. The unrecognised liabilities according to received invoices for activities carried out in accordance with Appendix 5 of the agreement with the contractor amount to BGN 202,522 thousand. On 29 March 2012 the Government of Republic of Bulgaria decided to discontinue the construction of the nuclear power plant. By decision dated 27 February 2013 the 41st National Assembly supported the government's decision to cease the project for construction of a new nuclear power plant on site "Belene" and called for its final termination. The Group is currently in the process

of legal disputes with the main contractor and architect-engineer of the project as disclosed in note 41 "Commitments and contingent liabilities". The Group is unable to make reasonable estimate and accordingly has not recognised provisions, related to these legal disputes, or impairment losses of the recognised assets in the consolidated financial statements. Therefore, we were unable to obtain sufficient appropriate audit evidence regarding the recoverability of the aforementioned assets of the Group and the completeness of the recognised liabilities to the main contractors for the project.

2. In 2014 capital repairs and improvements were made on energy-generating units, vehicles and other equipment for the amount of BGN 79,969 thousand, associated with major components replacement, rehabilitation and reconstruction of parts of the assets in the subsidiary TPP Maritsa East 2 EAD. The carrying value of the replaced main components and parts of the improved assets was not written-off in accordance with the requirements of International Accounting Standards ("**IAS**") 16 "Property, plant and equipment". We were unable to obtain sufficient appropriate audit evidence to obtain reasonable assurance about the necessary adjustments to the consolidated statement of profit or loss.

3. The consolidated financial statements of the Group as of 31 December 2014 include assets under construction with a carrying value of BGN 38,787 thousand as of this date, disclosed in note 19 "Property, plant and equipment". The construction of these assets is not expected to be finished in the near future because there is no funding planned for their completion. Therefore, we were unable to obtain sufficient appropriate audit evidence regarding the recoverability of the aforementioned assets of the Group and the need for adjustments in accordance with IAS 36 "Impairment of Assets".

4. As at 31 December 2014, the Group has trade receivables from Toplofikatsia Sofia EAD with carrying amount of BGN 603,968 thousand, out of which BGN 223,259 thousand are overdue more than one year. In addition, as of the date of this report, the parties continue the negotiations on the terms for combining and rescheduling of the receivables, also confirming their exact amount. We were unable to obtain sufficient appropriate audit evidence regarding the recoverability of the described receivables and what adjustments to these amounts are necessary.

5. As disclosed in note 22.4 "Receivables from KTB AD – in bankruptcy" to the consolidated financial statements, as at 31 December 2014 the Group has non-current receivables in connection with the restricted cash in Corporate Commercial Bank AD – in bankruptcy with carrying amount of BGN 133,947 thousand. Although the management has taken all possible actions to protect the legal and financial interests of the Group as at the date of this report the effect of the existing uncertainty, regarding the recoverability of these receivables, cannot be estimated. In addition, the blocked cash for the "Exit Fund", disclosed in note 22.4 regarding the obligations of Mini Maritsa-iztok EAD under the mining concession agreement for "East Maritsa lignite basin" is by BGN 20,091 thousand less than the amount that shall be held in this special account with beneficiary the Ministry of Energy.

6. The Group reports trade receivables disclosed in note 22 "Trade and other receivables" from power distribution companies at the amount of BGN 242,020 thousand and from other business partners amounting to BGN 40,379 thousand, including imbalances from producers of electricity and users of the subsidiary NEK EAD, which acts as a supplier of last resort. We were not able to obtain sufficient appropriate audit evidence about the recoverable amount of these trade receivables and whether any adjustments are required to their carrying amount as at 31 December 2014.

7. The Group has trade payables to power distribution companies amounting to BGN 34,764 thousand and to other business partners at the amount of BGN 56,664 thousand, which are disclosed in note 34 "Trade and other payables". We were not able to obtain sufficient appropriate audit evidence about the amount of these payables and whether any adjustments are required to their carrying amount as at 31 December 2014.

8. NEK EAD, a subsidiary within the Group, has brought to the attention of EWRC recoverable costs amounting to BGN 342,923 thousand, which were incurred for the period from July 2012 to July 2013 as a result of the application of the "Methodology for compensation of the costs for mandatory purchase of electricity from RES", which was subsequently repealed. According to Decision №TS-12 dated 30 June 2014 of EWRC, the costs incurred for the mandatory purchase of electricity from

renewable energy sources will be compensated during the following five regulatory periods until 30 June 2019. The recovered expenses and the corresponding trade payables to power distribution companies related to the respective sales in 2014 are BGN 34,666 thousand as a result of the application of the above Decision №TS-12 dated 30 June 2014 of EWRC. We were not able to obtain sufficient appropriate audit evidence about the amount of the necessary adjustments to the consolidated financial statements.

9. The Group recognises provisions for a number of obligations arising from its activities. As at 31 December 2014 and 31 December 2013 the Group has recognised provisions for site restoration, related with the mining operations of Mini Maritsa-iztok EAD amounting to BGN 83,933 thousand and BGN 75,136 thousand, respectively. We were unable to obtain sufficient evidence related to the completeness of the recognised provisions and the underlying assumptions used in their calculations in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". The Group does not account for provisions for the decommissioning of nuclear facilities and the storage and management of radioactive wastes arising from its activities. According to the legislation currently in force and other international agreements, the Group has the right to receive reimbursement for a portion of these costs from national and international funds. In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", the Group should recognise provisions for decommissioning and other obligations arising from its nuclear power generation activities and a separate asset for its right to receive reimbursements in the event the asset's value can be reliably determined. Consequently, we were not able to satisfy ourselves as to the measurement and completeness of the provisions and the related reimbursement assets as at 31 December 2014 and 31 December 2013.

Qualified opinion

In our opinion, except for the possible effects of the matters described in the "Basis for qualified opinion" paragraph, the financial statements give a true and fair view of the financial position of the Group as of 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by EU and Bulgarian legislation.

Emphasis of matter

1. We draw attention to note 19 "Property, plant and equipment" to the consolidated financial statements, which discloses that the latest revaluation of the main classes of property, plant and equipment of the Group was carried out at 31 December 2012, using independent certified appraisers. As of 31 December 2014 the management of the Group reviewed these assets for any indications if their carrying amount differed materially from their fair value and did not identify significant differences, except for the assets of the subsidiary TPP Maritsa East 2 EAD, the fair value of which was updated according to the report of an independent certified appraiser. In addition, the Group increased the estimated remaining useful life of the main facilities of energy-generating equipment of the subsidiary TPP Maritsa East 2 EAD with effect from 1 January 2014. The extended useful life led to reduction in depreciation charges for the year by BGN 56,302 thousand. The specifics of the assets of the Group and the dynamic economic environment in the energy sector could lead to variations in the assumptions used and judgments made in determining the fair value and useful life of the main energy-generating facilities. Our opinion is not modified with respect to this matter.

2. We draw attention to note 21 "Investments in joint ventures, associates and other entities" which describes that a protocol decision of the Minister of Economy and Energy in 2014 was issued, which required BEH EAD to take the necessary actions to stop the tender procedures for the project "South Stream" and the signing of contracts with the selected candidates related to the implementation of the project until completion of the procedure initiated by the European Commission on infringement №2014/2176 against the Republic of Bulgaria. In December 2014 representatives of the Russian shareholder in "South Stream Bulgaria" AD, OAO Gazprom, publicly announced their intention to terminate the project. As at the date of this report, the management of BEH EAD has not received yet an official notification for termination or additional information concerning the future intentions of

the other shareholder. As a result, it is not possible to estimate the uncertainty regarding the development of the project and the recoverability of the investment in "South Stream Bulgaria" AD with carrying amount of BGN 223,235 thousand as at 31 December 2014. Our opinion is not modified in respect of this matter.

3. As at 31 December 2014 the Group uses property, plant and equipment with carrying value of BGN 933,505 thousand, which the Group considers to be under the regulation of the Water Act as public state property. The Act has provisions for the separate management of such assets by entities with a hundred per cent public ownership or legal entities with joint state and municipal participation, in which the state has a majority share. Our opinion is not modified in respect of this matter.

4. The Group's consolidated statement of financial position as at 31 December 2014 includes land and buildings with carrying value of BGN 25,573 thousand, which are in pending procedure for issuing state property acts. Our opinion is not modified in respect of this matter.

5. We draw attention to note 9 "Other operating income" to the consolidated financial statements, which discloses that the Group has signed long-term contracts for the sale of lignite with its main customers. In 2014, the Group did not account for revenue from penalties for failure to purchase the minimum mandatory annual quantities of lignite and penalties due to delayed payments by customers, in accordance with the contracts' terms due to low probability of collecting these revenues. As of the date of preparation of the consolidated financial statements the management has taken specific actions for analysis and discussions with all stakeholders, but an agreement for waiver of the penalties originating from the contract has not been signed. In case the parties involved refuse to sign such an agreement, the actual results may differ from the estimates, assumptions and judgments made. Our opinion is not modified in respect of this matter.

6. We draw attention to note 41 "Commitments and contingent liabilities" in which it is disclosed, that pursuant to Decision № 1054 dated 29 July 2014 the Commission for Protection of Competition imposed a pecuniary penalty of BGN 23,378 thousand on the subsidiary Bulgargaz EAD for violation of Art. 21 of the Law on Protection of Competition. The Group's management has taken the necessary legal and factual actions to appeal it at the Supreme Administrative Court. At the date of preparation of the consolidated financial statements, the legal proceedings are still pending. Our opinion is not modified in respect of this matter."

See "*Risk Factors—The audit opinions in respect of the Financial Statements have been qualified in a number of significant respects*" for further information on the qualifications in the 2015 and 2014 Financial Statements.

At the request of the Group, Grant Thornton have conducted a series of procedures in accordance with the International Standards on Auditing (ISA) issued by the International Federation of Accountants (IFAC). They have not carried out an audit examination in accordance with generally accepted auditing standards of financial information relating to the Issuer for any period subsequent to 31 December 2014. For the purpose of conducting these procedures, Grant Thornton have read the financial information included in this Prospectus and have compared it with the audited consolidated financial statements of the Issuer. Grant Thornton confirms that this financial information has been accurately extracted from the audited consolidated financial statements for the relevant years. A limited review and analysis have been conducted on other financial information and changes in the Issuer's financial position. This limited review and analysis also focused on the qualifications and emphases of matter identified by HLB Bulgaria in their auditor's report on the consolidated financial statements of the Issuer as of and for the year ended 31 December 2015. No significant findings or events came to the attention of Grant Thornton as a result of their review and analysis.

RESTATEMENTS AND REVALUATIONS

The 2015 Financial Statements restate or revalue certain figures relating to the year ended 31 December 2014. Further details of these restatements and revaluations are contained in Note 5 to the 2015 Financial Statements.

DEFINITIONS

In this Prospectus, unless otherwise specified or the context otherwise requires, references to:

- "**Bulgaria**" are to the Republic of Bulgaria;
- "**BGN**" and "**lev**" are to the lawful currency for the time being of Bulgaria;
- "**U.S. dollars**" are to the lawful currency for the time being of the United States of America;
- "**€**", "**EUR**" and "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended;
- "**2014**" are to the 12 months ended 31 December 2014;
- "**2015**" are to the 12 months ended 31 December 2015; and
- "**billion**" are to a thousand million.

Certain figures and percentages included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

The lev has been pegged to the euro since 1 January 1999 at a rate of BGN 1.95583 to €1.00.

FORWARD-LOOKING STATEMENTS

This Prospectus contains certain "forward-looking statements" which can be identified by the use of forward-looking terminology, such as the terms "believes," "expects," "anticipates," "projects," "estimates," "will," "intends," "seeks," "may," "should" or similar expressions or, in each case, their negative, other variations thereof or comparable terminology. These forward-looking statements include all matters that are not historical facts and they appear in a number of places throughout this Prospectus and include, without limitation, statements with regard to the Group's intentions, beliefs or current expectations relating to, among other things, the Group's future financial position, results, performance, achievements and prospects along with future industry results and performance. By their nature, forward-looking statements involve inherent risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Investors are cautioned that the forward-looking statements contained in this Prospectus are not guarantees of the Group's future financial position, results, performance, achievements or prospects and that the Group's actual future financial position, results, performance, achievements and prospects may differ materially from those suggested or implied by the forward-looking statements contained in this Prospectus.

In addition, these forward-looking statements speak only as at the date of this Prospectus. Except to the extent required by applicable law, the Issuer does not intend to update or revise any of the forward-looking statements contained in this Prospectus, whether as a result of new information, future events or otherwise, and the Issuer hereby expressly disclaims any obligation to do so. Investors should not place undue reliance on any such forward-looking statements.

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OVERVIEW OF THE BONDS

The overview below describes the principal terms of the Bonds and the Fiscal Agency Agreement and is qualified in its entirety by the more detailed information contained elsewhere in this Prospectus. Capitalised terms used herein and not otherwise defined have the respective meanings given to such terms in the Terms and Conditions of the Bonds.

Issuer:	Bulgarian Energy Holding EAD
Description of the Bonds:	EUR 550,000,000 4.875 per cent. Bonds due 2021
Joint Lead Managers:	Banca IMI S.p.A. J.P. Morgan Securities plc.
Co-Managers	Balkan Advisory Company IP EAD Bank of China Limited, London Branch First Financial Brokerage House Ltd.
Fiscal, Principal Paying Agent and Transfer Agent:	Citibank N.A., London Branch
Registrar:	Citigroup Global Markets Deutschland AG
Issue Price:	98.921 per cent. of the principal amount of the Bonds
Issue Date:	2 August 2016
Maturity Date:	2 August 2021
Interest:	The Bonds will bear interest from and including 2 August 2016 at a rate of 4.875 per cent. per annum payable annually in arrear on 2 August in each year, commencing on 2 August 2017.
Status:	The Bonds constitute (subject to Condition 4(a) (*Negative Pledge*) of the Terms and Conditions of the Bonds) direct, general, unconditional, unsecured and unsubordinated obligations of the Issuer which shall rank *pari passu* and without any preference among themselves and shall (save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) (*Negative Pledge*) of the Terms and Conditions of the Bonds), at all times, rank at least equally, with all other outstanding present and future unsecured and all other present and future unsecured and unsubordinated obligations of the Issuer.
Form and Denomination:	The Bonds will be issued in registered form, in minimum denominations of EUR 100,000 each and integral multiples of EUR 1,000 in excess thereof. The Bonds will initially be represented by the Global Certificate, without interest coupons, which on or before the Issue Date will be deposited with, and registered in the name of, a nominee of the Common Depositary. The Global Certificate will be exchangeable for Individual Bond Certificates in the limited circumstances set out in it. See "*Summary of Provisions Relating to the Bonds While in Global Form*".
Use of proceeds:	The Issuer intends to use the net proceeds from the issue of the Bonds to repay the Bridge Facility made available by the Joint Lead Managers as lenders to the Issuer. The remaining net proceeds from the issue of Bonds after repayment of the Bridge Facility will be used for the general corporate purposes of the Group. See "*Use of Proceeds*".

Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Bonds. In addition, there are certain factors which are material for assessing the market risks associated with the Bonds and certain risks relating to the structure of the Bonds. See "*Risk Factors*".
Negative Pledge:	So long as any Bond remains outstanding, other than any Permitted Security, the Issuer will not, and will ensure that none of its Material Subsidiaries will, create or have outstanding any security interest upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Bonds the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security or arrangement as shall be approved by an Extraordinary Resolution of the Bondholders. See "*Terms and Conditions of the Bonds—Covenants—Negative Pledge*".
Financial Covenants:	For so long as any Bond remains outstanding, the Issuer shall not, and shall not permit any of its Material Subsidiaries to, directly or indirectly incur any Financial Indebtedness, provided, however, that the Issuer and any Material Subsidiary may incur Financial Indebtedness, in each case if, after giving effect to the incurrence of such Financial Indebtedness and the receipt and application of the proceeds therefrom, (i) no Event of Default has or would have occurred and is or would be continuing; (ii) the EBITDA Coverage Ratio would be not less than 4.0 to 1.0; and (iii) the Consolidated Leverage Ratio would not be more than 4.5 to 1. For so long as any Bond remains outstanding, in the event that NEK (as defined below) is declared by a Bulgarian court to be overindebted (свръхзадължен) within the meaning of the Bulgarian Commerce Act, then the Issuer shall not, and shall not permit (to the extent permitted by law) any of its Material Subsidiaries to, directly or indirectly, incur any Financial Indebtedness. See "*Terms and Conditions of the Bonds—Covenants—Financial Covenants*".
Redemption at Maturity:	Unless previously redeemed, purchased or cancelled, the Issuer will redeem the Bonds on 2 August 2021.
Redemption for Taxation Reasons:	The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), at their principal amount, together with interest accrued to the date fixed for redemption, in the event of certain changes affecting taxation in the Republic of Bulgaria. See "*Terms and Conditions of the Bonds—Redemption, Purchase and Cancellation—Redemption for Taxation and other Reasons*".
Change of Control Put Option:	Upon the occurrence of a Change of Control, each Bondholder shall have the option to require that the Issuer redeem or, at the option of the Issuer, purchase (or procure the purchase of) such Bondholder's Bonds at 101 per cent. of

the principal amount together with interest accrued to (but excluding) the Change of Control Put Date. See "*Terms and Conditions of the Bonds—Redemption, Purchase and Cancellation—Change of Control Put Option*".

Redemption at the Option of the Issuer: Unless a Change of Control Put Notice has been given pursuant to Condition 6(c) (*Change of Control Put Option*) of the Terms and Conditions of the Bonds, the Issuer may, at any time, redeem, in whole or in part, the Bonds at a redemption price per Bond equal to the higher of: (i) the principal amount of the Bond; and (ii) the sum of the then current values of the remaining scheduled payments of principal and interest discounted to the Optional Redemption Date on an annual basis (based on the actual number of days elapsed divided by 365 or (in the case of a leap year) by 366) at the Reference Dealer Rate (as defined herein) plus 5.00 per cent., in each case as determined by the Determination Agent. See "*Terms and Conditions of the Bonds—Redemption, Purchase and Cancellation—Redemption at the Option of the Issuer*".

Events of Default: If any of the events set out in "*Terms and Conditions of the Bonds—Events of Default*" occurs and is continuing, then any Bond may, by notice in writing given to the Fiscal Agent at its specified office by the holder, be declared immediately due and payable whereupon it shall become immediately due and payable at its principal amount together with accrued interest without further formality unless such event of default shall have been remedied prior to the receipt of such notice by the Fiscal Agent. See "*Terms and Conditions of the Bonds—Events of Default*".

Cross Default/Cross Acceleration: Any Bond may, by notice in writing given to the Fiscal Agent at its specified office by the holder, be declared immediately due and payable if:

(i) any other present or future indebtedness (other than indebtedness owed to another member of the Group) of the Issuer or any of its Material Subsidiaries for or in respect of moneys borrowed or raised becomes (or, other than in the case of Natsionalna Elektricheska Kompania EAD ("**NEK**") becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described); or

(ii) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period; or

(iii) the Issuer or any of its Material Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised

provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above have occurred equals or exceeds EUR 25,000,000 or its equivalent, unless such event of default shall have been remedied prior to the

	receipt of such notice by the Fiscal Agent. See "*Terms and Conditions of the Bonds—Events of Default—Cross-Default*".
Withholding Tax:	All payments of principal and interest by or on behalf of the Issuer in respect of the Bonds shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Republic of Bulgaria or any authority therein or thereof having power to tax, unless such withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in the limited circumstances set out in Condition 8 (*Taxation*) of the Terms and Conditions of the Bonds.
Issuer Substitution:	The Issuer, or any previous substituted company, may at any time, without the consent of the Bondholders, substitute for itself as principal debtor under the Bonds such company as is specified in the Fiscal Agency Agreement, provided that no payment in respect of the Bonds is at the relevant time overdue. The substitution shall be made by a deed poll and may take place only in accordance with Condition 12(c) (*Substitution*) of the Terms and Conditions of the Bonds.
Rating:	The Bonds are expected to be assigned ratings of BB- by Fitch and of Ba2 by Moody's. Both Fitch and Moody's are established in the European Union and registered under the CRA Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Neither the assigning rating agency nor the Issuer is obliged to provide the holders of the Bonds with any notice of any suspension, change or withdrawal of any rating.
Governing Law:	The Bonds, and any non-contractual obligations arising out of or in connection with the Bonds, will be governed by, and construed in accordance with, English law.
Selling Restrictions:	United States and United Kingdom. See "*Subscription and Sale*" below.
Listing and Trading:	Application has been made to the Irish Stock Exchange for the Bonds to be admitted to the Official List and to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.
Clearing Systems:	Euroclear and Clearstream, Luxembourg.
Security Codes:	ISIN: XS1405778041. Common Code: 140577804.

RISK FACTORS

An investment in the Bonds involves a high degree of risk. You should carefully consider the following information about these risks, together with the information contained elsewhere in this Prospectus, before deciding to buy any Bonds. Each of these risks could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects or the trading price of the Bonds, and investors could lose all or part of their investment. BEH has described the risks and uncertainties that it believes are material, but these risks and uncertainties may not be the only ones the Group faces. Additional risks and uncertainties relating to the Group that are not currently known to BEH, or that BEH currently deems immaterial, may also have an adverse effect on the Group's business, financial condition, results of operations and future prospects. If this occurs, the trading price of the Bonds may decline, and investors could lose all or part of their investment.

The following risks relate to the Group's business and the environment in which the Group operates. The order in which the risks are presented does not necessarily reflect the likelihood of their occurrence or the magnitude of their potential impact on the Group's business, financial condition, results of operations, future prospects or the trading price of the Bonds. Investors should consider carefully whether an investment in the Bonds is suitable for them in light of the information in this Prospectus and their personal circumstances.

Risks related to the Issuer

The Group's operations are focused on the Republic of Bulgaria ("Bulgaria") and the Balkan region. As a public utility, its results of operations are significantly affected by economic conditions in Bulgaria and the region.

The Group is a public utility providing electricity generation and electricity and gas transmission services primarily to Bulgarian customers, lignite coal to power producers in Bulgaria and exported electricity to neighbouring countries in the Balkan region. As a result, the Group's results of operations are substantially affected by economic conditions in Bulgaria and the region, which in turn can be affected by developments including, but not limited to:

- macroeconomic events, including external economic shocks;
- economic difficulties among Bulgaria's trading partners;
- a decline in Bulgaria's gross domestic product;
- the imposition of new or additional international sanctions against Russia or other trading partners;
- a decrease in foreign direct investment in Bulgaria, due to a perception of a poor economic, legal or business climate, or for any other reason;
- increasing levels of unemployment;
- a governmental budget deficit or other fiscal difficulties;
- an inability or difficulty in obtaining energy imports;
- declines in commodity prices;
- increasing levels of corruption and/or economic crime;
- instability in the Bulgarian banking system; and
- social or political instability and other risks associated with a developing country such as Bulgaria.

As a small open economy, Bulgaria faces the risk of external shocks, such as from the global financial and European sovereign debt crises. A decline in the economic growth of Bulgaria's major export partners (such as Germany, Romania, Turkey, Italy and Greece), could in the future have an adverse impact on Bulgaria's external demand and hence affect Bulgaria's economic growth prospects. In addition, political fragmentation between the coalition government and the supporting smaller parties has slowed the implementation of reforms within Bulgaria, causing delays in implementing structural reforms and decisive policy action.

As international investors' reactions to events occurring in a single market can result in a "contagion effect, in which an entire region or class of investment is disfavoured by international investors, Bulgaria could be adversely affected by negative economic or financial developments in other EU Member States (such as Greece, Italy, Ireland, Portugal and Spain) or countries with credit ratings similar to those of Bulgaria.

Recent developments, particularly in the Eurozone and in the energy sector in general, have demonstrated that there continues to be significant uncertainty in the global economy. From April 2010 to date, financial markets have been periodically negatively impacted by on-going fears surrounding the large sovereign debts and/or fiscal deficits of several countries in Europe (primarily Greece, Ireland, Italy, Portugal and Spain) and the possibility of one or more defaults on sovereign debt. A further downgrade of sovereign debt ratings, including those of Bulgaria's major trading partners, may result in an enhanced risk of deleveraging and credit contraction and, in turn, could have a material adverse effect on the Bulgarian economy. The realisation of these concerns could lead to the exit of one or more countries from the European Union and/or the Eurozone and the re-introduction of individual currencies in these countries or, in more extreme circumstances, the possible dissolution of the euro entirely. Such dissolution, departure or potential risk of departure from the euro by one or more Eurozone countries could lead to a greater reduction in market confidence and have an adverse effect on the Bulgarian economy.

On 23 June 2016 the UK held a referendum to decide on the UK's membership of the European Union. The UK vote was to leave the European Union. There are a number of uncertainties in connection with the future of the UK and its relationship with the European Union. The negotiation of the UK's exit terms may take a number of years. Until the terms and timing of the UK's exit from the European Union are clearer, it is not possible to determine the impact that the referendum, the UK's departure from the European Union and/or any related matters may have on the European Union and business of the Group. However, in the immediate wake of the referendum, stock exchange indices around the world declined significantly. In addition, the pound sterling experienced sharp depreciation following the vote. The possible exit of the United Kingdom (or any other country) from the European Union or prolonged periods of uncertainty relating to this, could result in significant macroeconomic deterioration, including, but not limited to further decreases in global stock exchange indices, increased foreign exchange volatility (in particular a further weakening of the euro against other leading currencies) and decreased GDP in the European Union. As such, no assurance can be given that such matters would not adversely affect the ability of the Issuer to satisfy its obligations under the Bonds and/or the market value and/or the liquidity of the Bonds in the secondary market.

The EU has conveyed concerns in its latest Bulgaria country report on medium-term issues such as public finance and fiscal deficits, vulnerabilities in the financial sector, high corporate debt and barriers to deleveraging, weaknesses in the labour market, limited accessibility, low funding and poor health outcomes of the healthcare system, high proportion of people living at risk of poverty or social exclusion, deficiencies and low-trust in the judiciary and slow implementation of reforms in the areas of public administration and e-government. If Bulgaria fails to adequately address these concerns and meet on time its country-specific recommendations, this could lead to a deterioration in its relationships with the EU. This in turn, among other potential issues, could limit the amount of transfers of EU funds to Bulgaria, which could have an adverse effect on the Bulgarian economy.

Arbitration in connection with the discontinued Belene nuclear power plant project has resulted in a significant arbitral award being rendered against the Group's subsidiary, Natsionalna Elektricheska Kompania EAD ("NEK"), which could result in NEK becoming insolvent and which could result in an event of default under the EUR 500,000,000 4.250 per cent. Bonds issued in November 2013 (the "2013 Bonds"), the Bonds and other Group financings.

ZAO Atomstroyexport ("**ASE**") commenced proceedings before an arbitral tribunal constituted under the Rules of the International Chamber of Commerce ("**ICC Rules**") against the Group's subsidiary NEK, claiming damages and loss of profits in the amount of EUR 1.124 billion (inclusive of interest until 1 May 2015 and claiming further interest as from that date) in relation to the discontinued Belene nuclear power plant project. The Group's subsidiary NEK counterclaimed for an amount of EUR 120 million. On 14 June 2016, the tribunal awarded ASE EUR 554 million, with further interest running from 2 May 2015. NEK's counterclaim was rejected, except for EUR 878,746 which was conceded by ASE which is reflected in the award. The amount of the award including the interest accruing on it currently stands materially in excess of EUR 554 million and that amount will continue to increase (due to the daily accrual of interest) until such time as the award is paid or otherwise settled by NEK.

The awarded amount is now due by NEK. However, on 15 July 2016, NEK submitted an application under Article 29 of the ICC Rules to correct and interpret the award. The application requests, among other things, that the Tribunal correct certain amounts due under the award, by lowering them. It also seeks changes to the way that interest is calculated and the dates from which interest runs on certain amounts. ASE has until 15 August 2016 to provide its comments on the application's admissibility and to respond to NEK's specific requests. It is now up to the Tribunal to decide on what corrections to make to the award. If the corrections identified by NEK are accepted by the Tribunal it will reduce the size of the award but the reduction is unlikely to be material. The Group has not made a provision for any amount in connection with the award in the 2015 Financial Statements, see "*Presentation of Financial and Other Information—Qualifications and Emphases of Matter in 2014 and 2015 Financial Statements*" and "*Risk Factors—The audit opinions in respect of the Financial Statements have been qualified in a number of significant respects*". NEK is not in a position to pay the award and, whilst discussions with ASE on how to settle the award are in progress (a process that could take months, if not longer), there are no assurances that these discussions will produce a satisfactory outcome. NEK may also seek a third-party buyer to purchase the nuclear-related assets that it will receive from ASE following the award (and use this money to offset the amount needed to pay ASE), but any such sale to a third party would need to be approved by ASE.

In addition to the arbitral award described above, further assets valued at BGN 1,391 million related to the Belene nuclear power plant (such assets not being the subject of the arbitral award) may be subject to impairment following the arbitral award. See "*The audit opinions in respect of the Financial Statements have been qualified in a number of significant respects – Qualification 1*". Were this to happen, this would have a further significant material adverse impact on the Group's financial position.

The State of Bulgaria (the "**State**") has provided the Group with a letter (the "**Letter of Support**"), which is governed by Bulgarian law, in which it states that it is the intention of the State to support the financial stability of BEH so as to allow it to meet its obligations to bondholders. See "*Letter of Support*" for the full text of the Letter of Support. Any such support from the State to BEH will be required to be in compliance with EU State aid rules. Obtaining state aid approval can be a time consuming process and if state aid approval can be obtained (which is not assured), it will likely entail remedies for BEH, such as the requirement to divest one or more of its businesses. Whilst the Letter of Support gives BEH and its bondholders a certain amount of comfort that the State will ultimately support the Group in settling the award and address any issues arising out of any impairment of the assets related to the Belene nuclear power plant, the Letter of Support is non-binding, and neither the Group nor its creditors (including the Bondholders) can enforce it against the State. If discussions with ASE do not produce a satisfactory outcome, and/or if a third party buyer cannot be found to purchase the nuclear related assets, and/or if there is a significant impairment of the assets related to the Belene nuclear power plant, and if the State is not able to support the Group in a timely fashion as a result of EU State aid issues or otherwise, then there will be a significant material adverse impact on the Group's financial position, and it could potentially render NEK insolvent which would result in an event of default under the 2013 Bonds, the Bonds and other Group financings.

BEH's obligations under the Bonds do not benefit from any direct or indirect Bulgarian government guarantee or other legally enforceable government backing.

Although the Bulgarian government is BEH's sole shareholder and has in the past guaranteed certain of BEH's obligations under financing arrangements entered into by it, the Bonds are not directly or indirectly guaranteed by the Bulgarian government and do not benefit from any legally enforceable government backing. In addition, the Bulgarian government is under no obligation to extend financial support to BEH in the future. Accordingly, the Bonds are not, and should not be regarded as, obligations of the Bulgarian government.

BEH's ability to make payments under the Bonds is solely dependent on its ability to fund such obligations from its operating cash flows and borrowings. Therefore, any decline in such operating cash flows or any difficulty in securing external funding may materially adversely affect BEH's ability to make payments under the Bonds.

The Group has substantial borrowings and other payables, and its operating cash flows may be insufficient to meet all its payment obligations without the need for additional financing, and there is no certainty that the Group would be able to obtain any such additional financing.

The Group has current and non-current borrowings, trade and other payables amounting to BGN 3,653 million, or 61.6 per cent. of the Group's total liabilities, at 31 December 2015. As a holding company, BEH's principal source of recurring cash flow is dividends from its subsidiaries. According to their articles of incorporation, BEH's subsidiaries are each required to allocate as dividends to BEH a certain percentage of their profit after tax and allocation to reserves. BEH is not taxed on these dividends. The Group may not have sufficient cash flow from its operating activities to generate sufficient dividends to enable BEH to service its debt and meet other payment obligations or to fund its planned capital expenditures without the need for additional external financing. In particular the 2013 Bonds are due to be redeemed in November 2018 and part of this amount may need to be refinanced. BEH's ability to obtain external financing and the cost of such financing are dependent upon numerous factors, including general economic and market conditions in Bulgaria and internationally, international interest rates, credit availability from banks or other lenders, investor confidence in the Group and the success of the Group's business as well as restrictions contained in its existing debt agreements, see "*—Certain of the Group's debt facilities and its existing bond contain covenants, which could restrict the Group's ability to incur further debt or limit its flexibility in planning for, or reacting to, changes in its business or industry and any breach of these covenants, could materially and adversely affect the Group*".

There can be no assurance that external financing or refinancing, either on a short-term or a long-term basis, will be available or, if available, that such financing will be obtainable on terms that are not onerous to the Group. In addition, the Group's substantial debt and other financial obligations could limit its flexibility in planning for, or reacting to, changes in its business or industry, which could have a material adverse effect on the Group's business, results of operations and financial condition.

Certain of the Group's loans have been advanced to subsidiaries of BEH, certain of its loans are secured and certain of its loans are guaranteed by the Bulgarian government. These factors mean that the Bondholders may be effectively subordinated to other creditors of the Group.

As at 31 December 2015, BEH's current and non-current borrowings amounted to BGN 1,569 million, or 9.0 per cent. of the Group's total assets. This includes BGN 589 million, or 37.5 per cent. of the Group's total borrowings, which had been advanced as loans mainly to the subsidiaries of BEH. In the event of any insolvency of these subsidiaries, claims of their secured and unsecured creditors, including trade creditors, banks and other lenders, will have priority with respect to the assets of such subsidiaries over any claims that BEH or its creditors may have with respect to such assets. Accordingly, if BEH became insolvent at the same time, claims of the Bondholders against BEH in respect of any Bonds would be structurally subordinated to the claims of all creditors of BEH's subsidiaries. The Conditions of the Bonds restrict the amount of debt which the Group may incur (*please see Condition 4 in the Terms and Conditions of the Bonds*).

As at 31 December 2015, some of the Group's outstanding loans had been secured on a range of different assets. As a result, in the event of the insolvency of BEH, these assets will not constitute a primary source of repayment to Bondholders.

As at 31 December 2015, loans with a principal amount outstanding of BGN 360 million, or 2.1 per cent. of the Group's total assets, had been guaranteed by the Bulgarian government. The Bonds do not benefit from any similar guarantee, see "*Risk Factors—BEH's obligations under the Bonds do not benefit from any direct or indirect Bulgarian government guarantee or other legally enforceable government backing*".

Certain of the Group's debt facilities and its existing bond contain covenants, which could restrict the Group's ability to incur further debt or limit its flexibility in planning for, or reacting to, changes in its business or industry and any breach of these covenants, could materially and adversely affect the Group.

Certain of the agreements that govern the Group's long-term debt contain restrictive covenants, including negative pledge clauses, material change clauses and change of ownership clauses, and covenants requiring the maintenance of specified financial ratios. These covenants may restrict the Group's ability to incur further debt. Should the Group need, in the future, to renegotiate any restrictive covenants or obtain a waiver in respect of any breach of such a covenant, no assurance can be given that it will be successful. Any failure to renegotiate such covenants could restrict the Group's ability to raise financing in the future which could have a material adverse effect on its business, financial condition, results of operations and cash flows.

In addition, any breach of such covenants which is not waived by the lenders could result in the relevant financing being accelerated and potentially trigger cross default provisions under the Group's other financing arrangements, including the Bonds, which may have a material adverse effect on the Group's business, financial condition, results of operations and cash flows.

NEK is in breach of its financial covenants and may be unable to pay its debts as they fall due. The Bonds may not be declared immediately due and payable if NEK becomes unable to pay its debts as they fall due, breaches the terms of its third party debt or if its liabilities exceed its assets.

NEK has a number of loans outstanding and routinely breaches the financial covenants on those loans. To date NEK has been able to obtain waivers (including from third party lenders) in respect of those breaches but this may not continue. NEK has not yet obtained waivers for breaches that occurred in the financial year ended 31 December 2015; the process of obtaining such waivers is ongoing. NEK is not always able to pay its debts as they fall due. NEK obtains loans from BEH in order to remain solvent and is not always able to repay those loans on time. To date NEK has not defaulted on payments on its bank loans but there is a risk that this may happen in the future. Provided that third party debt is not accelerated then there will be no event of default under the Bonds and the Bonds may not be declared immediately due and payable if NEK breaches the terms of its third party debt, fails to pay its debts as they fall due or if its liabilities exceed its assets.

The divesture of energy license assets, including in insolvency, is subject to the consent of the Bulgarian energy regulator. If NEK breaches the terms of its third party debt, fails to pay its debts as they fall due or if its liabilities exceed its assets at any time or if it is declared to be insolvent then there could be a material adverse effect on the financial position of the Group.

The Bulgarian state, which owns all of the share capital of BEH, can control the Group's policies by, amongst other things, electing all of the members of BEH's Board of Directors and may pursue decisions that reflect Bulgarian government policy.

As BEH's sole shareholder, the Republic of Bulgaria has the power, among other things, to nominate and elect all three members of BEH's Board of Directors (the "**Board**") and, through BEH, the boards of directors of all its subsidiary companies. Board members of BEH are elected for a three-year term and can be replaced by its sole shareholder at any time. See "*Business Description – Shareholder*" for a description of the other powers which the Minister of Energy of Bulgaria has in relation to the Group.

The interests of the Bulgarian government may conflict with the Group's objectives as a commercial enterprise, and there can be no assurance that the government will not take any action to further its own objectives which may be in conflict with the interests of the Group or the Bondholders. For example, the Bulgarian government's key objective is to ensure the stable supply of electricity and gas to the country's residents and businesses at affordable costs rather than the optimisation of the Group's revenue and profits. A change in the Bulgarian government could also adversely impact the strategy or objectives of the Group.

The Bulgarian government through the Council of Ministers determines the dividends that must be paid by BEH and under Bulgarian law State owned companies are required to pay dividends amounting to 50 cent.

of the profit disclosed in the consolidated financial statements. In addition, the Group may make decisions that are different from those that it would have made without government influence. Such decisions could lead to significant expenditures by the Group, including additional debt, which could have a material adverse effect on the Group's ratings, business, results of operations and financial condition. Changes to the members of BEH's Board may be made for political, rather than business, reasons and such changes could have a material adverse effect on the Group's operations.

The Bulgarian state may sell part of its shareholding in the Group indicating a change in strategy.

The Terms and Conditions of the Bonds provide Bondholders with an option to redeem their Bonds if there is a "Change of Control" of the Issuer. "Change of Control" means, in relation to the Issuer, the Minister of Energy ceases to (i) hold, directly or indirectly, at least 75 per cent. of the shares in the Issuer or (ii) hold, directly or indirectly, the right to appoint all of the directors of the Issuer or (iii) otherwise control or have the power to control the affairs and policies of the Issuer. See "*Terms and Conditions of the Bonds*". Accordingly the Bulgarian state could sell up to 25 per cent. of its current shareholding without triggering the Bondholders' option to redeem the Bonds. Such a sale could only be made by a decision of the National Assembly of the Republic of Bulgaria acting on a motion of the Council of Ministers and could indicate a significant change in Bulgarian government's strategy and approach in relation to the Group, which may have an adverse effect on the Group's operations.

Group companies are subject to extensive regulation and licensing requirements and may be subject to liabilities as a result of any violation of applicable regulations or may be materially adversely affected by any loss of or failure to renew material licences.

The Group is subject to extensive regulation in conducting its business, see "*Regulation, Environment and Health and Safety*". Any failure by the Group to comply with all applicable regulations could result in a range of civil, administrative and criminal penalties and other liabilities as well as a materially negative impact on the Group's reputation. The relevant authorities in Bulgaria and the EU may also enforce existing regulations more strictly than they have done in the past and may in the future impose stricter standards, or higher levels of fines and penalties for violations, than those which are in effect at present. Accordingly, the Group is unable to estimate the future financial impact of compliance with, or the cost of a violation of, any applicable regulations.

The Group's activities of generation, transmission and trading of electricity and the transmission of gas require a range of administrative permits, authorisations and licences, at both local and national levels, in the countries in which the Group operates. The procedures for obtaining and renewing these permits, authorisations and licences can be protracted and complex and the conditions attached to such licence may be subject to change and are not predictable. As a result, the Group may incur significant expenses in obtaining or renewing its permits, authorisations and licences. Delays, high costs or the suspension of the Group's operating activities due to its inability to obtain, maintain, or renew permits, authorisations and licences, may also have a negative impact on its business activities and profitability. In addition, the Group often invests resources prior to obtaining the necessary permits, authorisations and licences, particularly in connection with feasibility studies and environmental studies, but may have to cancel or withdraw from a project if it is unable to obtain such permits, authorisations or licences.

Licences for the generation and transmission of electricity in Bulgaria are granted for a maximum of 35 years. The licences for the Kozloduy nuclear power plant are currently due to expire in 2017 (for Unit 5) and 2019 (for Unit 6), although the Group is in the process of extending the useful life of the reactors by 30 years and plans to operate the units until 2047 and 2049, respectively, subject to the licences being renewed by the Bulgarian Nuclear Regulatory Agency. NEK's electricity trading license expires in 2017 and TPP Maritsa East 2's license for the thermal power plant expires in 2021 and will need to be renewed by the EWRC. Any failure to obtain, maintain, renew or extend all the necessary administrative permits, authorisations and licences necessary for the operation of the Group's business and execution of its strategy, could have a material adverse effect on its business, results of operations and financial condition. The prior consent of the EWRC is required for the disposal of assets used for the conduct of a licensed activity as well as for transactions that lead or may lead to disruptions in the safety of electricity supply as a result of financial indebtedness of the energy undertakings.

Changes in the Bulgarian energy regulatory regime and regulated tariffs in particular could have a material adverse effect on the Group's results of operations and financial condition.

Although legislation was passed in 2007 for the liberalisation of the energy sector in Bulgaria, the Group is still subject to a substantial degree of regulation particularly with respect to the tariffs it may charge and obligations to purchase electricity. At the wholesale level, the Group's subsidiary, NEK, purchases electricity under quota obligations at regulated prices from independent producers and sells it at regulated prices principally to four end suppliers and four medium and low voltage distribution companies. NEK is also obliged to purchase electricity from combined heat and power generators and from renewable energy sources at feed-in tariffs established by the Bulgarian regulator, the EWRC. Separately, NEK purchases electricity above market price from thermal power generators under long-term contracts.

A significant portion of the Group's revenue from electricity sales is derived from the regulated electricity tariff rates it charges its customers (approximately 56 per cent. in 2015). In addition, a significant portion of its cost of electricity sales is attributable to the regulated electricity prices which it pays to its suppliers.

In the gas market, Bulgaria is wholly dependent on imports from Russia and the Group's subsidiary, Bulgargaz, is the only licensed public supplier. In 2015, 97 per cent. of Bulgaria's gas was imported from Russia with the remaining 3 per cent. coming from domestic extraction by other companies and from UGS Chiren.[1] Bulgargaz sells the imported gas at regulated prices and the Group is also subject to regulated prices in relation to its gas storage business. See "*Regulation, Environment and Health and Safety*" for further details on the tariff system.

As a result, the Group is affected by the pricing decisions of EWRC for electricity and gas prices. Tariff rates are vulnerable to political intervention. Regulatory authorities in Bulgaria, acting on political considerations, may decide to limit or even block tariff rate increases, without allowing any offsetting variants in the quality of service provided by the Group or taking into account public service obligations, increased production, sourcing and distribution costs incurred by the Group. If the Group is unable to increase the electricity or gas tariff rates it charges customers in order to cover increases in operating costs or capital investment requirements, this could have a material adverse effect on its business, results of operations and financial condition.

Compliance with United Nations, U.S. and EU sanctions could threaten the Group's economic interests.

The United Nations (UN), the U.S., the EU and the Member States of the EU impose regulations that restrict the ability of entities or persons to invest in, or otherwise engage in business with, certain countries and specially designated persons. In particular certain Russian enterprises have been subject to such sanctions following the political crisis in the Ukraine and the Crimea since 2014.

Due to the ongoing conflict between Russia and Ukraine, the EU, U.S. and other members of the G7 bloc of developed nations (including Canada and Japan), have introduced sanctions and restrictive measures against certain Russian persons. The majority of the gas purchased by Bulgargaz is imported from Russia under long-term take-or-pay contracts with Gazprom, and the Group also relies on certain Russian companies for the servicing and waste processing of the NPP. Additionally Gazprom Export is the only customer of Bulgartransgaz for transit services. While the current sanctions regime directed at Russia has had no material impact on the Group's transactions with Russian persons, the EU and U.S. have signalled their readiness to extend the scope of sanctions if Russia fails to meet certain political conditions. The extension of sanctions against Russia may preclude the Group conducting business with Russian entities. The Group may be forced to cease transactions with Russian entities or to amend existing contractual terms which could have a material adverse effect on the Group's business, financial condition and results of operations.

While the Group currently complies will all relevant sanctions regulations, any violations or perceived violations of existing or future UN, U.S., EU or other international sanctions could subject the Group to penalties that could have a material adverse effect on the Group's ability to obtain goods and services in the international markets, access the U.S. or international capital or bank debt markets and cause reputational damage. Any of these factors could have a material adverse effect on the Group's business, financial condition and results of operations.

[1] Source: Bulgargaz

The audit opinions in respect of the Financial Statements have been qualified in a number of significant respects.

HLB Bulgaria has audited the 2015 Financial Statements. HLB Bulgaria's audit opinion, included in the 2015 Financial Statements, is subject to certain qualifications in relation to:

- Qualification 1: the value of certain assets and liabilities relating to the Belene nuclear power plant, the construction of which was discontinued in 2012, and regarding which an arbitral award has since been made against the Group , see "*Business Description—Litigation*". The uncertainty surrounding this issue gives rise to a potential impairment of property, plant and equipment of up to BGN 1,391 million which is owned by NEK. The exact amount of any such impairment depends on the recoverable amount of property, plant and equipment, which is currently difficult to assess. The impairment costs of the Group, being BGN 5,437 thousand for the year ended 31 December 2015, could significantly increase, while the net book value of its assets could significantly decrease. In addition, in respect of the litigation related to the Belene project, as a result of its complexity and because it was not possible to make an accurate assessment of its outcome at the time that the 2015 Financial Statements were produced, there is currently no provision for the litigation in the Financial Statements. Since the litigation has been decided against NEK (see "*Business Description—Litigation*"), there is a risk that it could potentially render NEK insolvent and if NEK is declared to be insolvent by a Bulgarian court, this would result in an event of default under the 2013 Bonds, the Bonds and other Group financings. In addition, any impairment of the assets relating to the Belene nuclear power plant could have a further significant material adverse impact on the Group's financial position, see "*Risk Factors—Arbitration in connection with the discontinued Belene nuclear power plant project has resulted in a significant arbitral award being rendered against the Group's subsidiary, Natsionalna Elektricheska Kompania EAD ("NEK"), which could result in NEK becoming insolvent and which could result in an event of default under the EUR 500,000,000 4.250 per cent. Bonds issued in November 2013 (the "2013 Bonds"), the Bonds and other Group financing*s.";
- Qualification 2: the recoverability of certain assets under construction, the completion of which remains unfunded (and on which construction stopped in 2003), which gives rise to a potential impairment of up to BGN 38 million. The assets relate to a NEK project that aims to increase the volume of the lower reservoir of the Chaira pumped-storage hydro power plant through the construction of the Yadenitsa dam. The impact on the Financial Statements depends on the recoverable amount of these assets, but if the recoverable amount is less than the assets' carrying value the Group would have to recognise an impairment cost for the difference and decrease its assets;
- Qualification 3: the fact that the auditors were not able to obtain sufficient audit evidence regarding the amount of a reimbursement claim for recoverable expenses in the amount of BGN 238.5 million as at 31 December 2015 out of BGN 397.6 million approved by the EWRC in 2014. These expenses are related to renewable energy fed by producers into medium voltage grids owned by distribution companies which expenses were later transferred to NEK. The renewable energy producers were paid by the distribution companies who then recovered these payments from NEK. These expenses are being recovered by the Group from the EWRC over a five year period starting on 30 June 2014 and concluding on 30 June 2019 and are only being recognised in the Financial Statements as they are being recovered. This is not in accordance with IFRS which would require all the expenses and the related trade payables to be recognised up front. Were this to happen the Financial Statements would be negatively affected as there would be an increase in current trade payables of BGN 201 million out of BGN 238.5 million expenses to be recovered, as BGN 37.7 million are related to NEK's own expenses recognised prior to 2014;
- Qualification 4: the carrying value of trade receivables which would be offset against the trade payables described in qualification 3 above, and trade payables which the auditors were unable to obtain sufficient audit evidence for. These trade receivables represent the amounts invoiced to the distribution companies for the renewable energy fed by producers into the medium voltage grids, as described in qualification 3 above, as well as amounts due from other counterparties. The respective counterparties for these trade receivables (in the amount of BGN 262 million, of which BGN

245.6 million is attributable to distribution companies and BGN 16.6 million from other counterparties) and trade payables have not confirmed their existence. If the amount of trade receivables is less than reported then the Group would to need to recognise an impairment cost and decrease the net book value of the trade receivables. If the amount of trade payables is greater than reported there would be an increase in trade payables. In each instance the Financial Statements would be negatively affected;

- Qualification 5: the amount of the Group's recognised provisions for decommissioning and other obligations arising from its nuclear power generation activities and in connection with the mining operations of Mini Maritsa-iztok EAD. The Group has not recognised any provisions for decommissioning and other obligations arising from its nuclear power generation activities, as the Group is not able to assess with a high level of certainty the amount of the provisions and the respective assets which should be recognised. In the case of the mining operations of Mini Maritsa-Iztok EAD, the Group recognised provisions of BGN 101 million for 2015 and BGN 84 million for 2014 applying a specific and complex methodology for provisions determination, developed by an expert in the mining sector. The auditors were not able to assess whether the applied methodology covers all specifics of the restoration process and whether the accrued provisions are understated or overstated, although it is expected that the methodology will be updated by financial year end 2016 to comply with the requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". If the Group is required to make provisions in relation to decommissioning and other obligations arising from its nuclear power generation activities or if the Group's provisions are understated in connection with the mining operations of Mini Maritsa-iztok EAD, the Group's liabilities and expenses may increase materially;

- Qualification 6: the fact that the auditors were not able to satisfy themselves of the value of a claim to certain non-current receivables (representing amounts held in corporate bank accounts with a gross book value and accrued impairment as at 31 December 2015 of BGN 137.5 million and BGN 22.8 million, respectively) from Corporate Commercial Bank AD, which is in insolvency. If the reported receivables are overstated, the Group would need to recognise an impairment cost and decrease the net book value of receivables; and

- Qualification 7: the lack of a fair value assessment in relation to certain government guaranteed borrowings in respect of which IAS 39 "Financial Instruments: Recognition and Measurement" has not been applied. As a result, the retained earnings, and respectively the liabilities of the Group at 31 December 2015 are understated by approximately BGN 9 million.

The HLB Bulgaria audit report also emphasises certain other matters stated in it which, while not being the subject of a formal qualification, are important comments for the users of the financial statements. The HLB Bulgaria audit opinion is set out on page 4 of this Prospectus.

Grant Thornton audited the 2014 Financial Statements. Grant Thornton's audit opinion, included in the 2014 Financial Statements, is subject to certain qualifications regarding:

- the recoverability of certain assets and the completeness of certain recognised liabilities relating to construction work on the Belene nuclear power plant;

- the carrying value of components that were replaced and parts of assets that were improved after capital repairs and improvements were made on energy-generating units, vehicles and other equipment;

- the recoverability of certain assets under construction which were not expected to be finished in the near future because there was no funding planned for their completion;

- the fact that the auditors were not able to satisfy themselves as to the recoverability of certain doubtful receivables, expenses and payables;

- the fact that the auditors were not able to obtain sufficient audit evidence as to the amount of a reimbursement claim filed by the Group with the Commission for Energy and Water Regulation; and

- the measurement and completeness of the Group's recognised provisions for decommissioning and other obligations arising from its nuclear power generation activities and in connection with the mining operations of Mini Maritsa-Iztok EAD.

The Grant Thornton audit report also emphasises certain other matters stated in it which, while not being the subject of a formal qualification, are important comments for the users of the financial statements. The Grant Thornton audit opinion is set out on page 8 of this Prospectus.

The issues that are the subject of the auditors' qualifications could result in material restatements to the 2014 and 2015 Financial Statements, as well as have a material negative impact on the Group's financial position, including breaches of financial covenants in existing indebtedness and the Bonds. As such, these qualifications should be taken into account when evaluating an investment in the Bonds. For the reasons set out above, if the subject matter of these qualifications were accounted in accordance with IFRS, there could be material adverse effects on the Group's operating results and financial condition, and NEK could be rendered insolvent and if NEK is declared to be insolvent by a Bulgarian court, this will result in an event of default under the 2013 Bonds, the Bonds and other Group financings.

Electricity and gas consumption, and the Group's hydro power electricity generation capacity, revenues, costs and results of operations, are significantly influenced by weather conditions and seasonal variations that are not within its control.

Electricity and gas consumption is seasonal and is mainly affected by weather conditions. In Europe, electricity consumption is generally higher during the autumn and winter months, and the Group generally experiences higher demand during the colder months of October through March and lower demand during the warmer months of April through September. As a result of these seasonal patterns, the Group's sales and results of operations are higher in the first and fourth quarters and lower in the second and third quarters. Sales and results of operations for all of the Group's energy operations can be negatively affected by periods of unseasonably warm weather during the autumn and winter months. The Group expects seasonal and weather-related fluctuations in its sales and results of operations to continue in the future.

The Group's hydro power electricity generation is also affected by hydrological conditions which can vary significantly on a year to year basis, and conditions such as droughts or heat waves can also limit the Group's hydro generation capacity. However, hydro generation currently accounts for approximately 14.8 per cent. of the Group's gross generation, so the effects of variable hydrological conditions on the Group are limited.

Disruptions in the supply of coal, fuel, gas or other raw materials, or an unexpected increase in their cost, could materially and adversely affect the Group's results of operations and financial condition.

In the ordinary course of the Group's business, it is exposed to the risk of disruptions in the supply of fuel oil, coal, nuclear fuel, gas or other raw materials and to increases in their cost. Certain of the Group's generation operations depend upon obtaining deliveries of an adequate supply of raw materials on a timely basis and at adequate prices. In addition, the Group has fixed contracts with single Russian suppliers both for all of its nuclear fuel and for almost all of the gas which it imports (see "*Business Description—Business—Electricity—NPP Kozloduy*" and "*Business Description—Business—Gas—Bulgargaz*"). As a result the Group is materially exposed to the risk of these suppliers not being able to provide the agreed amount of products on a timely basis, or at all, due to contractual defaults or bankruptcies. The political conflict between Russia and the EU in light of political developments in Ukraine and Crimea since 2014 has increased the risk of supply interruptions and increasing costs of supply from Russia. Any significant shortage or an interruption in the supply of raw materials or any significant price increases could disrupt the Group's generation operations. The Group may not be able to increase its prices in line with increases in its costs as part of the prices it is able to charge are regulated. This could have a material adverse effect on the Group's business, results of operations and financial condition. Conversely such increased costs, if passed through to the Group's customers (assuming the regulator permits an appropriate increase in tariffs), together with a worsening of the overall economic environment, may make it more difficult for the Group's customers to make their required payments, which may increase the Group's doubtful receivables and damage its financial condition and results of operations.

A portion of the Group's expenses are made up of commodity costs, which are heavily influenced by prices in the world market for gas and fuel oil. The prices for such commodities have historically been volatile and there is no guarantee that prices will remain within projected levels. Although it may do so in the future, the Group does not currently undertake any hedging transactions with regards to the commodities it uses and any significant increases in commodity prices could have an adverse effect on the Group's operating results and financial condition.

The Group is vulnerable to any changes in demand for electricity and gas that may occur, and to increases in the levels of doubtful receivables, as a result of poor economic conditions.

In the ordinary course of business, the Group is exposed to the risk of a reduction in demand for its electricity and gas, in particular by its commercial and industrial customer base. The demand for the Group's electricity and gas is affected by the level of economic activity in Bulgaria and, to a certain extent, Europe. See "*Risk Factors — Risks related to the Issuer — The Group's operations are focused on the Republic of Bulgaria and the Balkan region. As a public utility, its results of operations are significantly affected by economic conditions in the region"*. Any decline in overall economic activity due to economic uncertainty may lead to a drop in demand for the Group's electricity and gas, which could lead to lower sales and erosion of the Group's profit margins, resulting in a material adverse effect on the Group's business and prospects.

As at 31 December 2015, the Group's accumulated impairment charge in respect of doubtful trade receivables amounted to BGN 267 million. A significant proportion of these impaired trade receivables are more than one year overdue.

The Group is able to take legal action against its defaulting customers to seek to recover amounts outstanding, although the timing and amount of such recovery is uncertain. Any material increase in doubtful receivables, increased delays in payment times or write-offs could have a significant effect on the Group's business, results of operations and financial condition.

The Group's ability to access credit and bond markets and its ability to raise additional financing are in part dependent on BEH's credit ratings.

The Group's ability to access the capital markets and other forms of financing (or refinancing), and the costs connected with such activities, depend in part on BEH's credit ratings. As of the date of this Prospectus, BEH has a long-term foreign currency issuer default rating of BB- with negative outlook by Fitch which was issued on 6 July 2016 and Ba1 with stable outlook by Moody's which was issued on 7 June 2016. Any evidence of weakening links between the Group and the state, a negative change in Bulgaria's rating, a failure by the Group to maintain sufficient liquidity or other factors could all lead to a negative rating action in the future.

BEH's ability to maintain its current rating is dependent on a number of factors, some of which may be beyond its control. In the event that BEH's credit rating is lowered by Fitch or Moody's the Group may not be able to raise additional finance on terms similar to its existing finance or at all, and its ability to access credit and bond markets and other forms of financing (or refinancing) could be limited. This could have a material adverse effect on its business, results of operations and financial condition. Any lowering of BEH's credit rating may also result in interest rate increases for certain of the Group's loan agreements which could have a material adverse effect on its business, results of operations and financial condition.

The Group's capital expenditure programme is subject to various risks and uncertainties.

The Group undertakes significant capital expenditures related to the modernisation, renewal, construction and maintenance of its assets, in particular in relation to its energy power plants, transmission assets and coal mining operations. The capital expenditures are expected to increase in future years. See "*Financial Review—Liquidity and capital resources—Capital expenditure*". These projects typically require substantial capital expenditure and may take months or years before they become operational, during which time the Group may be subject to a number of construction, operating and other risks beyond its control including:

- an inability to find a suitable contractor or sub-contractor either at the commencement of a project or following a default by an appointed contractor or sub-contractor;
- default or failure by its contractors or sub-contractors to finish projects or parts of projects on time, according to specifications or within budget;
- an inability to finance projects as required;
- disruption in service and limited access to third parties, such as architects, engineers or other service providers;
- cost overruns as a result of defects in design and construction;
- difficulties in connecting new generation plants to existing or new transmission networks;
- shortages or escalating costs of construction materials and increased global commodity prices;
- shortages or increases in the costs of equipment;
- breakdown or failure of equipment, processes or technology;
- the non-availability of key personnel, including qualified engineering personnel;
- delays due to adverse weather or other events beyond the Group's control;
- environmental issues and costs and difficulties in obtaining all required licences and permits;
- start-up and commissioning problems;
- onerous contract terms and/or disputes with contractors or sub-contractors; or
- work stoppages or labour disputes.

In addition, the Group's projects may be adversely affected by changes in Bulgarian government policy, as was the case with the cancellation of the Belene project which exposed the Group to material litigation. See "*Business Description—Litigation*". Furthermore certain joint ventures and other projects may not proceed according to plan as was the case with the termination of the South Stream pipeline project.

The occurrence of one or more of these events in relation to current or future projects may negatively affect the Group's ability to complete such projects on schedule or within budget, if at all. This may result in the Group's inability to meet customer demand for electricity or gas and may result in the loss of expenditure incurred on projects and, accordingly, may result in a material adverse effect on the Group's reputation, business, financial condition, results of operations and cash flow.

There can be no assurance that the Group will successfully implement its capital expenditure programme, either on time or on budget. If any or all major projects that constitute the Group's capital expenditure programme are not implemented according to schedule or at all, the existing constraints that limit production volumes or those that can limit future growth will remain, the efficiency gains from modernising the existing production facilities and constructing the new facilities will not be achieved and any growth prospects based on the assumption that these projects are completed will not materialise or the Group may be unable to continue to operate the relevant asset, any of which may have a material adverse effect on the Group's business, growth prospects and competitive position.

In addition, the performance achieved by a new asset could be below expected levels of output or efficiency due to issues such as those relating to its design or specifications. If a new asset fails to achieve the required levels of performance, this could adversely affect the return on the Group's investment in that asset which, in turn, may have an adverse effect on the Group's business, financial condition, results of operations and cash flow.

A default by any of the Group's counterparties (including its partners, contractors, subcontractors and suppliers) may affect the Group's financial condition.

Group companies enter into contracts with a range of counterparties, including contractors, subcontractors, architects, engineers, operators, other service providers, suppliers and customers and, accordingly, the Group is subject to the risk that a counterparty will be unable or unwilling to honour its contractual obligations and that any guarantee or performance bond in respect of such obligations will also not be honoured. The Group's counterparties may default on their obligations for any number of reasons, including as a result of their bankruptcy, a lack of liquidity or operational failure. Such counterparty risk is more acute in difficult market conditions where there is an enhanced risk of default by counterparties. Any default by the Group's counterparties may affect the cost and completion of its projects, the quality of its work and the supply of certain critical products or services to its customers. It may also expose the Group to reputational risk, business continuity risk and the loss of important contracts. In addition, the Group may be required to pay contractual penalties or find alternative counterparties. Any such setbacks may result in delays in the completion of the Group's projects and other unforeseen costs, which could have a material adverse effect on its business, financial condition, prospects or results of operations.

The Group is subject to a variety of litigation and regulatory proceedings, some of which may significantly adversely affect the Group's results of operations.

The Group is subject to several civil, administrative and arbitration proceedings. For more information on certain significant litigation to which Group companies are party, see "*Business Description—Litigation*". Litigation and other proceedings are unpredictable and such proceedings or any settlement in respect of them could have a material adverse effect on the Group's business, results of operations and financial condition. Although the Group has recorded provisions against certain proceedings in which it is involved, it has not recorded provisions in respect of all such proceedings. In particular, the Group has not recorded a provision in respect of the EUR 554 million (plus accruing interest) tribunal award against the Group relating to the cancellation of the Belene project (on which see "*The audit opinions in respect of the Financial Statements have been qualified in a number of significant respects*" and "*Litigation in connection with the cancelled Belene nuclear power plant has resulted in a significant judgment being made against the Group*"). The Group has also not recorded provisions in other cases in which the financial outcome is uncertain or which the Group currently expects to be resolved in its favour. The Group is currently subject to European Competition proceedings in connection with its gas business that could lead to a fine not exceeding 10 per cent. of its total turnover and/or the imposition of certain structural measures (including the requirement to divest one or more businesses). Bulgarian competition proceedings have also recently been opened in relation to various practices by NEK. These proceedings are at a very early stage and are likely to continue for a significant period of time. Under Bulgarian law these proceedings could potentially lead to a fine not exceeding 10 per cent. of total NEK turnover. There is no precedent in Bulgarian law for a fine of that level and the Group does not expect any fine to be as high as that but were such a fine to be imposed then there would be an adverse effect on the Group's financial position. The Group's failure to record sufficient provisions or to properly assess the likely outcome of any proceedings against it could have a material adverse effect on its business, results of operations and financial condition and judgments against it, including that related to the Belene nuclear power project. Settling the arbitral award in connection with the Belene proceedings could render NEK insolvent and if NEK is declared insolvent by a Bulgarian court, this would result in an event of default under the 2013 Bonds, the Bonds and other Group financings.

The Group is subject to environmental, health and safety laws and regulations and must maintain environmental, health and safety regulatory approvals and may be exposed to significant liabilities if it fails to comply with such laws or maintain such approvals.

The Group is subject to various environmental, health and safety laws and regulations governing, among other things: the generation, storage, handling, release, use, disposal and transportation of waste or hazardous and radioactive materials; the emission and discharge of hazardous materials into the ground, air or water; the decommissioning and decontamination of its facilities; and the health and safety of the Group's employees. The Group is also required to obtain environmental and safety permits from various governmental authorities for its operations. Certain permits require periodic renewal or review of their conditions as well as continuous monitoring and compliance reporting. The Group may not be able to renew such permits or there may be material changes to its permits requiring significant expenditure. Violations of these laws, regulations or permits could result in plant shutdowns, fines or legal proceedings being commenced against the Group or other sanctions, in addition to negative publicity and significant damage to the Group's reputation.

The Group has adopted environmental standards applicable to its operations and, while as at the date of this Prospectus the Group is in compliance with all applicable environmental and safety regulations in force in Bulgaria, there can be no guarantee that it will continue to be in compliance in the future. Should any Group company fail to comply with any such regulations, it may be liable for penalties and/or the consequences of default under any contractual obligations requiring it to comply with applicable regulations.

Any occurrence of environmental damage or loss of life or serious injury to its employees as a result of any breach of applicable safety legislation may result in a disruption of the Group's services or cause reputational harm, and significant liability could be imposed on the Group for damages, clean-up costs and penalties and/or compensation as a result.

The occurrence of any of these events may also cause disruption to the Group's projects and operations and result in additional costs to the Group, which may have a material adverse effect on the Group's business, financial condition, results of operations and cash flows.

Although environmental laws and regulations have an increasing impact on the Group's activities, it is impossible to predict accurately the effect of future developments in such laws and regulations on the Group's future earnings and operations. While the Group has budgeted for future capital and operating expenditures to comply with current environmental and health and safety laws, it is possible that any of these laws may change or become more stringent in the future or that new laws may be adopted. Some risk of environmental costs and liabilities is inherent in the Group's particular operations and products, as it is with other companies engaged in similar businesses.

Changes in the market price of emission allowances could negatively impact the Group's activities.

The Group's operations are subject to legislation aimed at reducing emissions of carbon dioxide ("**CO2**") and other greenhouse gases. Until the end of 2012, CO2 emissions were allocated for free to the energy sector. However, this changed substantially in 2013. From 2013 onwards, as dictated by the European Union Emissions Trading Scheme ("**EU-ETS**"), emission allowances are to be bought in the market or through auctions. However, as part of the overall compromise on the EU's Climate and Energy Package and in order to help modernise their electricity sectors, 10 new Member States, of which Bulgaria is one, were allowed a temporary exemption from the full auctioning rule and permitted to allocate a limited number of emission allowances to power plants for free until 2019. Notwithstanding the free allowances available up to 2019, the Group still needs to purchase a proportion of its allowances.

In view of new climate and energy targets, the European Commission has proposed amendments to the ETS. The European Commission proposes to increase the annual reduction in the number of emission allowances from 1.74 per cent. to 2.2 per cent. after 2020 and until 2030. It is anticipated that this will increase the prices of emission allowances. It is also likely that the energy sector will have to share part of the free allowances with energy-intensive industry. If the above mentioned proposals were to come into force they may have a significant impact on the Group.

Together with the new climate and energy targets, the European Commission has put forward further amendments to the EU-ETS. The European Union has approved the introduction of the market stability reserve from 2019 with backloaded and unallocated allowances to be transferred into the reserve (to control oversupply of allowances). If some of these allowances are kept off the market in reserve then there is a risk that the market price of emission allowances will increase.

Any increase in the price of emission allowances could make some of the Group's activities less economically viable, which would have a material adverse effect on its business, financial results, financial condition and prospects and, consequently, on the value of the Bonds, and on the ability of the Issuer to make payments under the Bonds.

New European Union environmental regulation may increase the Group's capital expenditure and have a negative effect on its financial performance.

Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency came into force on 4 December 2012. This Directive establishes a framework of measures for the promotion of energy efficiency within the EU in order to ensure the achievement of the EU's 2020 20 per cent. headline target on energy efficiency and to pave the way for further long-term energy efficiency improvements beyond that date. The Directive also seeks to overcome irregularities in the operation of the market, stipulates the setting of national targets to achieve the EU efficiency targets by 2020 and introduces an obligation for large enterprises to carry out an energy audit at least every four years (with the first energy audit to be completed by 5 December 2015). The provisions of Directive 2012/27/EU were required to be implemented by Member States by 5 June 2014. Implementation of energy efficiency policies and energy efficiency targets under Directive 2012/27/EC and the Energy Efficiency Act, may ultimately result in the decrease of electricity consumption which in turn may have an adverse impact on the operations, financial condition and results of the Group.

Regulatory measures are also being taken at both national and international levels to reduce the quantities of atmospheric pollutants, such as sulphur dioxide, nitrous oxide, aromatic organic compounds and particulate matter from industrial activities, including power generation. For example, the Group is subject to the EU Industrial Emissions Directive ("**IED**"). The IED came into force at the beginning of 2011, bringing together seven different Directives including the EU Large Combustion Plant Directive and Integrated Pollution Prevention and Control Directive. IED imposes limitations on concentration levels of sulphur dioxide ("**SO2**"), nitric oxide and nitrogen dioxide ("**NOx**") and particulate matter in flue gases from power stations and other large industrial boilers. There is also a risk of further changes to the national and international regulatory framework in relation to CO2, SO2, NOx and other emissions that could affect the Group's ability to use its current production methods and limit its generation capacity. It is currently not clear if the full criteria currently proposed will be applicable to the Group, if certain exceptions in the IED will be available for power plants firing local specific and unconventional fuels such as oil shale or to what extent exceptions can be provided by the competent authority of each Member State in the approvals process. In the event that the current proposals are implemented in full and apply without derogation, material capital expenditure would be required to bring existing equipment in line with some of the new requirements. Such risks and costs could have a material adverse effect on the Group's business and financial position.

Additionally, the Group is affected by the EU National Emissions Ceiling Directive ("**NECD**") which sets national annual limit values for emissions of SO2, NOx, non-methane volatile compounds and ammonia. Negotiations have started between the EU and Member States in relation to revising the NECD to lower the annual permitted emissions volumes for Member States, and to bring EU requirements in line with the Gothenburg Protocol of the Convention on Long-range Trans-boundary Air Pollution. It is expected that the negotiations will result in a revised NECD setting out new national emission ceilings for 2030, potentially with an intermediate target to be achieved by 2025. Further, it is possible that new emissions, such as particulate matter, will be added to the yearly emissions limitation list. Such revisions to the NECD would mean stricter pollution limits for Bulgaria and would likely also impact the emission limits applicable to the Group.

The Group's subsidiary, Kozloduy NPP EAD, which operates the Kozloduy nuclear power plant, may not be able to obtain the necessary authorisations to operate the plant over a period at least equal to the current expected life.

Certain authorisations are required to operate nuclear power plants in Bulgaria and the operation of these plants is subject to overall EU and national regulatory requirements and political policies, which are in turn sensitive to public opinion and EU development risks. The Group may be unable to obtain the necessary authorisations at the appropriate time, or the duration of such authorisations may change, or the Group may be subject to conditions that require it to make significant capital expenditures in order to keep the plant operational. The Group's current licences for Units 5 and 6 of the Kozloduy nuclear plant expire in 2017 and 2019. The Group is in the process of extending the useful life of its reactors for 30 years and applying for an extension of the licences relating to these units but, despite the expenditure the Group will have incurred, there is no certainty that such licences will be extended, and in any event can only be extended 10 years per renewal.

Further, in the event of an incident affecting the safety or operation of the plant's facilities, the plant's expected operating life may be reduced or operations may be stopped. The Group's nuclear power plant accounted for approximately 53 per cent. of its total generation in 2015. Accordingly, if the Group's nuclear power plant is closed before the end of its currently expected operating life, the Group may be required to make additional investments to replace the loss of generation capacity or purchase electricity on the wholesale market. The inability of the Group's nuclear power plant to operate as expected (whether as a result of loss of licences or through an incident or some other reason) could have a significant material adverse effect on the Group's business, results of operations, financial condition and cash flow from operations.

The Group may incur significant liabilities in the event of a nuclear accident.

In accordance with the Vienna Convention, the Bulgarian Nuclear Act provides that the operator of a nuclear facility is liable for any damage caused by a nuclear accident up to BGN 96 million per accident and is obliged to maintain insurance coverage for potential liabilities for nuclear damage in an amount not less than BGN 96 million. The Group has insurance in place for its nuclear power plant, which provides coverage at this minimum amount. However, notwithstanding any limitation of liability under the Bulgarian Nuclear Act and any additional coverage under the Group's insurance policies, any nuclear accident or failure at the Group's nuclear power plant could result in the Group incurring significant losses in excess of such amounts due to, among other things, a potential shut-down of the nuclear facility and the resulting loss of generation capacity, remedial and replacement expenses, litigation and negative publicity from such an accident. As a result, any nuclear accident suffered by the Group's nuclear power plant could have a material adverse effect on its business, results of operations and financial condition. See also "*—The Group is unable to insure itself against all potential risks and may become subject to higher insurance premiums*".

The Group may become liable for increased decommissioning costs or be required to keep additional amounts as restricted funds for the decommissioning of its nuclear power plant.

The Bulgarian government has assumed responsibility for the decommissioning and disposal of radioactive waste and spent nuclear fuel from units 1 to 4 of the Group's nuclear power plant, all of which are no longer in operation. The government is also responsible for financing the preparation and implementation of the decommissioning of these units. NPP Kozloduy is obliged to make one more transport which was booked in 2015 and recognised in the 2015 Financial Statements.

The Group's subsidiary which operates the nuclear power plant will be principally responsible for the decommissioning costs of the remaining two units at the plant. To finance this future liability, the subsidiary contributes approximately 10.5 per cent. of its revenue from electricity sales to decommissioning and radioactive waste funds. It is possible that the amount of the Group's decommissioning provisions may increase in the future and any material increase could have a negative effect on the Group's results of operations.

Failures, breakdowns, planned or unplanned outages as well as natural disasters, sabotage or acts of terrorism at the Group's power plants or damage to the distribution infrastructure may harm the Group's business and reputation or could cause significant harm to the environment and local populations.

The Group's power plants and transmission infrastructure and the information systems controlling these facilities could be subject to failure, breakdowns, unplanned outages, capacity limitations, system loss, breaches of security or physical damage due to natural disasters (such as storms, floods or earthquakes), sabotage, terrorism, computer viruses, fuel interruptions and other causes. The occurrence of any such events could:

- negatively impact generation levels;
- result in higher operating costs or impose limitations on the sale of the Group's products;
- negatively impact the Group's ability to provide service to its customers;
- result in loss of life or injury to the Group's employees or third parties or damage to the Group's facilities;
- lead to disruption or stoppage to operations or otherwise disrupt the business; and
- expose the Group to litigation and potential criminal liability as well as materially adversely affecting the Group's reputation.

The condition of some of the Group's equipment and the components of its power plants may also be affected by their continuous operation, as well as processes such as erosion and corrosion. The impact of such operation and processes tends to increase as the plant, equipment and components grow older. The Group may need to temporarily shut down some of the power plants and may incur expenses in connection with inspections, maintenance or repair activities in addition to the periodic planned inspections, maintenance and repair that the Group currently conducts, including such additional activities that governmental authorities may require it to conduct.

The Group's business and its ability to generate revenue depend on the availability and operating performance of the equipment necessary to operate its power plants and distribution networks. Mechanical failures or other defects in equipment, or accidents that result in non-performance or underperformance of a power plant or transmission network may have a direct impact on the profitability of the Group's operations. The Group generates its electricity from two main assets, its thermal power plant and its nuclear power plant. A failure of one or both of these plants would have a significant adverse effect on the Group's financial position. In addition, if the Group suffers a reduction in electricity generation, it may be required to purchase greater amounts of electricity in the open market, which may be at unfavourable prices. Further, any insurance coverage, warranties or guarantees provided by equipment suppliers in favour of the Group that purport to cover additional expenses incurred by the Group as a result of any failures, may not fully compensate the Group for any increased costs and any resulting decrease in revenue. This could mean that any significant expenses incurred as a result of failures, defects or accidents involving the Group's operating equipment and infrastructure could have a material adverse effect on the Group's business, financial condition, prospects or results of operations.

The Group is unable to insure itself against all potential risks and may become subject to higher insurance premiums.

The Group's operations may be affected by a number of risks, including terrorist acts and war-related events, for which full insurance cover is either not available or not available on commercially reasonable terms. For example, the Group has not purchased environmental liability (save for certain nuclear-related coverage), business interruption, sabotage or terrorist insurance cover. In addition, the severity and frequency of various other events, such as accidents and other mishaps, business interruptions or potential damage to its facilities, property and equipment caused by inclement weather, human error, pollution, labour disputes and natural catastrophes, may result in losses or expose the Group to liabilities in excess of its insurance coverage. BEH cannot assure investors that its insurance coverage will be sufficient to cover losses arising from any, or all, of such events, or that it will be able to renew existing insurance cover on commercially reasonable terms, if at all.

In addition, the Group's insurance policies are subject to commercially negotiated deductibles, exclusions and limitations, and the Group will only receive insurance proceeds in respect of a claim made to the extent that its insurers have the funds to make payment. Therefore insurance may not cover all losses incurred by the Group and no assurance is given that the Group will not suffer losses beyond the limits of, or outside the cover provided by, its insurance policies.

Should an incident occur in relation to which the Group has no insurance coverage or inadequate insurance coverage, the Group could lose the capital invested in, and anticipated future revenue relating to, any property that is damaged or destroyed and, in certain cases, the Group may remain liable for financial obligations related to the impacted property. Similarly, in the event that any assessments are made against the Group in excess of any related insurance coverage that it may maintain, its assets could be subject to attachment, confiscation or restraint under various judicial procedures. Any of these occurrences could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group maintains insurance coverage for the Kozloduy nuclear plant, which is in line with applicable Bulgarian regulations and international conventions. However, the Group cannot be certain that these insurance policies will fully insure it against all risks and losses that may arise in the future. The Group may incur substantial losses as a result of a nuclear accident or failure at the nuclear plant, including loss of generation capacity, repair and clean-up expenses, legal liabilities and reputational losses and consequential legislative and regulatory reforms by Bulgaria or the EU could also substantially adversely affect the Group's operations. See "*Risk Factors—The Group may incur significant liabilities in the event of a nuclear accident*".

The Group may be exposed to increased competition in the electricity and gas markets in Bulgaria and abroad, including as a result of the planned liberalisation of the Bulgarian electricity sector.

The Bulgarian Energy Act is the principal legislation regulating the Bulgarian energy market and Bulgarian energy companies. This and other primary and secondary legislation has brought about the liberalisation of the Bulgarian energy market.

The Group currently operates in the electricity generation, supply and transmission and the gas transmission and supply sectors of the Bulgarian energy market. The Group has a leading position in the electricity generation market through its ownership of the Kozloduy nuclear power generator, a major lignite-fired power plant, Maritsa East II, and the main hydro-power generator, NEK, which accounted for 59 per cent. of total net electricity generation in Bulgaria in 2015.

The Bulgarian energy strategy is focused on ensuring a free choice of supplier by consumers, unhindered and equal access to the electricity and gas transmission networks, fair prices and cleaner energy. Currently, the free market is more profitable for Group companies than the regulated market. Increased liberalisation of the energy market in Bulgaria, including the widening of the free market, is expected to incentivise power plants to become more efficient and therefore more profitable. However, Group companies engaged in electricity and gas supply will face increased competition, including from foreign competitors that may not be obliged to sell at regulated prices and may be more exposed to volatile commodity prices in the future, which could adversely impact the Group's results. In addition, increased competition at an international level could lead to a reduction in the wholesale price of electricity which could also adversely affect the Group's business, financial condition, prospects or results of operations.

The liberalisation process in Bulgaria started in July 2012 with the transposing into the Energy Act of the Third Energy Liberalisation Package. In view of the above in 2015 BEH signed contracts for technical assistance with the World Bank for the purpose of conducting a financial assessment of the energy sector as well as developing a transitional road map for the sector to achieve financial recovery and full market liberalisation. The World Bank has assessed the financial gap in the sector with a focus on NEK and will propose to the Bulgarian government a suitable mechanism in order to implement an adequate framework to financially stabilise NEK's operations and ensure the sector's long-term financial sustainability. Based on the analysis and on international best practices, the World Bank is providing a report on applicable models for market liberalisation in line with the EU common rules for the internal market in electricity (2009/72/EC). The measures that are envisaged are the Security of the Electricity System Fund ("**SESF**") taking over NEK's functions as a public electricity supplier, a Contract for Difference (CfD) mechanism for feed-in-tariff and PPA producers, with SESF acting as a financial counterparty and the issue of bonds by the State or SESF to cover the accumulated tariff deficit in NEK. This tariff deficit accumulated between 2012 and the first half of 2015 as a result of NEK's role as the single buyer and public supplier of electricity in Bulgaria. For a discussion on how these deficits accumulated, see "*Business Description – Business – NEK*" below. The World Bank and the Bulgarian government have agreed that the liberalisation will be a process which will ultimately lead to BEH subsidiaries transitioning fully to operating on the free market as the hybrid market model is phased out completely. This will, however, be a gradual process spanning 3 to 5 years. The NEK as single buyer model is not expected to be applicable in the fully liberalised market.

The European Union is currently in the advanced stages of a competition investigation into possible anti-competitive behaviour by the Group in the Bulgarian gas market. The outcome of those proceedings may result in an increase in competition for the Group. See "*Business Description—Litigation*".

The Group may not be able to keep pace with the technological changes in the energy sector or properly maintain its IT systems.

The technologies used in the energy sector have changed and may change and evolve rapidly in the future. In order for the Group to maintain its competitiveness and to expand its business, it must effectively adjust to these changes. In particular, technologies related to power generation and electricity transmission are constantly improving and becoming more complex. If the Group is unable to modernise its technologies quickly and regularly and to take advantage of industry trends, it could face increased pressure from competitors and lose customers in the markets in which it operates. The Group could also lose valuable opportunities to expand its operations in existing and new markets due to insufficient integration of new technologies in its operations. As a result, the Group's failure to respond to current and future technological changes in the energy sector in an effective and timely manner could have a material adverse effect on the Group's business, financial condition, prospects or results of operations.

Information and communication technology plays an important role in the Group's business operations, in particular, innovative and efficient IT systems are a key success factor for the Group. The Group is routinely exposed to IT risks in connection with the development, implementation and application of its IT systems. In addition, there is a risk that there might be unauthorised access to the Group's sensitive data by third-parties and improper use of such data, which may lead to the loss of company secrets and may result in a breach of applicable data protection regulations. As a result, any breach or unauthorised use of the Group's IT systems may have material adverse effects on the Group's business, financial condition, prospects or results of operations.

Privatisation of BEH or any member of the Group may result in a credit downgrade or may affect its ability to repay debt, which could have a material adverse effect on the Group's results of operations and financial condition.

Bulgaria currently owns 100 per cent. of the shares in BEH. Although BEH is included in the "banned for privatisation" list as per the Appendix 1, under Article 3, para 1 of the Bulgarian Privatisation and Post-Privatisation Control Act, and management does not expect the Bulgarian government to privatise BEH, it cannot give any assurance that the government will not ultimately seek to undertake a partial or full privatisation of BEH resulting in the sale of some or all of its shareholding. However, BEH's subsidiaries are not included in the "banned for privatisation" list and BEH is not prevented by law from selling any portion of its shareholding in any subsidiary. BEH's current credit rating from Fitch/Moody's is based in part on the opinion of Fitch/Moody's that the Bulgarian state may potentially provide support to BEH in the event of financial distress. This rating could come under pressure, potentially leading to a downgrade, if BEH, or any of its subsidiaries is fully or partially privatised and the Bulgarian state is no longer the sole or controlling shareholder, which could affect BEH's ability to make repayments on its debt or otherwise have a material adverse effect on the Group's business, results of operations and financial condition. See also "*—The Group's ability to access credit and bond markets and its ability to raise additional financing are in part dependent on BEH's credit ratings*".

The Bulgarian Privatisation and Post-Privatisation Control Act may impose restrictions on creditors seeking to foreclose on BEH's assets.

Under Bulgarian law, the sale of shares owned by companies in which the Bulgarian state owns more than 50 per cent., including BEH and its subsidiaries, would constitute privatisation and can generally only be done with the consent of the Bulgarian Privatisation and Post-Privatisation Agency in accordance with procedures set out in the Bulgarian Law on Privatisation and Post-Privatisation Control. In the event a creditor of BEH attempts to foreclose on the shares of its subsidiaries in the event of a default (which a creditor generally would be entitled to do under Bulgarian law), it is unclear as a matter of Bulgarian law whether such foreclosure would need to be conducted in accordance with the Bulgarian Law on Privatisation and Post-Privatisation Control, the procedures of which could impose significant restrictions on creditors seeking to make such a foreclosure.

The Group conducts its business in several different currencies and is exposed to foreign currency and interest rate risks.

The Group is exposed to transactional foreign currency risk through purchases and sales, and borrowing transactions undertaken, in foreign currencies, principally euro, U.S. dollars and Japanese yen. Reflecting the fact that the lev has been pegged to the euro since 1 January 1999 at a rate of BGN 1.95583 to EUR1.00, the Group's exposure to movements in the lev/euro exchange rate (in the absence of an adjustment or abolition of the peg) is limited. The Group is, however, exposed to movements in the exchange rates between the lev and the U.S. dollar and Japanese yen and details of this exposure are set out in note 38 to its 2015 Financial Statements. Even though it may do so in the future, the Group does not currently hedge any of its foreign currency exposure using derivative financial instruments.

The Group is also exposed to the effect of changes in interest rates on its variable currency borrowings and deposits and details of this exposure are also set out in note 38 to its 2015 Financial Statements. The Group does not currently hedge any of its interest rate exposure using derivative financial instruments.

Movements in foreign exchange rates or interest rates could have a material adverse effect on the Group's results of operations and financial condition.

A strike or other labour disruption at the Group's facilities could adversely affect its business.

Most of the Group's employees are covered by collective bargaining agreements which are negotiated on an annual basis. These agreements determine the framework for the Group's dealings with its employees and limit its ability to implement plant closures and perform reductions in its workforce. Management believes that partly as a result of these and similar agreements that the Group has executed in the past, it has experienced only limited strikes, threats of strikes, or other resistance or work stoppages. The Ministry of Energy has ordered BEH to implement measures to further reduce administrative expenses. Any significant industrial action by the Group's employees in the future could impair the Group's ability to implement further measures to reduce costs and improve production efficiencies in furtherance of its strategy, such as a reduction in personnel, which could have a material adverse effect on its business, results of operations and financial condition.

The Group is reliant upon skilled personnel in the engineering and technical fields and may not be able to recruit and retain qualified personnel.

The Group's business and operations are dependent upon its ability to recruit and retain skilled engineering personnel and other technical personnel. If the Group is unable to retain experienced, capable and reliable personnel, or fails to recruit skilled professional and technical staff to replace those who leave, the Group's operations may be adversely affected. There is significant demand for experienced and capable personnel in the engineering and technical fields and the Group faces significant competition to recruit such personnel.

The Group could incur unforeseen taxes, tax penalties and sanctions which could adversely affect its results of operations and financial condition.

Tax rules, including those relating to the energy industry in Bulgaria, and their interpretation, may change, possibly with retrospective effect. Significant tax disputes with tax authorities, any change in the tax status of any member of the Group and any change in Bulgarian taxation legislation or its scope or interpretation could affect the Group's business and financial position. Following the economic crisis, a number of EU member states and other countries in the region faced significant budget deficits and, as a result, imposed additional taxes on the utilities sector, such as the nuclear tax in Germany and the power sales tax in Hungary. It is possible that similar taxes could be imposed in Bulgaria in the future, although none are currently anticipated by management. The imposition of any such new taxes in Bulgaria could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group is required to restore certain land on which it undertakes coal mining when the mine's reserves are exhausted or the mining licence expires in 2043. The Group's provisions in respect of such obligation may be insufficient.

The Group is required to decommission its coal mines and related infrastructure and restore the surrounding land by the earlier of when a mine's reserves are exhausted or the mining licence expires in 2043 and mining activities are terminated. The Group is also required to make financial provision for liabilities relating to such decommissioning and restoration. As at 31 December 2015, the Group's provision in this respect amounted to BGN 101 million. However, there are significant uncertainties in determining the likely costs of restoration and, as a result, there is no assurance that the current or any future provisions are or will be sufficient and additional investments may be required, either as a result of change in applicable law or otherwise. Any significant increase in the actual or estimated decommissioning and restoration costs that the Group incurs may adversely affect its business and financial position.

Frequent changes to tax regulations may have an adverse effect on BEH's financial condition and results of operations.

Some provisions of Bulgarian tax law are ambiguous and there is often no unanimous or uniform interpretation or practice of the law by the tax authorities and the courts. In certain cases tax authorities could have a high degree of discretion, for instance in relation to transfer pricing tax legislation, and at times may exercise their powers arbitrarily and selectively enforce tax laws and regulations, which could be in a manner that is contrary to the law. In addition, Bulgaria's relatively ineffective tax collection system and continuing budgetary funding requirements may increase the likelihood that more onerous tax refunding procedures and penalties might be imposed and certain taxes increased. The above conditions may impose additional burdens and costs on BEH's operations, including management resources. BEH cannot provide assurance that the Bulgarian tax authorities will not take a different, unfavourable interpretation of the tax provisions BEH has implemented and that the effective tax burden on BEH's business will not increase. BEH may also be subject to additional tax liabilities. Additional tax liabilities may also arise as a result of an audit by the Bulgarian tax authorities, as the last period audited by the Bulgarian tax authorities was in 2006. These uncertainties complicate BEH's tax planning and related business decisions, potentially exposing BEH's business to significant fines, penalties and enforcement measures, which may have a material adverse effect on BEH's business, results of operations or financial condition.

The Group has engaged and may continue to engage in transactions with related and other parties that may present conflicts of interest or give rise to additional tax charges.

The Group has engaged in transactions with related parties, including its directors, management, the Bulgarian state and other companies controlled by the Bulgarian state, companies controlled by the Group or in which it owns an interest and other affiliates, and the Group may continue to do so in the future. Conflicts of interest may arise between the Group and its related parties, resulting in the conclusion of transactions on terms not determined by market forces. See also note 35 to the 2015 Financial Statements and "*Risk Factors – The Bulgarian state, which owns all of the share capital of BEH, can control the Group's* *policies by, amongst other things, electing all of the members of BEH's Board of Directors and may pursue decisions that reflect Bulgarian government policy*".

Under Bulgarian anti-avoidance rules, tax authorities may scrutinise related party transactions to determine that they have been entered into on market terms. In cases where the tax authorities determine that related party transactions have not been entered into on market terms, they may imply arm's length terms to such transaction which could give rise to additional tax charges.

Risks related to Bonds generally

Set out below is a brief description of certain risks relating to the Bonds generally.

Modification, waivers and substitution

The Terms and Conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. The quorum at any such meeting for passing an Extraordinary Resolution will generally be two or more persons holding or representing not less than 50 per cent. in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented. The quorum at any such meeting for passing an Extraordinary Resolution where the business of the meeting includes the consideration of certain key features of the Bonds (including to reduce the amount of principal or interest which is payable, to amend the dates for payment of principal and interest and to modify the provisions of the Terms and Conditions of the Bonds relating to Extraordinary Resolutions) will be two or more persons holding or representing not less than 75 per cent. in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons holding or representing not less than 25 per cent. in principal amount of the Bonds for the time being outstanding. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

In certain circumstances, where the Bonds are held in global form in the clearing systems, the Issuer will be entitled to rely upon:

(i) where the terms of the proposed resolution have been notified through the relevant clearing system(s), approval of a resolution proposed by the Issuer given by way of electronic consents communicated through the electronic communications systems of the relevant clearing systems in accordance with their operating rules and procedures by or on behalf of the holders of not less than 90 per cent. in nominal amount of the Bonds for the time being outstanding; and

(ii) where electronic consent is not being sought, consent or instructions given in writing directly to the Issuer (a) by accountholders in the clearing systems with entitlements to such Global Certificate or, (b) where the accountholders hold such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction the Issuer shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clearstream Luxembourg or any other relevant alternative clearing system and in the case of (b) above, the relevant clearing system and the account holder identified by the relevant clearing system for the purposes of (b) above.

"**Extraordinary Resolution**" means a resolution passed (a) at a meeting duly convened and held in accordance with the Fiscal Agency Agreement by a majority of at least 75 per cent. of the votes cast, (b) by a written resolution or (c) by an electronic consent.

A written resolution or an electronic consent as described above may be effected in connection with any matter affecting the interests of Bondholders, including the modification of the Terms and Conditions of the Bonds, that would otherwise be required to be passed at a meeting of Bondholders satisfying the special quorum requirements in accordance with the provisions of the Fiscal Agency Agreement, and shall for all purposes take effect as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not vote and Bondholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Bonds also provide that the Fiscal Agent may, without the consent of Bondholders, agree to any modification of the Fiscal Agency Agreement if to do so could not reasonably be expected to be prejudicial to the interests of the Bondholders (see "*Terms and Conditions of the Bonds*").

Change of law

The Conditions of the Bonds are based on English law in effect as at the Issue Date. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the Issue Date.

Risks related to the market generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk.

The secondary market generally

The Bonds are new securities which may not be widely distributed and for which there is currently no established trading market, and one may never develop. If a market for the Bonds does develop, it may not be liquid. If the Bonds are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although application has been made for the Bonds to be admitted to listing on the Official List and to trading on the Market, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Bonds. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Bonds in euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of the euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the euro would decrease (i) the Investor's Currency-equivalent yield on the Bonds, (ii) the Investor's Currency-equivalent value of the principal payable on the Bonds and (iii) the Investor's Currency-equivalent market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

The Bonds bear interest at a fixed rate. An investment in the Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

Credit ratings may not reflect all risks

The Bonds are expected to be assigned ratings of BB- by Fitch and of Ba2 by Moody's. Both Fitch and Moody's are established in the European Union and registered under the CRA Regulation. The rating may not reflect the potential impact of all risks related to structure, market, the additional factors discussed above and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Any adverse change in the credit rating could adversely affect the trading price for the Bonds.

Investors to rely on the procedures of Euroclear and Clearstream, Luxembourg for transfer, payment and communication with the Issuer

The Bonds will initially be represented by the Global Certificate which will be issued and delivered on or prior to the Issue Date to a nominee for a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Certificate, investors will not be entitled to receive individual Bond Certificates. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificate. While the Bonds are represented by the Global Certificate, investors will be able to trade their beneficial interests only through Euroclear or Clearstream, Luxembourg.

While the Bonds are represented by the Global Certificate, the Issuer will discharge its payment obligations under the Bonds by making payments to the common depositary for Euroclear and Clearstream, Luxembourg. A holder of a beneficial interest in the Global Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Bonds. The Issuer does not have any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal and tax advisers to determine whether and to what extent (1) the Bonds are legal investments for it, (2) the Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any of the Bonds. Financial institutions should consult their legal and tax advisers or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable risk- based capital or similar rules.

Capital gains tax may apply upon a disposal of Bonds.

A capital gain realised from the disposal of Bonds by Non-resident Corporate Bondholders (as defined under "*Taxation*") and individual investors who are not Bulgarian tax residents is subject to Bulgarian tax at the rate of 10 per cent. (unless a reduced treaty rate or treaty exemption is available). See "*Taxation*".

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

1 Initial Issue of Certificates

The Global Certificate will be registered in the name of a nominee (the "**Registered Holder**") for a common depositary for Euroclear and Clearstream, Luxembourg and may be delivered on or prior to the original issue date of the Bonds.

Upon the registration of the Global Certificate in the name of any nominee for the Common Depositary and delivery of the Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with an interest in a nominal amount of Bonds equal to the nominal amount thereof for which it has subscribed and paid.

2 Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**") as the holder of a Bond represented by the Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the holder of the Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Bonds for so long as the Bonds are represented by the Global Certificate and such obligations of the Issuer will be discharged by payment to the holder of the Global Certificate in respect of each amount so paid.

3 Exchange

The following will apply in respect of transfers of Bonds held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Bonds within a clearing system whilst they are held on behalf of such clearing system but will limit the circumstances in which the Bonds may be withdrawn from the relevant clearing system.

Transfers of the holding of Bonds represented by the Global Certificate pursuant to Condition 2(a) (*Transfer*) may only be made in part:

(i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or

(ii) upon or following any failure to pay principal in respect of any Bonds when it is due and payable; or

(iii) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph (i) or (ii) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

4 Amendment to Conditions

The Global Certificate contains provisions that apply to the Bonds that it represents, some of which modify the effect of the Terms and Conditions of the Bonds set out in this Prospectus. The following is a summary of certain of those provisions:

4.1 Payments

All payments in respect of Bonds represented by the Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

4.2 Meetings

For the purposes of any meeting of Bondholders, the holder of the Bonds represented by the Global Certificate shall (unless the Global Certificate represents only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and as being entitled to one vote in respect of each integral currency unit of the currency of the Bonds.

4.3 Events of Default

If principal in respect of any Bond is not paid when due, the holder of a Bond represented by the Global Certificate may elect for direct enforcement rights against the Issuer under the terms of a Deed of Covenant executed as a deed by the Issuer on 2 August 2016 to come into effect in respect of a principal amount of Bonds up to the aggregate principal amount in respect of which such failure to pay has occurred in favour of the persons entitled to such payment as accountholders with a clearing system. Following any such acquisition of direct rights, the Global Certificate and the corresponding entry in the register kept by the Registrar will become void as to the specified portion. However, no such election may be made in respect of Bonds represented by the Global Certificate unless the transfer of the whole or a part of the holding of Bonds represented by the Global Certificate shall have been improperly withheld or refused.

4.4 Notices

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of a clearing system, notices to Bondholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for notification as required by the Conditions.

5 Electronic Consent and Written Resolution

While any Global Certificate is registered in the name of any nominee for a clearing system, then:

(i) approval of a resolution proposed by the Issuer given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 90 per cent. in nominal amount of the Bonds outstanding (an "**electronic consent**") shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the special quorum was satisfied), take effect as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held, and shall be binding on all Bondholders whether or not they participated in such electronic consent; and

(ii) where electronic consent is not being sought, for the purpose of determining whether a written resolution has been validly passed, the Issuer shall be entitled to rely on consent or instructions given in writing directly to the Issuer by accountholders in the clearing system with entitlements to such Global Certificate or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, the Issuer has obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting of such amendment. Any resolution passed in such manner shall be binding on all Bondholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, "**commercially reasonable evidence**" includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any other relevant clearing system, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Bonds. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Bonds is clearly identified together with the amount of such holding. The Issuer shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

TERMS AND CONDITIONS OF THE BONDS

The issue of EUR 550,000,000 4.875 per cent. bonds due 2021 by Bulgarian Energy Holding EAD (the "**Issuer**") (the "**Bonds**") was authorised by the Issuer through a board resolution passed on 12 July 2016 and by the Minister of Energy (exercising the rights of the Bulgarian state) on 13 July 2016. A fiscal agency agreement dated 2 August 2016 (the "**Fiscal Agency Agreement**") has been entered into in relation to the Bonds between the Issuer, Citibank N.A., London Branch as fiscal agent and the agents named in it. The Bonds have the benefit of a Deed of Covenant (the "**Deed of Covenant**") dated 2 August 2016 executed by the Issuer relating to the Bonds. The fiscal agent, the registrar and any transfer agent for the time being are referred to below respectively as the "**Fiscal Agent**", the "**Registrar**" and the "**Transfer Agents**". "**Agents**" means the Fiscal Agent, the Registrar, the Transfer Agents and any other agent or agents appointed from time to time with respect to the Bonds. The Fiscal Agency Agreement includes the form of the Bonds. Copies of the Fiscal Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified offices of the Fiscal Agent, the Registrar and any Transfer Agents. The Bondholders (as defined below) are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them.

All capitalised terms that are not defined in these terms and conditions (the "**Conditions**") will have the meanings given to them in the Fiscal Agency Agreement.

1 Form, Denomination and Title

The Bonds are issued in registered form in denominations of EUR100,000 and integral multiples of EUR1,000 in excess thereof.

The Bonds are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(a), each Certificate shall represent the entire holding of Bonds by the same holder.

Title to the Bonds shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Fiscal Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Bond shall be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on the Certificate representing it or the theft or loss of such Certificate and no person shall be liable for so treating the holder.

In these Conditions, "**Bondholder**" and "**holder**" means the person in whose name a Bond is registered.

2 Transfers of Bonds

(a) **Transfer:** A holding of Bonds may, subject to the terms of the Fiscal Agency Agreement and to Condition 2(e), be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Bonds to be transferred, together with the form of transfer endorsed on such Certificate(s) (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer) duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Bonds represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Bonds to a person who is already a holder of Bonds, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Bonds and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Bonds scheduled to the Fiscal Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Fiscal Agent. A copy of the current regulations will be made available by the Registrar to any Bondholder upon request.

(b) **Partial Redemption in Respect of Bonds:** In the case of a partial redemption of a holding of Bonds represented by a single Certificate, a new Certificate shall be issued to the holder in respect of the balance of the holding not redeemed. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent.

(c) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Condition 2(a) or 2(b) shall be available for delivery within five business days of receipt of a duly completed form of transfer and surrender of the existing Certificate(s). Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Change of Control Put Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or Change of Control Put Notice or otherwise in writing, be mailed by uninsured post at the risk and at the expense of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(c), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for general business in both London and the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(d) **Transfer or Exercise:** Certificates, on transfer or partial redemption, shall be issued and registered by or on behalf of the Issuer, the Registrar or any Transfer Agent upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(e) **Closed Periods:** No Bondholder may require the transfer of a Bond to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of that Bond, (ii) after any such Bond has been called for redemption, or (iii) during the period of seven days ending on (and including) any Record Date (as defined in Condition 7(a)(ii)).

3 Status

The Bonds constitute (subject to Condition 4(a) (*Negative Pledge*)) direct, general, unconditional, unsecured and unsubordinated obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) (*Negative Pledge*), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

4 Covenants

(a) Negative Pledge

So long as any Bond remains outstanding (as defined in the Fiscal Agency Agreement) other than any Permitted Security, the Issuer will not, and will ensure that none of its Material Subsidiaries will, create or have outstanding any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Bonds the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security or arrangement as shall be approved by an Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of the Bondholders.

(b) Financial Covenants

(1) For so long as any Bond remains outstanding, the Issuer shall not, and shall not permit (to the extent permitted by law) any of its Material Subsidiaries to, directly or indirectly incur any Financial Indebtedness, provided, however, that the Issuer and any Material Subsidiary may incur Financial Indebtedness in each case if, after giving effect to the incurrence of such Financial Indebtedness and the receipt and application of the proceeds therefrom, (i) no Event of Default has or would have occurred and is or would be continuing, (ii) the EBITDA Coverage Ratio would be not less than 4.0 to 1.0 and (iii) the Consolidated Leverage Ratio would not be more than 4.5 to 1.

(2) For so long as any Bond remains outstanding, in the event that NEK (as defined below) is declared by a Bulgarian court to be overindebted (свръхзадължен) within the meaning of the Bulgarian Commerce Act, then the Issuer shall not, and shall not permit (to the extent permitted by law) any of its Material Subsidiaries to, directly or indirectly, incur any Financial Indebtedness.

(c) Financial Reporting

For so long as any Bond remains outstanding, the Issuer shall publish on its website:

(a) as soon as the same become available, but in any event within 130 days after the end of each of its financial years, its audited consolidated financial statements for that financial year; and

(b) as soon as the same become available, but in any event within 90 days after the end of the first half of each of its financial years, its audited consolidated financial statements for that financial half year.

In these Conditions:

"**Adverse Mandatory Regulatory Measure**" means any Mandatory Regulatory Measure which:

(a) has or is reasonably likely to have a Material Adverse Effect; or

(b) is or is reasonably likely to be materially adverse to the interests of Bondholders;

"**Approved Jurisdiction**" means any member state of the European Union as of 1 January 2004, the United States of America, any state thereof, and the District of Columbia;

"**Cash Equivalents**" means:

(a) euros or U.S. dollars;

(b) securities or marketable direct obligations issued by or directly and fully guaranteed or insured by the government of an Approved Jurisdiction, or any agency or instrumentality of such government having an equivalent credit rating, having maturities of not more than 12 months from the date of acquisition;

(c) certificates of deposit and time deposits with maturities of 12 months or less from the date of acquisition, bankers' acceptances with maturities not exceeding 12 months and overnight bank deposits, in each case with any bank or financial institution which has a rating for its long-term unsecured and non-credit-enhanced debt obligations of at least "**A-1**" or the equivalent thereof by Standard & Poor's, at least "**P-1**" or the equivalent thereof by Moody's or at least "**F-1**" or the equivalent thereof by Fitch (or if at the time none of them is issuing comparable ratings, then a comparable rating of another Nationally Recognised Statistical Rating Organisation);

(d) commercial paper rated at the time of acquisition thereof at least "**A-2**" or the equivalent thereof by Standard & Poor's, "**P-2**" or the equivalent thereof by Moody's or "**F-2**" or the equivalent by Fitch or carrying an equivalent rating by a Nationally Recognised Statistical Rating Organisation if the above named rating agencies cease publishing ratings of investments or, if no rating is available in respect of the commercial paper, the issuer of which has an equivalent rating in respect of its long-term debt, and in any case maturing within one year after the date of acquisition thereof; and/or

(e) interests in money market funds at least 95 per cent. of the assets of which constitute Cash Equivalents of the type referred to in paragraphs (a) through (d) above;

"**Consolidated EBITDA**" means, at any time and in respect of the Issuer, the aggregate of the amount of:

(a) profit before tax;

(b) finance costs; and

(c) depreciation and amortisation,

each as set forth in the most recent consolidated financial statements of the Issuer at such time;

"**Consolidated Fixed Charge**" means, for any Relevant Period, the aggregate amount of the accrued interest, commission, fees, discounts, prepayment penalties or premiums and other finance payments in respect of Financial Indebtedness whether paid, payable or capitalised by any member of the Group in respect of that Relevant Period:

(a) excluding any such obligations to any other member of the Group;

(b) including the interest element of leasing and hiring purchase payments;

(c) including any accrued commission, fees, discounts and other finance payments payable by any member of the Group under any interest rate hedging arrangement; and

(d) deducting any accrued commission, fees, discounts and other finance payments owing to any member of the Group under any interest rate hedging instrument,

in each case without double counting so that no amount shall be included or excluded more than once;

"**Consolidated Leverage Ratio**" means, on any Transaction Date, the ratio of (i) the Financial Indebtedness of the Issuer net of the amount of cash and Cash Equivalents on the consolidated balance sheet of the Issuer, in each case as set forth in, and as of the date of, the most recent consolidated financial statements of the Issuer to (ii) the Consolidated EBITDA for the most recent Relevant Period prior to such Transaction Date for which consolidated financial statements of the Issuer are available. In making the foregoing calculation of (x) Consolidated EBITDA for such Relevant Period, Consolidated EBITDA shall be calculated on the same pro forma basis as described in the definition of EBITDA Coverage Ratio below and (y) Financial Indebtedness as of such date, pro forma effect shall be given to the Incurrence of any Financial Indebtedness the permissibility of which is then being measured and the Incurrence, repayment or redemption of any other Financial Indebtedness on or after the first day of the Reference Period (as defined in "**EBITDA Coverage Ratio**" below) and, in each case, the receipt and application of the proceeds therefrom, in each case as if such Financial Indebtedness had been Incurred, repaid and redeemed as of the date of the most recent consolidated financial statements of the Issuer;

"**EBITDA Coverage Ratio**" means, on any Transaction Date, the ratio of (i) Consolidated EBITDA for the then most recent Relevant Period prior to such Transaction Date for which consolidated financial statements of the Issuer are available to (ii) the aggregate Consolidated Fixed Charge of such Relevant Period. In making the foregoing calculation:

(a) pro forma effect shall be given to any Financial Indebtedness Incurred, repaid or redeemed during the period (the "**Reference Period**") commencing on and including the first day of such Relevant Period and ending on and including the Transaction Date (other than Financial Indebtedness Incurred or repaid under a revolving credit or similar arrangement in effect on the last day of such Relevant Period), in each case as if such Financial Indebtedness had been Incurred, repaid and redeemed on the first day of such Reference Period; provided that, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if each member of the Group had not earned any interest income actually earned during such period in respect of the funds used to repay such Financial Indebtedness;

(b) pro forma effect shall be given to any investments, acquisitions, disposals, mergers, consolidations or discontinued operations (as determined in accordance with International Financial Reporting Standards) that have been made during the Reference Period as if all such investments, acquisitions, disposals, mergers, consolidations or discontinued operations had occurred on the first day of such Reference Period; and

(c) pro forma effect shall be given to the creation, designation or redesignation of Material Subsidiaries as if such creation, designation or redesignation had occurred on the first date of such Reference Period.

For the purposes of this definition and the definition of "**Consolidated Leverage Ratio**" above, whenever pro forma effect is to be given to an investment, acquisition, disposal, merger, consolidation or discontinued operation and the amount of income or earnings relating thereto, the pro forma calculations shall be determined in good faith by a responsible financial or accounting officer of the Issuer. If any Financial Indebtedness bears a floating rate of interest and is being given pro forma effect, the interest on such Financial Indebtedness shall be calculated as if the rate in effect on the Transaction Date had been the applicable rate for the entire period;

"**Financial Indebtedness**" means, in relation to any entity at any date, without duplication:

(a) all indebtedness of such entity for borrowed money;

(b) all obligations of such entity for the purchase price of property or services to the extent the payment of such obligations is deferred for a period in excess of 120 days (other than trade payables) and refundable deposits held as borrowings;

(c) all obligations of such entity evidenced by notes, bonds, debentures or other similar instruments;

(d) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such entity (unless the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property);

(e) all Lease Obligations or Synthetic Lease Obligations of such entity;

(f) any indebtedness of such entity for or in respect of receivables sold or discounted (other than any receivables to the extent they are sold or discounted on a non-recourse basis or on a basis where recourse is limited solely to warranty claims relating to title or objective characteristics of the relevant receivables);

(g) any indebtedness of such entity for any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;

(h) all indebtedness of such entity, contingent or otherwise, as an account party under acceptance, letter of credit, completion guaranties, performance bonds or similar facilities; and

(i) all obligations of such entity, contingent or otherwise, to purchase, redeem, retire or otherwise acquire for value any capital stock of such entity prior to the respective maturity dates,

provided that indebtedness owing by one member of the Group to another member of the Group shall not be taken into account;

"**Fitch**" means Fitch Ratings Ltd. and any successor to its rating agency business;

"**Group**" means the Issuer and its Subsidiaries;

"**Incur**" means issue, assume, guarantee, incur or otherwise become liable for; provided, however, that any Financial Indebtedness of an entity existing at the time such entity becomes a Material Subsidiary shall be deemed to be Incurred by such person at the time it becomes a Material Subsidiary;

"**Independent Transmission Operator**" means each of:

(a) Bulgartransgaz EAD, a sole-proprietorship joint-stock company organised under the laws of the Republic of Bulgaria and registered with the Bulgarian Commercial Registry under the uniform identification code 175203478; and

(b) Elektroenergien Sistemen Operator EAD, a sole-proprietorship joint-stock company organised under the laws of the Republic of Bulgaria and registered with the Bulgarian Commercial Registry under the uniform identification code 175201304;

"**Lease Obligations**" means, in respect of any entity, the obligations of such entity to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property which are required to be classified and accounted for as a balance sheet liability (other than any liability in respect of a lease or other such arrangement which would, in accordance with International Financial Reporting Standards in force at 29 July 2016, have been treated as an operating lease) and, for the purposes of these Conditions, the amount of such obligations at any time shall be the capitalised amount thereof at such time determined in accordance with International Financial Reporting Standards;

"**Mandatory Regulatory Measure**" means any law, regulation, rule or other obligation:

(a) falling within the legal or regulatory framework applicable to an Independent Transmission Operator;

(b) with which an Independent Transmission Operator is required to comply; and

(c) which results in that Independent Transmission Operator being obliged to:

  (i) make any investment in or acquisition of any assets from any person; or

  (ii) incur any Relevant Indebtedness for the purposes of making such investment and/or acquisition; or

  (iii) enter into an agreement regarding either of (i) or (ii) above;

"**Material Adverse Effect**" means a material adverse effect on or material adverse change in:

(a) the financial condition, assets, prospects or business of the Group taken as a whole;

(b) the consolidated financial condition, assets, prospects, applicable regulatory conditions or business of the Issuer and its Subsidiaries taken as a whole;

(c) the ability of the Issuer to perform or comply with its obligations under the Bonds; or

(d) the validity, legality or enforceability of the Bonds;

"**Material Subsidiary**" means, at any time:

(a) each of NPP Kozloduy EAD, TPP Maritsa East 2 EAD, Natsionalna Elektricheska Kompania EAD, Elektroenergien Sistemen Operator EAD, Bulgargaz EAD, Bulgartransgaz EAD and Mini Maritsa Iztok EAD;

(b) any Subsidiary whose (A) total assets (consolidated in the case of a Subsidiary which itself has subsidiaries) represent not less than 10 per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole or (B) nominal revenue (excluding the impact of intragroup sales and consolidated in the case of a Subsidiary which itself has subsidiaries) represent not less than 10 per cent. of the total nominal revenue (excluding the impact of intragroup transactions) of the Issuer and its Subsidiaries taken as a whole, all as calculated respectively by reference to the most recent audited financial statements (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the most recent consolidated audited financial statements of the Issuer and its Subsidiaries; and

(c) any Subsidiary to which is transferred all or substantially all of the assets and undertaking of a Subsidiary of the Issuer which was a Material Subsidiary immediately prior to such transfer (which Subsidiary shall cease to be a Material Subsidiary upon such transfer becoming unconditional) and so that a Subsidiary of the Issuer which becomes a Material Subsidiary pursuant to this paragraph (c) shall remain a Material Subsidiary only until the publication of the next consolidated audited financial statements of the Issuer, unless on such publication, it remains a Material Subsidiary pursuant to paragraph (a) or (b) above;

"**Moody's**" means Moody's Investors Service, Inc. and any successor to its rating agency business;

"**Nationally Recognised Statistical Rating Organisation**" means a nationally recognised statistical rating organisation within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the U.S. Securities Exchange Act of 1934, as amended;

"**Permitted Security**" means, in respect of a Subsidiary, any mortgage, charge, lien, pledge or other security interest which such Subsidiary creates in its capacity as an Independent Transmission Operator:

(a) pursuant to a Mandatory Regulatory Measure other than an Adverse Mandatory Regulatory Measure; or

(b) as a result of a valid decision by the management of that Independent Transmission Operator which, pursuant to Chapter VIII(a), Section II of the Bulgarian Energy Act, falls within its exclusive competence, provided that the granting of such Permitted Security or (or such decision to grant such Permitted Security) was validly approved in writing by the relevant regulator prior to it being granted (where required by law) and does not and is unlikely to cause a Material Adverse Effect;

"**Relevant Indebtedness**" means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market;

"**Relevant Period**" means each period of twelve months ending on the last day of the Issuer's financial year and each period of twelve months ending on the last day of the first half of the Issuer's financial year;

"**Standard & Poor's**" means Standard & Poor's, a division of The McGraw-Hill Companies, Inc., and any successor to its rating agency business;

"**Subsidiary**" means any entity (i) whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the Issuer, (ii) more than 50 per cent. of whose voting share capital is owned or controlled, directly or indirectly, by the Issuer or by one or more Subsidiaries of the Issuer or (iii) in respect of which the Issuer (or one or more Subsidiaries of the Issuer) alone is entitled to control the decision making process of its managing or controlling bodies;

"**Synthetic Lease Obligations**" means all monetary obligations of an entity under:

(a) a so-called synthetic, off-balance sheet or tax retention lease; or

(b) an agreement for the use or possession of property creating obligations which do not appear on the balance sheet of such entity but which, upon the insolvency or bankruptcy of such entity, would be characterised as the Financial Indebtedness of such entity (without regard to accounting treatment); and

"**Transaction Date**" means, with respect to the incurrence of any Financial Indebtedness, the date on which such Financial Indebtedness is to be incurred.

5 Interest

The Bonds bear interest on their outstanding principal amount from and including 2 August 2016 at the rate of 4.875 per cent. per annum, payable annually in arrear on 2 August in each year (each an "**Interest Payment Date**"), subject as provided in Condition 7 (*Payments*).

Each Bond will cease to bear interest from the due date for redemption unless, upon surrender of the corresponding Certificate representing such Bond, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder, and (b) the day seven days after the Fiscal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

Where interest is to be calculated in respect of a period which is equal to or shorter than an Interest Period (as defined below), the day-count fraction used will be the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last).

In these Conditions, the period beginning on and including 2 August 2016 and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

Interest in respect of any Bond shall be calculated per EUR1,000 in principal amount of the Bonds (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any period shall be equal to the product of the rate of interest specified above, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

6 Redemption, Purchase and Cancellation

(a) Final Redemption

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 2 August 2021.

(b) Redemption for Taxation and other Reasons

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), at their principal amount, (together with interest accrued to the date fixed for redemption), if (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (Taxation) as a result of any change in, or amendment to, the laws or regulations of the Republic of Bulgaria or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 29 July 2016, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(b), the Issuer shall deliver to the Fiscal Agent a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

(c) Change of Control Put Option

If, at any time while any of the Bonds remains outstanding, a Change of Control (as defined below) occurs, each Bondholder shall have the option (unless, prior to the giving of the Change of Control Notice (as defined below), the Issuer shall have given notice under Condition 6(b)) to require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) that Bondholder's outstanding Bond(s) at 101 per cent. of their principal amount together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Change of Control Put Date (as defined below). Such option (the "**Change of Control Put Option**") shall operate as follows:

(i) if a Change of Control occurs the Issuer shall, within 14 days of the occurrence of such Change of Control, give notice (a "**Change of Control Notice**") to the Bondholders in accordance with Condition 14 (*Notices*) specifying the nature of the Change of Control and the procedure for exercising the option contained in this Condition 6(c);

(ii) to exercise the Change of Control Put Option, the Bondholder must deliver at the specified office of any Agent on any business day (as defined in Condition 7(f)) falling within the period (the "**Change of Control Put Period**") of 45 days after that on which a Change of Control Notice is given, a duly signed and completed notice of exercise in the form (for the time being current and which may, if the Certificate for such Bonds is held in a clearing system, be any form acceptable to the clearing system delivered in any manner acceptable to the clearing system) obtainable from the specified office of any Agent (a "**Change of Control Put Notice**") and in which the holder must specify a bank account complying with the requirements of Condition 7 (*Payments*) to which payment is to be made under this Condition 6(c), accompanied by the Certificate for such Bonds or evidence satisfactory to the Agent concerned that the Certificate for such Bonds will, following the delivery of the Change of Control Put Notice, be held to its order or under its control;

(iii) the Issuer shall redeem or, at its option, purchase (or procure the purchase of) the relevant Bond on the date (the "**Change of Control Put Date**") being the fifteenth day after the date of expiry of the Change of Control Put Period, unless previously redeemed or purchased and cancelled. Payment in respect of any Bond so delivered shall be made, if the holder duly specifies a bank account in the Change of Control Put Notice to which payment is to be made on the Change of Control Put Date, by transfer to that bank account, subject in any such case as provided in Condition 7 (*Payments*); and

(iv) a Change of Control Put Notice given by a holder of any Bond shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing in which event such holder, at its option, may elect by notice to the Issuer to withdraw the Change of Control Put Notice and instead to give notice that the Bond is immediately due and repayable under Condition 9 (*Events of Default*).

If 80 per cent. or more in principal amount of the Bonds then outstanding have been redeemed or purchased pursuant to the foregoing provisions of this Condition 6(c), the Issuer may, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable and which shall be given within 30 days after the Change of Control Put Date), redeem or purchase, at its option, all (but not some only) of the remaining Bonds at 101 per cent. of the principal amount of the Bonds then outstanding together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the date of redemption or purchase, as the case may be.

For the purpose of this Condition 6(c), "**Change of Control**" means, in relation to the Issuer, the Bulgarian state ceases to (i) hold, directly or indirectly, at least 75 per cent. of the shares in the Issuer or (ii) hold, directly or indirectly, the right to appoint the majority of the directors of the Issuer or (iii) otherwise control or have the power to control the affairs and policies of the Issuer.

(d) Redemption at the Option of the Issuer

Unless a Change of Control Put Notice has been given pursuant to Condition 6(c), the Issuer may, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable and shall specify the date fixed for redemption (the "**Optional Redemption Date**")), redeem, in whole or in part, the Bonds at a redemption price per Bond equal to the higher of the following, in each case together with interest accrued to but excluding the Optional Redemption Date:

(i) the principal amount of the Bond; and

(ii) the sum of the then current values of the remaining scheduled payments of principal and interest discounted to the Optional Redemption Date on an annual basis (based on the actual number of days elapsed divided by 365 or (in the case of a leap year) by 366) at the Reference Dealer Rate (as defined below) plus 5.00 per cent., in each case as determined by the Determination Agent.

Any notice of redemption given under this Condition 6(d) will override any notice of redemption given (whether previously, on the same date or subsequently) under Condition 6(b).

In this Condition:

"**Determination Agent**" means a recognised credit or financial services institution of international standing as selected by the Issuer;

"**Reference Dealers**" means three (or, in the circumstances set out in the definition of "**Reference Stock**" below, four) credit institutions or financial services institutions that regularly deal in bonds or debt securities as selected by the Determination Agent after consultation with the Issuer;

"**Reference Dealer Rate**" means with respect to the Reference Dealers and the Optional Redemption Date, the average of the three quotations of the mid-market annual yield to maturity of the Reference Stock quoted in writing to the Issuer by the Reference Dealers or, if the Determination Agent is only able to obtain fewer than three such Reference Dealer quotations, the average of all such Reference Dealer quotations, at 11.00 a.m. Central European time on the third business day in London preceding the Optional Redemption Date; and

"**Reference Stock**" means the OBL 0.000 per cent. due October 2021 (DE 0001141745), or, if such obligation is no longer outstanding, such other central bank or government security that, in the majority opinion of the Reference Dealers (i) has a maturity comparable to the remaining term of the Bonds and (ii) would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Bonds. In the event that each such Reference Dealer selects a different central bank or government security, the Determination Agent after consultation with the Issuer shall approach a fourth Reference Dealer and, from the three different central bank or government securities selected by the other Reference Dealers, such fourth Reference Dealer shall select as the Reference Stock the central bank or government security which, in its opinion (i) has a maturity comparable to the remaining term of the Bonds and (ii) would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Bonds. The central bank or government security so selected by the fourth Reference Dealer shall then be the Reference Stock.

(e) Purchase

The Issuer and its Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price. The Bonds so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Bondholders or for the purposes of Condition 12(a).

(f) Cancellation

All Certificates representing Bonds purchased by or on behalf of the Issuer may be held, reissued, resold or surrendered for cancellation to the Registrar and, upon surrender thereof, all such Bonds shall be cancelled forthwith. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Bonds shall be discharged.

7 Payments

(a) Method of Payment

(i) Payments of principal shall be made (subject to surrender of the relevant Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Bonds represented by such Certificates) in the manner provided in paragraph (ii) below.

(ii) Interest on each Bond shall be paid to the person shown on the Register at the close of business on the business day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Bond shall be made in the relevant currency by cheque drawn on a bank and mailed to the holder (or to the first named of joint holders) of such Bond at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank.

(iii) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested by the Issuer or a Bondholder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of interest so paid.

(b) Payments subject to Fiscal Laws

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*). No commission or expenses shall be charged to the Bondholders in respect of such payments.

(c) Payment Initiation

Where payment is to be made by transfer to an account in the relevant currency, payment instructions (for value the due date, or if that is not a business day, for value the first following day which is a business day) will be initiated, and, where payment is to be made by cheque, the cheque will be mailed on the last day on which the Fiscal Agent is open for business preceding the due date for payment or, in the case of payments of principal where the relevant Certificate has not been surrendered at the specified office of any Transfer Agent or of the Registrar, on a day on which the Fiscal Agent is open for business and on which the relevant Certificate is surrendered.

(d) Appointment of Agents

The Fiscal Agent, the Registrar and the Transfer Agents initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the Registrar and the Transfer Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Bondholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, the Registrar or any Transfer Agent and to appoint additional or other Transfer Agents, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar, (iii) a Transfer Agent and (iv) such other agents as may be required by any stock exchange on which the Bonds may be listed.

Notice of any such change or any change of any specified office shall promptly be given to the Bondholders.

(e) Delay in Payment

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Bond if the due date is not a business day, if the Bondholder is late in surrendering or cannot surrender its Certificate (if required to do so) or if a cheque mailed in accordance with Condition 7(a)(ii) arrives after the due date for payment.

(f) Non-Business Days

If any date for payment in respect of any Bond is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the place in which the specified office of the Registrar is located and which is a TARGET Business Day.

"**TARGET Business Day**" means a day on which the TARGET System is open for the settlement of payments in euro.

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) system or any successor thereto.

8 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Bonds shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Republic of Bulgaria or any authority therein or thereof having power to tax, unless such withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond:

(a) **Other connection**: held by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the Republic of Bulgaria other than the mere holding of the Bond; or

(b) **Surrender more than 30 days after the Relevant Date**: in respect of which the Certificate representing it is presented for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrendering the Certificate representing such Bond for payment on the last day of such period of 30 days.

"**Relevant Date**" in respect of any Bond means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Bondholders that, upon further surrender of the Certificate representing such Bond being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such surrender.

9 Events of Default

If any of the following events ("**Events of Default**") occurs and is continuing:

(a) **Non-Payment**: the Issuer fails to pay the principal of or any interest on any of the Bonds when due and such failure continues for a period of seven days in the case of principal and 14 days in the case of interest; or

(b) **Breach of Other Obligations**: the Issuer does not perform or comply with any one or more of its other obligations in respect of the Bonds which default is incapable of remedy or is not remedied within 45 days after notice of such default shall have been given to the Fiscal Agent at its specified office by any Bondholder; or

(c) **Cross-Default/Cross Acceleration**: (i) any other present or future indebtedness (other than indebtedness owed to another member of the Group) of the Issuer or any of its Material Subsidiaries for or in respect of moneys borrowed or raised becomes (or, other than in the case of Natsionalna Elektricheska Kompania EAD ("**NEK**"), becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or any of its Material Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised (other than a failure to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised from another member of the Group), provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 9(c) have occurred equals or exceeds EUR25,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the euro as quoted by any leading bank on the day on which this paragraph operates); or

(d) **Enforcement Proceedings**: a distress, attachment, execution or other similar legal process is levied, enforced or sued out on or against the property, assets or revenues of the Issuer or any of its Material Subsidiaries having an aggregate value of EUR25,000,000 or more and is not discharged or stayed within 45 days; or

(e) **Security Enforced**: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any of its Material Subsidiaries in respect of a material part of the property, assets or revenues of the Issuer or any of its Material Subsidiaries becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person); or

(f) **Insolvency**: (i) the Issuer or any of its Material Subsidiaries (other than in the case of NEK) (A) is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, (B) stops, suspends or threatens to stop or suspend payment of all or a material part of (or all of a particular type of) its debts, (C) proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due) other than any deferral, rescheduling or other adjustment on a solvent basis in respect of debts not exceeding EUR50,000,000 in the aggregate, or (D) proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts other than any assignment, arrangement or composition on a solvent basis in respect of debts not exceeding EUR50,000,000 in the aggregate or a moratorium is agreed or declared in respect of or affecting all or any substantial part of (or all of a particular type of) the debts of the Issuer or any of its Material Subsidiaries (other than NEK) and (ii) in the case of NEK, it is declared by a Bulgarian court to be insolvent; or

(g) **Winding-up**: an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer or any of its Subsidiaries, or the Issuer ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Bondholders, or (ii) in the case of a Subsidiary, whereby the undertaking and assets of the Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries, provided that this paragraph (g) shall not apply to any winding-up petition which is frivolous or vexatious and is discharged, stayed or dismissed within 30 days of commencement; or

(h) **Illegality**: it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Bonds; or

(i) **Analogous Events**: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of paragraphs (d) to (h) of this Condition 9,

then any Bond may, by notice in writing given to the Fiscal Agent at its specified office by the holder, be declared immediately due and payable whereupon it shall become immediately due and payable at its principal amount together with accrued interest without further formality unless such event of default shall have been remedied prior to the receipt of such notice by the Fiscal Agent.

10 Prescription

Claims against the Issuer for payment in respect of the Bonds shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

11 Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or such other Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Bondholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12 Meetings of Bondholders, Modification and Substitution

(a) **Meetings of Bondholders**: The Fiscal Agency Agreement contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any provision of these Conditions or the provisions of the Fiscal Agency Agreement. Such a meeting may be convened by Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing not less than 50 per cent. in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds, or (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed).

The Fiscal Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(b) **Modification of the Fiscal Agency Agreement**: The Issuer shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Fiscal Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Bondholders.

(c) **Substitution**: The Issuer, or any previous substituted company, may at any time, without the consent of the Bondholders, substitute for itself as principal debtor under the Bonds such company (the "**Substitute**") as is specified in the Fiscal Agency Agreement, provided that no payment in respect of the Bonds is at the relevant time overdue. The substitution shall be made by a deed poll (the "**Deed Poll**"), to be substantially in the form exhibited to the Fiscal Agency Agreement, and may take place only if (i) the Substitute shall, by means of the Deed Poll, agree to indemnify each Bondholder against any tax, duty, assessment or governmental charge which is imposed on it by (or by any authority in or of) the jurisdiction of the country of the Substitute's residence for tax purposes and, if different, of its incorporation with respect to any Bond and which would not have been so imposed had the substitution not been made, as well as against any tax, duty, assessment or governmental charge, and any cost or expense, relating to the substitution, (ii) the obligations of the Substitute under the Deed Poll and the Bonds shall be unconditionally guaranteed by the Issuer by means of the Deed Poll, (iii) all action, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Deed Poll and the Bonds represent valid, legally binding and enforceable obligations of the Substitute and in the case of the Deed Poll of the Issuer have been taken, fulfilled and done and are in full force and effect, (iv) the Substitute shall have become party to the Fiscal Agency Agreement, with any appropriate consequential amendments, as if it had been an original party to it, (v) legal opinions addressed to the Bondholders shall have been delivered to them (care of the Fiscal Agent) from a lawyer or firm of lawyers with a leading securities practice in each jurisdiction referred to in (i) above and in England as to the fulfilment of the preceding conditions of this Condition 12(c) and the other matters specified in the Deed Poll and (vi) the Issuer shall have given at least 14 days' prior notice of such substitution to the Bondholders, stating that copies, or pending execution the agreed text, of all documents in relation to the substitution which are referred to above, or which might otherwise reasonably be regarded as material to Bondholders, will be available for inspection at the specified office of each of the Fiscal Agent, the Registrar and the Transfer Agents. References in Condition 9 (*Events of Default*) to obligations under the Bonds shall be deemed to include obligations under the Deed Poll, and, where the Deed Poll contains a guarantee, the events listed in Condition 9 shall be deemed to include that guarantee not being (or being claimed by the guarantor not to be) in full force and effect and the provisions of Conditions 9(c) – 9(h) inclusive shall be deemed to apply in addition to the guarantor.

13 Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds.

14 Notices

Notices to the holders of Bonds shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. So long as the Bonds are admitted to trading on, and listed on the Official List of the Irish Stock Exchange and the guidelines of the Irish Stock Exchange so require, notices to the holders of Bonds shall also be filed with the Companies Announcement Office of the Irish Stock Exchange. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

15 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

16 Governing Law and Jurisdiction

(a) **Governing Law**: The Fiscal Agency Agreement and the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) **Jurisdiction**: The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Bonds (including a dispute relating to any non-contractual obligations arising out of or in connection with the Bonds) and accordingly any legal action or proceedings arising out of or in connection with any Bonds ("**Proceedings**") may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of such courts and unconditionally waives and agrees not to raise any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) **Agent for Service of Process**: The Issuer irrevocably appoints Law Debenture Corporate Services Limited of Fifth Floor, 100 Wood Street, London, EC2V 7EX as its agent in England to receive service of process in any Proceedings in England based on any of the Bonds. If for any reason the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Bondholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

(d) **Waiver of Immunity**: The Issuer agrees, to the extent that it may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

USE OF PROCEEDS

The net proceeds of the issue of the Bonds, expected to amount to EUR 539,665,500 after deduction of the total fees and other costs and expenses incurred in connection with the issue of the Bonds, will be used by the Issuer to repay on or shortly after the Issue Date its outstanding indebtedness under a bridge facility made available by the Joint Lead Managers as lenders to the Issuer pursuant to a bridge facility agreement entered into on 21 April 2016 (the "**Bridge Facility**"). The Bridge Facility matures on 25 April 2017 and as at the date of this Prospectus, EUR 535,000,000 of the EUR 535,000,000 facility was drawn. The remaining net proceeds of the issue of the Bonds after repayment of the Bridge Facility will be used for the general corporate purposes of the Group.

BUSINESS DESCRIPTION

INTRODUCTION

BEH is the holding company for a group of companies which are principally engaged in electricity generation, supply and transmission, natural gas transmission, supply and storage and coal mining and which hold a leading position in the electricity and gas market in Bulgaria and, through electricity exports, in the Balkans. BEH is wholly-owned by the Bulgarian state and is the largest state-owned company in terms of total assets in Bulgaria.

By virtue of a decree of the Bulgarian Council of Ministers dated 12 May 1993 under the Bulgarian Commercial Act, 1991, as amended, BEH is a sole-owner joint stock company. It is registered in Bulgaria with registration number BG 831373560. Its registered address is 1000 Sofia, Oborishte Municipality, 16 Veslets Str. Bulgaria and its telephone number is +359 2926 3800.

The Group owns the main electricity generation facilities in Bulgaria as well as the electricity transmission grid and the gas transmission and transit networks. The Group is also the public supplier of both electricity and gas in Bulgaria and it is therefore a strategically important state company. For the year ended 31 December 2015 the Group's market share of Bulgaria's power generation was 59 per cent.[2] when it had an installed electricity generation capacity of 6.3 gigawatts ("**GW**") and generated 29.24 terawatt hours of electricity.

BEH's principal subsidiaries are:

- NPP Kozloduy EAD ("**NPP Kozloduy**") which owns the only nuclear generation plant in Bulgaria. In 2015, the Kozloduy nuclear power plant ("**NPP**") accounted for 31 per cent. of Bulgaria's total electricity generation;[3]
- TPP Maritsa East 2 EAD ("**TPP Maritsa East 2**") which owns a lignite-fired thermal power plant ("**TPP**"). In 2015, the Maritsa TPP accounted for 19 per cent. of Bulgaria's total electricity generation;[4]
- Natsionalna Elektricheska Kompania EAD ("**NEK**") which owns a number of hydro power plants ("**HPP**") which, in 2015, accounted for 9 per cent. of Bulgaria's total electricity generation.[5] NEK is also the public supplier of electricity and the supplier of last resort of electricity in the country;
- Elektroenerigen Sistemen Operator EAD ("**ESO**") which owns and operates the country's high voltage electricity transmission grid. It also provides the centralised dispatching of the national electric power generation system. In 2015 ESO was certified as an Independent Transmission Operator ("**ITO**") of the Bulgarian electricity transmission system;
- Independent Bulgarian Energy Exchange EAD ("**IBEX**") which is the Bulgarian energy exchange operating the day ahead market. IBEX is being divested – see "*Business Description – Business – Electricity – IBEX*";
- Bulgartransgaz EAD ("**Bulgartransgaz**") which is the owner and operator of Bulgaria's gas transmission and gas transit networks and also operates a significant gas storage facility. In 2015 Bulgartransgaz was certified as an ITO of the Bulgarian gas transmission system;
- Bulgargaz EAD ("**Bulgargaz**") which is the public supplier of gas in the country; and
- Mini Maritsa Iztok EAD ("**MMI**") which operates an open pit lignite coal mine accounting for 90 per cent. of coal extracted for the production of electricity in Bulgaria.[6] It supplies the Group's TPP as well as other customers.

2 Source: ESO 2015 energy balance

3 Source: ESO 2015 energy balance

4 Source: ESO 2015 energy balance

5 Source: ESO 2015 energy balance. Including pumped storage hydro power plant generation

6 Source: 2016 Bulletin on the State and Development of the Energy Sector in the Republic of Bulgaria issued by the Ministry of Energy – https://www.me.government.bg/files/useruploads/files/buletin_energy_2016_end.pdf

BEH and its subsidiaries are participating in four gas pipeline projects between Bulgaria and Greece, Romania, Serbia and Turkey, respectively, which are at different stages of development. These projects are named Interconnector Greece-Bulgaria, Interconnector Turkey-Bulgaria, Interconnector Bulgaria-Serbia and Interconnector Bulgaria-Romania.

HISTORY

BEH is a successor of the state-owned company Neft i Gas (Oil and Gas) which was established in 1973. In 1990, the company was renamed Bulgargaz and, in May 1993, it was restructured as a sole owner joint-stock company in accordance with a Decree of the Council of Ministers dated 12 May 1993 for an indefinite period.

In October 2006, Bulgargaz was transformed into Bulgargaz Holding EAD through the spin-off of two sole-owner joint stock companies, Bulgartransgaz EAD and Bulgargaz EAD. Bulgartransgaz EAD and Bulgargaz EAD became legal successors of the respective parts of the property (rights and obligations) of the former Bulgargaz.

In September 2008, Bulgargaz Holding EAD was renamed Bulgarian Energy Holding EAD and its capital was increased through an in-kind contribution at par value of all the shares in the capital of NEK, NPP Kozloduy, TPP Maritsa East 2 and MMI.

In the beginning of 2014 two new subsidiaries were added to the Group: IBEX and ESO. ESO became a wholly owned subsidiary of BEH having been unbundled from NEK effective on 14 February 2014. IBEX was established in January 2014 with the aim of establishing and operating a power exchange in a day ahead market and a long term bilateral contracts market for the Bulgarian market zone.

In July 2015, IBEX launched the day ahead power exchange.

STRATEGY

As a state-owned energy group, the Group's mid- to long-term strategy is synonymous with the Bulgarian state's energy policy. This policy seeks to guarantee the security of Bulgaria's energy supply, its independence through the diversification of suppliers and supply routes and to preserve and develop the specific advantages of the Bulgarian energy sector and its position in the regional and European market, while strictly complying with the requirements of European and Bulgarian legislation. Within this context, BEH was established to ensure strategic and efficient management of its constituent business units and to secure the preservation and development of specific advantages of the Bulgarian energy sector and Bulgaria's position in the regional and European market.

The Group's strategy focuses on completing a range of priority infrastructure projects and achieving goals set by its shareholder to enhance its position in the national and regional energy sector. The capital expenditure associated with the Group's priority infrastructure projects is discussed under "*Financial Review—Liquidity and capital resources—Capital expenditure*". The Group's priority infrastructure projects include:

Electricity

- guaranteeing the security of Bulgaria's electricity supply;
- the rehabilitation and expansion of the transmission network;
- the extension of the useful lives of its existing nuclear facility;
- the increase of electricity generation capacity through investments in new generation facilities;
- an increase in exports to strengthen the position of Bulgaria as a strategic net exporter in south eastern Europe; and
- achieving a liberalised, transparent, integrated and competitive electricity market.

Natural gas

- guaranteeing the security of Bulgaria's gas supply;
- diversification of sources and routes for supply of natural gas through the completion and operation of reversible interconnectors with Greece, Turkey, Serbia and Romania;
- expansion of the existing Chiren gas storage facility;
- modernisation and expansion of the existing gas network;
- solidification of its position as a strategic regional gas player; and
- construction of a new gas storage facility.

Coal mining

- guaranteeing the security of Bulgaria's coal supply;
- increasing the production capacity of MMI and improving the efficiency of open pit mining, which includes investment in new heavy mining equipment; and
- satisfying the requirements of the thermal power plants in the Maritsa East complex, in particular in connection with their planned investments in new capacity.

Other strategic goals

The Group's other strategic goals include:

- improving the opportunities for capital investment in the Bulgarian energy sector, for example through the possible implementation of public private partnership projects;
- introducing and applying best management practices by attracting the best management in the sector;
- increasing the efficiency and efficacy of its activities by investing in new technology-based solutions for the optimisation of product processes; and
- advancing the quality of its human capital through training and developing its current and new employees.

COMPETITIVE STRENGTHS

The Group's principal competitive strengths include:

State ownership and strategic importance

BEH is 100% owned by the Bulgarian state through the Minister of Energy and there are no plans for the privatisation of the company in the foreseeable future. The government created BEH with the aim of consolidating state-owned assets in the energy sector, including the regulated monopolist gas and electricity network operators, and views the company as instrumental to implementing the government's energy strategy. All important decisions are subject to approval by the Minister.

The Group's activities make a significant contribution to the national GDP (7.8 per cent. in 2015)[7] and to the energy security and economic growth of Bulgaria. The Bulgarian government views the Group as the state's strategic asset in the electricity and gas markets. The strong links with the state are evidenced by state guarantees for approximately 23 per cent. of the Group's debt accumulated as at end of 2015, a cash capital injection by the state of BGN 400 million in 2009 and strong operational ties. BEH subsidiaries are identified as entities of the critical energy infrastructure, the impairment or destruction of which would have material consequences for vitally important public functions, the health, safety, security, economic or social welfare of the population of Bulgaria. Moreover, the Issuer (but none of its subsidiaries) is included in the "banned

[7] Source: National Statistics Institute, BEH

for privatisation" list of companies that may not be subject to privatisation under the Privatisation and Post-privatisation Control Act ("**PPCA**") except with the prior consent of the National Assembly of the Republic of Bulgaria. The Group operates as a department of the Ministry of Energy and is its instrument for implementing policy in the energy sector. As such BEH is mandated to manage all important state projects in the energy sector including the collaboration with the World Bank for developing policy recommendations and a road map for energy sector reform. Legislative and regulatory changes implemented in 2015 have significantly improved NEK's and, accordingly, BEH's financial position. See "*Regulation, Environment and Health and Safety – Regulation – Electricity prices*". Government support also helps to ensure favourable positioning for the Group in negotiations with international partners.

In 2015 the government began implementing amendments to the legal framework aimed at stabilising the sector by eliminating the formation of new tariff deficits as well as the gradual recovery of the accumulated tariff deficit in NEK. This tariff deficit accumulated between 2012 and the first half of 2015 as a result of NEK's role as the single buyer and public supplier of electricity in Bulgaria. For a discussion on how these deficits accumulated, see "*Business Description – Business – NEK*" below. The measures have led to a significant improvement in NEK and BEH's financial position in a short space of time by establishing a legal and regulatory framework which enabled direct cash inflow to NEK.

Operating in a stable economic environment

Bulgaria has a track record of GDP growth above the EU average and 3.0%-3.6% real GDP growth is forecast in the 2016-2018 period.[8] The country has one of the lowest government debt levels with a strong track record of government debt consolidation.

Since 2007 Bulgaria is an EU member which provides financial support and incentives for ongoing reforms, including in the energy sector. This also supports the political stability of the country. Bulgaria has a stable monetary policy framework. The Bulgarian lev ("**BGN**") has been pegged to the Euro since 1999, supported by international reserves maintained by the Bulgarian National Bank. Bulgaria also has a stable monetary policy framework, based on a Currency Board Regime, which continues to provide stability and guidance, and helps control inflation.

Leading position in the Bulgarian electricity and gas markets

The Group's activities are broadly diversified within the energy sector and include:

- electricity generation through the only NPP in Bulgaria, through the largest TPP and a number of HPPs, and high voltage electricity transmission and sale (including through exports)
- natural gas transmission and transit, natural gas storage and the sale and purchase of natural gas; and
- coal mining and the sale of coal.

The Group has a dominant position in the Bulgarian electricity and gas markets. BEH owns approximately 6.4 GW of power generation assets representing 51% of the installed capacity in Bulgaria in 2015. Through its ownership of the only nuclear power plant and the largest thermal and hydro power plants in Bulgaria it generated net 27 TWh of electricity accounting for 59 per cent. of Bulgaria's total electricity generation in 2015.[9] The Group has a regulated monopoly position in electricity and gas transmission as well as in public supply of electric and gas. It is the sole licensed gas transit company. Furthermore, the Group is the sole supplier of lignite coal to the thermal power plants in the Maritsa East region.

Bulgaria has a competitively priced generation mix. Bulgaria is a net electricity exporter with net exports in the range of 8-10 TWh per year (around 10 TWh in 2015) depending on demand. Interconnector capacity with main export destinations (Greece, Turkey and Macedonia) is 1,530 MW and is fully utilised. Demand from export markets is expected to remain high in the near term. The Group's operations are based in a single, well developed, strategic geographic hub with significant exports to neighbouring countries.

[8] Source: Ministry of Finance 2016 budget forecast

[9] Source: ESO 2015 energy balance

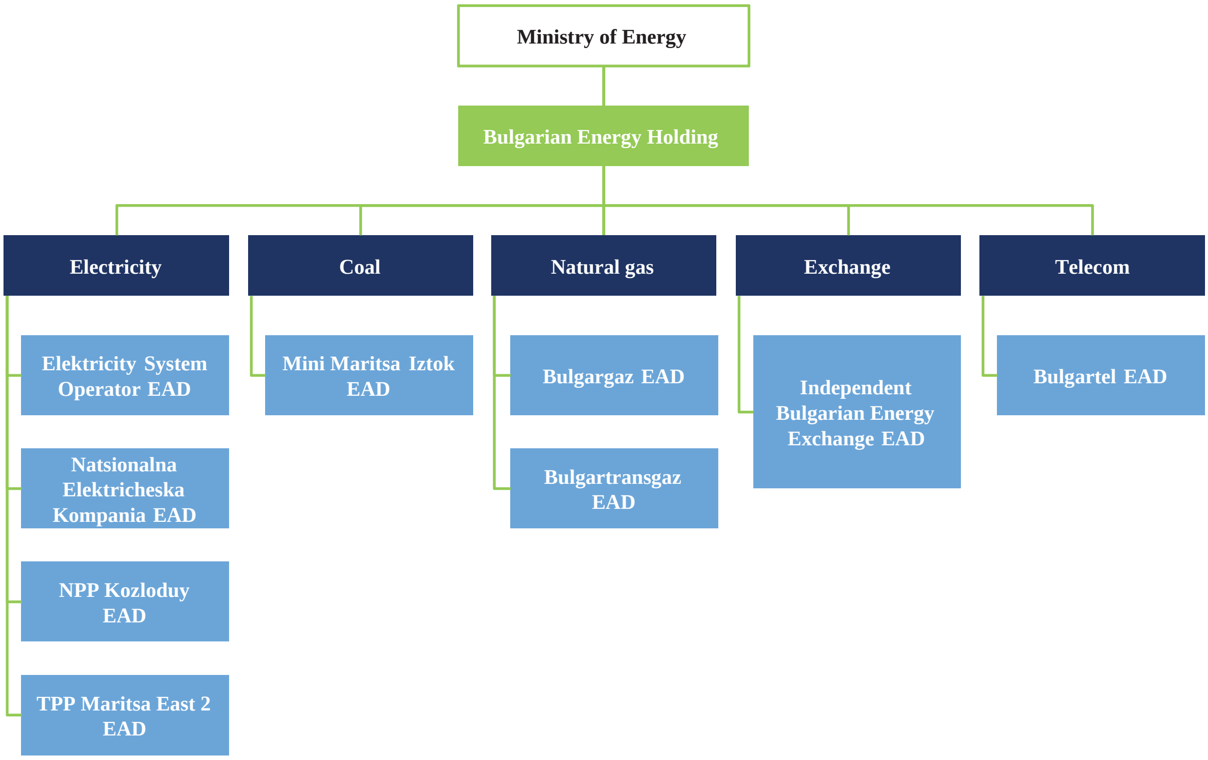
High quality assets with long remaining lives

The Group owns a significant proportion of Bulgaria's strategic energy assets, including the electricity and gas transmission networks and the two largest power plants in Bulgaria, one of which is nuclear powered and the other is lignite-fired. As at 31 December 2015, the Group had consolidated assets of BGN 17.4 billion, making it the largest state-owned company in Bulgaria. The Group's assets are high quality and either have long remaining lives or are in the process of having their lives extended.

BUSINESS

Structure

The Group comprises BEH (which is a holding company) and nine wholly-owned subsidiaries as shown in the diagram below:



Electricity

The Group's electricity business is carried out by four of its subsidiaries: TPP Maritsa East 2, NPP Kozloduy, NEK and ESO. NPP Kozloduy, TPP Maritsa East 2 and NEK generate electricity through a thermal power plant, a nuclear power plant and hydro-power plants, respectively. NEK also buys and sells electricity on both the regulated and free market as well as at the balancing market and on the Bulgarian power exchange. Its principal customers are the four medium and low voltage electricity supply companies in Bulgaria but it also supplies electricity directly to around 90 industrial customers. NEK also exports electricity. ESO is responsible for electricity transmission and owns and operates Bulgaria's electricity grid.

The Electricity segment's revenue was BGN 5,318 million in 2015 compared with BGN 4,947 million in 2014. The table below shows the Group's electricity generation mix for each of the two years ended 31 December 2015.[10]

	2015 GWh (Gigawatt Hour)	2014 GWh
Nuclear power plant generation	15,381	15,866
Thermal power plant generation	9,524	8,803
Hydro power plant generation	4,335	3,322
Total generation	**29,240**	**27,991**

TPP Maritsa East 2

TPP Maritsa East 2 owns and operates the largest thermal power plant in Bulgaria. The TPP occupies 512 hectares and is one of the four thermal power plants at the "Maritsa East" complex. The TPP is fuelled by lignite coal obtained locally from the Group's coal extraction company, MMI. The TPP commenced operations in 1966 and currently comprises eight generation units, each with a Flue Gas Desulphurisation Plant with around 96 per cent. efficiency. The installed generation capacity of the TPP was increased in 2014 from 1,600 megawatts ("**MW**") to 1,620 MW following a rehabilitation process which extended the useful life of the facilities by 20 years. The Group's licence to operate the TPP expires in 2021. The Group is currently considering the feasibility of further extending the useful life of the plant to take advantage of the fact that MMI's coal reserves are expected to be sufficient to service the current usage for a period of between 60 and 70 years.

The TPP's principal supplier is MMI and its principal customer on the regulated market is NEK. The TPP has a long-term contract for coal supply with MMI. Averaged across 2014 and 2015, approximately 16 per cent. of TPP's sales were to NEK with the remaining sales being made on the free market to industrial companies and electricity traders at commercially negotiated prices as well as on the Bulgarian energy exchange. The prices for sales to NEK are regulated by EWRC. The price for the availability of cold reserve (i.e. the available capacity of the plant to maintain a secure electricity system) is no longer determined by EWRC, as it was until 2013, and instead the cold reserve is tendered. The price at which TPP purchases coal from MMI is determined by a specific methodology and is subject to the approval of the Minister of Energy. Volumes of purchased coal are based on the TPP's budget for the production and sale of electricity and are updated on a quarterly basis. The contracts do not contain any take-or-pay arrangements.

In 2015, the TPP generated 9,524 GWh of electricity, equal to 19.3 per cent. of Bulgaria's total electricity generation. In 2014, the TPP generated 8,803 GWh of electricity, equal to 18.6 per cent. of Bulgaria's total electricity generation. The TPP's generation increased in 2015, principally as a result of the successful implementation of a project for increasing the heating turbines capacity of units 7 and 8 of the plant and favourable market conditions.

See also "*Regulation, Environment and Health and Safety*" for a discussion of the impact of the EU's emissions trading system on the TPP.

NPP Kozloduy

NPP Kozloduy owns and operates the only nuclear power plant in Bulgaria. The NPP is located 200 km north of Sofia on the Danube River and covers a total area of 4,471 hectares. The NPP is Bulgaria's main electricity generation plant, providing more than one third of the country's electricity. It is undergoing a substantial modernisation programme and generates the cheapest electricity in the country.

The NPP was designed to operate with six pressurised water reactor units of Russian design with a total electricity generation capacity of 3,760 MW. However, partly in order to comply with Bulgaria's commitments to the European Union, the operation of four reactors has ceased and the NPP currently comprises only two reactor units with a total capacity of 2,000 MW. The operational licence for these reactors, which were commissioned in 1987 and 1991, respectively, expire in 2017 and 2019, respectively,

[10] Source of indicative figures: ESO energy balance

and are expected to be renewed. NPP Kozloduy has an investment strategy designed to extend the operating lifecycle of the two existing units by 30 years until 2047 and 2051, respectively. In parallel, NPP is currently executing an investment project intended to increase the heat capacity of the two units by up to 104 per cent.

The NPP obtains its nuclear fuel under long-term contracts from a Russian supplier. The NPP sells the electricity generated to NEK, to approximately 20 other principal customers (being industrial companies and energy traders) and on the Bulgarian energy exchange. Prices and volumes under the nuclear fuel supply contract are agreed periodically. In 2015, NPP Kozloduy sold approximately 33.3 per cent. of its electricity to NEK on the regulated market. In 2014 NPP Kozloduy sold approximately 40 per cent. of its electricity to NEK on the regulated market. The remaining sales were made on the free market and energy exchange at commercially negotiated prices.

In 2015, the NPP generated 15,381 GWh of electricity, equal to 31.2 per cent. of Bulgaria's total electricity generation. In 2014, the NPP generated 15,866 GWh of electricity, equal to 34 per cent. of Bulgaria's total electricity generation. The reduction in electricity generation in 2015 was due to a higher level of planed outages related to the implementation of the project for the extension of the useful life of units 5 and 6 and due to another investment project for increasing the heating capacity of the two units by up to 104 per cent.

More than 3,681 people worked at NPP Kozloduy as at 31 December 2015 and 2,439 people worked at TPP Maritsa East 2, which makes them both major employers in Bulgaria.

Safety is NPP Kozloduy's main priority and it is subject to independent state surveillance by the Nuclear Regulatory Agency of the Bulgarian Council of Ministers. NPP Kozloduy's safety has been assessed by the International Atomic Energy Agency and other international bodies. Environmental protection is also a fundamental issue. The plant monitors the background gamma radiation at its site through an automated information system and the levels of this radiation have remained consistent with those existing prior to the plant's commissioning.

Council Directive 2011/70/Euratom of 19 July 2011 established a community framework for the responsible and safe management of spent fuel and radioactive waste and these provisions were implemented in Bulgaria through the Act on the Safe Use of Nuclear Energy. The Directive requires that Member States present national programmes, indicating when, where and how they will construct and manage final spent fuel repositories guaranteeing the highest safety standards. Bulgaria's National Nuclear Fuel Management Strategy was adopted by the Bulgarian Council of Ministers in 2004 and will remain in force until 2030. In 2015 the strategy was updated. The strategy provides that NPP Kozloduy should cover the annual transportation and associated costs for at least 50 tonnes of spent nuclear fuel ("**SNF**") from the four decommissioned units based on existing transportation, storage and processing contracts with a Russian company. The transportation of this SNF creates capacity in the existing SNF repository for the storage of SNF created by units 5 and 6. NPP Kozloduy recognises provisions for the storage and transportation of SNF. It is obliged to make one more transport which was booked in 2015 and recognised in the 2015 Financial Statements.

In November 1999, the Bulgarian government and the European Commission signed a Memorandum of understanding in which the Bulgarian government undertook a firm commitment to close and decommission units 1 to 4 of the NPP as part of its EU accession agreement. The Kozloduy International Decommissioning Support Fund ("**KIDSF**") has been established, administered by the European Bank for Reconstruction and Development, in order to support the decommissioning activities and to mitigate the negative consequences of the units' early closure. Part of the purpose of the KIDSF is to assist in the necessary restructuring, upgrading and modernisation of the energy production, transmission and distribution sectors as well as to improve energy efficiency. The KIDSF decommissioning package provides grant financing for facilities designed to provide interim storage of the spent fuel and management of the radioactive wastes generated.

Pursuant to a decommissioning plan approved by the Bulgarian government in 2004, the four closed reactors at the NPP have been transferred to, and are being decommissioned by, a separate State-owned company and accordingly are no longer the responsibility of NPP Kozloduy. In relation to the remaining two units, NPP is required to pay annually an amount equal to 10.5 per cent. of its revenue from electricity sold, which amounted to BGN 86.7 million in 2015 and BGN 87.1 million in 2014, to decommissioning and radioactive waste funds. This is a State-owned fund, under the governance of the Ministry of Energy.

NEK

NEK acts as the single buyer, public supplier and provider of last resort of electricity in Bulgaria. As the single buyer, NEK is obliged to purchase electricity from producers under long-term PPAs at contractual prices, RES producers and producers with highly efficient co-generation at preferential prices set by the EWRC. As a sole supplier, NEK has to resell the purchased energy to end customers at regulated tariffs set by the EWRC. Over the past five years there was an upward trend in generation costs due to the expansion of renewables stimulated by favourable feed-in-tarrifs. However, the increased generation costs were not fully compensated by the electricity tariffs set by the EWRC which led to the accumulation of tariff deficits in NEK.

NEK has a central position in the Bulgarian electricity system. It generates power through 30 HPPs and pump storage power plants ("**PSPPs**") owned and operated by it. In the regulated market, NEK acts as a single buyer from power generators on the high-voltage grid. According to the Energy Act and the regulatory framework NEK is obliged to purchase electricity from RES producers up to the "net specific generation" determined by the regulator, from cogeneration producers for the quantities produced in compliance with high efficiency cogeneration criteria which are subject to being certified as such by the Regulator and from TPP AES 3C Maritza East 1 EOOD and TPP Contour Global Maritsa East 3 AD under long-term power purchase agreements. As a public provider of electric power in Bulgaria, NEK is the single supplier of electricity at regulated prices to the four medium and low voltage distribution companies in Bulgaria and to around 90 industrial customers who are connected to the grid. NEK also has a substantial role in the free market and also sells electricity on the Bulgarian energy exchange.

NEK is the owner of 30 HPP and PSPPs, with a total installed capacity of 2,737 MW in generating mode, and 937 MW in pumping mode. Most of the hydro power is generated by the 16 largest HPPs listed below, which have a total installed capacity of 2,670 MW. They are operated within four hydro power cascades: Belmeken Sestrimo – Chaira; Batak; Vacha; and Dolna Arda. All of these HPPs are used to cover peak loads and to regulate the grid system. In 2015, the total electricity generated by NEK's HPPs and PSPPs amounted to 4,530 GWh, equal to 9 per cent. of Bulgaria's total electricity generation. In 2014, the total electricity generated by NEK's HPPs and PSPPs amounted to 3,558 GWh, equal to 7 per cent. of Bulgaria's total electricity generation.

The table below shows the electricity generation capacity of each of NEK's 16 largest HPPs.

	Maximum installed capacity in MW		
HPP	**Pumping mode**	**Generating mode**	**Type of plant**
PSHPP Chaira	788	864	Pump storage plant
PSHPP Belmeken	104	375	Pump storage plant
HPP Sestrimo	—	240	Hydro power plant
PSHPP Orpheus	45	160	Pump storage plant
HPP Peshtera	—	136	Hydro power plant
HPP Kardjali	—	124	Hydro power plant
HPP Ivaylovgrad	—	120	Hydro power plant
HPP Momina klisura	—	120	Hydro power plant
HPP Tzankov kamak	—	86.3	Hydro power plant
HPP Studen kladenec	—	81.3	Hydro power plant
HPP Devin	—	88	Hydro power plant
HPP Krichim	—	80	Hydro power plant
HPP Aleko	—	71.4	Hydro power plant
HPP Teshel	—	60	Hydro power plant
HPP Batak	—	46	Hydro power plant
HPP Vucha I&II	—	21	Hydro power plant
Total	**937**	**2,673**	

HPPs have a high degree of flexibility in the regulation of their output. The ability to control HPPs centrally permits the Group to commence operation rapidly thereby facilitating the regulation of electricity output. Neither conventional storage nor pumped storage HPPs produce greenhouse gas emissions and HPPs represent an inexpensive source of electricity, particularly in periods of peak demand. In addition, PSPPs allow the productive use of excess electricity generated by base load plants by operating storage pumps in periods of low demand. NEK uses its HPPs and PSPPs to enable it to act as a balancing party. The PSPPs are mainly used to optimise the load of the nuclear and thermal power plants and to provide the necessary reserves for the grid system. The production of renewable energy is intermittent and dependent on the occurrence of the source (whether solar, wind or water), and it is necessary to accumulate such energy in times of minimum load and utilise it to cover peak hours during the day.

NEK is focused on the rehabilitation and upgrade of its hydro power plants, as well as the construction of new hydro power facilities. NEK also monitors, maintains and repairs dams (with multi-year, yearly, seasonal, weekly and daily activities), as well as more than 500 water intakes and hundreds of kilometres of open-flow and pressurised water conveyance channels within the energy system.

The total capacity of the storage reservoirs operated by NEK represents 50.1 per cent. of the total controlled water resources of Bulgaria.[11] Safety of the dams is ensured by regular technical inspection programmes, and all structures are equipped with control and instrumentation systems.

NEK operates its HPPs and PSPPs under a 35 year licence granted in February 2001. NEK also has a separate public supply licence which expires in 2039.

NEK conducts electricity trading under a 10-year licence granted in June 2007. In its capacity as the public provider of electricity it buys and sells electrical energy in Bulgaria at regulated prices determined by EWRC and also at freely determined prices in the electricity market. Within Bulgaria, NEK concludes contracts with power producers and traders and, pursuant to the Energy Act, sells electricity to certain industrial customers that are directly connected to the transmission network. In 2014 and 2015, approximately 79 per cent. of NEK's sales were made on the regulated market.

NEK seeks to maintain and increase its market presence in the Balkan region. NEK also sells electricity on the Bulgarian energy exchange

The table below shows NEK's purchases and sales of electricity in each of 2014 and 2015. The figures in the table include intra-Group transactions.

	2015 GWh	2014 GWh
Electricity purchased	**20,396**	**24,080**
Regulated market	20,376	21,626
Free market	19	2,454
Electricity sold	**24,905**	**27,229**
Regulated market	19,561	20,310
Balancing market	526	598
Free market and exports	4.817	6.322

ESO

ESO owns, maintains and operates Bulgaria's 15,236 km national high voltage electricity transmission grid. ESO currently operates under a 35-year licence granted in December 2013. It also administers the balancing market for electricity, hold tenders for transmission capacity and provides the centralised dispatching of the national electric power generation system. It also co-operates with the power systems of other countries to ensure effective transmission.

All electricity generators and their customers in Bulgaria must use the Group's transmission system. All network users connected directly to the grid pay an initial connection fee and transmission tariffs which are determined by EWRC. The Bulgarian transmission network is also connected to the neighbouring systems

[11] Source: NEK Official Website: (http://www.dams.nek.bg/).

of Greece, Romania, Turkey, Serbia and Macedonia. Turkey and Greece are the main export destinations for Bulgarian electricity. The transmission system operators of neighbouring countries coordinate the allocation and use of available transmission capacities through periodic auctions of capacity.

ESO is responsible for the maintenance, development and construction of the Bulgarian electricity transmission grid. It aims to provide high quality electricity service, while minimising transmission costs and guaranteeing reliability and security. In order to satisfy the transmission requirements of the network users and to achieve a high quality reliable transmission service, the network needs to be continuously maintained in accordance with prescribed standards and developed, built and expanded to meet increasing electricity demand. This maintenance includes the repair and replacement of overhead lines and underground cables, primary and secondary equipment, auxiliary plants, telecommunications equipment and building structures in sub-stations and switchyards.

In 2015, there was a 4 per cent. increase in the volumes transmitted compared to those in 2014, principally reflecting the higher generation of electricity due to the consumption demand in the country as well as the higher level of export.

The National Dispatching Centre of ESO acts as an operator of the national power transmission system and performs centralised real time dispatching, control and supervision of the electrical power system ("**EPS**"). Its main assignment is to guarantee the reliable and efficient operation of the Bulgarian EPS and its synchronised operation with the partners in the European Network of Transmission Systems Operators for Electricity, known as the UCTE. There are four Regional Dispatching Centres covering the territory of Bulgaria.

The unbundling process was completed in 2015 when ESO was certified as an ITO confirming its independence in conformity with the Energy Act and Directive 2009/72/EC of the European Parliament and the Council of 13 July 2009, referring to the common rules for the internal electricity market and repealing Directive 2003/54/EC and Regulation (EC) № 714/2009 of the European Parliament and the Council of 13 July 2009, referring to the conditions for access to the network for cross-border electrical power exchange and repealing Regulation (EC) № 1228/2003.

IBEX

The European Commission ("**EC**") commenced an investigation into potential market abuse by BEH in 2012 and in response to the EC's concerns, BEH established a new subsidiary company, IBEX, which was to have the task of establishing an efficient day-ahead market for commercial trades on the Bulgarian wholesale electricity market in a consistent, impartial, independent, transparent and non-discriminatory manner through establishing the day-ahead market platform. The EC issued a decision on the case in December 2015 accepting the proposed commitments and effectively terminating the proceedings against BEH.

In March 2014 IBEX obtained a ten-year licence from EWRC for the operation of the Bulgarian power exchange. Since its establishment in January 2014, IBEX has been working towards procuring the necessary services and platforms to set up the required infrastructure for organising both a day ahead market and a long term bilateral contracts market for the Bulgarian market. The launch of a Bulgarian energy exchange is an effective step toward the implementation of European policy for the creation of an integrated European energy market.

In April 2014 IBEX signed a cooperation agreement with Nord Pool Spot, Europe's leading power exchange operator, for the operation of a competitive day-ahead power exchange in Bulgaria. IBEX launched the Bulgarian day-ahead market in January 2016. By the end of 2016 IBEX hopes to launch a bilateral contracts platform and, in 2017, an intraday platform.

At the same time IBEX and ESO are working on implementing market coupling with the other energy exchanges in the region which will facilitate a more seamless flow of energy through cross-border capacity allocation. This is also expected to have a positive effect on the domestic and regional market as a whole. The successful operation of the power exchange in the Bulgarian market will help develop a more transparent and efficient electricity market and enable timely and reliable integration into the common European electricity market.

A well-functioning power exchange is a key prerequisite for achieving market liberalisation.

The EC required that IBEX must be divested from the Group and the initial deadline for this was 14 June 2016. However, BEH is currently in discussions with the EC about a six month extension to this deadline.

Gas

The Group's gas business is carried out by Bulgargaz and Bulgartransgaz. Bulgargaz is the public supplier of natural gas, while Bulgartransgaz is responsible for the transmission and transit of natural gas through Bulgaria's gas transmission and transit networks and also operates a gas storage facility. The Gas segment's revenue was BGN 1,763 million in 2015 compared with BGN 1,903 million in 2014.

Bulgargaz

Bulgargaz is principally engaged in the purchase and public supply of natural gas under a 35-year licence granted in November 2006. The public supply of natural gas is performed in accordance with the licences issued to Bulgargaz, the Bulgarian Energy Act and other secondary regulatory acts, which are in compliance with European legislation and the requirements of EWRC.

Substantially all of the gas purchased by Bulgargaz is imported from Russia under long-term take-or-pay contracts with Gazprom. In November 2012, Bulgargaz and Gazprom entered a new 10-year gas supply contract with an option, at the discretion of each party, for renegotiation after the sixth year. The contract covers gas volumes of 2.8 billion cubic metres per year and the price formula is linked to the prices of oil derivative products. The contract has resulted in an approximate 20 per cent. reduction in the prices previously paid by Bulgargaz. The contract contains an 80:20 take-or-pay provision, which is more favourable than the previous 90:10 provision. In addition, approximately 2 per cent. of the gas purchased by Bulgargaz is purchased from a local producer under a purchase agreement with prices and volumes being agreed on a periodic basis.

Bulgargaz supplies gas to 44 end suppliers and 220 customers directly connected to the transmission network, principally district heating companies and industrial consumers. All of Bulgargaz's current gas supply agreements terminate on 31 December 2018. The customers request the quantities of gas they require on a daily, weekly, monthly and quarterly basis. Customers pay on a monthly basis for the gas supplied. If the customer provides a bank guarantee payments can be made in arrears otherwise payment is in advance with balancing payments being made after each month depending on the quantity of gas actually received by the customer.

If a particular customer requests a certain quantity of gas which is more than 5 per cent. over the maximum daily quantity specified in the agreement, the customer must pay a 10 per cent. premium on the additional quantity of gas requested. If a customer requests a quantity which is more than 20 per cent. below the maximum daily quantity specified in the agreement, the customer must pay a penalty fee of 10 per cent. on the unused quantities which exceed the allowed 20 per cent. limit. At the beginning of the year all customers provide an annual forecast of the natural gas that they require. At the end of the year, if a customer has taken less than 80 per cent. of the agreed annual quantity, Bulgargaz will issue an invoice for 50 per cent. of the amount due for the quantities which are more than 20 per cent. below the agreed annual quantity. This invoice must be paid by the end of January the following year. The customer is given the option to accept the unused quantities in the following two years and if it exercises this option it pays the remaining 50 per cent. of the due amount. The prices at which Bulgargaz sells gas are regulated by EWRC. The selling price is determined on a quarterly basis based on the expected cost paid and the expected quantities of natural gas to be purchased by the public supplier for the forthcoming quarter.

The table below shows the volumes of natural gas purchased and sold by Bulgargaz in each of 2015 and 2014.

	2015 Mlnm^3 (million cubic metres)	2014 Mlnm^3
Gas purchases	2,664	2,485
of which, imports	2,596	2,286
Gas sales	2,652	2,517

Bulgartransgaz

Bulgartransgaz owns, operates and maintains the 1,700 km Bulgarian gas transmission grid and is engaged in the storage, transit and transmission of natural gas and the maintenance, operation, management and development of an underground gas storage facility. It also operates the 945 km gas transit network that enables it to transit Russian gas from Romania to Greece, Macedonia and Turkey under ship-or-pay contracts, solely with Gazprom. There is a separate contract between Gazprom and Bulgartransgaz EAD as a transiter. This transit contract was signed in 1998 with Gazprom Export OOO. In 2006 the contract was extended to 2030. The transit price is calculated in USD per 1, 000 mm^3 of transited gas over 100 km and is indexed annually with inflation for the previous year. The licences in respect of each of these activities were granted for a period of 35 years in November 2006.

The activities for transmission, transit and storage of natural gas are performed in accordance with the licences issued to Bulgartransgaz, the Bulgarian Energy Act and other secondary regulatory acts, which are in compliance with European legislation and the requirements of EWRC. The transmission and gas storage markets are regulated.

The table below shows certain information relating to the Bulgarian gas transmission and transit networks in each of 2015 and 2014.

	2015 Mlnm^3	2014 Mlnm^3
Gas transmission grid capacity	8,000	8,000
Gas transit grid capacity	18,700	18,700
Gas transmitted	3,266	2,978
Gas transited	13,505	14,816

Bulgartransgaz also owns Chiren UGS, which is the only underground gas storage facility in Bulgaria. Chiren UGS has 22 exploitation wells, a compressor station with total installed power of 10 MW and other technological installations necessary for ensuring the injection, withdrawal and quality of the stored natural gas. The seasonal swings in the supply and consumption in the country are covered by the natural gas quantities stored in Chiren UGS.

The capacity of Chiren is currently 550 million m^3 of gas storage. In addition, there is 750 million m^3 of buffer gas which cannot be exploited because it serves to maintain storage pressures. The maximum daily flow is 4.2 million m^3.

In 2015 Bulgartransgaz was certified as independent transmission operator of the Bulgarian gas transmission system with the EWRC's Decision No.C-4 of 22 June 2015 in line with the requirements of Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas, Regulation (EC) No.715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and Chapter Eight "a" of the Energy Law. The Decision was approved in line with the opinion of the European Commission of 22 April 2015.

Gas pipeline projects

Directly or through its subsidiaries BEH participates in four gas interconnection pipeline projects between Bulgaria and Greece, Romania, Serbia and Turkey, respectively, which are at different stages of development.

The Group is also involved in an equally held joint venture with IGI Poseidon S.A. (which itself is an equally held joint venture between DEPA S.A. and Eddison S.p.A) for the development of a gas pipeline connecting Bulgaria to Greece ("**IGB**") which is due to be finalised in 2018. IGB will connect Southeastern Europe with natural gas supplies from the Caspian region, Middle East and East Mediterranean. Imported gas through IGB can be transited to neighbouring countries and beyond via other interconnectors. IGB is intended to have an annual capacity of 3 billion cubic metres. BEH's projected share of the capital expenditure for the project is EUR 97.5 million to EUR 100 million. IGB has been included in the EU list for Projects of Common Interest and is the beneficiary of a EUR 45 million grant. It is a project of national importance and has a committed state guarantee from the Bulgarian government of up to EUR 110 million and will reduce Bulgaria's dependence on Russian gas transported through Ukraine.

Coal

MMI is engaged in open pit mining of lignite coal and operates the largest lignite coal mine in Bulgaria under a 35-year concession granted by the Bulgarian government in July 2008. The coal produced is sold to four thermal power plants including the Group's TPP, all of them located in the Maritsa-East complex. MMI produces all of the coal briquettes and over 90 per cent. of the coal required for the thermal power plant energy production in Bulgaria. The electric power generated within the Maritsa-East complex accounts for close to 39 per cent. of the total electricity power generation in Bulgaria in 2015.

The production area of the coal mine is approximately 240 square kilometres and it has reserves of 2,096 million tonnes. The maximum extraction capacity of the mine is 35 million tonnes annually. The total lignite coal extracted by MMI in 2015 amounted to 32.3 million tonnes compared to 27.6 million tonnes in 2014. The increase in 2015 was mainly due to increases in the TPP's coal consumption because of higher electricity demand in 2015 compared to 2014. The Coal segment's revenue was BGN 583 million in 2015 compared with BGN 494 million in 2014.

Telecommunications

Bulgartel EAD was established in 2007 to manage the fibre-optic telecommunication system of Bulgargaz. Its system is 2,130 km long and provides an alternative wholesale supply service to telephone companies. Its clients are principally telecommunications operators, corporate clients with significant international data traffic and developed communications networks abroad. The Group intends to expand the range of services offered by Bulgartel as well as its geographic scope of operations in Bulgaria. In particular, BEH plans to integrate the fibre-optic networks of Bulgartel with those of Bulgartransgaz and NEK with a view to creating the third or fourth largest fibre-optic telecommunications network in the country. As at 31 December 2015, Bulgartel EAD accounted for 0.1 per cent. of the Group's consolidated total assets and it generated 0.04 per cent. of the Group's consolidated revenue in 2015.

SHAREHOLDER

The Republic of Bulgaria through the Minister of Energy is the sole owner of BEH. BEH has strong operational ties with the State, it operates as a department of the Ministry of Energy and is its instrument for implementing policy in the energy sector. The government is directly involved in the management of the Group which is mandated to manage all important State projects in the energy sector including the collaboration with the World Bank for developing policy recommendations and a road map for energy sector reform. The State has also guaranteed approximately 23 per cent. of the Group's debt accumulated at end of 2015 and has earmarked EUR 110 million to guarantee the IGB project. The Group was the biggest State-owned company in Bulgaria in terms of assets as at 31 December 2015. BEH is included in the "banned for privatisation" list as per Appendix 1, Article 3, para 1 of Bulgarian Privatisation and Post-Privatisation Control Act, which means that it cannot be privatised without a change in law.

The Minister of Energy (the "**Minister**") acts as, and is entitled to all the rights of, the General Assembly of BEH. The powers of the Minister are regulated by the Commerce Act, the rules of procedure for exercising the rights of the State in companies with a State shareholding and the Articles of association of BEH (the "**Framework**").

The Framework does not provide the Minister with direct powers regarding BEH's subsidiaries, and the governance and administration of the subsidiaries remains the responsibility of BEH's management.

The Framework provides the Minister with a wide range of powers, including the power to:

- amend BEH's Articles of Association;
- increase or decrease BEH's share capital;
- transform or dissolve BEH;
- appoint and dismiss BEH's directors and determine their remuneration; and
- approve BEH's business plan.

In addition, certain significant transactions can only be executed by BEH with the approval of the Minister. This includes the execution of loan agreements, disposals of fixed assets, the purchase and sale of shares in other companies, joint ventures, the settlement of litigation and the provision of security over Group assets.

Bulgarian legislation does not differentiate between the ordinary customers of the Group and the State as a customer. As a result, the State does not benefit from any favourable commercial treatment, although the State is also not a major commercial client of the Group.

As of 31 December 2015 the share capital of BEH was BGN 3,188,168,127, divided into 3,188,168,127 shares of par value of BGN 1 each. The entire share capital has been subscribed and fully paid up. BEH's shares are ordinary, registered, non-preferential voting shares.

According to their articles of incorporation, BEH's subsidiaries are each required to allocate as dividends to BEH a certain percentage of their profit after tax and allocation to reserves. BEH is not taxed on these dividends.

As a State-owned company, BEH's own dividend payments are determined annually by the State Budget Act. The State has a strong interest in maintaining BEH's balance sheet but under Bulgarian law state owned companies are required to distribute to the State dividends of 50 per cent. of the profits disclosed in their consolidated financial statements.

COMPETITION

The Group is the leading electricity generator in Bulgaria and, based on national statistics from the Bulgarian National Statistical Institute, has over a 59 per cent. share of the electricity generation market. It is also the sole operator of the electricity and gas transmission networks. As a result, the Group principally competes with other generation companies in Bulgaria, although the Group is the only generator with nuclear, thermal and hydro generation plants.

Electricity

The Group's nuclear power plant is the only such plant in Bulgaria and is also the generator which supplies the cheapest electricity in Bulgaria. As a result, the NPP does not currently experience any serious competition, though this could arise as the market develops to permit the import of other cheap sources of electricity.

The Group's TPP is the largest facility of its kind in Bulgaria. A number of other TPPs operate in the Maritsa East complex and their production capacities are listed below:

TPP MaritsaEast 2 (Group owned)	1,620 MW
TPP Contour Global Maritsa Iztok 3	908 MW
TPP AES Galabovo	670 MW
TPP Brickell	200 MW
TPP Maritsa 3	120 MW

The main competitors for TPP Maritsa East 2 on the regulated market are Contour Global Maritsa Iztok 3 and AES Galabovo. Both companies are project funded and have long-term contracts with NEK for the purchase of their electricity.

Through NEK, the Group owns and operates 30 HPPs and PSPPs in Bulgaria, which together generated 8 per cent. of Bulgaria's gross electricity generation in 2015. The overall share of HPPs and PSPPs generation in the country was 13.0 per cent. of Bulgaria's total electricity generation in 2015. NEK is the sole licensed public supplier of electricity.

Gas

Bulgargaz is the sole licensed public supplier of natural gas. It purchases natural gas at market prices and is obliged to sell those quantities at regulated prices. As a result, Bulgargaz experiences competitive disadvantage to Overgaz AD which is the major gas trading company in Bulgaria and is not subject to these regulations.

In relation to the Group's gas storage business, it is possible that other companies could construct gas storage facilities in the future, although the construction of such facilities would be a time consuming project. EU energy legislation and the construction of the planned interconnections could also increase competition in the future through the facilitation of cheaper gas imports.

Bulgartransgaz is the sole licensed gas transmission company in Bulgaria and, as such, is not subject to competition.

Coal

MMI currently has no significant competition in the supply of lignite coal to thermal power plants in Bulgaria.

RESEARCH AND DEVELOPMENT

Research and development ("**R&D**") activities are carried out either by specialised units within each Group company or are sub-contracted to companies which specialise in R&D.

MMI

MMI's R&D projects cover a wide range of areas including technological mining processes, electricity and automation projects, various construction-related projects and ecological projects.

NPP

NPP Kozloduy has a specialised development and modernisation division responsible for the management of investment processes, activities related to international projects, international missions and inspections, planning and construction of new units and activities related to the projects on the closure and decommissioning of units.

INFORMATION TECHNOLOGY

The Group's information systems are managed by BEH's information technology ("**IT**") department. The development and implementation of applications is aimed at providing support to the business processes and providing an integrated and centralised system. Business data is backed up on a daily basis.

BEH's subsidiaries each have IT departments which are independent of BEH's IT department and which seek to maintain high quality security standards in their operations.

INSURANCE

The Group's total insurance premium expense for 2015 was BGN 60.2 million, compared to 62.4 million for 2014.

BEH and its principal subsidiaries maintain comprehensive insurance cover in respect of loss or damage to property (including their respective power plants, transmission networks and sub-stations). This cover includes, but is not limited to, fire, explosion, lightning, windstorms, hurricanes, vandalism, malicious damage, riots, strikes, locked out workmen, labour disturbances, civil unrest, electrical damage and theft. Group companies also maintain comprehensive general liability policies which provide cover against legal liability for causing any accidental bodily injury or death to third parties or damage to their property.

The Group's exposures are monitored through periodic risk surveys by its underwriters and reinsurers in conjunction with BEH's management and engineers.

Group companies do not carry any insurance cover for business interruption and sabotage and terrorism as the costs of obtaining and maintaining such insurance cover are very high and BEH believes that it is more economical for it to retain this exposure and to manage the risk itself.

In accordance with the Vienna Convention, the Bulgarian Nuclear Act provides that the operator of a nuclear facility is liable for any damage caused by a nuclear accident up to BGN 96 million per accident and is obliged to maintain insurance coverage for potential liabilities for nuclear damage in an amount not less than BGN 96 million. The Group has insurance in place for its NPP, which provides coverage at these amounts. However, notwithstanding any limitation of liability under the Bulgarian Nuclear Act and any additional coverage under the Group's insurance policies, any nuclear accident or failure at the Group's NPP could result in the Group incurring significant losses in excess of such amounts due to, among other things, a potential shut-down of the nuclear facility and the resulting loss of generation capacity, remedial and replacement expenses and negative publicity from such an accident. See "*Risk Factors—The Group may incur significant liabilities in the event of a nuclear accident*" and "*Risk Factors—The Group is unable to insure itself against all potential risks and may become subject to higher insurance premiums*".

Litigation

ZAO Atomstroyexport

The Group is involved in a number of legal proceedings. In particular, the Group has been involved in litigation with ASE in which the Group retained legal counsel to defend it.

ASE commenced proceedings before an arbitral tribunal constituted under the Rules of the ICC against the Group's subsidiary, NEK, claiming damages and loss of profits in the amount of EUR 1.124 billion (inclusive of interest until 1 May 2015 and claiming further interest as from that date) in relation to the discontinued Belene nuclear power plant project. The Group's subsidiary NEK counterclaimed for an amount of EUR 120 million. On 14 June 2016, the tribunal awarded ASE EUR 554 million, with further interest running from 2 May 2015. NEK's counterclaim was rejected, except for EUR 878,746 conceded by ASE and which is reflected in the award.

The awarded amount is now due by NEK. However, on 15 July 2016, NEK submitted an application under Article 29 of the ICC Rules to correct and interpret the award. The application requests, among other things, that the Tribunal correct certain amounts due under the award, by lowering them. It also seeks changes to the way that interest is calculated and the dates from which interest runs on certain amounts. ASE has until

15 August 2016 to provide its comments on the application's admissibility and to respond to NEK's specific requests. It is now up to the Tribunal to decide on what corrections to make to the award. If the corrections identified by NEK are accepted by the Tribunal it will reduce the size of the award but the reduction is unlikely to be material. The Group has not made a provision for any amount in connection with the award in the 2015 Financial Statements, see "*Presentation of Financial and Other Information—Qualifications and Emphases of Matter in 2014 and 2015 Financial Statements*", "*Risk Factors—Litigation in connection with the cancelled Belene nuclear power plant has resulted in a significant judgement being made against the Group*" and "*Risk Factors—The audit opinions in respect of the Financial Statements have been qualified in a number of significant respects*".

EC competition proceedings

On 13 August 2014 the EC issued a Statement of Objections accusing BEH of abusing its alleged dominant position on the free market to the detriment of non-end users and market competition. In parallel BEH entered into talks with the EC with a view to settling the case via commitments under Art.9 of Regulation 1/2003. In response to the Commission's concerns BEH established IBEX which was tasked with establishing an efficient day-ahead market for commercial trades on the Bulgarian wholesale electricity market in a consistent, impartial, independent, transparent and non-discriminatory manner.

The EC issued a decision on the case in December 2015 accepting the proposal and effectively terminating the proceedings against BEH. The EC is expected to approve a monitoring trustee to control the day-to-day management of IBEX and BEH agreed to transfer ownership of IBEX to the Ministry of Finance by 14 June 2016, through the conclusion of a final agreement for transfer. BEH is currently discussing a six month extension to this deadline with the EC.

Gas market

On 5 July 2013, the EC announced that it had opened formal proceedings to investigate whether BEH is abusing its dominant market position in the downstream gas market in Bulgaria. The EC is concerned that BEH may be hindering competitors that are attempting to access Bulgaria's gas transmission network and gas storage facility by reserving capacity that is not used.

On 23 March 2015, the EC issued a statement of objections against BEH, Bulgargaz, and Bulgartransgaz setting out preliminary conclusions that the three companies had abused their dominant position, in breach of Article 102 of the Treaty on the Functioning of the European Union.

At present the parties are exploring the possibility of BEH making commitments under Article 9 of Regulation 1/2003.

The EC may impose behavioural or structural remedies and a fine. According to the Guidelines on the Fine Setting Method and Art. 23 of Regulation 1/2003, for each enterprise participating in the infringement, the fine shall not exceed 10 per cent. of its total turnover in the preceding reporting period. The EC may take into account aggravating or mitigating circumstances of the case.

BEH will continue to co-operate with the EC to address any concerns in a constructive way.

Bulgarian Competition Proceedings

In May 2016 the Bulgarian Commission on the Protection of Competition (the "**CPC**") issued a statement of objection in relation to alleged abuses by NEK of its dominant market position. The same month, the CPC also issued a statement of objection in relation to alleged abuses of Bulgarian competition law by NEK relating to the connection of a RES generator to the electricity distribution and transmission networks. These proceedings are at a very early stage and are likely to continue for a significant period of time. Under Bulgarian law these proceedings could potentially lead to a fine not exceeding 10 per cent. of total annual NEK turnover in a particular year. There is no precedent in Bulgarian law for a fine of that level and the Group does not expect any fine to be as high as that.

Worley Parsons Nuclear Services JSC

An arbitration proceeding has been initiated by Worley Parsons Nuclear Services JSC ("**Worley**") against BEH before the Arbitration Court in the International Chamber of Commerce, Paris, in which Worley claim EUR 54,372 thousand (BGN 106,342 thousand) for compensation and penalties under a contract with Worley as Architect-Engineer of the Belene Project. The case is at an early stage and BEH have also launched a claim against Worley Parsons Europe Energy Services in the Sofia City Court in the amount of BGN 117,308 thousand relating to payments made to Worley Parsons Europe Energy Services by NEK.

MANAGEMENT AND EMPLOYEES

General overview

BEH has a single tier management system, consisting of a General Assembly of Shareholders (which comprises its sole owner – the Republic of Bulgaria) and a Board of Directors. The General Assembly appoints and oversees the Board of Directors and exercises other powers pursuant to the Articles of Association. NPP Kozloduy, TPP Maritsa East 2, NEK, Bulgargaz and Bulgartel also have single tier management systems with their own Boards of Directors. ESO and Bulgartransgaz each has a two-tier management system, consisting of both a Supervisory Board and a Management Board.

BEH Board of Directors

Members of the Board of Directors are appointed and replaced by the General Assembly. The Board of Directors comprises three members.

The Board of Directors makes decisions in accordance with domestic and international regulations, the Articles of Association, the internal Rules of Procedure for the Board of Directors and company by-laws.

The members of the Board of Directors as of the date of this Prospectus are set out below:

Name	Position
Zhecho Stankov........	Chairman of the Board of Directors
Petyo Ivanov	Member of the Board of Directors and Executive Director
Zhivko Dinchev........	Member of the Board of Directors

The current term of appointment expires on 30 June 2019. The business address of each member of the Board is 1000 Sofia, Oborishte Municipality, 16 Veslets Str. Bulgaria. No member of the Board has any actual or potential conflict of interest between his duties to BEH and his private interests and/or other duties.

Zhecho Stankov, Chairman of the Board – Mr. Stankov has been working in the energy sector for the past 10 years. He has been engaged in the management of several companies operating in the field of technical supervision of high-risk facilities and construction of compressor stations, supervision in oil and gas sectors, as well as in the retail of petrol and petrol products. Mr Stankov is a co-founder of the Bulgarian Natural Gas Association.

Mr. Stankov graduated from the Universitat Regensburg in Germany, where he obtained an MA in Economics. He is also trained on EU financial instruments in Rosenheim. Fluent in English and German.

Petyo Ivanov, Executive Director (BEH CEO) – Mr. Ivanov has been with BEH Group for four years. Prior to becoming CEO of BEH he was CEO and member of the boards of directors of Bulgargaz and Contour Global. Before that he held positions as a Head of Financial Controlling and Chief Accountant at NEK. He has been a member of the Audit Committees of Bugartransgaz and NPP Kozloduy.

Mr. Ivanov has extensive experience in accounting, financial control and management in the gas distribution, cogeneration and finance sectors.

Mr. Ivanov has a Master Degree in Accounting and Control from St. Cyril and St. Methodius University. Fluent in English, German and Russian.

Zhivko Dinchev, Non-Executive Director – Mr. Dinchev has extensive experience in the Bulgarian energy sector. He has been with TPP Maritsa East 2 for over 20 years. Starting as an operator of a steam generator in 1995, then as regime technologist in the boiler compartment and gradually rising to Deputy Director of the plant's operations division and to the position of CEO and member of the Board.

Mr Dinchev holds a master's degree in thermal engineering from the Technical University of Sofia and a master's degree in personnel management. Fluent in English and Russian.

Employees

The table below sets out certain information on the Group's employees as at 31 December in each of 2014 and 2015.

	2015	2014	% change 2015/2014
Number of staff	21,239	20,989	*1.2*

	2015	2014	% change 2015/2014
Labour productivity – revenue/number of personnel (BGN'000)	314.83	295.14	*6.7*

Employee relations in NPP Kozloduy, TPP Maritsa East 2, NEK, ESO, Bulgartransgaz and MMI are governed by collective labour agreements. Over 80 per cent. of Group employees are unionised.

Internal Audit

The Internal Audit Department acts on behalf of the Board of Directors, to monitor decision making processes and the implementation of decisions at all levels of management. It reports any irregularities to the Board.

REGULATION, ENVIRONMENT AND HEALTH AND SAFETY

REGULATION

European legislative framework in relation to the energy sector

On 19 September 2007, the European Commission (the "**EC**") adopted the Third Energy Liberalisation Package. The Third Energy Liberalisation Package was designed to complete the liberalisation of the electricity and gas markets within the EU. Its aim is the creation of a market with high standards of public service and customer protection that allows consumers to freely choose their suppliers; a structural separation of transmission activities and generation/supply activities ("**unbundling**") and the establishment of independent national energy regulators. The Third Energy Liberalisation Package contemplates a further separation of supply and generation activities from transmission network operations.

The Third Energy Liberalisation Package principally comprises Directive 2009/72/EC concerning Common Rules for an International Market in Electricity, Directive 2009/73/EC concerning Common Rules for the International Market in Natural Gas, Regulation (EC) No. 714/2009 on Conditions for Access to the Network for Cross-Border Exchanges in Electricity and Regulation (EC) No. 715/2009 on Conditions for Access to Natural Gas Transmission Networks.

Implementation of the European legislative framework in Bulgaria

The Third Energy Liberalisation Package was introduced in the Republic of Bulgaria through amendments to the Energy Act on 17 July 2012 as well as subsequent amendments. The most significant changes are:

- The unbundling process was completed in relation to both the gas and electricity sectors. Although the transmission system operators have remained within the Group, they have to meet additional requirements to guarantee the independence of their management and decision making powers. Bulgartransgaz was certified as an independent transmission operator ("**ITO**") with the EWRC's decision No. C-4 dated 22 June 2015. The decision was approved in line with the opinion of the European Commission dated 22 April 2015. ESO was certified as an ITO with the EWRC's decision No. C-5 dated 30 July 2015. The decision was approved in line with the opinion of the European Commission dated 3 June 2015. ESO started the balancing market for electricity on 1 June 2014.

- Additional requirements were introduced for transparency and for creating a free market approach in the management of transmission networks, including further guarantees for equal access to the transmission network.

- The independence of EWRC was enhanced through changes in the legislative framework and its members are now appointed and dismissed by the Bulgarian Parliament and not by the Bulgarian Government. EWRC's powers, especially with regard to the monitoring of the liberalisation process, consumer protection and co-operation with regulatory authorities from other EU countries, were extended.

- New measures regarding household consumers of gas and electricity were introduced. These are expected to allow households to benefit from the advantages of the liberalised market by enabling them to easily change their suppliers.

Bulgarian legislative framework in relation to the energy sector

The Bulgarian energy sector is governed by a wide range of regulations. The key law governing the energy sector is the Energy Act which regulates electricity generation; electricity and gas import, export and transmission; the distribution of electricity, heat and natural gas; oil and oil product transmission through pipelines; trade in electricity, heat and natural gas; and the powers of state bodies in formulating energy policy, regulation and control. It lays down regulations upon which energy policies and strategies are undertaken and allows energy activities to be undertaken both on the free market and as a public service. The Energy Act is currently compliant with the requirements of the European legislation.

In addition, a significant part of the secondary energy legislation in Bulgaria is also compliant with European requirements. This legislation relates to licensing, price regulation, electricity metering, electricity trading and transmission.

Regulation of activities in the energy sector

The EWRC, which is the national regulatory authority for energy, was established by the Energy Act as a specialised state body to regulate activities in the energy, water supply and sewerage sectors. EWRC's main responsibilities are:

- the issue, revision, amendment, termination and withdrawal of licences;
- adoption of secondary legislation;
- approval of general terms of contracts in the energy sector;
- control over issued licences;
- regulation of prices;
- adoption and supervision of rules for trade and technical rules for networks in the energy sector; and
- adoption and control over the implementation of price setting methodology.

In accordance with the Energy Act, the following prices in the energy sector are subject to regulation by EWRC:

Electricity prices

- the prices of the electricity generators within quotas set by EWRC aimed to secure supplies to protected consumers (households and small and medium-sized enterprises interconnected at low-voltage);
- the prices of the electricity generators from renewable energy sources ("**RES**") and cogeneration at preferential tariffs;
- the prices of the public supplier (NEK) for electricity sold to ESO and the four distribution companies (CEZ, EVN, Energo-Pro and Zlatni Pyasatsi) for covering their technological costs from transmission and operation of the relevant grids;
- the prices of the public supplier (NEK) for electricity sold to the end suppliers within the quotas set by EWRC;
- the prices of the end suppliers for electricity sold to household consumers and industrial consumers connected to the distribution network at low voltage level;
- the prices for transmission of electricity by the transmission and distribution grids;
- the prices for connection to the transmission and distribution grids;
- the prices for access to the transmission and distribution grid;
- the prices for certain services related to licensed activities; and
- the prices or price components for compensation of public service obligations (i.e. renewable energy) and of irrecoverable expenses.

The prices for transmission and access are regulated under the "capital return rate" method whereby the Regulator approves the prices and annual revenue requirements of the energy company for a regulatory period of twelve mounts starting on 1 July of the current year. The prices for distribution companies are regulated under the "price cap/revenue cap" whereby the Regulator approves prices and annual revenue requirements of the energy company for the first year of the regulatory period and may amend them at the end of each price year or at the end of the regulatory period of two to five years. Going forward the prices for transmission and access of Bulgartransgaz will be regulated under the "price cap/revenue cap" method giving more independence to the gas transmission operator. The regulatory period normally runs from 1 July to 30 June in each year though the 2015/2016 regulatory period did not start until 1 August 2015.

Costs for purchasing electricity and capacity and availability from producers with long-term PPAs, renewable energy sources and highly efficient co-generation of heat and power and the annual quotas for production from local fuel sources, as well as eventual irrecoverable expenses (collectively, the "**Costs**") are classified as expenditures resulting from the public service obligations and are compensated through the prices paid by all consumers and the grid operators in a transparent and non-discriminatory way. Under this mechanism the Costs are grouped together into a common "obligation to society" ("**OBS**") fee. With respect to sourcing, NEK acts as a public provider and bears the obligation to purchase electricity from long-term PPAs, renewable energy sources and highly efficient co-generation and the annual quotas for production from local fuel sources from power plants interconnected to the transmission grid. To help NEK manage the funding towards the Costs (including for past periods), in 2015 the Energy Act established the Security of the Electricity System Fund, where each electricity generator and each electricity trader, which imports electricity, pays 5 per cent. of their revenues (excluding Value Added Tax ("**VAT**")) each month, and which is additionally funded with revenues generated from auctioning allowances to emit greenhouse gasses, overdue interest, donations and statistical transfers of renewable sources of energy (which are statistical transfers between countries, so if one country is not fulfilling the requirements and another is exceeding them the first can pay the second for a statistical transfer. Bulgaria has already exceeded the EU required share of energy from renewable sources).

Amendments to the legal and regulatory framework in 2015 have resulted in the following:

- Introduction of a mechanism for certification of high-efficiency cogeneration, limiting NEK's obligation to purchase electricity from co-generation producers at preferential prices only to the quantities produced in compliance with high efficiency cogeneration criteria. EWRC is responsible for issuing the high-efficiency cogeneration certificates. This results in a decrease to NEK's costs for purchase of cogeneration electricity.

- Introduction of the concept of "net specific generation" ("**NSG**"). NSG defines the electricity quantities, which ensure that generated revenues by RES producers from their feed-in tariffs are commensurate with their approved rate of return, as per EWRC's decisions (the preferential prices are set as per the Regulator's decisions which were in force at the time of commissioning of each RES producer). As a result NEK is only obliged to purchase quantities produced up to the defined NSGs of RES producers at preferential prices as opposed to being obliged to purchase the entire production. Electricity produced above the NSG can be purchased by NEK at a reference surplus price which is approximately 10 BGN/megawatt-hours ("**MWh**") for 2015 or RES producers can sell it by themselves on the free market. This results in a decrease to NEK's costs for purchasing cogeneration electricity.

- Increase in the size and scope of applicability of the OBS fee. The amended fee amounts to BGN 36.83/MWh, almost double the previous fee of BGN 18.93/MWh. Electricity transmission and distribution operators are obliged to pay the OBS fee on the quantities they purchase for covering their technological losses (being amounts of electricity lost along the grid). Prior to 24 July 2015 the OBS fee was not applicable on these quantities. It now is and this, together with the increase in the fee itself, has resulted in an increase in NEK's revenues.

- The new electricity trading rules approved by the regulator paved the way for the launch of the Bulgarian day ahead power exchange in January 2016.

- Transmission and access charges have been increased by 6.89 per cent. to BGN 8.53/MWh. This results in a positive impact on ESO.

- Streamlining and simplification of the procedure for low-voltage customers to transition from the regulated to the free market.

Gas prices

In accordance with the Energy Act, the following gas prices are subject to regulation by EWRC;

- the prices of the public supplier (Bulgargaz) for natural gas to be sold to end suppliers and to consumers directly connected to the transmission network;
- the prices of the end suppliers for natural gas to be sold to household consumers and industrial consumers connected to the gas distribution networks;
- the prices for access, transmission and distribution;
- the prices for inter-connection to the gas network and access and to the storage of natural gas in gas storage facilities; and
- the prices for services related to certain licensed activities.

The final price of natural gas for customers is approved by EWRC and it includes the total price of natural gas at the gas transmission system entry point and the price for transmission through the respective gas transmission network (gas transmission or gas distribution). For customers connected to the distribution networks a price for supply of natural gas by an end supplier is also included.

The price of natural gas at the gas transmission system entry point is calculated (and proposed for approval) on a quarterly basis by Bulgargaz representing the weighted average value of the latest forecast gas quantities from imports for the domestic market, from local gas sources and from storage for the purpose of sale during the next pricing period, the terms and conditions under natural gas transportation contracts to the Bulgarian border and the exchange rate of the Bulgarian National Bank for the currency in which the imported gas is paid (BGN against the U.S. dollar). EWRC tops up this price with the price for public supply. An additional charge (correction) can be added to the price of the public supplier (Bulgargaz) in case there is a difference between the forecasted and reported costs for the supply of natural gas at the entry point to the gas transmission network for a previous pricing period.

From October 2016 the prices for access and transmission to the gas transmission network will be calculated based on a methodology for access and transmission, approved by EWRC on 11 August 2014. The methodology foresees that before the start of every regulatory period, EWRC approves: the required annual revenues for transmission for the first year of the regulatory period; the regulated asset base and rate of return on capital for the regulatory period; the forecasted costs, included in the required annual revenues as well as directly transferable costs for the first year of the regulatory period; the coefficient for efficiency improvement, which is applied to the forecasted operating costs; the ratio for distribution of the required revenues by entry and exit point; and the ratio for distribution of the required revenues between the price for access and the price for transmission.

Coal Prices

The price of coal is set by the Minister of Energy. This principally impacts MMI which sells coal as well as TPP Maritsa East 2 and NEK for whom coal is a significant operating expenditure.

ENVIRONMENT

The Group is currently in compliance with all material environmental regulations applicable to it. The principal environmental issues faced by the Group relate to pollution caused by its TPP and mining operations and the risk of contamination from its NPP (which is discussed under "*Business Description—Business—Electricity—NPP Kozloduy*").

Greenhouse effect

The EU has made a unilateral commitment to reduce overall greenhouse gas emissions from its 27 Member States by 20 per cent. by 2020 compared to 1990 levels. The EU emissions trading system EU-ETS is a cornerstone of the EU's policy to combat climate change and is based on a "cap and trade" principle.

Since the start of the third phase of the EU-ETS (which runs from 2013 to 2020), all allowances for power plants have been required to be purchased through auctions or on the secondary market. However, as part of the overall compromise on the EU's Climate and Energy Package and in order to help modernise their electricity sectors, 10 new Member States, of which Bulgaria is one, were allowed a temporary exemption from the full auctioning rule and permitted to allocate a limited number of emission allowances to power plants for free until 2019.

Temporary free allocation was and remains subject to a number of conditions, including:

- a requirement to finish in 2019 at the latest;
- a limit of no more than 70 per cent. of emissions for domestic electricity supply in 2013, declining annually thereafter;
- a requirement for the value of the free allowances to be channelled into investments in retrofitting and upgrading the country's energy infrastructure, including new power plants and diversification of the energy mix and sources of supply, and into clean technologies. These investments have to be set out in a national plan; and
- confirmation from the EU Commission that the application is consistent with the rules of the EU Emissions Trading System Directive. Pursuant to Bulgaria's approved application, the number of allowances allocated/to be allocated for free to power plants by the Republic of Bulgaria is:[12]

2013	2014	2015	2016	2017	2018	2019	Total
			Tonnes of CO2				
13,542,000	11,607,428	9,672,857	7,738,286	5,803,714	3,869,143	1,934,571	54,167,999

As at 31 December 2015 the Group's TPP has accrued a provision for greenhouse gas emission quotas of 5,593,254 tonnes of CO2, which represents the difference between, on the one hand, the quantities actually emitted by it and the quantities received for free under the temporary exemption and, on the other hand, the quantities purchased during 2015 which remain on the company's account with the national register as at 22 March 2016.

TPP Maritsa East

In addition to managing its greenhouse gas emissions, the TPP seeks to minimise air, dust, water, soil and noise pollution and to minimise and manage efficiently its waste production.

Air pollution

The Group's TPP is the first power plant in Bulgaria to be equipped with operating Flue-Gas Desulphurisation ("**FGD**") plants. The first FGDs, being those at Units 7 and 8, were commissioned in September 2002. At the same time, a continuous emission monitoring system was introduced to read the harmful substance quantities in the flue gases being emitted into the atmosphere. Currently, all eight units at the TPP have FGD plants.

The government has initiated measures aiming to reduce the NOx emissions. Currently, TPP Maritsa East 2 is in compliance with the regulatory limits. TPP Maritsa East 2 is in the process of implementing a project for the substitution of fuel oil as the igniting fuel to natural gas (methane) as well as the reconstruction of the fuel-feed installation with the aim to reduce NOx emissions to below 200 milligrams per cubic metre. The project is financed under the National Plan for Investments.

[12] Source: Ministry of Energy

Dust removal

Dust removal from the flue gases in the plant is performed by type YT electrostatic precipitators which, as modified by the Group, are around 96 per cent. efficient.

A system has been established to provide early warning for the ground layer pollution by SO^2, NOx and dust, due to unfavourable meteorological conditions. The system was jointly funded by three of the TPPs in the Maritsa East complex (TPP Maritsa East 2, Brikel EAD and Contour Global Maritsa East 3 AD).

Water monitoring

Periodic monitoring of waste and surface water is undertaken on a monthly basis. Sampling and analysis is carried out by an authorised laboratory. Underground water monitoring is organised every six months through samples taken from 11 key points and tested by an accredited laboratory.

Soil monitoring

Soil condition analysis is arranged every three years.

Noise monitoring

Noise emissions in the environment result from the operation of both the main and auxiliary equipment on the TPP site. The TPP is required by law to monitor both the total acoustic capacity and the levels of acoustic pressure on the site every two years.

Waste management

Four types of waste are generated by the TPP: industrial, construction, domestic and hazardous. A system for the separation of wastes on temporary sites in accordance with all applicable environmental requirements is fully operational.

NPP Kozloduy

Environmental protection control at the NPP is managed by monitoring the NPP's releases into the atmosphere and the hydrosphere and through the processing and storing of radioactive and conventional waste. The continuous radiation monitoring in the three kilometre zone is performed by the plant's Automated Information System that is integrated in the national system. Samples from air, soil, vegetation, the Danube river and drinking water sources are taken in the 100 km control area around the NPP and analysed. The background gamma radiation is also measured.

The construction of an interim spent nuclear fuel storage facility at the NPP has been financed by the KIDSF. NPP Kozloduy also has a legal obligation to incur costs for the transportation, processing and storage of spent nuclear fuel in Russia for 50 tonnes of heavy metal per year.

As of 31 December 2015, the Group fulfilled its obligations for transportation, processing and storage of spent nuclear fuel in accordance with the National Nuclear Fuel Management Strategy.

MMI

MMI is required by law to restore the soil quality on completion of its mining operations. Provisions for this future restoration expense are accrued on an annual basis and the total amount of accrued provisions as at 31 December 2015 was BGN 101 million. The provisioning methodology assumes that mining activity will continue until 2043 which is when MMI's licence expires.

HEALTH AND SAFETY

BEH is in compliance with all material health and safety regulations. BEH has adopted a security policy which sets out the main security management principles and practices, including the processes, roles and responsibilities of each Group company. It covers the following areas:

- physical protection;
- protection of classified information;
- crisis management;
- protection of the European and national critical infrastructure of the Group;
- planning, programming and funding of the security activities;
- electrical power supply security;
- provision of health and safety;
- fire safety; and
- admission regime and archive.

Each Group company is required to establish and/or update the procedures for all processes described in the policy on a regular basis. The procedures must include a detailed description and guidelines on how the processes in the policy are to be applied. The procedures are drawn up by the responsible security officer in each subsidiary, coordinated with BEH's security office and approved by the respective subsidiary's Executive Director.

Each Group company also defines a three-year security management strategy with a view to providing continuous, effective and efficient security management in support of its business strategy. The strategy indicates the main lines of development and priorities with respect to security and it is developed in coordination with each company's business plan.

FINANCIAL REVIEW

The following discussion and analysis should be read in conjunction with the information set out in "Business Description" and the Financial Statements.

The discussion of the Group's financial condition and results of operations is based upon the Financial Statements which have been prepared in accordance with IFRS. This discussion contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Prospectus, particularly under the headings "Presentation of Financial and Other Information—Forward-Looking Statements" and "Risk Factors".

OVERVIEW

BEH is the holding company for a group of companies which are principally engaged in electricity generation, supply and transmission, natural gas transmission, supply and storage, and coal mining. The revenue of BEH and its subsidiaries (together, the "**Group**") is principally derived from (i) the sale and transmission of electricity in Bulgaria; and (ii) the transmission, storage and sale of natural gas in Bulgaria. More limited amounts of revenue are also generated from other sources, including the extraction and sale of coal. In 2015, the Group generated 29.24 terawatt hours of electricity and had an installed capacity of 6.3 GW. In the same year, the Group's nuclear power plant, its lignite-fired power plant and its hydro power plants generated 31 per cent., 19 per cent. and 9 per cent., respectively, of the total power generated in Bulgaria, giving it a total market share of 59 per cent. in the Bulgarian electricity generation market in 2015.[13]

A significant portion of the Group's activities are regulated, including the tariffs which the Group is required to pay and permitted to charge for these activities, and this has had a direct impact on the financial results of the Group in 2015 and 2014 as discussed below under "*Principal factors affecting results of operations—Regulated prices*". In 2014 and 2015, 76 per cent. and 77 per cent. of the Group's total revenue was derived from sales at regulated and long term contracted prices compared to 24 per cent. and 23 per cent., respectively, derived from sales at free market prices.

As a public utility, the Group's results of operations are also affected by prevailing economic conditions, including changes in business and household disposable income, GDP growth, consumption and investments. According to the Bulgarian National Statistical Institute, in real terms, Bulgarian GDP grew by 3.0 per cent. in 2015 and 1.7 per cent. in 2014. Total final consumption expenditure in Bulgaria grew by 2.5 per cent. in 2014 and by 0.7 per cent. in 2015. The Group's management is currently participating in the on-going liberalisation of the energy market in Bulgaria and the creation of a transparent and predictable tariff framework through dialogue with both the government and EWRC.

The following table shows the EBITDA figures for each of BEH's reporting segments, before adjustments and inter-group eliminations:

EBITDA (thousands BGN)	**Electricity**	**Natural gas**	**Mining**	**Administrative activities**
2015	384,955	193,938	109,445	75,127
2014	-28,192	138,488	70,723	246,008

RESTATEMENTS AND REVALUATIONS

The 2015 Financial Statements restate or revalue certain figures relating to the year ended 31 December 2014.

Adjustments of the Group's 2014 Financial Statements in the 2015 Financial Statements arose from the following:

- a BGN 668 thousand increase in Recognised liabilities to suppliers;

[13] Source: ESO 2015 energy balance

- a BGN 2,022 thousand decrease in income from penalties and charges;
- a BGN 1,392 thousand decrease in the net book value of intangible assets; and
- a BGN 36,283 thousand decrease in deferred income from joining grids.

Further details of these restatements and revaluations are contained in Note 5 to the 2015 Financial Statements.

PRINCIPAL FACTORS AFFECTING RESULTS OF OPERATIONS

Regulated prices

Most of the Group's revenues are derived from the sale of electricity and natural gas at regulated prices.

Group businesses subject to regulated tariffs include:

- its nuclear, thermal power and hydro power generation businesses, which accounted for a total of 29 per cent. of the Group's total generated electricity in 2015 (comprising 17.16 per cent. for NPP, 4.73 per cent. for TPP 2 and 6.89 per cent. for NEK's HPP), and which are required to sell a quota of their generation output, as determined by the EWRC, at regulated prices;
- its electricity transmission business which is regulated in terms of transmission through, and access to, the transmission grid;
- its public supply business activity which is fully regulated in terms of the tariff at which electricity is sold to the end suppliers to secure supply for protected consumers, households and small and medium-sized enterprises connected to the low voltage grid; and
- its gas transmission and storage businesses, as well as the public supply of gas activity, all of which are subject to regulated tariffs.

Key regulated price changes related to Group's results from operations are:

- increasing the "Obligation to society" fee ("**OBS**") from BGN/MWh 18.36 to BGN/MWh 36.83 in 2015. The costs for OBS are distributed proportionally between the regulated and free market based on their forecasted respective shares of total consumption. OBS costs attributable to the regulated market are included in NEK's regulated selling price while for the free market a separate per MWh fee is applied on top of wholesale prices;
- transmission charges, which have been increased twice since the beginning of 2014 by 77 per cent. to BGN/MWh 7.36. Access fees have been reduced from BGN/MWh 2.76 to BGN/MWh 1.36.

Financial impact of the regulatory and legislative changes implemented in 2015

Historically the Group's results of operations have been negatively affected by NEK's tariff deficit which amounted to BGN 1.6 billion in aggregate up until 31 December 2015. The combination of legal obligations imposed on NEK to purchase electricity from RES and high efficiency cogeneration at preferential prices together with contractual obligations under long-term PPAs meant that NEK's regulated revenue did not cover its costs.

The amendments to the legal framework that came into force on 1 August 2015 and 1 November 2015 have significantly improved the Group's results of operations for 2015 . These had the following effects:

- Reduction of NEK costs for purchasing electricity from high efficient co-generators to BGN 416 million for 2015 compared to BGN 644 million for 2014. The financial impact of this measure was only partially felt in 2015 but still resulted in savings of BGN 228 million.
- Reduction of NEK costs for purchasing electricity from RES generation to BGN 1 062 million in 2015 compared to BGN 1,087 million for 2014. In the five months of the year in which this applied it resulted in a saving of BGN 25 million.

- Increase of NEK's revenues from OBS of BGN 230 million from BGN 191 million 2014 to BGN 421 million in 2015.
- New revenue stream of BGN 183 million transferred to NEK from the establishment in 2015 of the Security of the SESF.

The SESF is a separate legal entity under the governance of the Ministry of Energy, whose management board consists of representatives of various ministries (Ministry of Energy, Ministry of Finance, Ministry of Environment and Water). The sources and uses of SESF funds are strictly defined in secondary legislation. SESF collects funds from electricity producers, where each electricity generator and each electricity trader, which imports electricity, pays 5 per cent. of their revenues into the fund, and revenues from auctioning allowances for greenhouse gas emissions, statistical transfers of renewable sources of energy, overdue interest and donations. NEK, as public supplier of electricity, and the Group is the sole beneficiary of the funds. The funds collected by SESF are transferred to NEK for the specific purpose of compensating the company for its current and past obligations to purchase electricity from producers under power purchase agreements, RES, high-efficiency cogeneration and quota producers. Both the law and the secondary legislation explicitly state that the funds cannot be used for purposes other than those mentioned above.

Approximately BGN 130 million of the BGN 183 million transferred by SESF to NEK in 2015 came from revenues from CO2 allowance sales. For the 2015/2016 regulatory period the Regulator has estimated that proceeds from the sale of CO2 allowances which will be accumulated in SESF will amount to BGN 226 million.

In prior years there were attempts to apply CO2 revenues toward covering the deficit in the electricity sector caused by RES producers. However, as no clear mechanism for this was defined in the law and in the regulation, only part of the applicable proceeds were transferred to NEK. In contrast, now the obligation is clearly defined in the law and reflected in the regulatory decisions and is being successfully enforced.

Approximately BGN 50 million (accumulated solely in November and December 2015) of the BGN 183 million transferred by SESF to NEK in 2015 came from revenues from the 5 per cent. instalments on the sales of electricity by producers and traders. For the 2015/2016 regulatory period the Regulator has estimated that proceeds from the 5 per cent. instalments will amount to BGN 209 million

The legislative and regulatory measures implemented in 2015 are a direct consequence of BEH's positioning as a strategically important state asset benefiting from the support of the state. They have led to a marked improvement in NEK and BEH's financial position in a short span of time which enabled direct cash flow to NEK. The measures were in force in 2015 for less than 12 months. Thus, the full annual effect is expected to be greater. Both the government and the Regulator have clearly indicated that they will continue their strategy of preventing the formation of new deficits in the system and gradual compensation of the historical deficits.

Liberalisation process

The requirements of the EU's Third Energy Package and Bulgarian legislation stipulate that the electricity market is to be liberalised and gradually integrated with the markets of other EU member states. The Bulgarian government plans to achieve full liberalisation of the electricity market gradually over the next five years in conjunction with the introduction of effective compensatory mechanisms such as contracts for difference and social tariffs for the energy poor. Liberalisation may have a positive effect on the Group as the regulated prices charged by BEH's subsidiaries are below the average selling prices charged on the free wholesale market: BGN 59 versus BGN 99 for NEK, BGN 30 versus BGN 71 for NPP and BGN 68 versus BGN 73 for TPP Maritsa East 2 (for 2015). However, the impact of liberalisation on the Group is uncertain – please see "*Risk Factors— The Group may be exposed to increased competition in the electricity and gas markets in Bulgaria and abroad, including as a result of the planned liberalisation of the Bulgarian electricity sector*."

SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the IASB and adopted by the European Union ("**EU**"). For a discussion of the accounting policies applied by the Group generally see note 4 to the 2014 and 2015 Financial Statements, respectively.

CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing the Group's financial statements, management is required to make certain estimates, judgments and assumptions. These affect the reported amounts of the Group's assets and liabilities, including disclosure of contingent assets and liabilities, at the date of the financial statements as well as the reported amounts of its revenues and expenses during the periods presented. Management bases its estimates and assumptions on historical experience and other factors that it believes to be reasonable at the time the estimates and assumptions are made and evaluates the estimates and assumptions on an on-going basis. However, future events and their effects cannot be predicted with certainty and the determination of appropriate estimates and assumptions requires the use of judgment. Actual outcomes may differ from any estimates or assumptions made and such differences may be material to the financial statements.

The Group considers that the assumptions and estimations made by it as to the fair values and useful lives of property, plant and equipment, the impairment of financial assets, its provisions (or lack of them) for environmental protection, the transport, processing and storage of consumed nuclear fuel and the decommissioning of nuclear facilities and its liability for employee retirement benefits are its most critical accounting judgments. Further details on these accounting judgments can be found in note 4.28 to the 2014 Financial Statements and note 4.27 to the 2015 Financial Statements.

QUALIFICATIONS AND EMPHASES OF MATTER

There are a number of qualifications and emphases of matter in the audit opinions relating to the 2014 and 2015 Financial Statements, see "*Presentation of Financial and Other Information—Qualifications and Emphases of Matter in 2014 and 2015 Financial Statements*" and "*Risk Factors—The audit opinions in respect of the Financial Statements have been qualified in a number of significant respects*".

RESULTS OF OPERATIONS

Comparison of 2015 and 2014

Revenue

The table below shows the breakdown of the Group's total revenue from sales for each of 2015 and 2014.

Revenue from Sales

	Year ended 31 December 2015	Year ended 31 December 2014
	Thousands of BGN	*Thousands of BGN*
Revenue from sales of electricity	3,671,480	3,474,758
Revenue from sales of natural gas	1,356,556	1,533,516
Revenue from sales of coal	296,418	229,402
Income from other sales, including:	1,057,679	885,243
Related with sales of electricity	*832,950*	*690,122*
Income, generated from the "obligation to society" fee	*406,727*	*190,623*
Income, associated with the transmission through the electrical supply network	*333,484*	*382,413*
Income, generated under access fees	*66,640*	*88,853*
Income, associated with reactive electricity	*21,724*	*28,104*
Income, generated under connection fees	*4,375*	*129*
Related with sales of natural gas	*209,454*	*180,075*
Income, generated from the transmission of natural gas	*209,454*	*180,075*
Income, generated from "water supply" services	*4,593*	*4,726*
Income from sales of thermal power	*2,026*	*2,037*
Income from rendered transport services	*4,332*	*3,519*
Income from rendered communication services	*2,899*	*3,130*
Income from other sales	*1,425*	*1,634*
	6,382,133	**6,122,919**
Other operating income	**304,477**	**71,730**
	6,686,610	**6,194,649**

The Group's total revenue for 2015 amounted to BGN 6.7 billion compared to BGN 6.2 billion for 2014, an increase of BGN 492 million, or 7.9 per cent. The revenue from sales of electricity, natural gas, coal and other sales, including, in particular, electricity and gas transmission fees, the "obligation to society" fee which resulted from the 2015 amendments to the legislative and regulatory framework as well as access fees comprised 95.4 per cent. of the Group's revenue in 2015 and 98.8 per cent. in 2014. Other operating income increased from BGN 71.7 million in 2014 to BGN 304.4 million in 2015, an increase of BGN 232.7 million or 324 per cent. This increase was primarily driven by income generated by the Security of the Electricity System Fund established pursuant to amendments made to the Energy Act in 2015, which is more particularly described in Note 8 to the 2015 Financial Statements.

Sales of electricity

The Group's revenue from sales of electricity is derived from the electricity generated by its power plants which is sold at regulated and unregulated prices to end suppliers and electricity distribution companies in Bulgaria and exported to foreign customers as well as electricity purchased from other suppliers and sold in the non-regulated market. The Group's revenue from sales of electricity during 2015 amounted to BGN 3.7 billion compared to BGN 3.5 billion for 2014, an increase of BGN 197 million, or 5.7 per cent. This increase principally reflected the higher volumes of electricity sold by the Group and increasing volume of transmitted electricity in 2015 compared to 2014.

Sales of natural gas

The Group's revenue from sales of natural gas is derived from sales of natural gas at regulated prices to customers in Bulgaria. Approximately 97 per cent. of the natural gas sold is purchased by the Group under long-term take or pay supply agreements with OAO Gazprom ("**Gazprom**"), with the balance being purchased from a local supplier or extracted from UGS Chiren. The Group's revenue from sales of natural gas during 2015 amounted to BGN 1,357 million compared to BGN 1,534 million for 2014, a decrease of BGN 177 million, or 11.5 per cent. This decrease principally reflected a lower average sales price based on decreasing market prices of oil derivatives which are used as a component in price setting, which was partially offset by higher volumes of natural gas sold. In 2015 the quantities of natural gas sold were 2,652 mil. m^3, an increase of 5 per cent. compared to 2014.

Electricity and Gas Transmission fees

The Group derives electricity and gas transmission fees in respect of electricity and natural gas transmitted through its transmission systems and, in the case of natural gas, transited through its pipelines from Russia to Greece, Macedonia and Turkey. In the case of electricity, these fees comprise a basic tariff which is regulated. In the case of natural gas, the transmission fee is also regulated while the transit fee, which comprises around 80 per cent. of the total gas transmission fee revenues, is paid under a long-term ship or pay contract with Gazprom. The Group's revenue from electricity and gas transmission fees was BGN 543 million in 2015 compared to BGN 562 million in 2014, a decrease of BGN 19 million, or 3.4 per cent. This was primarily generated by the contract with Gazprom.

Obligation to society fee

In 2015, the Group's revenue from the obligation to society fee amounted to BGN 407 million compared to BGN 191 million in 2014, an increase of BGN 216 million or 113 per cent. This was primarily driven by legislative and regulatory changes implemented in 2015, namely an increase in the OBS fee from 18.93 BGN/MWh for the 2014/2015 regulatory period, to 36.83 BGN/MWh for the 2015/2016 regulatory period and applying the OBS fee on the quantities for covering technological losses (being amounts of electricity lost along the grid). Prior to 24 July 2015 the OBS fee was not applicable on these quantities. It now is and this, together with the increase in the fee itself, has driven this increase.

Electricity Access fees

The Group derives electricity fees in respect of electricity accessing the transmission system. In the case of electricity, these fees comprise a basic tariff which is regulated and remunerates the company for the management and administration of the electricity system. The access fee is payable by all end consumers connected to the electricity grid (including quantities for export). The amount payable of each consumer is based on the amount of consumed electricity. The Group's revenue from access fees was BGN 67 million in 2015 compared to BGN 89 million in 2014, a decrease of BGN 22 million, or 25 per cent. This decrease principally reflected the lower access fee set by EWRC for the 2015/2016 regulatory period in comparison to the 2014/2015 regulatory period, which was partially offset by the slightly higher consumption of electricity.

Sales of coal

The Group's revenue from the sale of coal is derived from coal produced at its Maritsa mine and sold to customers in Bulgaria. The Group's revenue from sales of coal during 2015 amounted to BGN 297 million compared to BGN 229 million for 2014, an increase of BGN 67 million, or 29 per cent. This increase principally reflected higher demand and higher volumes of coal sold in 2015 compared to 2014 as well as slightly higher sales prices. In 2015 the Group reported production of over 32 million tonnes of coal compared to 28 million tonnes in 2014 and the price was increased on 1 July 2014 from BGN 75 tonnes of oil equivalent ("**TOE**") to BGN 77 TOE. In future years production is expected to decrease. This may lead to decreases in the Group's revenues and EBITDA.

Costs

The table below shows the breakdown of the Group's costs for each of the years ended 2015 and 2014:

	2015	2014
	Thousands of BGN	*Thousands of BGN*
Cost of natural gas, electricity and other current assets sold	(4,007,827)	(4,297,058)
Cost of materials	(319,909)	(341,276)
Hired services	(300,513)	(258,044)
Depreciation cost	(585,626)	(544,195)
Impairment loss of property, plant and equipment	(5,437)	—
Employee benefits expense	(783,397)	(780,954)
Reintegration of impairment/(Net impairment)	(21,822)	148,355
Cost of greenhouse gas emissions and supplies	(184,819)	(119,801)
Other operating costs	(430,481)	(234,318)
Total Costs	**6,639,831**	**6,427,291**

The Group's costs principally comprise the cost of natural gas, electricity and other current assets sold, its employee benefits, its depreciation cost, its cost of materials, its hired services, its cost of greenhouse gas emissions and supplies and other operating costs (including, in particular, green energy costs, contributions to the funds for retirements of nuclear facilities and radioactive waste and fines, penalties and charges). Together, these categories of expense accounted for 99.5 per cent. of the Group's total costs in 2015 and 97.7 per cent. in 2014.

The Group's costs were BGN 6.6 billion in 2015 compared to BGN 6.4 billion in 2014, an increase of BGN 212.5 million, or 3.3 per cent. This principally reflected increases in the cost of greenhouse gas emissions and supplies, hired services, depreciation cost and other operating costs, as described further below.

The Group's cost of natural gas, electricity and other current assets sold was BGN 4.0 billion in 2015 compared to BGN 4.3 billion in 2014, a decrease of BGN 289 million, or 6.7 per cent. This principally reflected:

- BGN 108 million, or 3.8 per cent., decrease in the cost of electrical power from BGN 2.8 billion in 2014 to BGN 2.7 billion in 2015. The Group's cost of electricity comprises the costs of purchasing electricity incurred by its subsidiary, NEK in relation to its role of a single buyer and public supplier of electricity in Bulgaria. The decrease in 2015 principally reflected NEK's reduced costs which resulted from the amendments to the 2015 Energy Act which limited NEK's obligation to purchase electricity from renewable energy suppliers at prices which do not produce a commercial return and a limitation on NEK's obligation to purchase electricity from cogeneration. This had a particular impact in the second half 2015 but as the relevant amendments were not in place for the full financial year their full effect is not be shown in the 2015 Financial Statements; and

- BGN 181 million, or 12.4 per cent., decrease in the cost of natural gas from BGN 1.5 billion in 2014 to BGN 1.3 billion in 2015. The Group's cost of natural gas principally comprises the price it pays to Gazprom for imported gas and the decrease reflected the fact that the average annual import price decreased by 16.4 per cent. between 2014 and 2015 from BGN 561 per thousand cubic metres ("**tm^3**") to BGN 469 per tm^3 which more than offset the increased purchases related to higher consumption. In 2015 the purchased volumes were 2,663,743 tm^3 compared to 2,485,000 tm^3 in 2014.

The BGN 196 million, or 84 per cent., increase in other operating costs from BGN 234 million in 2014 to BGN 430 million in 2015 principally reflected:

- a BGN 86 million increase in green energy costs paid by the Group and a BGN 33 million increase in fines, penalties and charges paid by the Group; and

- a BGN 37 million expense in relation to a 5 per cent. fee on income paid into the "Security of the Electricity System" fund paid by NPP Kozloduy, TPP Maritsa East 2 and NEK.

Operating profit

Reflecting the above factors and, in particular, the faster increase in the Group's revenues than costs, the Group's operating profit was BGN 85 million in 2015 compared to a loss of BGN 214 million in 2014, an increase of BGN 299 million. The Group's operating margin was 1.3 per cent. in 2015 compared to -3.5 per cent. in 2014.

Share of profit from equity accounted investments

Details of the proportion of the profit or loss from equity accounted investments are set out in note 20 to the 2015 Financial Statements. The Group's share of the profit from equity accounted investments was BGN 46 million in 2015 and BGN 51 million in 2014.

Net finance costs

The table below shows the breakdown of the Group's financial income and financial cost for each of the years ended 31 December 2015 and 2014:

Financial Income

	Year ended 31 December 2015	Year ended 31 December 2014
	Thousands of BGN	*Thousands of BGN*
Interest income, generated under receivables from Toplofikatsia Sofia EAD	23,600	16,612
Interest income, generated under bank deposits	5,085	4,366
Interest income, generated under current accounts	454	2,639
Other interest income, generated under financial instruments, carried at amortised cost	1,577	4,160
Total interest income, generated under financial instruments that are not carried at fair value in profit or loss	*30,716*	*27,777*
Gains from the change in the fair value of financial derivatives	—	11,144
Foreign exchange gains, net	5,772	21,711
Income, generated under dividends from available-for-sale financial assets	88	—
Other	—	265
	36,576	**60,897**

Finance costs

	2015	2014
	Thousands of BGN	*Thousands of BGN*
Interest expense, incurred under credits, carried at amortise cost	(58,767)	(59,633)
Interest expense, incurred under finance lease	—	(8)
Total Interest expense, incurred under financial instruments that are not carried at fair value in profit or loss	*(58,767)*	*(59,641)*
Interest expense, incurred under actuarial valuations	(5,576)	(4,898)
Interest expense, incurred under tax liabilities and liabilities for fees and charges, and public receivables	(10,840)	(2,328)
Bank charges and fees	(832)	(1,039)
Result from operations with financial instruments	(11,367)	—
Loss from the change in the fair value of a financial derivative	—	(594)
	(87,382)	**(68,500)**

The Group's financial costs principally comprise interest expense on its borrowings. The Group's net finance costs were BGN 51 million in 2015 and BGN 8 million in 2014, an increase of BGN 43 million. This increase reflected both a significant decrease in financial income in 2015 driven by negative foreign exchange rate differences in that year, the lack of a gain from the change in the fair value of financial derivatives and increased finance costs. The increased finance costs principally reflected increases in interest expense incurred under tax liabilities and liabilities for fees and charges, and public receivables and a loss in 2015 resulting from operations with financial instruments.

Income tax

The Group's income tax expense was BGN 20 million in 2015 and BGN 49 million in 2014. Bulgaria had a statutory tax rate of 10 per cent. in each of 2015 and 2014. The Group's tax charge in each year represents the effect of that rate applied to its taxable profit and the impact of deferred tax income in each year. Note 16 to the 2015 Financial Statements sets out further information on the Group's tax charge.

Profit/loss from continuing operations

Reflecting the above factors, the Group's profit from continuing operations was BGN 59 million in 2015 compared to a loss from continuing operations of BGN 219 million in 2014, an increase of BGN 278 million.

Loss from discontinued operations

In December 2012, the Bulgarian Council of Ministers approved the transfer of Unit 3 and Unit 4 at the Group's nuclear power plant to a separate State-owned company. Neither unit is operational and the transfer is intended to facilitate the decommissioning of the units. The income and expense associated with Unit 3 and Unit 4 are eliminated from the profit from continuing activities of the Group and are presented as loss for the year from discontinued operations being a loss of BGN 30 million in 2015 compared to a loss of BGN 59 million in 2014, a decrease of BGN 29 million or 49 per cent.

(Loss)/profit for the year

Reflecting the above factors, the Group generated profit of BGN 30 million in 2015 compared to a loss of BGN 277 million in 2014.

The results of the Group's operations in 2015 compared to those in 2014 are as follows:

BGN '000	2015	2014	Change 2015/2014	
Total revenue	6,686,610	6,194,649	491,961	7.94%
EBITDA	675,892	330,242	345,650	104.67%
EBIT	84,829	(213,953)	298,782	139.65%
EBT	79,943	(170,225)	250,168	146.96%
EBITDA margin	10.11%	5.33%	4.78%	89.61%

Total comprehensive income for the year, net of tax

In 2015, the Group's total comprehensive income for the year, net of tax, was BGN 1,526 million compared to a loss of BGN 249 million in 2014. This increase was principally driven by a revaluation of property, plant and equipment following the investment programme in NPP Kozloduy which generated other comprehensive income of BGN 1,689 million in 2015.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Group's principal cash requirements are to fund its capital expenditure programme and to repay outstanding borrowings. The Group's principal source of funds is cash from operations and proceeds of new borrowings.

Cash Flows

The table below summarises the Group's cash flows from operating activities, investment activities and financing activities for each of the years ended 31 December 2015 and 2014:

	Year ended 31 December	
	2015	2014
	Thousands of BGN	*Thousands of BGN*
Net cash flows from operating activities	945,337	472,029
Net cash flows from investing activities	(396,763)	(359,849)
Net cash flows from financing activities	(119, 703)	(113,556)
Net change in cash and cash equivalents	**428,806**	**(118,554)**
Cash and cash equivalents at 1 January	**404,305**	**522,859**
Cash and cash equivalents at 31 December	**833,111**	**404,305**

The Group's net cash flows from operating activities in 2015 were BGN 945 million compared to BGN 472 million in 2014. The Group's operating cash flows principally represent its revenue from sales less its payments to suppliers and personnel, interest payments related to its financial obligations and tax payments.

Net cash outflows from investing activities in 2015 was BGN 397 million compared to BGN 360 million in 2014. In each year the principal investments made were in the purchases of property, plant and equipment as part of the Group's capital expenditure programme described under "*Capital expenditure*" below.

Net cash outflows from financing activities in 2015 was BGN 120 million compared to BGN 114 million in 2014. The Group's financing activities principally comprise new financing raised in the form of borrowings together with the repayment of outstanding borrowings and payment of dividends. In 2015, the Group made net repayments of borrowings totalling BGN 125 million but paid no dividends. In 2014 it made net repayments of borrowings totalling BGN 93 million and paid dividends of BGN 21 million.

Capital expenditure

The Group's cash outflows related to capital expenditure amounted to BGN 405 million in 2015 and BGN 385 million in 2014. This expenditure was principally incurred in relation to the execution of the main investment projects in the Group which is the extension of the useful life of the NPP units 5 and 6, modernisation of the gas and electricity transmission networks and rehabilitation of mining equipment. Capital expenditure is expected to average approximately BGN 700 million per year for each of the next five years, of which approximately BGN 180 million is expected to relate to maintenance capital expenditure. The Group has significant flexibility with regards to its discretionary capital expenditure. However, no assurance can be given as to the actual amounts of capital expenditure that may be incurred in future periods. The timing and amount of capital expenditure is highly dependent on market conditions, the progress of projects, new opportunities that may arise and a range of other factors outside the Group's control.

The Group's priority infrastructure projects which are included in its capital expenditure programme over the coming years are as follows:

Electricity

- Extending the useful life of units 5 and 6 at NPP Kozloduy
- Increase the heat generation capacity of units 5 and 6 at NPP Kozloduy
- Rehabilitation and expansion of the electricity transmission network (EU Project of Common Interest – PCI)
- Yadenitsa HPP Project (PCI)

Gas

- ICGB gas interconnector with Greece (PCI)
- Expansion of Chiren underground gas storage facility (PCI)
- Interconnector Turkey – Bulgaria ("**ITB**") (PCI)

Mining

- Rehabilitation and purchase of new mining equipment

The Group expects to finance its capital expenditure primarily through cash flows from operations. Projects designated as PCI by the EU are eligible for up to 50 per cent. EU grant funding. Aside from own funds and grants, projects can be financed through intragroup loans. External loan funding will only be used for the IGB project, for which BEH has an approved BGN 110 million state guarantee. Under EU unbundling rules (Third Energy Package) transmission network operators have to finance and execute their capital expenditure programmes independently. Both ESO and BTGAZ generate sufficient cash to fund their investment programmes.

Borrowings

The Group principally borrows to fund its capital expenditure programme. Approximately 62 per cent. of the Group's borrowings are in the form of tradable bonds issued by BEH as parent company, while the remainder of the Group's debt is in the form of bilateral loans from national and international banks borrowed through subsidiaries, including NEK, NPP Kozloduy and TPP Maritsa East 2. The loan facilities include bonds, syndicated loans, export credit facilities, investment loans, and financial leases.

The Group's funding strategy involves:

- consolidating debt at holding company level and facilitating the settlement of intra-group financial obligations;
- obtaining strategic funding from reputable banks, which has historically been the Group's major source of external funding;
- expanding its sources of financing to include bond market funding;
- utilising dividend income from subsidiary companies to support intra-Group operating activities and to secure short-term financing for the subsidiary companies;
- participating in joint ventures where the majority of the funding is provided by the joint venture partners;
- obtaining grants from EU funds or from international organisations which support regional sustainable energy development where available;
- apportioning overheads into project budgets so that each project has a determined overhead and capital expenditure budget matched to a reliable project funding source; and
- improving operating efficiency and cost reduction and optimisation.

Management is not currently aware of any plans by its shareholder to increase the capital of the Group.

Loans

As at 31 December 2015 the Group's outstanding loans and finance leases together totalled BGN 1.6 billion. The table below shows each of these loans and the amount outstanding as at 31 December in each of 2015 and 2014.

				As at 31 December	
		Interest rate	**Maturity**	**2015**	**2014**
				Thousands of BGN	*Thousands of BGN*
(1)	Loan stock (i.e., Eurobonds)	4.25%	2018	980,256	979,039
(2)	Investment non-bank loan from EURATOM, denominated in Euros	EURIBOR + 0.079% to 0.13%	2017 – 2021	193,846	238,529
(3)	Investment loan, denominated in Japanese yen	1.49% plus risk premium 0.94%	2018	111,431	135,174
(4)	Investment loan, denominated in Euro	3 m. OeKB and 4.10%	2020	75,442	94,987
(5)	Investment loan, denominated in Euro	6 m. EURIBOR + 2.95% and 6.3% and 4.75%	2016 – 2021	49,866	68,393
(6)	Investment loan, denominated in Euro	from 4.026% to 4.844%	2022	55,061	63,521
(7)	Investment and working capital loan	BIR + 3.19%, 6 m. sofibor +4,674% BIR + 1.28%	2016	44,167	49,962
(8)	Working capital loan – overdraft	BIR + 2.44%	2015	39,948	10,011
(9)	Working capital loan – overdraft	BIR + 2.30%	2015	—	7,667
(10)	Financing under contracts for repurchase of natural gas		2015	12,054	7,012
(11)	Working capital loan	EURIBOR+5.1%	2015	2,280	5,999
(12)	Current loan – working capital	BIR + 5.4%	2014	—	5,000
(13)	Investment loan, denominated in Euro	1 m. EURIBOR + 2%	2016	3,934	4,507
(14)	Investment loan, denominated in Euro	6 m. EURIBOR + 1%	2015	—	3,973
(15)	Overdraft of up to 20,000 BGN	BIR + 2.65%	2015	—	2,176
(16)	Investment loan, denominated in Euro	1 m. EURIBOR +1.74%	2015	635	1,993
(17)	Investment loan, denominated in Euro	6 m. EURIBOR + 5.5%	2016	—	54
(18)	Finance lease, denominated in BGN	7.7% – 8.75%	2015	20	—
				1,568,940	**1,677,997**

Certain of the Group's loans contain financial covenants, including debt coverage ratios and current assets to current liabilities ratios. The Group is currently in breach of some ratios and in the process of obtaining waivers, see "*Risk Factors—NEK is in breach of its financial covenants and may be unable to pay its debts as they fall due. The Bonds may not be declared immediately due and payable if NEK becomes unable to pay its debts as they fall due, breaches the terms of its third party debt or if its liabilities exceed its assets*".

In addition, certain of the loans are:

- guaranteed by the Bulgarian government; and/or
- secured by mortgages and/or pledges of other assets.

For a full description of each of these loans, see note 28 to the 2015 Financial Statements. As at 31 December 2014, the Group, via its subsidiary "TPP Maritsa East 2" EAD had an unutilised investment loan of 794,461,750 Japanese yen and 736,900 Euros, which was fully utilized in January 2015, at the amount of BGN 13 million. As at 31 December 2015, the Group had an unutilised loan commitment of BGN 16 million.

On 21 April 2016 BEH entered into the Bridge Facility which is intended to be repaid with the proceeds of the Bonds, see "*Use of Proceeds*".

Maturity profile

The table below shows the profile of the Group's BGN 1.7 billion outstanding loans and finance leases at 31 December 2014 and the Group's BGN 1.6 billion outstanding loans and finance leases at 31 December 2015. Figures in the table include both principal and interest.

	31 December 2015	**31 December 2014**
	Thousands of BGN	*Thousands of BGN*
Non-current portion		
Bond issue	974,137	972,920
Bank loans (i.e. credits)	215,865	305,302
Credit, obtained from EURATOM	147,788	192,038
Finance lease	7	—
	1,337,797	1,470,260
Current portion		
Bank loans (i.e. credits)	158,953	140,939
Credit, obtained from EURATOM	46,058	46,491
Bank overdrafts	20,000	7,176
Commercial credits	—	7,012
Bond issue	6,119	6,119
Finance lease	13	—
	231,143	207,737
	1,568,940	1,677,997

ANALYSIS OF CERTAIN BALANCE SHEET ITEMS

Assets

The Group's most significant assets are its property, plant and equipment and its trade and other receivables, which together comprised 86.9 per cent. of its assets at 31 December 2015 compared to 88.7 per cent. in 2014. The Group's property, plant and equipment principally comprise its power generation plants, its electricity and gas transmission and gas transit and storage infrastructure and related equipment, which are further described under "*Business Description*". In 2015 the Group undertook a planned revaluation of its property, plant and equipment in accordance with its accounting policies which state that property, plant and equipment should be revalued every three years. Further details of this revaluation are set out in Note 18 to the 2015 Financial Statements. The Group's total trade and other receivables were BGN 2.1 billion at 31 December 2015 and BGN 2.2 billion at 31 December 2014.

The table below shows details of the Group's trade receivables at 31 December 2015 and 2014.

	As at 31 December 2015	As at 31 December 2014
	Thousands of BGN	*Thousands of BGN*
Trade receivables, gross	732,868	53,559
Accumulated impairment of trade receivables	(259,143)	—
Trade receivables, net	**473,725**	**53,559**
Receivables from Corporate Commercial Bank AD – in bankruptcy	137,541	135,239
Accumulated impairment	(22,762)	(1,292)
Receivables from Corporate Commercial Bank AD – in bankruptcy, net	**114,779**	**133,947**
Financial Assets	**588,504**	**187,506**
Advance payments to suppliers	—	8
Prepaid services	20	39,313
Non-financial Assets	**20**	**39,321**
Trade and other receivables – non-current portion	**588,524**	**226,827**
Trade receivables, gross	1,103,711	1,713,827
Accumulated impairment of trade receivables	(8,031)	(306,646)
Trade receivables, net	**1,095,680**	**1,407,181**
Litigations and claims, gross	293,092	290,732
Accumulated impairment of litigations and claims	(204,568)	(187,675)
Litigations and claims, net	88,524	103,057
Receivables from ZAO Atomstroyexport	7,883	7,883
Interest receivables on overdue payments, gross	—	6,602
Interest receivables on bank deposits	—	16
Other receivables, gross	2,311	34,950
Accumulated impairment of other receivables	(272)	(744)
Other receivables, net	2,039	34,206
Financial assets	**1,194,126**	**1,558,945**
Advance to suppliers	258,638	301,003
Prepaid services	30,501	96,442
Recoverable taxes	8,962	8,672
Non-financial assets	**298,101**	**406,117**
Trade and other receivables – current portion	**1,492,227**	**1,965,062**
Trade and other receivables	**2,080,751**	**2,191,889**

The principal contributor to the non-current outstanding and impaired trade receivables is Toplofikatsia Sofia EAD, which owed the Group outstanding trade receivables, net of impairment, of BGN 474 million at 31 December 2015 and BGN 54 million at 31 December 2014. These receivables are in respect of natural gas supplied and, in December 2015, an agreement was reached for the rescheduling of these receivables over a 20 year period, with a five year grace period. The interest on the principal is 3.25 per cent. As at 31 December 2015, the total amount of the non-current impairment incurred by the Group in relation to Toplofikatsia Sofia EAD was BGN 64 million compared to zero at 31 December 2014.

The table below shows an ageing analysis in respect of the Group's trade and other receivables at 31 December in each of 2015 and 2014.

	Undue	Over due			Total
		0-180 days	180-360 days	>360 days	
	Thousands of BGN	*Thousands of BGN*	*Thousands of BGN*	*Thousands of BGN*	*Thousands of BGN*
31 December 2015					
Trade receivables, gross	1,043,257	147,546	130,176	956,427	2,277,406
Impairment	(67,348)	—	—	(427,428)	(494,776)
Net	**975,909**	**147,546**	**130,176**	**528,999**	**1,782,630**
31 December 2014					
Trade receivables, gross	963,775	84,273	514,450	680,310	2,242,808
Impairment	(271,413)	—	—	(224,944)	(496,357)
Net	**692,362**	**84,273**	**514,450**	**455,366**	**1,746,451**

The rise in overdue receivables (greater than 360 days) was due to an increase in Mini Maritsa Iztok receivables from AES-3I Maritsa Iztok 1 and Contour Global Maritsa Iztok 3. With utilisation of the Bridge Facility, which was used to pay amounts owed by the Group to these entities, these overdue receivables were collected in April 2016 and Mini Maritsa Iztok's liquidity position has significantly improved.

Liabilities

The Group's most significant liabilities are its borrowings and its trade and other payables (including payables to related parties). Together these liabilities accounted for 71.9 per cent. of its total liabilities at 31 December 2015 compared to 76.3 per cent. at 31 December 2014.

Information on the Group's borrowings is set out under "*—Liquidity and capital resources—Borrowings*".

The Group's trade and other payables principally comprise short-term trade payables incurred in the ordinary course of its business. The Group's related party payables principally comprise amounts owed to an associated company.

Equity

The table below shows the Group's equity at 31 December in each of 2015 and 2014:

	31 December 2015	31 December 2014
	Thousands of BGN	*Thousands of BGN*
Equity		
Share capital	3,188,168	2,948,723
Other reserves	2,528,065	2,490,399
Reserve from revaluation to fair value	(23,687)	(28,148)
Revaluation reserve of non-financial assets	6,691,289	5,180,043
Reserve from translation of foreign operations	(8)	(8)
Reserve from remeasurement of defined benefit plans	(76,868)	(49,463)
(Accumulated loss)/Retained earnings	(792,886)	(553,952)
Equity, attributable to the shareholder of the parent entity	**11,514,073**	**9,987,594**
Non-controlling participation	348	292
Total Equity	**11,514,421**	**9,987,886**

The Group's share capital is divided into 3,188,168,127 fully paid ordinary shares with a par value of BGN 1 each as of 31 December 2015. All of the Group's share capital is held by the Minister of Energy on behalf of the Republic of Bulgaria.

The Group's other reserves include statutory and general reserves. At least 10 per cent. of the Group's net profit and certain other amounts in each year is contributed to the statutory reserve until it equals 10 per cent. of the Group's capital. The statutory reserve can only be used to cover losses in the current and prior periods. General reserves are formed by the Board and can be used both to cover losses and for any other purpose for which they were established.

The reserve from revaluation to fair value is used to recognise the revaluation of available-for-sale financial assets (see note 24 to the 2015 Financial Statements), as well as the Group's share in the operating result and the revaluation of financial assets and liabilities recognised directly in the equity of associates or jointly-controlled entities.

The revaluation reserve of non-financial assets is used to reflect increases in the fair value of property, plant and equipment. Decreases in the fair value of property, plant and equipment are also recognised in this reserve but only to the extent that they relate to revaluation increases for the same asset previously recognised in other comprehensive income. The reserve may be used to cover losses and pay dividends only in limited circumstances. The revaluation reserve of non-financial assets was BGN 6,691 million at 31 December 2015 compared to BGN 5,180 million at 31 December 2014, an increase of 29.2 per cent. principally reflecting the revaluation in property, plant and equipment booked in 2015.

Profits are distributed by a decision of the general meeting of the sole shareholder based on the individual financial statements of the parent company BEH EAD. The amount of the dividend is determined annually via the State Budget Act.

Pursuant to Order No.2 of the Council of Ministers passed in February 2016, State owned companies amount are required to distribute dividends equal to 50 per cent. of the profit disclosed in the consolidated financial statements. The State has a strong interest in maintaining the Group's balance sheet. No dividends were distributed in 2015. In 2014 BEH distributed dividends of BGN 20.5 million.

RELATED PARTY TRANSACTIONS

The related parties of the Group include its shareholder, its associates and joint ventures, its management personnel and all other public sector entities controlled by the Republic of Bulgaria. Details of the Group's related party transactions in the years ended 31 December 2015 and 2014 are set out in note 35 to the 2014 and 2015 Financial Statements, respectively.

CONTINGENT LIABILITIES

The Group's contingent liabilities for the years ended 31 December 2014 and 31 December 2015 are disclosed in note 40 to the 2014 and 2015 Financial Statements, respectively. The Group's contingent liabilities as at 31 December 2015 principally comprise:

- disputes with ASE in which ASE claimed damages from the Group's subsidiary NEK. NEK counter-claimed for an amount of EUR 120 million. On 14 June 2016 the tribunal awarded EUR 554 million, with further interest running from 2 May 2015 to ASE; NEK's counter-counter claim was rejected, except for EUR 878,746 conceded by ASE. see "*Risk Factors—Arbitration in connection with the discontinued Belene nuclear power plant project has resulted in a significant arbitral award being rendered against the Group's subsidiary, Natsionalna Elektricheska Kompania EAD ("NEK"), which could result in NEK becoming insolvent and which could result in an event of default under the EUR 500,000,000 4.250 per cent. Bonds issued in November 2013 (the "2013 Bonds"), the Bonds and other Group financings.*"

- a dispute with Worley Parsons Nuclear Services JSC, which is claiming BGN 106 million from the Group's subsidiary. The case is at an early stage; and
- a dispute with OET United Energy traders. which is claiming BGN 11 million from the Group's subsidiary

DISCLOSURES ABOUT RISK

The Group's financial risk management policies are set out in note 37 to the 2015 Financial Statements. The Group considers that its principal risk exposures are liquidity risk, interest rate risk, currency risk and credit risk, although it also recognises and seeks to manage market risk, regulatory risk and cash flow risk.

Liquidity risk is the risk that the Group will not meet its obligations as they fall due. The Group manages its liquidity risk primarily through financing provided by its parent which finances the operations of the subsidiaries within the Group. Where there is a shortage of cash within the Group, external financing is obtained. A maturity analysis of the Group's financial liabilities based on contractual undiscounted payments is set out in note 37 to the 2015 Financial Statements.

The Group's principal exposure to interest rate risk relates to its variable rate borrowings. Within the Group's asset structure, the interest-bearing assets comprise cash, bank deposits and loans, the majority of which carry a fixed rate of interest. The Group's borrowed funds (both long- and short-term loans) also mainly carry a fixed rate of interest which helps to minimise the likelihood of unpredictable fluctuations and unfavourable changes in cash flows. A sensitivity analysis in this regard is set out in note 37 to the 2015 Financial Statements. None of the Group's interest rate risk is currently hedged through derivative instruments.

The Group's currency rate risk arises from its dealings in different currencies, with the major foreign currencies being euro, U.S. dollars and Japanese yen. As the lev is pegged to the euro at a fixed rate the Group considers that currency risk in relation to its euro exposure is minimal. The Group's exposure to Japanese yen arises from payments for building and construction works and supplies for assets under construction as well as repayments on a state-guaranteed loan agreement denominated in yen which is currently unhedged. A sensitivity analysis in relation to the Group's U.S. dollar and Japanese yen exposure is set out in note 37 to the 2015 Financial Statements.

Credit risk is associated with the risk that some of the Group's counterparties may not be able to comply fully and in time with their obligations. The Group seeks to manage its credit risk through due diligence in relation to the solvency of its counterparties and by controlling the terms and quality of the collateral provided by those counterparties. The Group's principal credit exposure is to Toplofikatsia Sofia EAD, see "*—Analysis of certain balance sheet items—Assets*". The Group also has significant cash and short-term deposits held with banks and is exposed to credit risk on these banks. The Group seeks to manage this credit risk by closely monitoring the credit quality of its counterparties, including its banks and insurers in particular.

LETTER OF SUPPORT

The following is the full text of the Letter of Support. The Ministry of Energy of Bulgaria has provided the Group with the Letter of Support, which is governed by Bulgarian law, in which it states that it is the intention of the State to support the financial stability of BEH so as to allow it to meet its obligations to bondholders. The Letter of Support is not a guarantee, surety or keepwell agreement in respect of any obligations of the Issuer. Whilst the Letter of Support gives BEH and its bondholders a certain amount of comfort that the State will ultimately support the Group in settling the ASE arbitral award and address any issues arising out of any impairment of the assets related to the Belene nuclear power plant, the Letter of Support is non-binding, and neither the Group nor its creditors (including the Bondholders) can enforce it against the State or the Ministry or Energy. Consequently, investors should not place undue reliance on the Letter of Support and should consider carefully whether an investment in the Bonds is suitable for them in light of the information in this entire Prospectus. See "*Risk Factors—Arbitration in connection with the discontinued Belene nuclear power plant project has resulted in a significant arbitral award being rendered against the Group's subsidiary, Natsionalna Elektricheska Kompania EAD ("NEK"), which could result in NEK becoming insolvent and which could result in an event of default under the EUR 500,000,000 4.250 per cent. Bonds issued in November 2013 (the "2013 Bonds"), the Bonds and other Group financings.*" for a discussion of the risks associated with the Letter of Support.

БЪЛГАРСКИ ЕНЕРГИЕН ХОЛДИНГ" ЕАД - СОФИЯ
Рег. №. 01-1125
13.07. 2016 г.

REPUBLIC OF BULGARIA

Minister of Energy

№ Е-26-Б-305

Date: 13.07.2016г.

ПИСМО ЗА ПОДКРЕПА	LETTER OF SUPPORT
Уважаеми Дами и Господа,	Dear Sir/Madam,
Във връзка с рейтинговата оценка на „Български Енергиен Холдинг" ЕАД (БЕХ / Холдингът) и планираната от дружеството облигационна емисия, с настоящото писмо Министерството на енергетиката на Република България потвърждава важността на финансовата стабилност и стратегическата роля на БЕХ за провеждането на държавната енергийна политика.	In relation to the credit assesment of Bulgarian Energy Holding EAD (BEH / the Holding) and the bond issue planned by the company, the Ministry of Energy of the Republic of Bulgaria would like to herewith reaffirm the importance of the financial stability and the strategic role of BEH for implementing the state's energy policy.
БЕХ е създаден през 2008 г. с цел консолидиране и по-ефективно управление на енергийните активи, собственост на държавата. БЕХ управлява ключова инфраструктура, както за енергийната така и за националната сигурност на страната и изпълнява държавната политика в сектор енергетика. Холдингът допринася с близо 8% от брутния вътрешен продукт на страната.	BEH was created in 2008 with the aim to consolidate and manage more effectively the energy assets of the state. BEH manages infrastructure which is key both to the national security and to the overall security of the country and implements the state's policy in the energy sector. The Holding contributes with circa 8% of the country's gross domestic product.
С оглед гореизложеното, финансовото състояние на БЕХ е важно за Република България.	In light of the foregoing, BEH's financial condition is important to the Republic of Bulgaria.
Министерство на енергетиката подчертава, че счита възможността БЕХ да срещне каквито и да било финансови затруднения като неприемлива. За да се увери, че подобни ситуации не биха възникнали, Министерство на енергетиката разчита на пълния контрол, който упражнява в качеството си на едноличен собственик на капитала на БЕХ, както и на възможността да	The Ministry of Energy emphasizes that it considers the possibility of BEH running into any sort of financial difficulties as unacceptable. To ensure that such situations will not arise the Ministry of Energy, as sole owner of the capital of BEH, relies on its full control over BEH as well as on its ability to provide institutional support.

8, Triaditsa Str., Sofia 1000, Bulgaria
Phone: +359 2 9263 152
Fax: +359 2 980 76 30
www.me.government.bg
E-mail: e-energy@me.government.bg

оказва институционална подкрепа.	
С оглед важността на БЕХ за сектор енергетика и икономиката на Република България и предвид централната роля на Холдинга за провеждане на държавната политика и привличането на външен капитал в сектора, Министерството на енергетиката декларира, че в качеството си на едноличен собственик на капитала ще работи и подкрепя финансовата стабилност на дружеството, така че същото да продължи да спазва задълженията си към своите облигационери.	Acknowledging the importance and key role of BEH for the energy sector and for the economy of the Republic of Bulgaria and given the central role of the Holding for implementing the state's policy as well as in terms of attracting external capital towards the sector, the Ministry of Energy as sole owner of the capital hereby declares that it would support the financial stability of the company so as to allow it to meet its obligations toward its bondholders.
При евентуалното възникване на задължение на БЕХ за заплащане на значителна сума и при необходимост, след детайлен анализ ще бъде определен подходящ метод за подпомагане на БЕХ с цел недопускане на каквато и да е възможност за неспазване на ангажиментите на БЕХ към своите облигационери.	In case an obligation is to arise for BEH to pay a significant sum and in case it is needed, after detailed analysis an appropriate method to support BEH to prevent any possibility of BEH not meeting its obligations toward its bondholders will be determined.
Версията на настоящото писмо на български език е водеща за целите на тълкуването на писмото.	The Bulgarian language version of this letter prevails for the purposes of interpreting this letter.
Това писмо се урежда и тълкува съгласно българското законодателство и не представлява държавна гаранция. Нищо в това писмо не следва да се тълкува като налагащо правно задължение на Република България или на Министерството на енергетиката съгласно приложимото българско право.	This letter is governed by, and construed in accordance with, Bulgarian law and does not constitute a state guarantee. Nothing in this letter is to be construed as imposing any legal obligation upon the Republic of Bulgaria or the Ministry of Energy under the applicable Bulgarian law.
За да се гарантира спазването на правилата за държавна помощ, какъвто и метод на подкрепа да бъде избран от Министерството на енергетиката, същият няма да бъде приложен без предварителното одобрение на Европейската комисия.	To ensure compliance with state aid rules, whatever method of support the Ministry of Energy selects, it will not be implemented without the prior approval of the European Commission.
Министерство на енергетиката	Ministry of Energy
От: Име: Теменужка Петкова Дата: 13.07.2016.	By: Name: Temenuzhka Petkova Date: 13.07.2016

TAXATION

Republic of Bulgaria Taxation

The information provided below regarding certain tax considerations under Bulgarian law is based on the laws in force in the Republic of Bulgaria as of the date of this Prospectus and is subject to any changes in law that may take effect after such date. It does not purport to be a comprehensive description of all the considerations that may be relevant to an investment decision and does not purport to deal with the tax consequences applicable to all categories of investors. Investors should consult their professional advisers on the tax consequences of their acquiring, holding and disposing of the Bonds under the laws of their country of citizenship, residence, domicile or incorporation.

Bulgarian Tax Residence of the Bondholders

From a Bulgarian tax perspective the mere acquisition, holding or disposal of the Bonds would not qualify a foreign corporate or individual Bondholder as a Bulgarian tax resident.

In order to qualify for tax purposes under Bulgarian law as a Bulgarian tax resident a corporate investor should either (i) be registered in the Republic of Bulgaria or (ii) be an entity established under Council Regulation (EC) №2157/2001 or (iii) be a cooperative society established under Council Regulation (EC) 1435/2003, in case its registered office is within Bulgaria and it is entered in a Bulgarian register.

An individual investor will qualify as a Bulgarian tax resident, without regard to its citizenship, in the event that he or she (i) has a permanent address in the Republic of Bulgaria; (ii) resides in the Republic of Bulgaria for more than 183 days during each twelve month period, (iii) has been sent abroad by the Bulgarian state, its authorities or organisations or by Bulgarian enterprises, or (iv) has a centre of vital interest in the Republic of Bulgaria.

Tax Treatment of Interest Income

Non-resident Corporate Bondholders

Corporate Bondholders that are not Bulgarian tax resident and do not have a permanent establishment in Bulgaria ("Non-resident Corporate Bondholders") are liable for withholding tax on certain types of income originating from Bulgaria, including interest income.

Pursuant to the provisions of the Bulgarian Law on Corporate Income Taxation where the Bonds are admitted to trading on a regulated market in financial instruments (as defined in Directive 2004/39/EC) in Bulgaria or in an EU/the European Economic Area ("EEA") state, such as the Market ("Regulated Market"), no withholding tax would apply on the interest income, derived by Non-resident Corporate Bondholders. Alternatively, where the Bonds are not traded on a Regulated Market the interest income paid to a Non-resident Corporate Bondholder, irrespective of the place where it is established for tax purposes, is subject to withholding tax in Bulgaria at the rate of 10 per cent, unless treaty relief applies.

Where the interest income stemming from a Bulgarian entity, such as the Issuer is paid to a non-resident corporate entity acting through a permanent establishment in Bulgaria, irrespective of whether or not the Bonds are traded on a Regulated Market, the said interest income will be included in the corporate income taxable base of the entity and is subject to corporate income tax in Bulgaria at the rate of 10 per cent.

Non-resident Individual Investors outside EU/EEA

The interest income from Bonds, irrespective of whether or not the Bonds are traded on a Regulated Market, received by individual investors who are not tax resident of an EU Member State or an EEA state is subject to withholding tax in Bulgaria at the rate of 10 per cent, provided that such individual investors do not have a fixed base in Bulgaria and unless treaty relief applies.

Where no treaty relief or exemption on the interest income is available or no tax clearance is obtained, or where a tax clearance leading to application of a lower tax rate (not full exemption) is effected, the Issuer should withhold the tax on interest income and remit it to the Bulgarian tax authorities. The statutory term for payment of the tax is until the end of the month following the quarter in which the interest income is accrued, notwithstanding whether such interest is actually paid or not. In case the withholding tax is not paid within such deadline an obligation for payment of statutory default interest is triggered. The default interest rate is equal to the aggregate of the base interest rate announced by the Bulgarian National Bank twice a year and 10 per cent per annum. Default interest accrues and is due even where a tax clearance is obtained but following the expiry of the deadline for the payment of the tax under Bulgarian law. The default interest is due on the amount of the withholding tax that would have been due if no tax clearance was made (i.e. default interest on the Bulgarian tax amount until the date on which tax clearance is granted for application of the respective double tax treaty). Failure of the Issuer to withhold and pay the due withholding tax on time would trigger joint liability of the respective Bondholder and the Issuer for any uncollected liabilities.

Bulgarian resident Corporate Bondholders

Irrespective of whether the Bonds are traded on a Regulated Market, the interest income received by a Bulgarian tax resident corporate Bondholder will be treated as a form of business income, and would therefore be included in its financial result. After netting off with business expenses, any resulting profit is subject to general corporate tax at 10 per cent. The Bulgarian Bondholder would be liable for payment of the corporate income tax (provided its annual financial result is a positive figure), as well as for complying with certain reporting obligations under Bulgarian law. The annual corporate income tax, if any, should be paid by 31 March of the following year, otherwise interest for the delay shall accrue thereon.

Individual Investors from Bulgaria and other EU/EEA states

The interest income derived from Bonds, irrespective of whether the Bonds are traded on a Regulated Market or not, received by a Bulgarian tax resident or a tax resident of an EU Member State or an EEA state, or who is a non-Bulgarian tax resident acting through a fixed base in Bulgaria is tax exempt in Bulgaria. In order to avail of this relief, tax resident EU/EEA individuals should present before the Issuer an official document, issued by the relevant foreign tax administration, evidencing the tax resident status, as well as an affidavit stating that the circumstances qualifying the interest income as tax exempt are met (in the particular case the affidavit should state that the interest income originates from corporate bonds).

If such EU/EEA tax resident individual fails to evidence its tax residency status by submitting relevant documentation to the Issuer, the Issuer should withhold the tax on interest income and remit the tax to the Bulgarian tax authorities.

Special Treatment of Sole Proprietors

An individual who is a Bulgarian tax resident and with regards to the Bonds is acting as sole proprietor within the meaning of the Bulgarian Commerce Act, whether registered or not, is subject to taxation for any interest as a legal entity at the rate of 15 per cent.

Tax Treatment of Capital Gains

Non-resident Corporate Bondholders

The capital gains from disposal of the Bonds realised by Non-resident Corporate Bondholders would be subject to Bulgarian tax at the rate of 10 per cent (unless a reduced treaty rate or treaty exemption is available), levied on the positive difference between the sale price and the documented acquisition price. "Sale price" is defined in the law as the consideration under the transaction, including any in-kind consideration, assessed at market prices as of the date of accrual of the income.

The tax on capital gains realised from disposal of the Bonds is due by the Non-resident Corporate Bondholder, which should remit it to the Bulgarian tax authorities. The term for payment of the tax is until the end of the month following the quarter of actual receipt of the capital gains. In case the capital gains tax is not paid within such deadline an obligation for payment of statutory default interest is triggered.

The capital gains realized through disposal of the Bonds by a Non-resident Corporate Bondholder acting through a permanent establishment in Bulgaria would be included in the corporate income taxable base of the latter and are subject to corporate income tax in Bulgaria at the rate of 10 per cent.

Non-resident Individual Bondholders

The income of individual investors who are not Bulgarian tax residents realised from transactions with the Bonds is subject to Bulgarian tax, at a rate of 10 per cent (unless a reduced treaty rate or treaty exemption is available), levied on the positive difference between the sale price and the documented acquisition price of the Bonds. In cases when the sale price is paid partially, the tax is levied on the positive difference between the received part of the sale price and the documented acquisition price of the bonds corresponding to such received selling price. The tax is to be paid by the individual investor until the end of the month following the quarter in which the capital gains are actually received. In case the capital gains tax is not paid within such deadline an obligation for payment of statutory default interest is triggered.

Bulgarian Corporate Bondholders

The tax treatment of capital gains from the disposal of the Bonds, realised by a Bulgarian tax resident corporate Bondholder, will be the same as the tax treatment of the interest income from the Bonds described above. The capital gains will be treated as a form of business income of the Bulgarian tax-resident corporate Bondholder and will be included in its financial result. Should the financial result be a positive figure, the Bulgarian investor would be liable for a payment of 10 per cent corporate tax thereon.

Bulgarian Individual Investors

The income of Bulgarian individuals derived from transfer of the Bonds shall be subject to personal income tax at 10 per cent, as part of the overall annual income.

Special Treatment of Sole Proprietors

An individual who is a Bulgarian tax resident and with regards to the Bonds is acting as sole proprietor within the meaning of the Bulgarian Commerce Act, whether registered or not, is subject to taxation for any capital gains as a legal entity at the rate of 15 per cent.

Other Taxes

There is no Bulgarian value added tax, registration tax, stamp duty or any other similar duty payable in Bulgaria as a consequence of the receipt of interest income from the Bonds or the holding or disposal of the Bonds.

Under Bulgarian law, the transfer of the Bonds by way of succession (through corporate reorganisation or inheritance) does not trigger separate transfer tax, except for inheritance taxes that may be due in the case of succession by individual Bondholders who are Bulgarian residents.

Application of Double Tax Treaties

Under Bulgarian law reduced treaty rates/exemptions provided by double tax treaties are not directly applicable. In order to avail itself to such reduced rates/exemptions the non-resident Bondholder has to either (i) for interest income exceeding BGN 500,000 – obtain advance approval (clearance) from the Bulgarian revenue authorities, or (ii) for interest income under BGN 500,000 – verify the conditions for application of the double tax treaty before the Issuer(in case of withholding tax on interest income). The conditions for application of a double tax treaty as well as the available relief/exemption may vary from treaty to treaty. However, the general rule under the Bulgarian Code on Tax and Social Procedure is that double tax treaties may only be applied in respect of Bondholders that are beneficial owners of the realised income. Double tax treaties do not apply to nominal recipients and conduit vehicles. Clearance for the application of a double tax treaty has to be obtained prior to the expiry of the period for payment of the respective tax otherwise, even if obtained, default interest will be charged.

The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "Commission's Proposal") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "Participating Member States"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Bonds (including secondary market transactions) in certain circumstances. The issuance and subscription of Bonds should, however, be exempt.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the Commission's Proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Bonds are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Banca IMI and J.P. Morgan Securities plc (the "**Joint Lead Managers**"), and Balkan Advisory Company IP EAD, Bank of China Limited, London Branch and First Financial Brokerage House Ltd. (the "**Co-Managers**" and together with the Joint Lead Managers, the "**Managers**") have, pursuant to a Subscription Agreement dated 29 July 2016 (the "**Subscription Agreement**"), jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe the Bonds at 98.921 per cent. of their principal amount less commissions plus accrued interest, if any. The Issuer has agreed to pay to the Managers commissions and certain costs and expenses incurred by the Managers in connection with the issue of the Bonds. The Subscription Agreement entitles the Joint Lead Managers (on behalf of the Managers) to terminate it in certain circumstances prior to payment being made to the Issuer. The yield of the Bonds is 5.125 per cent. on an annual basis. The yield is calculated as at 2 August 2016 on the basis of the issue price. It is not an indication of future yield.

The Managers and their respective affiliates have engaged in transactions with and performed various investment banking, financial advisory and other services for BEH and its affiliates (including acting as lenders under the Bridge Facility), for which they received customary fees, and they and their respective affiliates may provide such services for BEH and its respective affiliates in the future. Moreover, in the ordinary course of their business activities, the Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments, any of which may relate to the Group.

Anchor Investor

European Bank for Reconstruction and Development ("**EBRD**") has agreed to purchase from the Issuer approximately 14.5 per cent. of the aggregate principal amount of the Notes. The terms of EBRD's investment are not expected to restrict its ability to buy or sell Notes in the future and, as a result, EBRD may buy or sell Notes in open market transactions at any time following the consummation of the offering of the Notes.

Selling Restrictions

General

Neither the Issuer nor any Manager has made any representation that any action will be taken in any jurisdiction by the Managers or the Issuer that would permit a public offering of the Bonds, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Bonds (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Manager has agreed that it will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Bonds or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other material, in all cases at its own expense. It will also ensure that no obligations are imposed on the Issuer or any other Manager in any such jurisdiction as a result of any of the foregoing actions.

United States

The Bonds have not been and will not be registered under the Securities Act and Bonds are subject to U.S. tax law requirements. Subject to certain exceptions, Bonds may not be offered, sold or delivered within the United States or to U.S. persons. Each Manager has represented and agreed that it has not offered, sold or delivered and will not offer, sell or deliver any Bonds within the United States or to U.S. persons, except as permitted by the Subscription Agreement.

In addition, until 40 days after the commencement of the offering, an offer or sale of Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**") received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

GENERAL INFORMATION

1 An application has been made to list the Bonds on the Irish Stock Exchange by the Issuer, through the Listing Agent, Arthur Cox Listing Services Limited ("Arthur Cox"). Arthur Cox is acting solely in its capacity as listing agent for the Issuer in relation to the Bonds and is not itself seeking admission to the Official List or to trading on the Market. It is expected that listing of the Bonds on the Official List and admission of the Bonds to trading on the Market will be granted on or before 2 August 2016, subject only to the issue of the Global Certificate. Transactions will normally be effected for delivery on the third working day after the day of the transaction.

The Issuer estimates that the expenses associated with the listing of the Bonds on the Official List and admission of the Bonds to trading on the Market are expected to amount to approximately €7,000.

2 The Issuer has obtained all necessary consents, approvals and authorisations in the Republic of Bulgaria in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by the Issuer on 12 July 2016 and by the Minister of the Energy (exercising the rights of the Bulgarian state as sole shareholder of the Issuer) on 13 July 2016.

3 Save as disclosed under "*Risk Factors—Arbitration in connection with the discontinued Belene nuclear power plant project has resulted in a significant arbitral award being rendered against the Group's subsidiary, Natsionalna Elektricheska Kompania EAD ("NEK"), which could result in NEK becoming insolvent and which could result in an event of default under the EUR 500,000,000 4.250 per cent. Bonds issued in November 2013 (the "2013 Bonds"), the Bonds and other Group financings.*", there has been no significant change in the financial or trading position of the Issuer or of the Group since 31 December 2015 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2015.

4 Except as disclosed in "*Business Description—Litigation*" on pages 76 to 77 of this Prospectus, neither the Issuer nor any of its subsidiaries is nor has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus which may have or has had in the recent past significant effects on the financial position or profitability of the Issuer or the Group.

5 The Bonds will be accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records) with a Common Code of 140577804. The International Securities Identification Number (ISIN) for the Bonds is XS1405778041.

6 The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg.

7 There are no material contracts entered into other than in the ordinary course of the Issuer's business, which could result in any member of the Issuer's group being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to bondholders in respect of the bonds being issued.

8 This Prospectus contains information taken or derived from Eurostat, Bulgarian National Bank and the Bulgarian National Statistical Institute (the "**External Data**"). The External Data has not been independently verified by the Issuer. The External Data has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of the External Data is identified in the relevant section of the Prospectus.

9 Physical copies (and English translations where the documents in question are not in English) of the following documents will be available until the Bonds are redeemed, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of the Issuer at 16, Veslets Street, Sofia 1000, Republic of Bulgaria:

(a) the Fiscal Agency Agreement (which includes the form of the Global Certificate and the Individual Bond Certificate);

(b) the Memorandum and Articles of Association of the Issuer;

(c) the published consolidated financial statements of the Issuer for the financial years ended 31 December 2014 and 31 December 2015; and

(d) a copy of this Prospectus together with any Supplement to this Prospectus or further Prospectus.

This Prospectus will be published on the website of the Central Bank at http://www.centralbank.ie/REGULATION/SECURITIES-MARKETS/PROSPECTUS/Pages/approved prospectus.aspx.

10 Grant Thornton OOD. of 26, Cherni Vrah Blvd, Sofia 1421, Republic of Bulgaria (Certified Public Accountants and a member of the Bulgarian Institute of Certified Public Accountants) (**Grant Thornton**) have audited, and rendered an audit report on, the consolidated financial statements of the Issuer for the year ended 31 December 2014. The audit opinion contains certain qualifications and emphases of matters as described in "*Presentation of Financial and Other Information*" on pages 4 to 9. Grant Thornton have also made the statement contained on page 9 and below. This statement is included in this Prospectus at the request of the Issuer with the consent of Grant Thornton and Grant Thornton has authorised the contents of this statement. Grant Thornton does not have a material interest in the Issuer.

HLB Bulgaria OOD. of 149 – 151, Konstantin Velichkov blvd., 1309 Sofia, Republic of Bulgaria (Certified Public Accountants and a member of the Bulgarian Institute of Certified Public Accountants) have audited, and rendered an audit report on, the consolidated financial statements of the Issuer for the year ended 31 December 2015. The audit report contains certain qualifications and emphases of matters as described in "*Presentation of Financial and Other Information*" on pages 4 to 9.

At the request of the Group, Grant Thornton have conducted a series of procedures in accordance with the International Standards on Auditing (ISA) issued by the International Federation of Accountants (IFAC). They have not carried out an audit examination in accordance with generally accepted auditing standards of financial information relating to the Issuer for any period subsequent to 31 December 2014. For the purpose of conducting these procedures, Grant Thornton have read the financial information included in this Prospectus and have compared it with the audited consolidated financial statements of the Issuer. Grant Thornton confirms that this financial information has been accurately extracted from the audited consolidated financial statements for the relevant years. A limited review and analysis have been conducted on other financial information and changes in the Issuer's financial position. This limited review and analysis also focused on the qualifications and emphases of matter identified by HLB Bulgaria in their auditor's report on the consolidated financial statements of the Issuer as of and for the year ended 31 December 2015. No significant findings or events came to the attention of Grant Thornton as a result of their review and analysis.

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Independent Auditor's Report
Consolidated Financial Statements

Bulgarian Energy Holding EAD

31 December 2014

Grant Thornton Ltd.
26, Cherni Vrah Blvd, 1421 Sofia
4, Paraskeva Nikolau Str., 9000 Varna

T (+3592) 987 28 79, (+35952) 69 55 44
F (+3592) 980 48 24, (+35952) 69 55 33
E office@gtbulgaria.com
W www.gtbulgaria.com

INDEPENDENT AUDITOR'S REPORT

To the sole shareholder of
Bulgarian Energy Holding EAD
Sofia, Bulgaria

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **Bulgarian Energy Holding EAD and its subsidiaries ("the Group")** as at 31 December 2014, which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

1. The Group has signed an agreement for the construction of a nuclear power plant with a third party, disclosed in note 19 “Property, plant and equipment” to the consolidated financial statements. As at 31 December 2014 the total amount of property, plant and equipment, related to the nuclear power plant, is BGN 1,389,028 thousand, of which BGN 1,305,958 thousand are assets under construction. As at 31 December 2014 the advance payments and receivables from the main contractor for the nuclear power plant are BGN 198,477 thousand. The accrued liabilities thereto, amount to BGN 98,434 thousand. The unrecognised liabilities according to received invoices for activities carried out in accordance with Appendix 5 of the agreement with the contractor amount to BGN 202,522 thousand. On 29 March 2012 the Government of Republic of Bulgaria decided to discontinue the construction of the nuclear power plant. By decision dated 27 February 2013 the 41st National Assembly supported the government's decision to cease the project for construction of a new nuclear power plant on site “Belene” and called for its final termination. The Group is currently in the process of legal disputes with the main contractor and architect-engineer of the project as disclosed in note 41 “Commitments and contingent liabilities”. The Group is unable to make reasonable estimate and accordingly has not recognised provisions, related to these legal disputes, or impairment losses of the recognised assets in the consolidated financial statements. Therefore, we were unable to obtain sufficient appropriate audit evidence regarding the recoverability of the aforementioned assets of the Group and the completeness of the recognised liabilities to the main contractors for the project.

2. In 2014 capital repairs and improvements were made on energy-generating units, vehicles and other equipment for the amount of BGN 79,969 thousand, associated with major components replacement, rehabilitation and reconstruction of parts of the assets in the subsidiary TPP Maritsa East 2 EAD. The carrying value of the replaced main components and parts of the improved assets was not written-off in accordance with the requirements of IAS 16 “Property, plant and equipment”. We were unable to obtain sufficient appropriate audit evidence to obtain reasonable assurance about the necessary adjustments to the consolidated statement of profit or loss.

3. The consolidated financial statements of the Group as of 31 December 2014 include assets under construction with a carrying value of BGN 38,787 thousand as of this date, disclosed in note 19 “Property, plant and equipment”. The construction of these assets is not expected to be finished in the near future because there is no funding planned for their completion. Therefore, we were unable to obtain sufficient appropriate audit evidence regarding the recoverability of the aforementioned assets of the Group and the need for adjustments in accordance with IAS 36 “Impairment of Assets”.

4. As at 31 December 2014, the Group has trade receivables from Toplofikatsia Sofia EAD with carrying amount of BGN 603,968 thousand, out of which BGN 223,259 thousand are overdue more than one year. In addition, as of the date of this report, the parties continue the negotiations on the terms for combining and rescheduling of the receivables, also confirming their exact amount. We were unable to obtain sufficient appropriate audit evidence regarding the recoverability of the described receivables and what adjustments to these amounts are necessary.

5. As disclosed in note 22.4 “Receivables from KTB AD - in bankruptcy” to the consolidated financial statements, as at 31 December 2014 the Group has non-current receivables in connection

with the restricted cash in Corporate Commercial Bank AD - in bankruptcy with carrying amount of BGN 133,947 thousand. Although the management has taken all possible actions to protect the legal and financial interests of the Group as at the date of this report the effect of the existing uncertainty, regarding the recoverability of these receivables, cannot be estimated. In addition, the blocked cash for the "Exit Fund", disclosed in note 22.4 regarding the obligations of Mini Maritsa-iztok EAD under the mining concession agreement for "East Maritsa lignite basin" is by BGN 20,091 thousand less than the amount that shall be held in this special account with beneficiary the Ministry of Energy.

6. The Group reports trade receivables disclosed in note 22 "Trade and other receivables" from power distribution companies at the amount of BGN 242,020 thousand and from other business partners amounting to BGN 40,379 thousand, including imbalances from producers of electricity and users of the subsidiary NEK EAD, which acts as a supplier of last resort. We were not able to obtain sufficient appropriate audit evidence about the recoverable amount of these trade receivables and whether any adjustments are required to their carrying amount as at 31 December 2014.

7. The Group has trade payables to power distribution companies amounting to BGN 34,764 thousand and to other business partners at the amount of BGN 56,664 thousand, which are disclosed in note 34 "Trade and other payables". We were not able to obtain sufficient appropriate audit evidence about the amount of these payables and whether any adjustments are required to their carrying amount as at 31 December 2014.

8. NEK EAD, a subsidiary within the Group, has brought to the attention of EWRC recoverable costs amounting to BGN 342,923 thousand, which were incurred for the period from July 2012 to July 2013 as a result of the application of the "Methodology for compensation of the costs for mandatory purchase of electricity from RES", which was subsequently repealed. According to Decision №TS-12 dated 30 June 2014 of EWRC, the costs incurred for the mandatory purchase of electricity from renewable energy sources will be compensated during the following five regulatory periods until 30 June 2019. The recovered expenses and the corresponding trade payables to power distribution companies related to the respective sales in 2014 are BGN 34,666 thousand as a result of the application of the above Decision №TS-12 dated 30 June 2014 of EWRC. We were not able to obtain sufficient appropriate audit evidence about the amount of the necessary adjustments to the consolidated financial statements.

9. The Group recognises provisions for a number of obligations arising from its activities. As at 31 December 2014 and 31 December 2013 the Group has recognised provisions for site restoration, related with the mining operations of Mini Maritsa-iztok EAD amounting to BGN 83,933 thousand and BGN 75,136 thousand, respectively. We were unable to obtain sufficient evidence related to the completeness of the recognised provisions and the underlying assumptions used in their calculations in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". The Group does not account for provisions for the decommissioning of nuclear facilities and the storage and management of radioactive wastes arising from its activities. According to the legislation currently in force and other international agreements, the Group has the right to receive reimbursement for a portion of these costs from national and international funds. In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", the Group should recognise provisions for decommissioning and other obligations arising from its nuclear power generation activities and a separate asset for its right to receive reimbursements in the event the asset's value can be reliably determined. Consequently, we were not able to satisfy ourselves as to the measurement and completeness of the provisions and the related reimbursement assets as at 31 December 2014 and 31 December 2013.

Qualified opinion

In our opinion, except for the possible effects of the matters described in the "Basis for qualified opinion" paragraph, the financial statements give a true and fair view of the financial position of the Group as of 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by EU and Bulgarian legislation.

Emphasis of matter

1. We draw attention to note 19 "Property, plant and equipment" to the consolidated financial statements, which discloses that the latest revaluation of the main classes of property, plant and equipment of the Group was carried out at 31 December 2012, using independent certified appraisers. As of 31 December 2014 the management of the Group reviewed these assets for any indications if their carrying amount differed materially from their fair value and did not identify significant differences, except for the assets of the subsidiary TPP Maritsa East 2 EAD, the fair value of which was updated according to the report of an independent certified appraiser. In addition, the Group increased the estimated remaining useful life of the main facilities of energy-generating equipment of the subsidiary TPP Maritsa East 2 EAD with effect from 1 January 2014. The extended useful life led to reduction in depreciation charges for the year by BGN 56,302 thousand. The specifics of the assets of the Group and the dynamic economic environment in the energy sector could lead to variations in the assumptions used and judgments made in determining the fair value and useful life of the main energy-generating facilities. Our opinion is not modified with respect to this matter.

2. We draw attention to note 21 "Investments in joint ventures, associates and other entities" which describes that a protocol decision of the Minister of Economy and Energy in 2014 was issued, which required BEH EAD to take the necessary actions to stop the tender procedures for the project "South Stream" and the signing of contracts with the selected candidates related to the implementation of the project until completion of the procedure initiated by the European Commission on infringement №2014/2176 against the Republic of Bulgaria. In December 2014 representatives of the Russian shareholder in "South Stream Bulgaria" AD, OAO Gazprom, publicly announced their intention to terminate the project. As at the date of this report, the management of BEH EAD has not received yet an official notification for termination or additional information concerning the future intentions of the other shareholder. As a result, it is not possible to estimate the uncertainty regarding the development of the project and the recoverability of the investment in "South Stream Bulgaria" AD with carrying amount of BGN 223,235 thousand as at 31 December 2014. Our opinion is not modified in respect of this matter.

3. As at 31 December 2014 the Group uses property, plant and equipment with carrying value of BGN 933,505 thousand, which the Group considers to be under the regulation of the Water Act as public state property. The Act has provisions for the separate management of such assets by entities with a hundred per cent public ownership or legal entities with joint state and municipal participation, in which the state has a majority share. Our opinion is not modified in respect of this matter.

4. The Group's consolidated statement of financial position as at 31 December 2014 includes land and buildings with carrying value of BGN 25,573 thousand, which are in pending procedure for issuing state property acts. Our opinion is not modified in respect of this matter.

5. We draw attention to note 9 "Other operating income" to the consolidated financial statements, which discloses that the Group has signed long-term contracts for the sale of lignite with its main customers. In 2014, the Group did not account for revenue from penalties for failure to purchase the minimum mandatory annual quantities of lignite and penalties due to delayed payments by customers, in accordance with the contracts' terms due to low probability of collecting these revenues. As of the date of preparation of the consolidated financial statements the management has taken specific actions for analysis and discussions with all stakeholders, but an agreement for waiver of the penalties originating from the contract has not been signed. In case the parties involved refuse to sign such an agreement, the actual results may differ from the estimates, assumptions and judgements made. Our opinion is not modified in respect of this matter.

6. We draw attention to note 41 "Commitments and contingent liabilities" in which it is disclosed, that pursuant to Decision № 1054 dated 29 July 2014 the Commission for Protection of Competition imposed a pecuniary penalty of BGN 23,378 thousand on the subsidiary Bulgargaz EAD for violation of Art. 21 of the Law on Protection of Competition. The Group's management has taken the necessary legal and factual actions to appeal it at the Supreme Administrative Court. At the date of preparation of the consolidated financial statements, the legal proceedings are still pending. Our opinion is not modified in respect of this matter.

Report on other legal and regulatory requirements – Annual Consolidated Management Report for the year ended 31 December 2014

We have reviewed the annual consolidated management report for the year ended 31 December 2014 of the Group, which is not part of the consolidated financial statements. The historical financial information in the annual consolidated management report, prepared by the management, complies in its main aspects with the financial information, presented in the consolidated financial statements for the year ended 31 December 2014, prepared in accordance with International Financial Reporting Standards, as adopted by EU and Bulgarian legislation. The preparation of the annual consolidated management report is the responsibility of management.

Mariy Apostolov
Registered auditor responsible for the audit
Managing partner

Grant Thornton Ltd.
Auditing Company

17 June 2015
Sofia

Bulgarian Energy Holding EAD
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year, ended 31 December 2014

	Note	2014	2013
		BGN '000	*BGN '000*
Revenue from sales	8	6,119,400	5,625,319
Other operating income	9	77,271	67,676
		6,196,671	**5,692,995**
Cost of natural gas, electricity and other current assets sold	10	(4,297,058)	(3,248,075)
Change in finished goods and work in progress		3,599	23,364
Costs for acquisition of property, plant and equipment in a commercial manner		15,090	24,775
Costs of materials	11	(341,276)	(305,048)
Hired services expenses	12	(257,376)	(268,480)
Depreciation and amortisation expenses	19, 20	(544,195)	(577,862)
Employee benefits expense	13	(780,954)	(724,793)
Reintegration of impairment / (net impairment) of trade receivables	22	148,355	(14,266)
Provisions	32	(119,801)	(100,540)
Other operating expenses	14	(234,318)	(533,572)
Operating loss		**(211,263)**	**(31,502)**
Share of profit from equity accounted investments	21	51,331	34,210
Finance income	15	60,897	92,133
Finance costs	16	(68,500)	(52,309)
(Loss) / profit before tax		**(167,535)**	**42,532**
Income tax expense	17	(48,671)	(563)
(Loss) / profit for the year from continuing operations		**(216,206)**	**41,969**
Loss for the year from discontinued operations	27	(58,532)	(63,246)
Loss for the year		**(274,738)**	**(21,277)**
(Loss) / profit for the year, attributable to:			
Sole equity holder of the parent company		(274,340)	(21,305)
Non-controlling interest		(398)	28
		(274,738)	**(21,277)**
(Loss)/ earnings per share	**18**	***BGN***	***BGN***
(Loss) / earnings from continuing operations		(0.079)	0.016
Loss from discontinued operations		(0.022)	(0.024)
Total		(0.101)	(0.008)

Jacklen Cohen
Executive Director

Marieta Velikova
Chief Accountant

Date: 16 June 2015
The consolidated financial statements were authorised for issue by the Board of Directors on 16 June 2015.
The accompanying notes are an integral part of these consolidated financial statements.

Audited according to the auditor's report dated 17 June 2015.
Mariy Apostolov, Registered auditor, responsible for the audit and managing partner
Grant Thornton OOD, specialised auditing company

	Note	2014	2013
		BGN '000	*BGN '000*
Loss for the year		**(274,738)**	**(21,277)**
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of property, plant and equipment	19	38,438	7,139
Remeasurement of defined benefit liability	31	(3,943)	(8,747)
Income tax relating to items not reclassified	23	(3,449)	161
Items that will be reclassified subsequently to profit or loss:			
Share of the other comprehensive (loss) / income of associates		(2,752)	6,673
Exchange differences on the translation of foreign operations		(35)	27
Gain / (loss) on financial assets available for sale	25	194	(90)
Income tax relating to items that will be reclassified	23	(19)	8
Other comprehensive income for the year, net of tax		**28,434**	**5,171**
Total comprehensive loss for the year		**(246,304)**	**(16,106)**
Total comprehensive (loss) / income for the year, attributable to:			
Sole equity holder of the parent company		(245,906)	(16,134)
Non-controlling interest		(398)	28
		(246,304)	**(16,106)**

Jacklen Cohen
Executive Director

Marieta Velikova
Chief Accountant

Date: 16 June 2015
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Grant Thornton OOD, specialised auditing company

Bulgarian Energy Holding EAD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

	Note	31 December 2014	31 December 2013	1 January 2013
		BGN '000	*BGN '000*	*BGN '000*
ASSETS			Restated	
Non-current assets				
Property, plant and equipment	19	11,597,125	11,651,510	11,813,446
Intangible assets	20	25,499	22,789	25,626
Investments in joint ventures, associates and other entities	21	357,057	171,974	143,529
Trade and other receivables	22	226,827	136,717	29,145
Deferred tax assets	23	84,267	91,898	80,692
		12,290,775	**12,074,888**	**12,092,438**
Current assets				
Inventory	24	753,882	745,749	689,917
Trade and other receivables	22	1,967,084	1,490,024	1,021,121
Receivables from related parties	36	132,589	42,190	17,661
Receivables on overpaid income tax		4,106	3,594	20,765
Financial assets available for sale	25	684	490	580
Cash and short-term deposits	26	404,305	522,859	619,673
		3,262,650	**2,804,906**	**2,369,717**
Assets classified as held for distribution to the sole equity holder of the parent company	27	**-**	**-**	**25,411**
TOTAL ASSETS		**15,553,425**	**14,879,794**	**14,487,566**

Jacklen Cohen
Executive Director

Marieta Velikova
Chief Accountant

Date: 16 June 2015
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Grant Thornton OOD, specialised auditing company

	Note	31 December 2014	31 December 2013	1 January 2013
		BGN '000	*BGN '000* Restated	*BGN '000*
EQUITY AND LIABILITIES				
Equity				
Share capital	28.1	2,948,723	2,612,004	2,612,004
Other reserves	28.2	2,454,116	2,414,489	2,386,385
Reserve from revaluation to fair value	28.3	(28,148)	(25,571)	(32,162)
Revaluation reserve of non-financial assets	28.4	5,174,084	5,149,461	5,151,943
Reserve from translation of foreign operations	28.5	(8)	27	-
Reserve from remeasurement of defined benefit plans	28.6	(49,463)	(45,913)	(38,041)
(Accumulated loss) / retained earnings		(543,911)	117,334	375,671
Equity, attributable to the sole equity holder of the parent company		**9,955,393**	**10,221,831**	**10,455,800**
Non-controlling interest		292	690	982
Total equity		**9,955,685**	**10,222,521**	**10,456,782**
Non-current liabilities				
Loans and finance lease liabilities	29	1,470,260	1,586,395	806,447
Deferred tax liabilities	23	576,520	568,089	579,836
Deferred financing	30	318,825	301,768	280,166
Liabilities for retirement employee benefits	31	113,712	85,022	104,337
Provisions	32	87,873	79,752	71,014
Deferred income	33	113,733	36,032	15,230
Trade and other payables	34	241,547	7,281	48,798
Financial derivatives	35	-	-	31,711
Related party payables	36	21,976	-	-
		2,944,446	**2,664,339**	**1,937,539**
Current liabilities				
Trade and other payables	34	1,892,960	1,436,821	1,311,453
Related party payables	36	406,347	221,327	169,985
Loans and finance lease liabilities	29	207,737	231,573	570,672
Liabilities for retirement employee benefits	31	23,976	39,097	6,416
Provisions	32	108,193	33,129	19,584
Deferred income	33	2,965	8,724	186
Financial derivatives	35	-	11,144	-
Deferred financing	30	7,953	8,346	14,811
Income tax payables		3,163	2,773	138
		2,653,294	**1,992,934**	**2,093,245**
Total liabilities		**5,597,740**	**4,657,273**	**4,030,784**
TOTAL EQUITY AND LIABILITIES		**15,553,425**	**14,879,794**	**14,487,566**

Jacklen Cohen
Executive Director

Marieta Velikova
Chief Accountant

Date: 16 June 2015
The consolidated financial statements were authorised for issue by the Board of Directors on 16 June 2015.
The accompanying notes are an integral part of these consolidated financial statements.

Audited according to the auditor's report dated 17 June 2015.
Mariy Apostolov, Registered auditor, responsible for the audit and managing partner
Grant Thornton OOD, specialised auditing company

Bulgarian Energy Holding EAD
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year, ended 31 December 2014

	Share capital	Other reserves	Reserve from revaluation to fair value	Revaluation reserve of non-financial assets	Reserve from translation of foreign operations	Reserve from remeasurement of defined benefit plans	Retained earnings	Total equity attributable to the shareholder of the parent company	Non-controlling interest	Total equity
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Balance as at 1 January 2014 (restated)	**2,612,004**	**2,414,489**	**(25,571)**	**5,149,461**	**27**	**(45,913)**	**117,334**	**10,221,831**	**690**	**10,222,521**
Dividend distribution	-	-	-	-	-	-	(20,508)	(20,508)	-	(20,508)
Transactions with the sole equity holder	-	-	-	-	-	-	**(20.508)**	**(20.508)**	-	**(20.508)**
Loss for the year	-	-	-	-	-	-	(274,340)	(274,340)	(398)	(274,738)
Other comprehensive income	-	-	(2,577)	34,594	(35)	(3,548)	-	28,434	-	28,434
Total comprehensive loss for the year	-	-	**(2,577)**	**34,594**	**(35)**	**(3,548)**	**(274,340)**	**(245,906)**	**(398)**	**(246,304)**
Share capital increase via reserves	336,719	(336,719)	-	-	-	-	-	-	-	-
Written-off revaluation reserve	-	-	-	(9,995)	-	-	9,995	-	-	-
Transfer to reserves	-	376,411	-	-	-	-	(376,411)	-	-	-
Other changes in equity	-	(65)	-	24	-	(2)	19	(24)	-	(24)
Balance as at 31 December 2014	**2,948,723**	**2,454,116**	**(28,148)**	**5,174,084**	**(8)**	**(49,463)**	**(543,911)**	**9,955,393**	**292**	**9,955,685**

Jacklen Cohen
Executive Director

Marieta Velikova
Chief Accountant

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Grant Thornton OOD, specialised auditing company

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year, ended 31 December 2014

	Share capital	Other reserves	Reserve from revaluation to fair value	Revaluation reserve of non-financial assets	Reserve from translation of foreign operations	Reserve from remeasurement of defined benefit plans	Retained earnings	Total equity attributable to the shareholder of the parent company	Non-controlling interest	Total equity
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Balance as at 1 January 2013	**2,612,004**	**2,386,385**	**(32,162)**	**5,151,943**	**-**	**(38,041)**	**375,671**	**10,455,800**	**982**	**10,456,782**
Distribution of assets to the sole equity holder	(11,608)	(25,411)	-	-	-	-	-	(37,019)	-	(37,019)
Dividend distribution	-	-	-	-	-	-	(205,846)	(205,846)	-	(205,846)
Acquisition of non-controlling interest without change of control	-	179	-	-	-	-	111	290	(320)	(30)
Transactions with the sole equity holder	**(11,608)**	**(25,232)**	**-**	**-**	**-**	**-**	**(205,735)**	**(242,575)**	**(320)**	**(242,895)**
Loss for the year	-	-	-	-	-	-	(21,305)	(21,305)	28	(21,277)
Other comprehensive income	-	-	6,591	6,425	27	(7,872)	-	5,171	-	5,171
Total comprehensive loss for the year	**-**	**-**	**6,591**	**6,425**	**27**	**(7,872)**	**(21,305)**	**(16,134)**	**28**	**(16,106)**
Share capital increase via retained earnings	11,608	-	-	-	-	-	(11,608)	-	-	-
Derecognised funding associated with assets distributed to the sole equity holder	-	24,773	-	-	-	-	-	24,773	-	24,773
Written-off revaluation reserve	-	-	-	(8,907)	-	-	8,907	-	-	-
Transfer to reserves	-	28,590	-	-	-	-	(28,590)	-	-	-
Other changes in equity	-	(27)	-	-	-	-	(6)	(33)	-	(33)
Balance as at 31 December 2013 (restated) – note 5	**2,612,004**	**2,414,489**	**(25,571)**	**5,149,461**	**27**	**(45,913)**	**117,334**	**10,221,831**	**690**	**10,222,521**

Jacklen Cohen
Executive Director

Marieta Velikova
Chief Accountant

Date: 16 June 2015

The consolidated financial statements were authorised for issue by the Board of Directors on 16 June 2015.

The accompanying notes are an integral part of these consolidated financial statements.

Audited according to the auditor's report dated 17 June 2015.

Mariy Apostolov, Registered auditor, responsible for the audit and managing partner

Grant Thornton OOD, specialised auditing company

Bulgarian Energy Holding EAD
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year, ended 31 December 2014

	Note	2014	2013
		BGN '000	*BGN '000*
Cash flows from operating activities			
Proceeds from sales, including:		5,517,203	6,037,691
Proceeds from sales of electricity		*3,729,685*	*3,829,089*
Proceeds from sales of natural gas and accompanying services		*1,673,910*	*1,946,109*
Proceeds from sales of lignite coals		*107,447*	*248,772*
Proceeds from other sales		*6,161*	*13,721*
Payments to suppliers		(3,783,101)	(4,668,416)
Payments to personnel and social security institutions		(729,332)	(688,380)
Payments to state funds		(85,939)	(76,030)
Interests paid		(68,116)	(30,466)
Payments for fees, commissions and others		(5,924)	(7,491)
Other payments, net, including:		(343,950)	(450,782)
Income tax paid		*(45,896)*	*(26,613)*
Other taxes paid		*(194,952)*	*(403,264)*
Other payments for operating activities		*(103,102)*	*(20,905)*
Net cash flows from continuing operations		500,841	116,126
Net cash flows from discontinued operations	27	(28,812)	(65,363)
Net cash flows from operating activities		**472,029**	**50,763**
Cash flows from investing activities			
Purchases of property, plant and equipment and intangible assets		(385,308)	(357,238)
Purchases of equity accounted investments		-	(30,700)
Proceeds from sale of property, plant and equipment		1,972	370
Interest received		7,397	12,196
Dividends received and other income from equity accounted investments		16,090	15,489
Net cash flows from investing activities		**(359,849)**	**(359,883)**
Cash flows from financing activities			
Bond issue by the parent company	29	-	973,387
Proceeds from loans		602,166	659,270
Repayments of loans		(694,926)	(1,212,910)
Discharge of finance lease liabilities		(288)	(1,455)
Dividends paid	18	(20,508)	(205,846)
Acquisition of non-controlling interest		-	(140)
Net cash flows from financing activities		**(113,556)**	**212,306**
Cash reclassified as non-current receivables from KTB AD - in bankruptcy	**22.4**	**(117,178)**	**-**
Net change in cash and cash equivalents		**(118,554)**	**(96,814)**
Cash and cash equivalents at 1 January		**522,859**	**619,673**
Cash and cash equivalents at 31 December	**26**	**404,305**	**522,859**

Jacklen Cohen
Executive Director

Marieta Velikova
Chief Accountant

Date: 16 June 2015
The consolidated financial statements were authorised for issue by the Board of Directors on 16 June 2015.
The accompanying notes are an integral part of these consolidated financial statements.

Audited according to the auditor's report dated 17 June 2015.
Mariy Apostolov, Registered auditor, responsible for the audit and managing partner
Grant Thornton OOD, specialised auditing company

1. Corporate information

The consolidated financial statements of Bulgarian Energy Holding EAD and its subsidiaries (the Group) for the year ended on 31 December 2014 were approved for issue with a resolution of the Board of Directors by virtue of Minutes of meeting №27-2015 dated 16 June 2015.

The principal activities of the Group include:
- generation, extraction, transmission, storage, management, distribution, sale and / or purchase of natural gas, electricity, thermal power, lignite and all types of energy and raw materials for production,
- organisation of an energy exchange for trade in energy and energy consumption;
- investment activity in the energy sector.

The average number of employees in BEH Group as at 31 December 2014 is 20,989 employees (2013: 20,897).

The parent company Bulgarian Energy Holding EAD is a sole owner joint stock company registered in Bulgaria. It is listed into the Commercial Register, volume 147, page 21, batch №10295. The Company is the successor of the state-owned company Oil and Gas (Neft I Gas) established in 1973, and renamed to Gas Supply (Gazosnabdyavane) in December 1975. In the beginning of 1990 the Company was renamed to Bulgargaz in accordance with Decree on Business Activities. By a Decree of the Council of Ministers dated 12 May 1993 Bulgargaz was restructured as a sole owner joint stock company. Based on a restructuring plan dated 27 October 2006 and the appendices thereto, Bulgargaz EAD was transformed into Bulgargaz Holding EAD through the spin-off of two sole-owner joint stock companies – Bulgartransgaz EAD and Bulgargaz EAD in pursuance of the provisions of Article 262 (d) of the Commercial Act. Bulgartransgaz EAD and Bulgargaz EAD are legal successors of the respective parts of the property (rights and obligations) of Bulgargaz Holding EAD. By Decision №45 dated 15 January 2007, Sofia City Court registered the transformation.

By virtue of Protocol №RD-21-305 dated 18 September 2008 of the Minister of Economy and Energy, the company name of Bulgargaz Holding EAD was changed to Bulgarian Energy Holding EAD, with capital raise through in-kind contributing the par value of all shares of the capital of Natsionalna Elektricheska Kompania EAD, NPP Kozloduy EAD, TPP Maritsa East 2 EAD and Mini Maritsa-iztok EAD.

The Company's registered address and headquarters is as follows: Sofia - 1000, Oborishte area, 16 Veslets Str.

The core business of Bulgarian Energy Holding EAD is as follows: acquisition, evaluation and sale of shares in trading companies, carrying out business activities in the fields of generation, production, transmission, transit, storage, management, distribution, sale and/or purchase of natural gas, electricity, thermal power, coals, as well as any other type of energy and raw materials for the production, participation in the management of such companies, their financing, acquisition, valuation, issue and sale of bonds, acquisition, valuation and sale of patents, concessions of licenses for use of patents of the abovementioned companies, as well as performance of own production or trade activity.

As of 31 December 2014 Bulgarian Energy Holding EAD is managed by a Board of Directors which consists of the following members: Anton Borisov Pavlov - Chairman of the Board of Directors, Jacklen Yosif Cohen – member of the Board of Directors and Executive director, and Vladimir Denchev Denchev – member of the Board of Directors. The Company is represented by the Executive director Jacklen Cohen.

As at the date of preparation of the consolidated financial statements, 16 June 2015, Bulgarian Energy Holding EAD is managed by a Board of Directors which consists of the following members: Anton Borisov Pavlov - Chairman of the Board of Directors, Jacklen Yosif Cohen - Member of the Board of Directors and Executive director and Zhivko Dimitrov Dinchev - Member of the Board of Directors. The Company is represented by the Executive director Jacklen Cohen.

The sole and ultimate owner of BEH EAD is the Republic of Bulgaria through the Minister of Energy.

As of 31 December 2014 the following subsidiaries, joint ventures and associates are included in the consolidated financial statements of the Group:

Company	Country of incorporation	Main activity	2014 %	2013 %
Subsidiaries				
Natsionalna Elektricheska Kompania EAD	Bulgaria	electricity generation and public supplier of electrical energy	100%	100%
Bulgargaz EAD	Bulgaria	public supplier of natural gas	100%	100%
Bulgartransgaz EAD	Bulgaria	storage and transport of natural gas	100%	100%
Bulgartel EAD	Bulgaria	telecommunications services	100%	100%
NPP Kozloduy EAD	Bulgaria	generation of electricity and thermal power	100%	100%
TPP Maritsa East 2 EAD	Bulgaria	generation of electricity and thermal power	100%	100%
Mini Maritsa-iztok EAD	Bulgaria	mining and selling of lignite	100%	100%
Electricity System Operator EAD	Bulgaria	transmission of electricity	100%	100%
Bulgartel Skopje DOOEL	Macedonia	telecommunications services	100%	100%
HPP Kozloduy EAD	Bulgaria	generation and distribution of electricity from hydro power plant	100%	100%
Interpriborservice OOD	Bulgaria	installation and maintenance of automated systems	63.96%	63.96%
PFC Beroe – Stara Zagora EAD	Bulgaria	professional football club	100%	100%
NPP Kozloduy – New Builds EAD	Bulgaria	operation of a nuclear facility for electricity generation	100%	100%
TPP Maritsa East 2 (9 and 10) EAD	Bulgaria	generation and trade in electricity	100%	100%
Gauging and Information Technologies Energy Operator EAD	Bulgaria	commercial and technical measurement of the quality and quantity of electricity	100%	100%
Independent Bulgarian Energy Exchange EAD	Bulgaria	organisation of an energy exchange for trade in energy and energy consumption	100%	100%
Energy Investment Company EAD	Bulgaria	investment activity	100%	-
Ecological Exploitation of Fuels and Power Oils OOD	Bulgaria	examination of material natural energy sources and environmental exploitation thereof	69.90%	69.90%
Bultehash AD	Bulgaria	no activity	67%	67%
Joint ventures				
ICGB AD	Bulgaria	construction and operation of a gas transmission system	50%	50%
Nabucco Gas Pipeline International	Austria	construction and operation of a gas transmission system	17.93%	17.93%
South Stream Bulgaria AD	Bulgaria	construction and operation of a gas transmission system	50%	50%
Trans Balkan Electric Power Trading S.A. – NECO S.A.	Greece	sale of electricity	50%	50%
Associates				
ContourGlobal Maritsa East 3 AD	Bulgaria	electricity generation	27%	27%
ContourGlobal Operations Bulgaria AD	Bulgaria	operation and maintenance of a thermal power plant	27%	27%
ZAD Energy	Bulgaria	insurance company	48.08%	48.08%
Allianz Bulgaria Pension Company AD	Bulgaria	pension insurance company	34%	34%
HPP Gorna Arda AD	Bulgaria	construction of hydroelectric power plants	30%	30%

2. Basis for the preparation of the consolidated financial statements

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

The consolidated financial statements are presented in Bulgarian leva (BGN), which is also the functional currency of the parent company. All amounts are presented in thousand Bulgarian leva (BGN‘000) (including comparative information for 2013) unless otherwise stated.

The parent company “Bulgarian Energy Holding” EAD also prepared and issued separate financial statements for the year ended 31 December 2014, where investments in subsidiaries, associates and joint ventures are stated at cost. The separate financial statements of BEH EAD were approved for issue in accordance with a decision of the Board of Directors under Protocol dated 30 March 2015.

The consolidated financial statements are prepared under the going concern principle. The operation and future development of the Group is associated with the implementation of the energy strategy of the country on raising and sustaining the continuity of energy supply, the implementation of priority energy projects and obtaining the necessary financing for them. Management has analysed the validity of the principle of going concern, taking into account the plans, forecasts and the business programs of the companies within the Group. As a result, it has reached the conclusion that the use of the going concern assumption is appropriate.

3. Changes in accounting policies

3.1 Overall considerations

The Group has adopted the following new standards, amendments and interpretations to existing standards issued by the International Accounting Standards Board, which are relevant to and effective for the Group's consolidated financial statements for the financial year beginning 1 January 2014:

IFRS 10 “Consolidated Financial Statements” effective from 1 January 2014, adopted by the EU on 11 December 2012 introduces a new, principle-based definition of control which will apply to all investees to determine the scope of consolidation. IFRS 10 did not change the classification of any of the existing investees as at 31 December 2014 or in prior periods.

IFRS 11 “Joint Arrangements” effective from 1 January 2014, adopted by the EU on 11 December 2012 supersedes IAS 31 “Interests in Joint Ventures”. It replaces IAS 31's three categories of 'jointly controlled entities', 'jointly controlled operations' and 'jointly controlled assets' with two new categories - 'joint operations' and 'joint ventures'. The option of using proportionate consolidation for joint ventures that was previously included in IAS 31 has been eliminated. Equity accounting is now required for all joint ventures. There was no impact on the Group’s net assets or financial result, nor in the classification and reporting of the joint ventures.

IFRS 12 “Disclosure of Interests in Other Entities” effective from 1 January 2014, adopted by the EU on 11 December 2012 is a new standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities. The application of IFRS 12 has led to additional disclosures in the Group’s consolidated financial statements.

IAS 27 “Separate Financial Statements” (Revised) effective from 1 January 2014, adopted by the EU on 11 December 2012 will now solely address separate financial statements, the requirements for which are substantially unchanged.

IAS 28 “Investments in Associates and Joint Ventures” (Revised) effective from 1 January 2014, adopted by the EU on 11 December 2012 continues to prescribe the mechanics of equity accounting. Changes to its scope have however been made as a result of the publication of IFRS 11 ”Joint Arrangements”.

IAS 32 “Financial Instruments: Presentation” (amended) effective from 1 January 2014, adopted by the EU on 13 December 2012 The amendment clarifies that the right of set-off must be available today – that is, it is not contingent on a future event. It also must be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy.

IAS 36 "Impairment of assets" (amended) effective from 1 January 2014, adopted by the EU in December 2013
The amendment requires the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. It should be applied retrospectively for annual periods beginning on or after 1 January 2014. Earlier application is permitted provided the entity has already adopted IFRS 13.

IFRIC 21 "Levies" effective from 1 January 2014, adopted by the EU in June 2014 considers how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. IFRIC 21 also clarifies that an entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.

The following new standards, amendments and interpretations to IFRS as issued by the International Accounting Standards are mandatory for the annual period beginning 1 January 2014 but have no effect on the consolidated financial statements of the Group:
- IFRS 10, IFRS 11, IFRS 12 – Transitional provisions effective from 1 January 2014, adopted by the EU on 16 April 2013
- IFRS 10, IFRS 12, IAS 27 (amended) – Investment companies, effective from 1 January 2014, adopted by the EU in November 2013
- IAS 39 „Financial Instruments: Recognition and Measurement "(amended) effective from 1 January 2014, adopted by the EU in December 2013

3.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

The following new standards, amendments and interpretations to existing standards have been issued, but are not effective for the financial year beginning 1 January 2014 and have not been early adopted:

IFRS 9 "Financial Instruments" effective from 1 January 2018, not yet adopted by the EU introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. The Group's management have yet to assess the impact of IFRS 9 on these consolidated financial statements.

IFRS 9 "Financial Instruments" (amended) – Hedge accounting, effective from 1 January 2018, not yet adopted by the EU These amendments bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements.

IFRS 10 "Consolidated financial statements" and IAS 28 „Investments in associates and joint ventures" (amended), effective from 1 January 2016, not yet adopted by the EU These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

IFRS 11 "Joint Arrangements" (amended) – Acquisition of an Interest in a Joint Operation, effective from 1 January 2016, not yet adopted by the EU This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

IFRS 15 "Revenue from Contracts with Customers" effective from 1 January 2017, not yet adopted by the EU
replaces IAS 18 'Revenue', IAS 11 'Construction Contracts' and some revenue-related Interpretations and establishes a new control-based revenue recognition model. It changes the basis for deciding whether revenue is recognised at a point in time or over time and expands and improves disclosures about revenue. IFRS 15 is based on a core principle that requires an entity to recognise revenue in a manner that depicts the transfer of goods or services to customers and at an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. Early adoption is permitted. Entities are required to apply the new revenue Standard either

retrospectively to each prior period presented, subject to some practical expedients or retrospectively, with the cumulative effect of initial application recognized in the current period. The Group does not expect significant changes in its accounting policies as a result of the new standard.

IAS 16 "Property, plant and equipment" and IAS 38 "Intangible Assets" (amended), effective from 1 January 2016, not yet adopted by the EU This amendment clarifies that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

IAS 27 "Separate financial statements" (amended), effective from 1 January 2016, not yet adopted by the EU This amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

Management does not expect the new standards and interpretations to have a material effect on the consolidated financial statements of the Group:

- IFRS 14 "Deferred accounts at regulated prices" effective from 1 January 2016, not yet adopted by the EU;
- IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" (amended) - fruiting plants, effective 1 January 2016, not yet adopted by the EU
- IAS 19 "Employee Benefits" (amended) - Contributions from employees, effective 1 July 2014, adopted by the EU on 17 December 2014
- Annual Improvements to the IFRSs 2012 effective from 1 July 2014, adopted by the EU on 17 December 2014
- Annual Improvements to the IFRSs 2013 effective from 1 July 2014, adopted by the EU on 18 December 2014
- Annual Improvements to the IFRSs 2014 effective from 1 January 2016, not yet adopted by the EU

4. Summary of accounting policies

4.1 Overall considerations

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below.

The consolidated financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used for the preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

4.2 Presentation of consolidated financial statements

The consolidated financial statements are presented in accordance with IAS 1 "Presentation of Financial Statements" (revised 2007).

Two comparative periods are presented for the consolidated statement of financial position when the Group applies an accounting policy retrospectively, makes a retrospective restatement of items in its consolidated financial statements, or reclassifies items in the consolidated financial statements.

Two comparative periods are presented in the consolidated statement of financial position as at 31 December 2014 due to the effect of correction of errors, related to 2013, that resulted in a decrease of the net financial result for 2013 by BGN 50,573 thousand (see note 5).

4.3 Basis of consolidation

The Group's financial statements consolidate those of the parent company and all of its subsidiary undertakings drawn up to 31 December 2014. Subsidiaries are firms under the control of the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. All subsidiaries have a reporting date of 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealized losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit and loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

When the Group ceases to have control of a subsidiary, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value of any investment retained in the former subsidiary at the date of loss of control is considered the fair value on initial recognition of a financial asset in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" or, where appropriate, the cost on initial recognition of an investment in an associate or joint venture. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs).

The profit or loss on disposal is calculated as the difference between i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and ii) the previous carrying amount of the assets including goodwill and liabilities of the subsidiary and any non-controlling interest.

4.4 Business combinations

Business combinations are accounted for using the purchase method. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred.

The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree that is present ownership interests and entitles their holders to a proportionate share of the entity's net assets in the event of liquidation either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognized amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair value of any identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognized in profit or loss immediately.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquire is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have been previously recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if the interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period which cannot exceed one year from the acquisition date or additional assets or liabilities are recognized to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Any contingent consideration to be transferred by the acquirer is measured at fair value at the acquisition date and included as part of the consideration transferred in a business combination. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognized in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill.

4.5 Transactions with non-controlling interest

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are treated as transactions with equity owners of the Group. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the parent company.

4.6 Segment reporting

Management determines the operating segments based on the main products and services offered by the Group:

- Electricity segment
- Natural gas segment
- Lignite segment
- Administration segment

Each of these operating segments is managed separately as each product or service use different technologies, resources and distribution approaches. All transactions between segments are carried out at prices corresponding to transactions between independent parties, where applicable. In the "Electricity" and "Natural Gas" segments the transactions are carried out at prices set by the regulator, Energy and Water Regulatory Commission (EWRC). In segment reporting, the Group applies policy of evaluation corresponding to the policies used in the consolidated financial statements.

Finance income and costs are not included in the results of operating segments which are regularly reviewed by the chief operating decision maker.

4.7 Investments in joint ventures and associates

A joint venture is an arrangement of which two or more parties have joint control and the parties have rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method.

Associates are those entities over which the Group is able to exert significant influence but which are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method. Cost of investment includes the cost of its acquisition.

Goodwill or fair value adjustments of the Group's share of associates is included in the value of the investment.

All subsequent changes to the Group's share of interest in the equity of the associate are recognized in the carrying amount of the investment. Changes resulting from the profit or loss realized by an associate are recognized in the consolidated statement of profit and loss within "Share of results of investments carried at equity method". These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of assets and liabilities.

Changes resulting from other comprehensive income of the associate or items recognized directly in the associate's equity are recognized in other comprehensive income or equity of the Group, as applicable. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Unrealized gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in those entities. Where unrealized losses are eliminated, the underlying asset is also tested for impairment losses from a group perspective.

Amounts reported in the financial statements of associates and joint ventures have been adjusted where necessary to ensure consistency with the accounting policies of the Group.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the sum of the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

4.8 Foreign currency translation

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate as published by the Bulgarian National Bank). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognized in profit or loss.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined. The functional currency of the entities in the Group has remained unchanged during the reporting period. On consolidation, assets and liabilities have been translated into BGN at the closing rate at the reporting date. Income and expenses have been translated into the Group's presentation currency at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognized in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognized in equity are reclassified to profit or loss and recognized as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into BGN at the closing rate.

4.9 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales taxes or duties. The Group analysed its selling arrangements against specific criteria to determine whether it acts as a principal or an agent. It has concluded that it acts as principal in all such arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Sale of electrical energy

Revenue is recognised in profit or loss for the electricity supply made to customers, end suppliers and distribution companies. Revenue from sales is recognised on the basis of evidence relating to the consumption of electricity. It is measured by commercial measurement, registered in the state register of approved types of country commercial metering. The reporting of the commercial metering is done periodically, usually at intervals of one month.

Sales of electrical energy at the balancing market

Revenue from sales of electrical energy at the balancing market occur at the time when the operator has received confirmation from the participants at the market, including NEK EAD, in its capacity as a public provider, of the summarized statements for the respective settlement reporting period (month).

Revenue from granted access to the electricity transmission grid

Revenue from granting access to the users of the electricity transmission grid is recognised when the system operator receives the actual validated data from the owners of the commercial metering devices.

Revenue from access granted to producers and electricity traders engaged in electrical energy export is recognised once ESO EAD has validated the cross-border transfer capacity schedules.

Revenue from granted commercial transmission rights

Revenue from commercial transmission rights is classified as deferred income when the rights are granted through monthly or yearly auction. Such revenue is recognised from the moment the system operator publishes the auction results on the company's website in accordance with the auction rules for allocation of capacities on the interconnections between the control area of ESO EAD and its neighbouring control areas.

Yearly auctions are conducted in December of the previous calendar year and refer to the next calendar year. Commercial transmission rights are used and paid for during each month of the next calendar year. The revenue from commercial transmission rights granted through yearly auction is recognised as current income in the month the transmission right is actually used. Monthly auctions are conducted in the month proceeding the month of actual use of the commercial transmission right. Revenue for commercial transmission rights granted through monthly auctions is recognised as a current income in the period when the right is actually used.

Revenue from granted commercial transmission rights is classified as current income when the rights are granted through a weekly auction held in the same month that the right is actually used.

Sales of natural gas

Revenue from sales of natural gas is recognised at the end of each month following readings of the natural gas used by the Group's customers during the month. The revenue accrual is made based on a signed bilateral natural gas delivery protocol for a period of 1 month. The validity of the protocols is evidenced by the signatures of the Group's and the customer's authorised officers.

Under the Bulgarian legislation the Group is not allowed to have own pricing of the natural gas sold. The selling prices of natural gas to all consumers connected to the transmission and distribution network are uniform throughout the country and are set by the State Energy and Water Regulation Commission.

Sales of finished products and goods

Revenue from sales of products and goods is recognised when the significant risks and rewards of ownership over the products and goods has been transferred to the buyer, usually on dispatch of the products and goods.

Rendering of services

Revenue from the rendering of services is recognised based on the stage of completion as at the reporting date. The stage of completion is determined proportionally over the term of the agreement over which the services are to be rendered. When the outcome of the transaction (contract) cannot be reliably measured revenue is recognised only to the extent the recognised expenses are recoverable.

Interest income

Interest income is recognised as interest accrues (using the effective interest rate method, i.e. the interest rate that discounts exactly the estimated future cash flows over the estimated useful life of the financial instrument to the carrying amount of the financial asset).

4.10 Operating expenses

Operating expenses are recognized in profit or loss upon utilization of the service or at the date of their origin with the accrual and matching principle.

4.11 Interest expenses and borrowing costs

Interest expenses are reported on an accrual basis using the effective interest method.

Borrowing costs primarily comprise interest on the Group's borrowings. All borrowings expenses, that can be directly related to the purchase, construction or manufacturing of an asset are capitalized during the period, in which the asset is expected to be completed for use of sale, using rate of capitalization of the expenses made. The rate of capitalization is calculated as the weighted average between the borrowing costs, unpaid during the period, excluding the loans received for the sole purpose of acquisition of the abovementioned asset.

Other borrowing costs are expensed in the period in which they are incurred in the consolidated profit or loss within 'Finance costs'.

4.12 Profit or loss from discontinued operations

A discontinued operation is a component of the entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Profit or loss from discontinued operations and the components of profit or loss from previous periods are presented as a single amount in the consolidated statement of profit or loss.

Disclosure of discontinued operations from the previous year is related to all the activities that were discontinued at the reporting date for the latest period presented. If the activities that have been presented as discontinued in the previous period, be renewed during the current year, the relevant disclosures for the previous period should be changed.

4.13 Property, plant and equipment

Items of property, plant and equipment are initially measured at cost, which comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Their subsequent evaluation is applied to a whole group of identical assets as follows:

№	Groups of property, plant and equipment	Method for subsequent evaluation
1	Land	Revaluation model
2	Improvements on land and plots	Revaluation model
3	Buildings and structures	
	• massive	Revaluation model
	• non-massive	Cost model
4	Plant and equipment	Revaluation model
5	Computer systems	Cost model
6	Vehicles	
	• freight vehicles	Revaluation model
	• cars	Cost model
	• special vehicles	Revaluation model
7	Fixtures and fittings	Cost model
8	Spare parts, recognised as items of property, plant and equipment	Revaluation model
9	Other items of property, plant and equipment	Cost model

Those items of property, plant and equipment, which are subsequently measured by using the revaluation model, are carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation made are presented in the statement of comprehensive income and are reported via equity (revaluation reserve), if not preceded by previously incurred costs. When the revaluated asset is sold or disposed of, the remaining revaluation reserve is netted against retained earnings.

Revaluations are carried out according to the following frequency of revaluation:
- when the fair value of the assets undergoes only minor changes, revaluation is performed every three years;
- when the fair value of property, plant and equipment changes significantly in shorter intervals, revaluation is carried out at shorter intervals so that the carrying amount of the asset does not differ materially from its fair value.

The frequency of revaluations depends upon on whether the carrying amount of the revalued asset is materially different from its fair value at the end of the reporting period.

Therefore, during the annual stock take (end of the fiscal year) the Group analyses the items of property, plant and equipment and tests them for indications that their carrying amounts differ materially from their fair value at each reporting date.

A significant difference between the fair value and the carrying amount of a revalued item is assumed if the fair value exceeds or is lower than the carrying amount by more than 5% or if the cumulative effect of such differences on all items of property, plant and equipment is significant to the consolidated financial statements.

Items of property, plant and equipment, which are not measured at revaluation model, are subsequently measured at acquisition cost less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Impairment losses are recognised in the consolidated statement of comprehensive income for the respective period.

Subsequent expenditure relating to an item of property, plant and equipment is added to the carrying amount of the asset when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of the its originally assessed standard of performance. All other subsequent expenditure is recognised as incurred.

The residual value estimates and estimates of useful life of property, plant and equipment are reviewed by management at each reporting date.

Depreciation is calculated using the straight-line method over the estimated useful life of individual assets as follows:

Buildings	5-80 years
Machinery and equipment	2-50 years
Vehicles	2-30 years
Fixtures and fittings	2-30 years
Other items of property, plant and equipment	3-30 years
Depreciable buffer gas	60 years

The annual depreciation rate for depreciable land is calculated as a coefficient as follows:

$$C = \frac{CE}{OCD+BS+CDP}$$

where:

CE	coal extracted in tons
OCD	open coal deposits
BS	blocked stocks
CDP	coal deposits under progress

Depreciation and amortization expenses are included in the consolidated statement of profit or loss within “Depreciation expense” and within “Loss for the year from discontinued operations”.

Buffer gas

Natural gas at Chiren (Chiren UGS) includes working gas and buffer gas. Natural gas at Chiren UGS is measured through reservoir simulation using special software ECLIPSE. Changes in pressure during different drillings during reservoir simulation of operation of the underground section are analysed and compared with the actually measured pressure levels.
Buffer gas maintains the stratum pressure required for the successful extraction of working gas. Buffer gas at the underground gas storage is accounted for as a non-current asset.

The amount of buffer gas has been estimated by technical experts of the Group based on the stratum pressure during drilling and the pressure at the Chiren UGS exit, i.e. the point where the natural gas is fed into the gas pipeline.

Buffer gas includes physically extractable and non-extractable natural gas. The quantity of physically extractable natural gas has been estimated. The extractable cushion gas is the natural gas which could be extracted from Chiren UGS if the gas is fed into the gas pipeline under certain pressure. The extractable buffer gas is not depreciated. The non-extractable buffer gas is depreciated.

Minimum quantities of natural gas required for the functioning of the highway and transit gas pipelines

The minimum quantities of natural gas required for the normal functioning of the highway and transit gas pipeline have been estimated applying the volume method and a certain methodology. These quantities are reported as non-current assets.

Technical experts of the Group have estimated the unrecoverable quantity of natural gas which would be irretrievably lost in case of dismantling the transit and highway gas pipelines. This quantity is depreciable gas. The rest of the estimated minimum quantity of natural gas required for the normal functioning of the gas transmission network is non-depreciable. This natural gas could be extracted in case of dismantling.

The gain or loss on disposal of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset.

The selected threshold for property, plant and equipment of the Group amounts to BGN 500.

4.14 Intangible assets

Intangible assets acquired separately are measured initially at cost, which comprises its purchase price, including any import duties and non-refundable purchase taxes, and any directly attributable expenditure on preparing the asset for its intended use, whereby capitalized costs are amortised on a straight line basis over their estimated useful lives, as these assets are considered finite.

After initial recognition, an intangible asset is carried at its cost less any accumulated amortization and any accumulated impairment losses. Impairment losses are recognised in the consolidated statement of comprehensive income for the respective period.

Intangible assets with finite useful life are amortised over their useful lives and tested for impairment whenever there is an indication that their carrying amount is impaired. The residual values and useful lives of intangible assets with a finite useful life are reviewed at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, and treated as changes in accounting estimates.

Subsequent expenditure on an intangible asset after its purchase or its completion is expensed as incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured reliably and attributed to the asset. If these two conditions are met, the subsequent expenditure is added to the carrying amount of the intangible asset.

Residual values and useful lives of intangible assets are reviewed at each reporting date.

Amortisation of intangible assets is calculated on a straight-line basis according to the estimated useful life of the assets. The useful lives of intangible assets are assessed as finite as follows:

Software	2 – 10 years
Licences	for the term of the licence
Products from the development phase	5 – 20 years
Other intangible assets	3 – 10 years

Depreciation and amortization expenses are included in the consolidated statement of profit or loss within “Depreciation expense” and within “Loss for the year from discontinued operations”.

Any gain or loss arising on derecognition of an intangible asset calculated as the difference between the net disposal proceeds and the carrying amount of the asset is included in the consolidated statement of profit or loss in the year the asset is derecognised.

Costs that are directly attributable to the development phase of an intangible asset are capitalized upon approval by a committee of experts appointed by the management, provided that the following conditions are met:
- demonstration of technical ability to complete the asset;
- intention to complete the asset;

- ability to use or sell the asset, including the existence of a market or usefulness at an internal use for the Group;
- ability to assess the costs during the development of the asset

Research phase activities

Expenditure on research activities, undertaken to acquire new scientific or technical knowledge are recognised in profit or loss in the period in which it is incurred.

Research and development expenses, made in relation to external orders, in case there is a signed contract, are recognised as assets, which are intended to be sold.

Indirect technological production costs are allocated based on labour costs. Internally generated intangible assets are recognised at cost, which is the sum of the direct and indirect costs.

Development phase activities

Development activities include a plan or design for the production of new or substantially improved products and processes. Development costs are capitalized only if such costs can be measured reliably, the product or process is technically and commercially viable, future economic benefits are probable, and the Company intends to and has sufficient resources to complete the development and to use or sell the asset. Capitalised costs include materials, labour, and overhead costs that are directly relevant to preparing the asset for its intended use, and capitalized interest costs. Other development costs are recognised in profit or loss when incurred. Capitalised development costs are subsequently measured at cost less accumulated depreciation and impairment losses.

Development costs not meeting these criteria for capitalization are expensed as incurred.

The recognition threshold adopted by the Group for intangible assets is BGN 500.

4.15 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and requires assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset.

The Group as a lessee

In accordance with IAS 17 “Leases”, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset.

Upon signing a finance lease contract, the Group recognises the related asset at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognised as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

The finance lease liabilities are reduced by subsequent lease payments, which consist of repayment of principal and finance costs.

Assets acquired under the terms of finance lease are depreciated or amortised in accordance with IAS 16 “Property, Plant and Equipment” or IAS 38 “Intangible Assets”.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to profit or loss over the period of the lease.

All other leases are treated as operating leases. Payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Group as a lessor

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred by the Group in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as lease income. Contingent rents are recognised as revenue in the period in which they are earned.

Assets held under a finance lease agreement are presented in the consolidated statement of financial position as a receivable at amount equal to the net lease investment. The sales revenue from assets is recognis ed in the consolidated statement of profit or loss for the reporting period. The recognition of the finance income is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding.

4.16 Impairment testing of non-financial assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value, less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or a CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by other valuation models or other available sources of information regarding the fair value of an asset or a cash generating unit.

Impairment losses are recognised in the consolidated income statement, except non-current assets that have been revalued in prior periods and revaluation increase has been recognised in the other comprehensive income. In such cases impairment loss is also taken to the other comprehensive income to the amount of the previously recognised revaluation of the respective asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists the Group determines the recoverable amount of the asset or the cash generating unit. An impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Reversal of the impairment loss is restricted so that the carrying amount of the asset would not exceed its recoverable amount nor the carrying amount (after amortisation charges) that would have been determined had no impairment loss been recognised for the asset in prior years. Reversal of impairment loss is recognised in the consolidated income statement, unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase.

4.17 Financial instruments

Financial assets and liabilities are recognised when the Company becomes party to the contractual provisions of the financial instruments.

Financial assets are derecognised when the Group loses control over the contractual rights that comprise the financial asset, i.e. after the rights to receive cash flows have expired or it has transferred substantially all the risks and rewards of ownership.

A financial liability is derecognised when it is extinguished, discharged, cancelled or upon expiry of the limitation period.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value. The Group initially recognises loans and receivables and cash deposits on the date on which they have occurred. All other financial assets (including assets measured at fair value through profit or loss) are recognised initially on the transaction date on which the Group becomes a party to the contractual terms of the financial instrument. All financial assets are recognised on their settlement date.

Financial assets and financial liabilities are subsequently measured as described below.

4.17.1 Financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss;
- held-to-maturity investments;
- financial assets available for sale.

Financial assets are assigned to the different categories, depending on the purpose for which the investments were acquired. The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss or in other comprehensive income. All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within 'Finance costs' or 'Finance income', except for impairment of trade receivables which is presented within “Net impairment of trade receivables”.

The Group holds financial assets in the following categories:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss. The Group’s cash and cash equivalents, trade and most other receivables fall into this category of financial instruments. Discounting is omitted where the effect of discounting is immaterial.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy/announce over-indebtedness or undertake other financial reorganisation or where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults by the debtors. Impairment of trade receivables are presented in the consolidated statement of profit or loss in line “Reintegration of impairment / (net impairment) of trade receivables”.

When the available information to determine the amount of impairment is limited, the estimated amount of impairment is determined on the basis of historical data and the experience of the Group with companies in the same industry or region or any other reasonable basis.

The amount of any write-down is determined using age analysis of receivables and is consistent with the number of days during which the payment is overdue.

Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. Financial assets within this category are subsequently measured at fair value, unless there is no market value at active markets present and hence their fair value cannot be measured reliably. Those without quoted market prices are measured at amortised cost using the effective interest method or at cost in cases when they do not have fixed date of payment. Changes in fair value are recognised in other comprehensive income and reported within the available-for-sale reserve within equity, net of income taxes, except for impairment losses and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income. Interest calculated using the effective interest method and dividends are recognised in profit or loss within 'Finance income'. Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

4.17.2 Financial liabilities

The Group's financial liabilities include bank loans, overdrafts and trade and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements for payment of cash amounts or another financial asset to another company or contractual liability for exchange of financial instruments with another company under unfavourable terms. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within 'Finance costs' or 'Finance income'.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognised in profit or loss.

Bank loans are raised for long-term funding of the Group's operations. They are recognised in the consolidated statement of financial position of the Group, net of any costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the consolidated income statement/statement of comprehensive income on an accrual basis using the effective interest method and are added to the carrying amount of the financial liability to the extent that they are not settled in the period in which they arise.

Trade payables are recognised initially at their nominal value and subsequently measured at amortised cost less settlement payments.

Dividends payable to shareholders are recognised when the dividends are approved at the general meeting of the owners.

4.17.3 Derivative financial instruments

The Group uses derivative financial instruments such as currency and interest rate swaps to hedge the relevant risks associated with changes in foreign currencies and interest rates. These derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into. Subsequent to initial recognition, derivatives are measured at fair value. They are recorded as assets when fair value is positive and as financial liabilities when fair value is negative.

For the purpose of hedge accounting, hedges are classified as follows:
- Cash flow hedges, when they hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the currency risk associated with an unrecognised uncancellable commitment;
- Fair value hedges, when they hedge the exposure to changes in fair value of a recognised asset or liability or an unrecognised uncancellable commitment (except for foreign currency risk);
- Hedges of a net investment in a foreign operation.

At the inception of the hedging formal designation and documenting is made for the hedging relation, to which the Group has decided to use hedge accounting and of the risk management goal and strategy of the hedging. This documentation includes designation of the hedging instrument, the hedged item or transaction, the nature of hedged risk and the ways the Group would use to measure the effectiveness of the movements in the fair values of the hedged instrument upon offsetting the exposure to changes in the fair value of the hedged item or cash flows which are due to the hedged risks. Hedging is expected to be highly effective to offset the changes in the fair values or cash flows due to the hedged risk, and regular assessments are made to determine whether hedging has been highly effective within the reporting financial periods in which hedging is designated.

Hedging relationships meeting the stringent requirements for hedge accounting are as follows:

Fair value hedges

The Group has defined a forward contract for the purchase of greenhouse gas emission quotas type EUA as a fair value hedge for the relevant risks associated with changes in market prices. This agreement was concluded in order to reduce the risk of changes in the price of the quotas. For the current accounting period, this has led to the recognition of financial liabilities carried on the consolidated statement of financial position as non-current financial liabilities.

The derivative financial instruments, used for fair value hedge, are initially recognized at fair value and are subsequently measured at fair value in the consolidated statement of financial position. Fair value is determined based on quoted market prices or, in their absence, other techniques. Derivatives are carried as assets when the fair value increases and as liabilities when their fair value decreases.

4.18 Inventory

Inventories comprise raw materials, finished products, work in progress and goods. Cost of inventories includes all expenses directly attributable to the purchase or manufacturing process, recycling and other direct expenses connected to their delivery as well as suitable portions of related production overheads, based on normal operating capacity. Financing costs are not included in the cost of the inventories. At the end of every accounting period, inventories are carried at the lower of cost and net realizable value. The amount of any write-down of inventories to net realizable value is recognised as an expense in the period the impairment.

Net realizable value is the estimated selling price of the inventories less any applicable selling expenses. A new assessment is made of net realisable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed (i.e. the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realisable value. The reversal of the write-down is accounted for as decrease in inventory expenses for the period in which the reversal takes place.

The Group determines the cost of inventories by using the weighted average cost.

When inventories are sold, the carrying amount of those inventories is expensed in the period in which the related revenue is recognised.

Nuclear fuel

Fuel loaded in the reactors, is the outstanding value (remaining lifetime) of nuclear fuel contained in the reactors at the reporting date. Calculations are based on the established "Methodology for reporting supply and cost of fresh nuclear fuel at NPP Kozloduy EAD", taking into account the value of filled fresh nuclear fuel in the combustion campaign and estimated fuel component that is determined by dividing the value of loaded nuclear fuel into the reactor by the estimates of electricity production for the period in kWh. The product of the gross energy produced by the respective unit fuel cycle and the fuel component represents the cost of nuclear fuel during that period.

Operating gas

Operating quantities of natural gas are recorded as inventories. Initially the gas is valued at its purchase price plus the cost of transportation. Operating natural gas consumption is accounted for by using the weighted average cost method. The net realisable value is determined by the State Energy and Water Regulation Commission, which sets the price to be applied in the first quarter following the reporting date.

4.19 Income tax

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. The management analyses the various items in the tax return, when the applicable tax provisions are subject to interpretation and recognises provisions where appropriate.

Current taxes are recognised directly in equity (not in the statement of profit or loss) if the tax relates to items which have been recognised directly in equity.

Deferred income tax

Deferred tax is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts.

A deferred tax liability is recognised for all taxable temporary differences:
- except, where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss
- for temporary taxable differences related to investments in subsidiaries, associates and joint venture interests, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference would not reverse in the foreseeable future..

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses:

- except, where the deferred income tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- for deductible temporary differences related to investments in subsidiaries, associates and joint venture interests, deferred tax asset is recognised only to the extent it is probable that the temporary difference will reverse within the foreseeable future and taxable profit will be available to utilize the temporary difference.

The carrying amount of deferred tax assets is reviewed by the Group at each reporting date and reduced to th e extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent it has become probable that future taxable profit will be gained, which would allow recovery of the deferred tax asset.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred taxes related to items recognised outside the profit or loss are recognised outside the profit or loss. Deferred taxes are recognised depending on the related transaction either in the other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset the current tax assets against current income tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

4.20 Cash and cash equivalents

Cash and short-term deposits in the consolidated statement of financial position include cash at bank, cash in hand and short-term deposits with original maturities of three or fewer months.

4.21 Non-current assets and liabilities classified as held for distribution to the sole equity holder of the parent company

When the Group is committed to distribute assets (or disposal group) to the owner, the assets or disposal group are classified as held for distribution to the sole equity holder and are presented separately in the consolidated statement of financial position. For this purpose, the assets must be available for immediate distribution in their present condition and the distribution must be highly probable. For distribution to be highly probable, actions should be initiated to complete the distribution and should be expected to be completed within one year from the date of classification. Actions required to complete the distribution should indicate that it is unlikely that in the distribution shall occur significant changes or be withdrawn.

Liabilities are classified as held for distribution to the sole equity holder and are presented as such in the consolidated statement of financial position, only if they are directly related to the disposal group.

Assets classified as held for distribution to sole shareholder are measured at the lower of their carrying value immediately after their designation as held for distribution to the sole shareholder and their fair value less the costs of their distribution. Assets classified as held for distribution to sole shareholder are not subject to depreciation after their classification as held for distribution to the sole shareholder.

4.22 Equity, reserves and dividend payments

Share capital represents the nominal value of the shares, which have been issued.

Other reserves include statutory reserves and general reserves.

The reserve from valuation to fair value includes the effects of revaluation of financial assets available for sale as well as the Group's share of the revaluation of financial assets/liabilities of associates or joint ventures, which are recognised directly in equity.

The revaluation reserve of non-financial assets is formed by the difference between the carrying amount and fair value of items of property, plant and equipment at the date of revaluation, less its corresponding deferred tax liability.

The reserve from translation of foreign operations includes foreign exchange differences on translating the financial statements of subsidiaries when their functioning currency is different from the functional currency of the Group.

The reserve from remeasurement of defined benefit plans involves the revaluation of defined employee benefits plans, defined by reports of independent actuarial appraisers.

Retained earnings (accumulated loss) include the current year financial result and the retained earnings and accumulated loss from prior periods.

Dividends payable to the sole equity holder are included in 'Related party payables' when dividends have been approved at the general meeting prior to the reporting date.

All transactions with the sole equity holder have been presented separately in the consolidated statement of changes in equity.

4.23 Liabilities for retirement employee benefits and short-term employee benefits

The Group reports short-term payables relating to unutilized paid leaves, which shall be compensated in case it is expected the leaves to occur within 12 months after the end of the accounting period during which the employees have performed the work related to those leaves. The short-term payables to personnel include wages, salaries and related social security payments. They are measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

The Group provides post-employment benefits through defined benefit plans as well as defined contribution plans.

Defined contribution plans are pension plans under which the Group pays fixed contributions into state funds. The Group has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution. Contributions to the plans are recognised as an expense in the period in which the relevant employee services are received.

According to Bulgarian labour legislation, the Group as an employer is obliged to pay two or six gross monthly salaries to its employees upon retirement, depending on the length of their service. If an employee has worked for the same employer for the last 10 years of his/ her service, the retirement benefit amounts to six gross monthly salaries upon retirement, otherwise, two gross monthly salaries. The retirement benefit plan is unfunded.

The liabilities for retirement employee benefits are determined by the Group using the actuarial valuation method. The Group's management assesses the obligation under defined benefit plans annually by an independent actuary. The estimate of the post-retirement benefit obligations is based on standard rates of inflation, medical cost trends and mortality. It also takes into account the Group's specific anticipation of future salary increases. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Service costs on the liabilities for retirement employee benefits are included in "Employee benefits expense" and the amount of discounting liabilities is included as interest expense in "Finance costs". Actuarial gains or losses are transferred to Group's reserves via other comprehensive income.

The liabilities for retirement employee benefits comprise the present value of the defined benefit obligation in the consolidated financial statements.

4.24 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax discount rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

Provision for environmental protection costs

A provision for environmental protection costs is recognised when it is probable that costs would be incurred or restoration works would be carried out and the Group has a legal or contractual obligation to undertake such actions. When it is expected that the expenses would be incurred over a long period of time, the present value of the expected future expenses is recognised as a provision and the effects of discounting are recognised as finance income and costs. At the reporting date of these consolidated financial statements a provision for environmental protection costs is recognised related to the safeguarding of the luminescent and other types of lamps containing mercury, safeguarding and recycling of storage batteries, deactivation, recycling and replacement of capacitor batteries containing PHB with new ones and utilisation of bleaching soil used in the base for oil regeneration.

Provision for site restoration

A provisions is made in respect of the Group's obligation to restore land damaged by coalmining of Mini Maritsa-iztok EAD, taking into account the requirements of the environmental law in effect, the land subject to future mining, non-restored past mining land, the cost of restoration per 1 acre of land and the expected deposits of coal by 2060. The provision was not discounted and therefore was not presented in these consolidated financial statements at present value as there is significant uncertainty as to the volume of restoration activities over time.

Provision for decommissioning of nuclear equipment

The Group has not assessed the financial resources required for the decommissioning of nuclear equipment based on detailed plan of the decommissioning activities and therefore no provision has been made.

Provision for spent nuclear fuel

Under the current National Strategy for Management of Nuclear Fuel and nuclear waste until 2030, enforced by the Ministry council on 5 January 2011, the Group has a legal obligation to incur expenses for transportation, processing and storage of at least 50 tons spent nuclear fuel to Russia. The provision for spent nuclear fuel is based on the best estimate of the costs that will be incurred in the next reporting period for the processing and storage of spent nuclear fuel. As there is no long-term strategy on the management of the spent nuclear fuel, the Group cannot assess its obligation in relation to the spent nuclear fuel.

Greenhouse gas emission quotas

Greenhouse gas emission quotas (carbon dioxide) are accounted for under the "net liability method". The Group recognises a liability for carbon dioxide emissions when they occur and exceed the allocated quotas (according to the national plan for allocation of quotas to trade with greenhouse gas emissions). Greenhouse gas emission quotas acquired and exceeding the allocated quotas are recognised as an asset at cost or as decrease of the recognised liability.

4.25 Government grants and deferred financing

Government grants and deferred financing are recognised when there is reasonable certainty that the grant/ financing will be received and that all conditions attached to it will be met. Where the grant / the financing is related to an expense item it is recognised as income over the periods needed to match the grant / the financing on systematic basis to the costs it is compensating. Where the grant / the financing is related to an asset it is recognised as deferred income and is realised in income on straight-line basis over the estimated useful life of the related asset.

When the Group receives non-monetary government grants, the grant and the asset are reported at nominal amount, and the grant / the financing is recognised as income in the consolidated statement of profit or loss on a straight-line basis over the estimated useful life of the asset.

4.26 Deferred stripping costs

Deferred stripping costs are costs of stripping of coal reserves. These costs are pre-operational and include surveying studies, research work, development of mines and other direct costs associated with the preparation of the coal for its extraction. Costs are deferred on the basis of the quantities of coal ready for extraction at the end of the reporting period and are included within unfinished inventory.

4.27 Significant management judgement in applying the accounting policies

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the reporting date and the reported revenues and expenses during the period. Uncertainties associated with these assumptions and estimates could result in actual results, which may be ultimately different from the estimated one and may require material adjustments to the carrying amounts of the assets or liabilities in subsequent periods. The main sources of uncertainty in the use of accounting estimates are described in note 4.28.

Long-term contracts for the purchase of electricity - the Group as lessee

The Group has entered into long-term contracts for the purchase of electricity with three counterparties operating in the thermal power plants in Maritsa basin - AES-3C Maritsa East 1 EOOD (15 years) and ContourGlobal Maritsa East 3 AD (for 15 years). Based on the long-term contracts signed, the Group is entitled to set the quantities of electricity that each of the two thermal power plants is to generate over a certain period of time based on the installed capacity, and over the term of the contract the Group is obliged to purchase the minimum quantities of generated electricity agreed, the corresponding availability and the availability provided by the power plants, which is not related to the electricity purchased by NEK EAD. The Group may set bigger quantities than the minimum agreed, if necessary. The Group has analysed the above mentioned long-term contracts against specific criteria and has concluded that they contain lease arrangements with respect to the commitment to purchase the availability provided.

The management believes that since all material risks and rewards from ownership over the above mentioned thermal power plants are not taken over by the Group, the long-term contracts for purchase of electricity and availability are to be treated as operating leases. Further information on the long-term agreements is presented in note 41.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable tax benefit to be recognised against which the losses can be utilized. Determining the amount of deferred tax assets requires management to make an assumption about the length of the period and an estimate of the amount of future taxable income, including the assessment of the future strategy for tax planning. The Group has not recognised deferred tax assets for all tax losses. Additional information is provided in note 23.

4.28 Estimation uncertainty

When preparing the consolidated financial statements management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results. Information about significant judgements, estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses are discussed below.

Fair value of property, plant and equipment

The Group subsequently measures certain classes of property, plant and equipment by using the revaluation model. The Group uses the services and reports of independent licensed appraisers for determining their fair value. Detailed information about the revaluation and the valuation methods used is presented in note 19.

Impairment of financial assets

Management assesses whether any impairment is needed for loans and receivables within the Group's financial assets based on aging analysis of receivables, historical experience of the level of write-offs of bad debts, as well as analysis of the solvency of the respective client, changes in the agreed payment terms, etc. If the financial position and the results of operations of customers deteriorate more than expected, the value of the receivables to be written off in the subsequent reporting periods may be greater than expected at the reporting date. As at 31 December 2014 the best estimate of the required impairment of Group's trade and other receivables is BGN 496,357 thousand (2013: BGN 674,338 thousand). Additional information is presented in note 22.

Provisions of the Group

The Group recognises provisions for environmental protection, restoration, exceeding quotas for greenhouse gas emissions, and more. The amount of the provisions to be recognised requires management to exercise judgment on the estimated costs necessary to cover the respective obligations of the Group, and the time period. As at 31 December 2014 the best estimate for the necessary provisions amounts to BGN 196,066 thousand (2013: BGN 112,881 thousand). Additional information is provided in note 32.

Provision for environmental protection and other provisions

The Group has recognised a provision for environmental protection and a provision for cost of access to the facilities of Polimeri AD and for appropriations for access to renewable energy source under challenged decision of EWRC C-33. The definition of the provisions requires the management to assess the estimated costs required to cover the respective liabilities of the Group and their timing. As at 31 December 2014 the best estimate for these provisions amounts to BGN 21,517 thousand (2013: BGN 22,391 thousand). Additional information is provided in note 32.

Provision for transportation, processing and storage of spent nuclear fuel

In accordance with the current National Strategy for Management of Nuclear Fuel and Radioactive Waste for the period until 2030, adopted by the Council of Ministers on 5 January 2011, the Group has a legal obligation to incur expenses for transportation, processing and storage of spent nuclear fuel in Russia for at least 50 tons of heavy metal per year. The provision for spent nuclear fuel is based on the best estimate of the costs that will be incurred in the next reporting period for transportation, processing and storage of spent nuclear fuel. Due to the lack of national long-term strategy for the management of spent nuclear fuel, the Group cannot reliably measure the obligation for management of spent nuclear fuel.

Provision for decommissioning of nuclear facilities

In accordance with the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, liabilities the amount and timing of which are uncertain, represent provisions. Provisions are recognised if and only if the following conditions have been met:
- the Group has a present obligation resulting from a past event;
- an outflow of resources embodying economic benefits may be required to settle the liability; and
- reliable estimate of the liability can be made.

Having in mind the requirements of the Standard regarding the "reliable estimate" the Group has not set aside a provision for "decommissioning of the nuclear facilities" and for "safe storage of spent nuclear fuel" due to the following reasons:
- The Group is subject to special laws – The Safe Use of Nuclear Energy Act, the Pricing Ordinances and Decrees for the Raising of Funds in Radioactive Waste Fund and Nuclear Facilities Decommissioning Fund adopted by the Council of Ministers. In accordance with the requirements of these acts the consolidated statement of profit or loss contains an accrual for current expenses for the contributions due to these Funds, which are transferred to their budgetary accounts. In compliance with the matching principle provided for in the Accountancy Act the price of electricity for the regulated market set by the State Energy and Waters Regulation Commission, an expense was recognised up to the amount of the contributions due to the Nuclear Facilities Decommissioning Fund and Radioactive Waste Fund;
- In relation to the agreements with the European Commission for early decommissioning of units 1 to 4 the State has agreed financing from external sources for the construction of repository for dry storage of spent nuclear fuel (SNF), for the salaries and social security contribution expenses for the personnel employed in units one to four and other financings;

- Free of charge transfer of the assets of the first and second energy units was carried out in December 2008 in accordance with Decision №839 of the Council of Ministers by NPP Kozloduy EAD to State Enterprise Radio Active Wastes (SE RAW), Sofia, the principal activity of which is "decommissioning". On 19 December 2012 the Council of Ministers issued a Decision to declare third and fourth energy units of NPP Kozloduy EAD as facilities for management of radioactive waste and for the transfer of the aforementioned assets to the State Enterprise Radioactive Waste (SE RAW);
- On 1 March 2013 the assets and the employees related to the third and fourth energy units were transferred to SE RAW.

In accordance with the requirements of the special acts as at 31 December 2014 if the implementation of the decommissioning project is more expensive than the estimates made by the Management Board of the Nuclear Facilities Decommissioning Fund, such additional costs shall be covered by the entity operating the nuclear facility last (which is the Group in this case). Since as at the date of approval of the consolidated financial statements there is no clear national strategy on the decommissioning of nuclear facilities and no estimate of the forecasted costs has been made by the Nuclear Facilities Decommissioning Fund, the Group is unable to measure reliably the liability and has not set aside a provision as at 31 December 2014 and 31 December 2013.

Liabilities for retirement employee benefits

The liabilities for retirement employee benefits are determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, personnel turnover rates and mortality rates. Due to the long-term nature of the retirement employee benefits such assumptions are subject to significant uncertainty. As at 31 December 2014 the Group's liabilities for retirement employee benefits amount to BGN 137,688 thousand (2013: BGN 124,119 thousand). Additional information regarding these liabilities is presented in note 31.

Useful life of property, plant and equipment and intangible assets

The management reviews the useful lives of the depreciable assets at each reporting date. As at 31 December 2014 the management has assessed the expected useful lives of the assets to the Group. Information about the useful lives of property, plant and equipment is presented in note 4.13, and that of intangible assets – in note 4.14. The carrying amounts are analysed in notes 19 and 20, respectively. The actual results, however, may vary due to technical obsolescence.

Impairment of inventories

The Group recognises impairment on slow-moving and obsolete inventories to their net realizable value. The management assesses the adequacy of this provision every year and the cost of inventories is written down to their estimated net realizable value. As at 31 December 2014 the best estimate of the impairment of inventories amounts to BGN 12,106 thousand (2013: BGN 15,217 thousand). Additional information is provided in note 24.

5. Effect of correction of prior period errors

In the consolidated statement of financial position as at 31 December 2014 the Group has accounted for error corrections regarding 2013, which led to the decrease of the net financial result for 2013 by BGN 50,573 thousand.

Adjustments to the financial result and the financial position of the Group for 2013 resulted from:

- recognition of liabilities for carbon emissions concerning 2013, leading to increased costs of electricity by BGN 27,367 thousand;
- recognition of expenses amounting to BGN 18,643 thousand, including penalty interest charges on delayed payments on agreements with various suppliers at the amount of BGN 8,911 thousand; and
- decrease of penalty interest income under a contract for the supply of natural gas amounting to BGN 4,563 thousand.

The restatement of the financial result for 2013 as a result of the adjustments due to the abovementioned events led to an increase in the net loss for 2013 by BGN 50,573 thousand and an increase in the loss per share for 2013 by BGN 0.02.

The amount of BGN 20,970 thousand related to the appropriations for RES access on a challenged decision TS-33 of EWRC was reclassified from "Trade and other payables" to "Provisions", as well as other minor reclassifications were made.

The changes to the consolidated statement of financial position as at 31 December 2013 as a result of the corrections and reclassifications are presented as follows:

	2013	Note	Adjustments	2013 Restated
	BGN '000		BGN '000	BGN '000
Assets				
Current assets				
Trade and other receivables	1,494,587	5.1, 5.2	(4,563)	1,490,024
Total assets	**14,884,357**		**(4,563)**	**14,879,794**
Equity and liabilities				
Equity				
Retained earnings	167,907	5.1	(50,573)	117,334
Liabilities				
Trade and other payables	1,412,959	5.1, 5.3	23,862	1,436,821
Related party payables – current portion	220,149	5.1, 5.3	1,178	221,327
Provisions – current portion	12,159	5.4	20,970	33,129
Total equity and liabilities	**14,884,357**		**(4,563)**	**14,879,794**

5.1 Restatement of retained earnings for 2013

	2013
	BGN '000
Decrease in revenue from penalty interest from Toplofikatsia Sofia EAD	(4,563)
Increase in the cost of electricity sold	(27,367)
Increase in other operating expenses, incl. penalties on delayed payments to suppliers	(18,643)
Total effect – decrease of the current year financial result	**(50,573)**

5.2 Recognition of the effects in assets for 2013

	2013
	BGN '000
Decrease in trade and other receivables from Toplofikatsia Sofia EAD	(4,563)
Total effect – decrease in assets	**(4,563)**

5.3 Recognition of the effects in liabilities for 2013

	2013
	BGN '000
Increase in trade and other payables	44,832
Increase in related party payables – current portion	1,178
Total effect – increase in liabilities	**46,010**

5.4 Reclassifications in 2013

	2013
	BGN '000
Decrease in trade and other payables	(20,970)
Increase in provisions – current portion	20,970
Total effect – no change in liabilities	**-**

6. Business combinations

6.1 Establishing Energy Investment Company EAD in 2014

On 31 January 2014, the subsidiary Energy Investment Company EAD was listed in the Commercial register. The Company has registered capital amounting to BGN 50 thousand. Its principal activity is investment, development and implementation of new technologies, intellectual property transactions, asset management, entrepreneurship, consulting, engineering, processing, delivery and marketing of energy and natural resources and any other activities not prohibited by law.

6.2 Establishing Independent Bulgarian Energy Exchange EAD at the end of 2013

The Statute of the company Independent Bulgarian Energy Exchange EAD was adopted on 11 December 2013 by the sole owner BEH EAD. The registered capital of BGN 50 thousand was paid on 20 December 2013, and the official entry of the subsidiary in the Commercial Register was made on 10 January 2014 The core business of the company is organisation of an exchange market trading in energy and related products such as electricity, natural gas, lignite, emissions and green certificates, as a trading system which matches or contributes to matching of the interests for buying and selling of many third parties admitted to trading on a regulated market based on special rules.

7. Segment reporting

The management currently identifies the following Group's operating segments as further described in note 4.6, „electricity”, „natural gas”, „lignite” and „administration.” These operating segments are monitored and strategic decisions are made on the basis of adjusted operating results of the segment.
In addition, smaller operating segments that do not pass the quantitative thresholds are united in segment „administration”, which provides services to and generates sales revenue from the companies included in the other operating segments of the Group. Segment information can be analysed as follows for the reporting periods presented:

2014	Electricity	Natural gas	Lignite	Administration	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Revenue from sales and other operating income from:					
- external customers	4,222,388	1,725,347	245,740	3,196	6,196,671
- other segments	724,612	179,477	248,250	88,387	1,240,726
Revenue of the segment	**4,947,000**	**1,904,824**	**493,990**	**91,583**	**7,437,397**
Changes in finished goods and work in progress	(10,430)	444	13,585	-	3,599
Cost of acquisition of property, plant and equipment	9,868	-	5,221	1	15,090
Cost of natural gas, electricity and other current assets sold	(3,510,995)	(1,509,417)	-	-	(5,020,412)
Cost of materials	(461,543)	(7,420)	(133,965)	(246)	(603,174)
Hired services expenses	(212,289)	(16,120)	(45,265)	(6,250)	(279,924)
Depreciation and amortisation expenses	(411,753)	(70,086)	(61,770)	(1,249)	(544,858)
Employee benefits expense	(490,402)	(49,610)	(236,048)	(4,894)	(780,954)
Reintegration of impairment / (net impairment) of trade receivables	(4,794)	(12,895)	-	166,584	148,895
Provisions	(110,995)	-	(8,806)	-	(119,801)
Other operating expenses	(182,944)	(169,296)	(17,989)	(770)	(370,999)
Operating profit / (loss) of the segment from continuing operations	**(439,277)**	**70,424**	**8,953**	**244,759**	**(115,141)**
Operating loss of the segment from discontinued operations	**(58,532)**	**-**	**-**	**-**	**(58,532)**
Segment assets	**11,457,973**	**2,655,657**	**1,222,625**	**4,713,772**	**20,050,027**
Segment liabilities	**5,348,126**	**540,272**	**473,547**	**1,203,184**	**7,565,129**

2013	Electricity	Natural gas	Lignite	Administration	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Revenue from sales from:					
- external customers	3,782,159	1,683,405	224,096	3,335	5,692,995
- other segments	926,424	226,071	221,332	246,433	1,620,260
Revenue of the segment	**4,708,583**	**1,909,476**	**445,428**	**249,768**	**7,313,255**
Changes in finished goods and work in progress	8,578	505	14,281	-	23,364
Cost of acquisition of property, plant and equipment	19,416	-	5,359	-	24,775
Cost of natural gas, electricity and other current assets sold	(2,582,559)	(1,432,989)	-	-	(4,015,548)
Cost of materials	(434,171)	(5,914)	(128,711)	(227)	(569,023)
Hired services expenses	(355,519)	(19,694)	(38,785)	(5,216)	(419,214)
Depreciation and amortisation expenses	(450,732)	(70,914)	(54,624)	(1,592)	(577,862)
Employee benefits expense	(462,283)	(43,429)	(215,000)	(4,081)	(724,793)
Reintegration of impairment / (net impairment) of trade receivables	12	(3,761)	-	151,093	147,344
Provisions	(96,323)	-	(4,217)	-	(100,540)
Other operating expenses	(486,720)	(193,815)	(17,717)	(3,304)	(701,556)
Operating profit / (loss) of the segment from continuing operations	**(131,718)**	**139,465**	**6,014**	**386,441**	**400,202**
Operating loss of the segment from discontinued operations	(63,246)	-	-	-	(63,246)
Segment assets	**11,326,251**	**2,588,435**	**1,087,136**	**4,350,326**	**19,352,148**
Segment liabilities	**4,694,134**	**501,646**	**341,058**	**1,084,319**	**6,621,157**

Total revenue, operating profit, assets and liabilities of the individual segments are reconciled to the corresponding items in the consolidated financial statements of the Group as follows:

	2014	2013
	BGN '000	*BGN '000*
		Restated
Revenue		
Total segment revenue	7,437,397	7,313,255
Elimination of inter-segment revenue	(1,240,726)	(1,620,260)
Group revenue	**6,196,671**	**5,692,995**
(Loss) / profit		
Operating (loss) / profit of the segments	(115,141)	400,202
Elimination of profit from inter-segment transactions	(96,122)	(431,704)
Operating loss for the Group	**(211,263)**	**(31,502)**
Share of profit from equity accounted investments	51,331	34,210
Finance costs	(68,500)	(52,309)
Finance income	60,897	92,133
Group loss before tax from continuing operations	**(167,535)**	**42,532**
Group loss before tax from discontinued operations	**(58,532)**	**(63,246)**
Assets		
Total segment assets	20,050,027	19,352,148
Consolidation	(4,496,602)	(4,472,354)
Group assets	**15,553,425**	**14,879,794**
Liabilities		
Total segment liabilities	7,565,129	6,621,157
Consolidation	(1,967,389)	(1,963,884)
Group liabilities	**5,597,740**	**4,657,273**

8. Revenue from sales

	2014	2013
	BGN '000	*BGN '000*
Revenue from sale of electricity	3,859,208	3,109,618
Revenue from sale of natural gas	1,533,516	1,486,869
Revenue from sale of lignite	229,402	210,990
Revenue from other sales, including:	497,274	817,842
revenue from price obligation to society	*190,623*	*56,220*
revenue from transmission fees	*180,075*	*246,556*
revenue from access fees	*88,853*	*170,908*
revenue from reactive electric energy	*28,104*	*20,291*
revenue from water supply services	*4,726*	*5,401*
revenue from connection fees	*129*	*1,461*
revenue from a price mark-up for transmission of green energy	-	*225,469*
revenue from a price mark-up for transmission of highly efficient co-generation	-	*77,797*
revenue from other sales	*4,764*	*13,739*
	6,119,400	**5,625,319**

9. Other operating income

	2014	2013
	BGN '000	*BGN '000*
		Restated
Revenue from penalties	26,836	21,437
Revenue from financing (note 30)	8,874	9,978
Rental income	5,906	4,783
Revenue from sale of current assets	3,728	4,661
Revenue from insurance compensations	2,166	2,488
Revenue from disposal of assets	1,877	349
Revenue from surplus of assets	1,773	2,280
Gain on sale of property, plant and equipment	1,331	440
Other revenue	24,780	21,260
	77,271	**67,676**

The Group has signed long-term contracts for the sale of lignite with its main customers. In 2014, the Group did not account for revenue from penalties for failure to purchase the minimum mandatory annual quantities of lignite and penalties due to delayed payments by customers, in accordance with the contracts' terms due to low probability of collecting these revenues. As of the date of preparation of the consolidated financial statements the management has taken specific actions for analysis and discussions with all stakeholders, but an agreement for waiver of the penalties originating from the contract has not been signed. In case the parties involved refuse to sign such an agreement, the actual results may differ from the estimates, assumptions and judgements made.

10. Cost of natural gas, electricity and other current assets sold

	2014	2013
	BGN '000	*BGN '000*
		Restated
Electricity	(2,831,175)	(1,878,888)
Natural gas	(1,464,944)	(1,367,859)
Other current assets	(939)	(1,328)
	(4,297,058)	**(3,248,075)**

11. Cost of materials

	2014	2013
	BGN '000	*BGN '000*
Fuel	(174,325)	(138,881)
Spare parts	(66,110)	(68,798)
Electricity	(63,101)	(57,687)
Limestone	(15,258)	(12,844)
Cost of materials for acquisition of machinery and equipment in a commercial manner	(454)	(2,812)
Other raw materials	(22,028)	(24,026)
	(341,276)	**(305,048)**

12. Hired services expenses

	2014	2013
	BGN '000	*BGN '000*
Repairs	(73,563)	(63,169)
Insurance services	(62,376)	(57,866)
Security	(30,518)	(28,801)
Concession fees and licences	(18,987)	(16,848)
Other fees	(10,138)	(10,068)
Transportation	(13,913)	(14,883)
Consulting services	(11,934)	(16,217)
Communication services	(1,747)	(1,846)
Rental expenses	(1,695)	(5,407)
Others	(32,505)	(53,375)
	(257,376)	**(268,480)**

Remuneration for audit services

These consolidated financial statements have been audited by Grant Thornton OOD, a specialised auditing company and its manager and registered auditor Mariy Apostolov. The remuneration of the registered auditor is for an independent financial audit of the consolidated financial statements of the Group. During the year the auditor has provided no other services. This disclosure is made in compliance with the requirements of Art. 38, Paragraph 5 of the Accountancy Act.

13. Employee benefit expense

	2014	2013
	BGN '000	*BGN '000*
Remunerations	(501,026)	(478,348)
Social security	(158,086)	(147,009)
Social costs	(72,287)	(65,513)
Accruals for retirement benefits (note 31)	(26,954)	(13,486)
Expenses on unused annual leaves and the related social security contributions	(728)	(595)
Other benefits and allowances	(21,873)	(19,842)
	(780,954)	**(724,793)**

14. Other operating expenses

	2014	2013
	BGN '000	*BGN '000* Restated
Contributions to Nuclear Facilities Decommissioning Fund and Radioactive Waste Fund	(87,147)	(75,249)
Costs of green energy	(40,197)	(199,902)
Fines and penalties	(24,818)	(16,740)
Food and clothing	(13,126)	(13,806)
Technological losses of natural gas	(12,024)	(11,293)
Written off inventory and property, plant and equipment	(10,353)	(4,034)
Business trips	(3,794)	(3,896)
Local taxes and fees	(3,719)	(4,068)
Reversal of impairment of inventory	5,332	3,555
Impairment of inventory	(4,797)	(7,951)
Tax on certain expenses	(787)	(1,416)
Training and qualification	(618)	(583)
Costs for high efficiency cogeneration, supplement stranded costs and temporary access	-	(171,336)
Others	(38,270)	(26,853)
	(234,318)	**(533,572)**

Contributions to Nuclear Facilities Decommissioning Fund and Radioactive Waste Fund

According to the provisions of the Council of Ministers' ordinances on the amount, accumulation, expenditure and control of the funds and the amount of the instalments due to the Nuclear Facilities Decommissioning Fund and Radioactive Waste Fund, NPP Kozloduy EAD makes payments to the budget accounts of these funds. The payments due are determined in compliance with the requirements of the regulations mentioned above. The payments are expensed as incurred forming a pricing element of the electrical energy generated by NPP Kozloduy EAD for the regulated market.

15. Finance income

	2014	2013
	BGN '000	*BGN '000*
Interest income on receivables from Toplofikatsia Sofia EAD	16,612	7,067
Impairment of interest income on receivables from Toplofikatsia Sofia EAD	-	(4,320)
Interest income on bank deposits	4,366	8,497
Interest income on bank accounts	2,639	3,857
Other interest income on financial instruments carried at amortised cost	4,160	5,385
Total interest income from financial assets not carried at fair value through profit or loss	*27,777*	*20,486*
Gain on change of fair value of financial derivative	11,144	20,567
Gain on foreign currency exchange, net	21,711	50,828
Dividend income from financial assets available for sale	-	209
Others	265	43
	60,897	**92,133**

16. Finance costs

	2014	2013
	BGN '000	*BGN '000*
Interest expense on borrowings carried at amortised cost	(59,633)	(44,415)
Interest expense on finance leases	(8)	(33)
Total interest expenses for financial liabilities not carried at fair value through profit or loss	*(59,641)*	*(44,448)*
Interest expense on actuarial valuations (note 31)	(4,898)	(4,477)
Interest expense on tax payables, fees and state claims	(2,328)	(77)
Bank fees	(1,039)	(3,307)
Loss on change in fair value of financial derivative	(594)	-
	(68,500)	**(52,309)**

17. Income tax expense

The relationship between the expected tax expense based on the applicable tax rate in Bulgaria of 10 % (2013: 10 %) and the reported tax expense in profit or loss can be reconciled as follows:

	2014	2013
	BGN '000	*BGN '000* Restated
Accounting (loss) / profit from continuing operations	(167,532)	42,532
Accounting loss from discontinued operations	(58,532)	(63,246)
Accounting loss before tax	(226,064)	(20,714)
Tax rate	10%	10%
Expected income tax expense	-	-
Tax effect of:		
Increase of the financial result for tax purposes	(60,717)	(67,907)
Decrease of the financial result for tax purposes	24,663	44,560
Actual tax expense	(36,054)	(23,347)
Deferred tax (expenses) / income:		
Origination and reversal of temporary differences	(12,617)	22,784
Income tax expense	**(48,671)**	**(563)**
Deferred tax (expense)/ income recognized in other comprehensive income	(3,468)	169

Note 23 provides information on the deferred tax assets and liabilities, including amounts recognized in other comprehensive income.

18. Loss per share and dividends

18.1 Loss per share

Loss per share has been calculated using the net loss attributed to sole equity holder of the parent company as the numerator. The weighted average number of outstanding shares used for calculating the loss per share as well as the net loss attributable to the sole equity holder are as follows:

	2014	2013 Restated
Loss of the Group attributable to shareholders (BGN)	(274,339,651)	(21,305,482)
Weighted average number of outstanding shares	2,712,160,006	2,612,003,862
Loss per share (BGN per share)	**(0.101)**	**(0.008)**

18.2 Dividends

Distribution of profits is made by a decision of the General Assembly (the sole shareholder). Distribution of profits is conducted in the following order:

- at least 10% of the profit is transferred to "Statutory Reserves";
- as proposed by the Board of directors, portion of the attributable profit may be allocated to other reserves;
- dividends are paid out from the remaining portion.

The amount of dividends payable to the state are determined annually by the State Budget Act.

On 16 March 2015 Order №1 of the Council of Ministers was approved, according to which the joint stock companies which have the obligation to draw up both individual and consolidated financial statements in accordance with Art. 37 paragraph 2 of the Accounting Act, should pay dividends amounting to 60 percent of the profit in their consolidated financial statements for 2014.

With decision under protocol №RD-21-79 dated 22 July 2014 of the Minister of Economy and Energy, in accordance with Decree №5 of the Council of Ministers dated 11 June 2014 and in accordance with the State Budget for 2014, the financial result for 2013 before restatement for IAS 19 (revised) is distributed as follows:

- Dividend payable to the state at the amount of BGN 20,508 thousand (BGN 0.01 per share).
- Transferred amount to "Statutory Reserves" is BGN 39,692 thousand.
- Transferred amount to „Other reserves" is BGN 336,719 thousand.

In 2014, Bulgarian Energy Holding EAD paid dividends amounting to BGN 20,508 thousand (2013: BGN 205,846 thousand).

19. Property, plant and equipment

2014	Land and buildings	Machines and equipment	Vehicles	Fixtures and other assets	Acquisition costs	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Gross carrying amount:						
Balance as at 1 January 2014	955,666	9,562,116	67,715	68,113	2,008,085	12,661,695
Additions	681	12,397	1,687	572	473,153	488,490
Disposals	(678)	(50,577)	(1,036)	(2,398)	(20,827)	(75,516)
Transfers from acquisition costs	18,824	364,756	1,273	31,481	(416,334)	-
Transfers to intangible assets	-	(7)	-	-	(350)	(357)
Written off carrying value upon revaluation	(37,181)	(643,064)	-	-	-	(680,245)
Revaluation	(4,069)	42,507	-	-	-	38,438
Reversal of impairment recognised previously in profit or loss	22	6	-	-	-	28
Balance as at 31 December 2014	933,265	9,288,134	69,639	97,768	2,043,727	12,432,533
Depreciation:						
Balance as at 1 January 2014	(75,140)	(856,075)	(24,530)	(54,440)	-	(1,010,185)
Depreciation for the period	(31,090)	(497,356)	(6,885)	(1,834)	-	(537,165)
Disposals	9	28,459	842	2,387	-	31,697
Elimination of depreciation upon revaluation	37,181	643,064	-	-	-	680,245
Balance as at 31 December 2014	(69,040)	(681,908)	(30,573)	(53,887)	-	(835,408)
Carrying amount as at 31 December 2014	**864,225**	**8,606,226**	**39,066**	**43,881**	**2,043,727**	**11,597,125**

2013	Land and buildings	Machines and equipment	Vehicles	Fixtures and other assets	Acquisition costs	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Gross carrying amount:						
Balance as at 1 January 2013	913,192	8,344,327	65,760	67,778	2,870,130	12,261,187
Additions	4,794	43,104	188	422	385,319	433,827
Disposals	(12,652)	(21,999)	(690)	(351)	(2,557)	(38,249)
Transfers from acquisition costs	46,941	1,194,070	2,457	264	(1,243,732)	-
Transfers to intangible assets	-	-	-	-	(1,075)	(1,075)
Revaluation	3,391	2,614	-	-	-	6,005
Balance as at 31 December 2013	955,666	9,562,116	67,715	68,113	2,008,085	12,661,695
Depreciation:						
Balance as at 1 January 2013	(46,166)	(331,414)	(17,095)	(53,066)	-	(447,741)
Depreciation for the period	(29,365)	(531,713)	(7,841)	(1,704)	-	(570,623)
Disposals	340	5,969	406	330	-	7,045
Elimination of depreciation from revaluation	51	1,083	-	-	-	1,134
Balance as at 31 December 2013	(75,140)	(856,075)	(24,530)	(54,440)	-	(1,010,185)
Carrying amount as at 31 December 2013	**880,526**	**8,706,041**	**43,185**	**13,673**	**2,008,085**	**11,651,510**

Property, plant and equipment include the nuclear power plant of NPP Kozloduy EAD, the thermal power plant of TPP Maritsa East 2 EAD, the coal mining facility of Mini Maritsa-iztok EAD, the highway and transit gas pipelines and Chiren underground gas storage facility of Bulgartransgaz EAD, the electricity transmission grid, as well as HPP and PSHPP owned by NEK EAD.

Finance lease

The carrying amount of the acquired property, plant and equipment under finance lease as at 31 December 2013 amounts to BGN 102 thousand All finance lease obligations have been paid in full in 2014.

Acquisition costs

Acquisition costs of property, plant and equipment as at 31 December 2014 comprise mainly:
- A project for the construction of Belene NPP at NEK EAD;
- Modernisation of compressor stations and gas pipelines at "Bulgartansgaz" EAD
- Dry storage facility for spent nuclear fuel that will ensure the safe storage of spent nuclear fuel from VVER - 440 within the next 50 years. The storage facility was completed in 2011. The final commissioning is envisaged by the end of 2015, after the Nuclear Regulatory Agency issues a license for the operation of the repository. The construction of the storage facility was funded by the International Fund for supporting the decommissioning of units 1-4 of NPP "Kozloduy", administered by the European Bank for Reconstruction and Development;
- Activities for extending the life of the fifth and sixth power units of NPP Kozloduy EAD.
- Project "Reconstruction of the circulating pump station" including commissioning of 6 new pumping units, 6 complete stop and return valves and 6 bars;
- Establishing a system for transportation of dehydrated gypsum to landfill and construction of a depot for gypsum and increasing the power of the turbines of unit 5 and unit 7 of TPP Maritsa East 2 EAD;
- Rehabilitation of the mining excavators in Mini Maritsa-iztok EAD;
- The construction of optical cable lines by Bulgartel EAD and other projects.

NPP Belene project

The project for construction of NPP Belene began in 1981. However, in 1991 the financing of the project ceased. In May 2004 the Government of the Republic of Bulgaria announced its official decision to resume the construction of the Second Nuclear Power Plant Belene and on 7 April 2005 took the final decision to resume the project in compliance with Art. 45 of the Safe Use of Nuclear Energy Act.
On 30 October 2006 NEK EAD officially appointed ZAO "Atomstroyexport" with project A92 as executor of the construction of two 1000 MW units with light water reactors on the Belene site.
On 29 November 2006 in Sofia, ZAO "Atomstroyexport" and NEK EAD signed an Agreement for construction of NPP Belene.
As of 31 December 2014 the total costs on the NPP Belene project included in the balance of assets under construction amount to BGN 1,305,958 thousand (2013: BGN 1,305,958 thousand). Property, plant and equipment with carrying amount of BGN 83,070 thousand as at 31 December 2014 (2013: BGN 85,330 thousand) are associated with the Belene project.
As of 31 December 2014 the total amount invoiced under the production of long-term equipment by ZAO "Atomstroyexport" amounts to BGN 202,522 thousand (2013 – BGN 202,522 thousand), are kept by NEK EAD as off-balance sheet position, as the Group considers that the ownership over the long-term equipment and the related risks and rewards will be transferred to NEK EAD, when the equipment is delivered on the boarder of the Republic of Bulgaria.
On 29 March 2012 the Government of Republic of Bulgaria took a conclusive decision to terminate the construction of a nuclear power plant on the Belene site. A decision dated 27 February 2013 of 41st National Assembly supported the government's decision to cease the project for construction of a new nuclear power plant Belene and insist on its final termination.
Based on the above stated facts, the Group considers that as of 31 December 2013, a significant uncertainty exists as to the future accomplishment of the project, recoverable amount of the assets related to the construction of the nuclear power plant, as well as any probable cash outflows, which may come due, on termination of the contracted agreements between NEK EAD and ZAO "Atomstroyexport". Legal cases related to the termination of the project are disclosed in note 41 Commitments and contingent liabilities.

Revaluation of property, plant and equipment

The last revaluation of the main portion of property, plant and equipment of the Group is carried out as at 31 December 2012 in accordance with the revaluation model applied for subsequent evaluation and the requirements of

Group's accounting policies. The revaluation was carried out by independent certified appraisers. As at 31 December 2014 the Group has verified for any indications that the carrying value of property, plant and equipment is significantly different from their fair value and has not identified significant differences, except for the assets of TPP Maritsa East 2 EAD which have updated the fair values according to a report by an independent certified appraiser. The specifics of the Group's assets and dynamic economic environment in the energy sector could lead to variations in the assumptions used and judgments in determining the fair value. Information on basic methods in determining the fair values of assets is presented below for the individual companies, as well as in note 39.

Bulgarian Energy Holding EAD

Bulgarian Energy Holding EAD performed revaluation of certain groups of property, plant and equipment. The revaluation was carried out based on an assessment of their fair value by an independent licensed appraiser ASA Consult EOOD. The effective date of the revaluation was 31 December 2012. The valuation methods used to determine the fair values of the assets are as follows:

- for the purposes of evaluation of land – the market comparison method, the residual value method, the method of compensation, and the method of analysis by category and location were used, and to each one of them a weighted coefficient was assigned;
- for the purposes of evaluation of the buildings, the depreciated replacement value method (deriving the fair value on the basis of the costs to construct similar property at the date of valuation, adjusted to reflect the actual condition of the evaluated buildings), the gross rent multiplier method (a variety of the revenue method) and the market comparison method were used, and to each one of them a weighted coefficient was assigned.

TPP Maritsa East 3 EAD

The Group as at 31 December 2014 has reviewed the major part of property, plant and equipment and has determined that the carrying value of certain assets of TPP Maritsa East 2 EAD differ materially from their fair value. The Group performed a revaluation of the main groups of property, plant and equipment of TPP Maritsa East 2 EAD as at 31 December 2014 based on the assessment of their fair value performed by an independent certified appraiser. Accordingly, revaluation amounting to BGN 34,594 thousand has been recorded in other comprehensive income, net of tax. The valuation methods applied in determining fair values of the assets are as follows:

- for the assessment of land were used the method market analogues derived by adjusting comparable market prices and the method based on possible compensation method (Negeli's method);
- for the assessment of buildings were used method of depreciated replacement value and comparative (market) method;
- for the assessment of machinery, equipment and movable property were used method of depreciated replacement cost and comparative (market) method.

Bulgargaz EAD

Based on recent market transactions, adjusted according to the specific conditions relating to assets, “Bulgargaz” EAD has assessed the fair value of all assets of the Company as at 31 December 2014. The results of these tests and assessments show no significant fluctuations in the market values of the Company's assets and therefore no consequential adjustment to the carrying amounts of the assets was deemed necessary.

Mini Maritsa-iztok EAD

The massive buildings, machinery and equipment, spare parts, trucks and special vehicles of the company were revalued as of 31 December 2012 by an independent licensed appraiser. The evaluation reports were prepared by Commerce Engineering Consult - 99 Ltd. The basic method used for the evaluation was the cost approach. The buildings were evaluated by using the depreciated replacement value method, and the evaluation of the plant and railway transport vehicles was based on the replacement method. For the evaluation of land, used in the coal mining extraction process with carrying amount 14,289 thousand, the methods used took into account the specificity of these lands and these methods are directly related to evaluation methodology applied by the Company. The carrying value amounting to BGN 6,299 thousand of the remaining land was evaluated by using the market comparison method.

Bulgartransgaz EAD

Bulgartransgaz EAD performed revaluation as at 31 December 2012 of certain groups of property, plant and equipment. The revaluation was carried out based on an assessment of the assets’ fair value by an independent

licensed appraiser and in compliance with the Law on Independent Appraisers, Business Valuation Standards and the applicable legislation in Bulgaria.
The valuation methods used to determine the fair values of the assets are as follows:

- for the purposes of evaluation of land two approaches are used:
  - the evaluation of plots of land, for which reliable market data is available about comparable plots of land is performed by using the market comparison method;
  - for the majority of the plots of land used in the operating activities of the Company, which are associated with certain reserved easements, the market comparisons approach was used based on the market prices of agricultural land, depending on the category of the land, which are then adjusted to reflect the zoning, infrastructure, location, specific characteristics of the activities for which they are used and the market attractiveness for sale.
- for the purposes of evaluation of buildings - the value of the property is determined by considering the relationship between construction costs, income and market value. Mainly due to the specialized nature of the buildings, the depreciated replacement value method was used;
- for the purposes of evaluation of plant and equipment - due to their specialized nature, configuration and uniqueness and the absence of market evidence and analogues, the depreciated replacement value method was used;
- for the purposes of evaluation of specialized vehicles – the cost approach and the market comparison method were used.

NEK EAD

At 31 December 2012 the fair values of property, plant and equipment owned by NEK EAD were revalued in compliance with the adopted revaluation model for subsequent measurement. Revaluation was performed for certain groups of property, plant and equipment according to the requirements of the Group's accounting policies. The valuation was carried out by independent licensed appraisers. The methods used in estimating the fair value of property, plant and equipment were: the depreciated replacement value method for the buildings, the market comparison method for the land and depreciated replacement value method for the other items of plant and equipment.

Bulgartel EAD

Optical cable lines, machines and equipment of the Group were revalued as at 31 December 2014 by an independent appraiser. The fair values were determined using the depreciated replacement value of assets. Fair value was determined on the basis of:

- Useful life, and
- The market prices of the assets as of the date of revaluation.

For greater credibility in determining the fair value of the assets a combination of the following two methods was used:

- method for determining the market value of assets in the process of acquisition - determining the actual costs for delivery, installation and commissioning of various machinery and equipment;
- method for determining the market value of assets referred as analogous items - the market value was determined in accordance with the market prices of the assets or analogues thereto as at the valuation date.

According to the valuation report, the carrying amounts of the optical cable lines, machinery and equipment approximated their fair values.

NPP Kozloduy EAD

Certain groups of property, plant and equipment were revalued as of 31 December 2012 on the basis of reports provided by an independent licensed appraiser. The fair value of land and buildings was determined using the depreciated replacement value method, the market comparison method, adjusted to reflect the specific nature of the assets and the income based method. The fair value of plant and equipment was determined by applying the depreciated replacement value method, adjusted to reflect the technical obsolescence of the assets.

In accordance with its accounting policy as at 31 December 2014, the Group reviewed the items of property, plant and equipment for any indications that the carrying amount is significantly different from their fair value. The terms and manner of use of the assets of the Group were reviewed as at 31 December 2014. The inflation index of the National Statistical Institute for 2014 compared to 2013 was used, which was 99.1. The conclusion reached was that there was no significant change in the economic conditions. As a result, the analysis found that there were no indications that the carrying value of property, plant and equipment was significantly different from their fair value as at 31 December 2014 and there was no need for a new revaluation of property, plant and equipment.

For property, plant and equipment carried at revalued amount, the disclosure of the carrying amount that would have been recognised had the assets been carried out at cost is impracticable due to the complexity of the assets held long periods of time during which these assets owned by the Group.

Advance payments on agreements for construction of property, plant and equipment

The advance payments on the agreements for the construction of NPP Belene, rehabilitation of the transmission network and other capital projects amount to BGN 190,651 thousand (2013: BGN 192,093 thousand) and are presented as “Advances to suppliers” within “Trade and other receivables” (note 22).

Assets declared public state property

As at 31 December 2014 the property, plant and equipment of the Group include assets with carrying amount of BGN 933,505 thousand (2013: BGN 943,681 thousand), which are declared public state property as per the Water Act. According to the law, legal entities with 100 % state participation or legal assets with combined state and municipal participation, where the majority stake belongs to the State, should manage separately this type of assets. As of the reporting date no specific actions were taken by Bulgarian authorities with regard to the future ownership and use of these assets. Until the future changes on the aforementioned aquaculture facilities are specified, they are managed by the subsidiary NEK EAD, against which the Group generates revenue.

Assets with disputable ownership

NEK EAD
As at 31 December 2014 for land and buildings with a carrying amount of BGN 18,476 thousand (2013: BGN 20,337 thousand) a procedure is undergoing for issuing acts for state property.

ESO EAD
As at 31 December 2014 at ESO EAD there are certain real estate properties without proof of ownership. On the basis of accounting data, the property owned by ESO EAD without proof of ownership has a carrying value of BGN 7,097 thousand as of 31 December 2014. The property without documents of ownership was transferred from NEK EAD based on decision made by BEH EAD in Protocol №71-2013 for the spin-off of NEK EAD, which was registered in the Commercial register on 4 February 2014.

Collateral on loans received by NEK EAD

As a collateral for export and commercial loans from ING Bank NV - The Netherlands, NEK EAD provided a mortgage of land and buildings of HPP Studen Klatenets, HPP Ivaylovgrad and HPP Kardzhali (cascade “Dolna Arda”) with a carrying value of BGN 17,245 thousand as at 31 December 2014 (2013: BGN 18.352 thousand). All current and future assets, including machinery and equipment, part of cascade “Dolna Arda” are pledged in favour of ING Bank NV.

As collateral on contracts for commercial loans from banks Credit Suisse First Boston and Bank Austria Creditanstalt NEK EAD mortgaged assets related to HPP “Tsankov Kamak” with carrying value of BGN 104,433 thousand as at 31 December 2014 (2013: BGN 106,298 thousand). Pledged are all items of the present and future equipment acquired by the subsidiary NEK EAD in connection with the construction and operation of HPP, penstock, Hydro facility and all other facilities constituting HPP “Tsankov Kamak” in favour of the creditor banks on the project.

Change in the expected remaining useful life of the main energy generating facilities of TPP Maritsa East 2 EAD

The new rules for balancing the electricity system (ES) and the switching to balancing market are expected to increase the demand for balancing energy from TPP Maritsa East 2 EAD, a major player in balancing the power system. Based on these expectations, the remaining useful life of the main energy generating facilities of TPP Maritsa East 2 EAD, including boiler, turbine, generator and auxiliary equipment was increased with effect from 1 January 2014. This resulted in reduction of depreciation charges by BGN 56,302 thousand for the year 2014.

20. Intangible assets

	Software	Patents and licenses	Other intangible assets	Development costs	Concession	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Gross carrying amount						
Balance as at 1 January 2014	58,852	13,000	94,607	44,766	2,905	214,130
Additions	2,410	3,304	696	2,988	-	9,398
Disposals	(583)	(1,679)	(57)	(157)	-	(2,476)
Transfers from property, plant and equipment	101	79	26	-	151	357
Balance as at 31 December 2014	60,780	14,704	95,272	47,597	3,056	221,409
Amortisation						
Balance as at 1 January 2014	(49,442)	(11,083)	(84,888)	(43,186)	(2,742)	(191,341)
Amortisation	(4,119)	(626)	(1,119)	(1,110)	(56)	(7,030)
Disposals	583	1,679	42	157	-	2,461
Balance as at 31 December 2014	(52,978)	(10,030)	(85,965)	(44,139)	(2,798)	(195,910)
Carrying amount as at 31 December 2014	**7,802**	**4,674**	**9,307**	**3,458**	**258**	**25,499**

Impairment of intangible assets

The Group reviewed its intangible assets for indications for impairment as at 31 December 2014. There were no indications that the carrying value of the assets exceeded their recoverable amount and as a result, no impairment loss was recognised in the consolidated financial statements.

	Software	Patents and licences	Other intangible assets	Development costs	Concession	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Balance as at 1 January 2013						
Additions	59,194	13,160	93,635	44,956	2,912	213,857
Disposals	3,325	298	1,070	-	-	4,693
Transfers from property, plant and equipment	(3,667)	(458)	(98)	(190)	(7)	(4,420)
Balance as at 31 December 2013	58,852	13,000	94,607	44,766	2,905	214,130
Amortisation						
Balance as at 1 January 2013	(48,937)	(10,592)	(83,652)	(42,422)	(2,628)	(188,231)
Amortisation	(4,172)	(762)	(1,236)	(953)	(116)	(7,239)
Disposals	3,667	271	-	189	2	4,129
Balance as at 31 December 2013	(49,442)	(11,083)	(84,888)	(43,186)	(2,742)	(191,341)
Carrying amount as at 31 December 2013	**9,410**	**1,917**	**9,719**	**1,580**	**163**	**22,789**

21. Investments in joint ventures, associates and other entities

			2014		2013
	Country of incorporation	Share	*BGN '000* Value of investments	Share	*BGN '000* Value of investments
Joint ventures					
ICGB AD	Bulgaria	50%	5,803	50%	5,893
Nabucco Gas Pipeline International Ltd.	Austria	17.93%	-	17.93%	-
South Stream Bulgaria AD	Bulgaria	50%	215,611	50%	26,982
Trans Balkan Electric Power Trading C.A. - NECO S.A.	Greece	50%	2,457	50%	4,042
			223,871		36,917
Associates					
ContourGlobal Maritsa East 3 AD	Bulgaria	27%	88,713	27%	92,054
Contour Operations Bulgaria AD	Bulgaria	27%	1,442	27%	1,409
ZAD Energy	Bulgaria	48.08%	28,372	48.08%	28,334
Allianz Bulgaria Pension Company AD	Bulgaria	34%	13,826	34%	12,036
HPP Gorna Arda AD	Bulgaria	30%	828	30%	1,219
			133,181		135,052
Total associates and joint ventures			**357,052**		**171,969**
Other investments					
Ecological operation of fuels and energetic oils OOD	Bulgaria	70%	3	70%	3
Bultehash OOD	Bulgaria	67%	-	67%	-
Zeus Holding	Bulgaria	4%	2	4%	2
			5		**5**
			357,057		**171,974**

ICGB AD

The parent company BEH EAD is a partner in "ICGB" AD. Until the beginning of 2017 the project company will build a 182 km long gas interconnector Greece-Bulgaria from the town of Komotini to the town of Stara Zagora with capacity of up to 3 billion m^3 / year. The joint venture is planned to build and own the pipeline, and hence to receive income from the transmission of natural gas.

Nabucco Gas Pipeline International OOD

The parent company BEH EAD has been a joint venture partner in "Nabucco Gas Pipeline International" Ltd., Austria, since the establishment of the company in 2005. The company was established with to aim to implement project "Nabucco" for the construction of a pipeline transporting natural gas from the Caspian region to Europe. In July 2013 the partners decided that the project be terminated. As a result, the investment in the project company was fully impaired as at 31 December 2013 and impairment amounting to BGN 52,070 thousand was charged to profit or loss. In 2014 the project company returned part of the investment amounting to BGN 4,754 thousand, leading to a reversal of impairment from 2013.

South Stream Bulgaria AD

In June 2014, with the permission of the Minister of Economy and Energy an agreement was entered into to obtain funds from Gazprom EP International BV, which will be used to finance the participation of BEH EAD in the project company "South Stream Bulgaria" AD. The repayment of amounts under the agreement will be carried out only out of the proceeds of BEH EAD from dividends from the project company. On 11 August 2014 a tranche was received at the amount of BGN 191,009 thousand, representing the contribution by Bulgarian Energy Holding EAD for share capital increase, which took place on 18 August 2014. On this date the share capital of the joint venture company was increased by BGN 382,018 thousand by both shareholders - BEH EAD and OAO "Gazprom". A protocol decision of the Minister of Economy and Energy in 2014 was issued, which required BEH EAD to take the necessary actions to stop the tender procedures for the project "South Stream" and the signing of contracts with the selected candidates related to the implementation of the project until completion of the procedure initiated by the European Commission on infringement №2014/2176 against the Republic of Bulgaria.

In December 2014 representatives of the Russian shareholder in "South Stream Bulgaria" AD, OAO Gazprom, publicly announced their intention to terminate the project. The management of BEH EAD has not received yet an official notification for termination or additional information concerning the future intentions of the other shareholder.

Trans Balkan Electric Power Trading SA - NECO S.A.

The Group holds 50% of the share capital of NECO S.A., a joint venture, the main activity of which is trade with electricity, as well as construction and reconstruction of thermal power plants.

ContourGlobal Maritsa East 3 AD

The Group holds 27% of the capital of the thermal power plant (TPP) ContourGlobal Maritsa East 3, the main activity of which is generation, distribution and sale of electricity and thermal power.

ContourGlobal Operations Bulgaria AD

The Group, through NEK EAD, holds 27% of the capital of Contour Global Operations Bulgaria AD, the main activity of which is operation and maintenance of TPP Contour Global Maritsa East 3 AD.

ZAD Energy

The Group holds 48.08% of the share capital of ZAD Energy, which carries out insurance activities.

Allianz Bulgaria Pension Company AD

The Group holds 34% of the share capital of Allianz Bulgaria Pension Company AD, which carries out pension insurance activities.

HPP Gorna Arda AD

The Group holds 30% of the share capital of HPP Gorna Arda AD, the main activity of which is evaluation, design and planning of the construction of the cascade "Gorna Arda", including the construction of hydroelectric power plants with total capacity of approximately 160 MW, providing financing and construction of cascade "Gorna Arda" and operating the facility (after obtaining the necessary licenses and permits).

At the General Meeting of Shareholders of HPP Gorna Arda AD, held on 11 June 2012, a decision was taken for the increase of the share capital from BGN 2,330 thousand to BGN 21,888 thousand by issuing 195,580 ordinary shares with voting rights and nominal value of BGN 100 each. On 19 June 2012 NEK EAD paid contributions equal to 25% of the shares issued, at the amount of BGN 1,467 thousand. As at 31 December 2014 the deadline for submission of the remaining contributions of the shareholders for the share capital increase was extended until the signing of an agreement between NEK EAD and HPP Gorna Arda for construction works in Madan. The delay in paying the remaining contributions will not be associated with negative consequences for the shareholders.

Ecological operation of fuels and essential oils OOD

The Group holds 69.90% of the share capital of Ecologic Exploitation of Fuels and Power Oils OOD, which carries out mainly exploration of tangible natural energy sources: gas, coal, oil derivatives, their incoming and operational control, as well as their ecologic exploitation. The carrying amount of the investment as at 31 December 2014 is BGN 3 thousand (2013: BGN 3 thousand). Ecologic Exploitation of Fuels and Power Oils OOD does not carry out any operations and negotiations are held between the shareholders to close the company.

Bultehash OOD

Bultehash OOD is in liquidation and the investment has been impaired.

Summarised financial information about the joint ventures and associates

The following table presents summarised financial information based on the financial statements of the Group's joint ventures and associates as at 31 December of the year:

Joint ventures and associates as at 31 December 2014	ICGB AD	Nabucco Gas Pipeline International	South Stream Bulgaria AD	Trans Balkan Electric Power Trading SA - NECO S.A.	ContourGlobal Maritsa East 3 AD	ContourGlobal Operations Bulgaria AD	ZAD Energy	Allianz Bulgaria Pension Company AD	HPP Gorna Arda AD	**Total**
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Non-current assets	6,149	47	40,248	763	766,861	2,797	30,246	39,835	1,943	888,889
Current assets (a)	5,670	15,353	397,643	9,903	491,091	10,275	70,829	2,973	1,063	1,004,800
Total assets	**11,819**	**15,400**	**437,891**	**10,666**	**1,257,952**	**13,072**	**101,075**	**42,808**	**3,006**	**1,893,689**
Non-current liabilities (b)	-	-	112	-	661,111	2,751	-	-	-	663,974
Current liabilities (c)	214	12,877	6,558	5,752	268,274	4,981	42,065	2,142	246	343,109
Total liabilities	**214**	**12,877**	**6,670**	**5,752**	**929,385**	**7,732**	**42,065**	**2,142**	**246**	**1,007,083**
a) including cash and cash equivalents	5,505	2,791	393,140	4,509	26,438	313	6,751	1,755	976	442,178
b) including non-current borrowings	-	-	22	-	527,750	-	-	-	-	527,772
c) including current borrowings	-	-	48	-	64,651	-	-	-	-	64,699
Revenue	-	2,641	-	40,906	485,555	28,551	58,484	28,314	-	644,451
Depreciation charges	-	-	(200)	-	(80,633)	-	(313)	(162)	-	(81,308)
Income tax expense	-	(3)	-	(667)	(12,409)	(573)	(2,454)	(1,495)	-	(17,601)
Profit /(loss) for the year	(180)	2,524	(4,760)	3,366	111,370	5,121	22,649	16,309	(824)	155,575
Other comprehensive income for the year	-	-	-	-	(9,745)	-	(237)	(22)	-	(10,004)
Total comprehensive income /(loss) for the year	**(180)**	**2,524**	**(4,760)**	**3,366**	**101,625**	**5,121**	**22,412**	**16,287**	**(824)**	**145,571**
Profit / (loss) for the year attributable to the Group	**(90)**	**4,753**	**(2,380)**	**1,349**	**30,070**	**1,383**	**11,100**	**5,537**	**(391)**	**51,331**
Total net assets	11,605	2,523	431,221	4,914	328,567	5,340	59,010	40,666	2,760	886,696
Share held by the Group	50%	17.93%	50%	50%	27%	27%	48.08%	34%	30%	
Carrying amount of the investment	**5,803**	**-**	**215,611**	**2,457**	**88,713**	**1,442**	**28,372**	**13,826**	**828**	**357,052**

Joint ventures and associates as at 31 December 2013	ICGB AD	Nabucco Gas Pipeline International	South Stream Bulgaria AD	Trans Balkan Electric Power Trading SA - NECO S.A.	ContourGlobal Maritsa East 3 AD	ContourGlobal Operations Bulgaria AD	ZAD Energy	Allianz Bulgaria Pension Company AD	HPP Gorna Arda AD	**Total**
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Non-current assets	4,823	-	13,297	763	824,002	3,267	6,333	32,100	-	884,585
Current assets (a)	7,282	22,462	233,722	9,903	351,260	11,274	84,190	4,937	4,536	729,566
Total assets	**12,107**	**22,462**	**247,019**	**10,666**	**1,175,262**	**14,541**	**90,523**	**37,073**	**4,536**	**1,614,189**
Non-current liabilities (b)	-	-	91	-	702,337	3,174	-		-	705,602
Current liabilities (c)	322	8,066	192,965	2,583	131,983	6,148	31,593	1,673	472	375,805
Total liabilities	**322**	**8,066**	**193,056**	**2,583**	**834,320**	**9,322**	**31,593**	**1,673**	**472**	**1,081,407**
a) including cash and cash equivalents	7,113	12,673	230,866	4,509	15,837	320	10,821	2,171	2,246	286,556
b) including non-current borrowings	-	-	33	-	614,606	-	-	-	-	614,639
c) including current borrowings	-	-	85	-	66,565	-	-	-	-	66,650
Revenue	-	6,826	-	25,938	395,962	29,273	49,653	23,838	-	531,490
Depreciation charges	-	-	(187)	-	(80,602)	-	(284)	(190)	-	(81,263)
Income tax expense	-	(3)	-	-	(11,269)	(577)	(2,475)	(1,302)	-	(15,626)
Profit /(loss) for the year	(206)	(78,172)	(4,449)	(947)	101,604	5,156	22,795	13,649	(869)	58,561
Other comprehensive income for the year	-	-	-	-	25,531	-	(454)	(6)	-	25,071
Total comprehensive income /(loss) for the year	**(206)**	**(78,172)**	**(4,449)**	**(947)**	**127,135**	**5,156**	**22,341**	**13,643**	**(869)**	**83,632**
Profit / (loss) for the year attributable to the Group	**(102)**	**(8,427)**	**(2,224)**	**(500)**	**27,433**	**1,393**	**12,258**	**4,640**	**(261)**	**34,210**
Total net assets	11,785	14,396	53,963	8,083	340,942	5,219	58,930	35,400	4,064	533,254
Share held by the Group	50%	17.93%	50%	50%	27%	27%	48.08%	34%	30%	
Carrying amount of the investment	**5,893**	**-**	**26,982**	**4,042**	**92,054**	**1,409**	**28,334**	**12,036**	**1,219**	**171,969**

Investments in associates and joint ventures are accounted for using the equity method. The date of the financial statements of associates and joint ventures is 31 December. All transfers of funds to the Group, as the payment of dividends are carried out after the approval of at least 51% of all shareholders in associates.

22. Trade and other receivables

	Note	2014	2013
		BGN'000	*BGN'000* Restated
Trade receivables, gross amount		53,559	82,590
Accumulated impairment of trade receivables		-	(81,176)
Trade receivables, net amount		*53,559*	*1,414*
Receivables from KTB AD – in bankruptcy		135,239	17,381
Accumulated impairment of the receivables from KTB AD – in bankruptcy		(1,292)	-
Receivables from KTB AD – in bankruptcy, net amount	22.4	*133,947*	*17,381*
Financial assets		**187,506**	**18,795**
Advances to suppliers		8	4
Prepaid services	22.1	39,313	117,918
Non-financial assets		**39,321**	**117,922**
Trade and other receivables – noncurrent portion		**226,827**	**136,717**
Trade receivables, gross amount		1,715,849	1,350,700
Accumulated impairment of trade receivables		(306,646)	(402,658)
Trade receivables, net amount		1,409,203	*948,042*
Litigations and claims, gross amount		290,732	204,070
Accumulated impairment of litigation and claims		(187,675)	(189,759)
Litigation and claims, net amount		103,057	*14,311*
Receivables from ZAO Atomstroyexport		7,883	7,883
Interest receivables for late payment, gross amount		6,602	7,355
Interest receivables on bank deposits		16	18
Other receivables, gross amount		34,950	23,121
Accumulated impairment of other receivables		(744)	(745)
Other receivables, net amount		34,206	*22,376*
Financial assets		**1,560,967**	**999,985**
Advances to suppliers		301,003	305,348
Prepaid services	22.1	96,442	86,717
Tax refunds		8,672	97,974
Non-financial assets		**406,117**	**490,039**
Trade and other receivables – current portion		**1,967,084**	**1,490,024**
Trade and other receivables		**2,193,911**	**1,626,741**

Trade receivables are not interest bearing and are usually with payment term of 1 to 30 days.

The movements in the accumulated impairment of trade and other receivables can be reconciled as follows:

Impairment of trade and other receivables	2014	2013
	BGN'000	*BGN'000*
On 1 January	674,338	700,187
Impairment loss during the year	18,668	16,680
Reversal of impairment loss	(167,023)	(2,414)
Written off	(29,626)	(40,115)
On 31 December	**496,357**	**674,338**

As at 31 December the amounts of trade and other receivables, analysed by the length of time past due are presented in the table below:

	Neither overdue, nor impaired	Overdue, but not impaired			Total
		0-180 days	180-360 days	>360 days	
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
2014	1,139,093	220,241	379,211	455,366	**2,193,911**
2013	1,048,820	242,735	296,768	38,418	**1,626,741**

22.1 Prepaid services

Prepaid services at the amount of BGN 135,755 thousand as at 31 December 2014 comprise BGN 117,908 thousand of prepaid services for "unredeemed availability" of NEK EAD. They relate to costs incurred during the previous pricing period associated with accumulated liabilities for "unredeemed availability" of plants AES - 3C Maritza East I EOOD and ContourGlobal Maritsa East 3 AD, which will be gradually compensated for the period from 1 January 2014 to 30 June 2016 pursuant to Reasons for Decision №TS-43 dated 30 December 2013 of EWRC.

22.2 Receivables from Toplofikatsia Sofia EAD

	2014	2013
	BGN'000	*BGN'000*
Non-current receivables from Toplofikatsia Sofia EAD, gross amount	53,491	170,329
Impairment	-	(170,329)
Non-current receivables from Toplofikatsia Sofia EAD, net amount	53,491	-
Current receivables from Toplofikatsia Sofia EAD, gross amount	614,880	319,137
Impairment	(64,403)	(55,899)
Current receivables from Toplofikatsia Sofia EAD, net amount	550,477	263,238
	603,968	**263,238**

Trade receivables from Toplofikatsia Sofia EAD with carrying amount of BGN 603,968 thousand as at 31 December 2014 (2013: BGN 263,238 thousand) originated from sales of natural gas by the subsidiary Bulgargaz EAD. At the end of 2014 negotiations started with "Toplofikatsia Sofia" AD on the terms for combining and rescheduling of the debts to the Group. In the process of negotiations between the two parties it was agreed that the tender procedure for selection of an investor / operator for "Toplofikatsia Sofia" EAD should include criteria to evaluate the terms for repayment of the debt to BEH EAD. At the date of authorisation of these consolidated financial statements for issue, the parties are still negotiating the total amount and repayment schedule of the debt.

22.3 Receivables from electricity distribution companies

The Group, through its subsidiary NEK EAD, accounts for receivables from electricity distribution companies amounting to BGN 344,869 thousand as at 31 December 2014. These amounts are unrecovered claims of NEK EAD from the power distribution companies, the latter have objected to payment.

NEK EAD should recover the costs of the end suppliers related to purchased electricity from renewable sources and high-efficiency cogeneration at the prices at which energy had purchased from renewable sources and high-efficiency cogeneration units for the period from 5 July 2013 to 31 July 2013. This obligation is pursuant to Art. 94 of the Energy Act, the entry into force of amendments to the Energy Act, the extension of the regulatory period until 31 July 2013, and the cancelled "Methodology for compensating the costs of public providers and end suppliers arising from the imposed public service obligations for purchase of electricity at preferential prices from renewable energy sources and high-efficiency cogeneration of heat and electricity", adopted by Decision № 117 dated 16 July 2012 of EWRC which entered into force on 1 July 2012.

According to Decision №TS-12 dated 30 June 2014 of EWRC, the costs for electricity from renewable energy sources should be restored within the next 5 regulatory period until 30 June 2019 via the prices of electricity. The recovered expenses and the corresponding trade payables to power distribution companies related to the respective sales in 2014 are BGN 34,666 thousand as a result of the application of the above Decision №TS-12 dated 30 June 2014 of EWRC.

22.4 Receivables from KTB AD – in bankruptcy

	2014	2013
	BGN'000	*BGN'000*
Cash reclassified as receivables from KTB AD – in bankruptcy	117,178	-
Account "Exit fund", reclassified as receivables from KTB AD – in bankruptcy	18,061	17,381
Impairment	(1,292)	-
	133,947	**17,381**

The fund raising account "Exit fund" was opened in connection with the concession granted for mining in "East-Maritsa coal basin" of the subsidiary Mini Maritsa-iztok EAD in relation to Decision №655 dated 13 July 2005 of the Council of Ministers (published in SG. 61 on 26 July 2005). For the period 2010 - 2062 the funds raised in the above account mentioned should be BGN 278,800 thousand. The restricted cash can be used only for the purpose for which the money was raised (certain restoration work of the concession area) and after the explicit permission by the Ministry of Energy.

On 20 June 2014 Bulgarian National Bank (BNB) placed "Corporate Commercial Bank" AD (KTB AD) under special supervision. On 6 November 2014 Bulgarian National Bank revoked the bank license of Corporate Commercial Bank AD and submitted application to the competent court for the opening of insolvency proceedings under Bank Insolvency Act.

As at 31 December 2014 the decision of the National Bank for revoking the banking license (with respect to which the request was made for commencement of bankruptcy proceedings) was appealed to the three-member panel of the Supreme Administrative Court. To this date, the Group has fund raising account "Exit fund" in KTB AD amounting to BGN 18,061 thousand (2013: BGN 17,381 thousand) and cash in other bank accounts amounting to BGN 115,886 thousand (2013: BGN 124,515 thousand, disclosed as part of "cash and short-term deposits").

On 16 March 2015 the Group received a written opinion and instructions from the Minister of Energy, according to which no impairment loss on the receivables from KTB AD should be recognised until a reliable basis for making a reasonable estimate of the percentage of impairment of financial assets is available.

On 30 March 2015 a five-member panel of the Supreme Administrative Court rejected as inadmissible the appeals against the decision of the National Bank to revoke the banking license of Corporate Commercial Bank AD.

As at the date of preparation of the consolidated financial statements, the management cannot estimate the effect of the uncertainty of the recoverable amount of receivables from KTB AD - in bankruptcy.

23. Deferred tax assets and liabilities

Deferred tax assets / (liabilities)	1 January 2014	Recognized in profit or loss	Recognized in other comprehensive income	Recognized directly in equity	31 December 2014
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Property, plant and equipment and intangible assets	(568,089)	(4,609)	(3,844)	24	(576,518)
Financing	2,548	887	-	-	3,435
Unused leaves	2,029	208	-	-	2,237
Provisions	8,730	8,320	-	-	17,050
Retirement benefit obligations	12,437	959	395	(1)	13,790
Outstanding employee remunerations	1,335	343	-	-	1,678
Financial assets available for sale	17	-	(19)	-	(2)
Derivatives	1,114	(1,114)	-	-	-
Impairment of investments in joint ventures	70	4,733	-	-	4,803
Impairment of inventories	3,124	(766)	-	-	2,358
Impairment of trade and other receivables	49,697	(18,815)	-	-	30,882
Tax losses	10,797	(2,763)	-	-	8,034
	(476,191)	**(12,617)**	**(3,468)**	**23**	**(492,253)**
Recognized as:					
Deferred tax assets	**91,898**				**84,267**
Deferred tax liabilities	**(568,089)**				**(576,520)**

Deferred tax assets / (liabilities)	1 January 2013	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2013
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
Property, plant and equipment and intangible assets	(579,836)	12,461	(714)	(568,089)
Financing	1,983	565	-	2,548
Unused leaves	2,233	(204)	-	2,029
Provisions	9,059	(329)	-	8,730
Retirement benefit obligations	13,047	(1,485)	875	12,437
Outstanding employee remunerations	1,240	95	-	1,335
Financial assets available for sale	9	-	8	17
Derivatives	3,171	(2,057)	-	1,114
Impairment of investments in joint ventures	70	-	-	70
Impairment of inventories	2,527	597	-	3,124
Impairment of trade and other receivables	47,308	2,389	-	49,697
Tax losses	45	10,752	-	10,797
	(499,144)	**22,784**	**169**	**(476,191)**
Recognized at:				
Deferred tax assets	**80,692**			**91,898**
Deferred tax liabilities	**(579,836)**			**(568,089)**

The amount of income tax relating to each of the items of other comprehensive income may be presented as follows:

	2014		
	Before tax	Tax (expense) / income	Net of tax
	BGN'000	*BGN'000*	*BGN'000*
Revaluation of property, plant and equipment	38,438	(3,843)	34,595
Revaluation of obligations under defined benefit plans	(3,943)	394	(3,549)
Loss on financial assets available for sale	194	(19)	175
Share of other comprehensive income of associates	(2,752)	-	(2,752)
Exchange differences from the translation of foreign operations	(35)	-	(35)
Other comprehensive income	**31,902**	**(3,468)**	**28,434**

	2013		
	Before tax	Tax (expense) / income	Net of tax
	BGN'000	*BGN'000*	*BGN'000*
Revaluation of property, plant and equipment	7,139	(714)	6,425
Revaluation of obligations under defined benefit plans	(8,747)	875	(7,872)
Loss on financial assets available for sale	(90)	8	(82)
Share of other comprehensive income of associates	6,673	-	6,673
Exchange differences from the translation of foreign operations	27	-	27
Other comprehensive income	**5,002**	**169**	**5,171**

The amount of unused tax losses, for which no deferred tax asset is recognised in the consolidated statement of financial position is BGN 958,354 thousand as at 31 December 2014 (2013: BGN 295,819 thousand) The expiry date is 2019.

24. Inventory

	2014	2013
	BGN'000	*BGN'000*
Natural gas	240,410	231,094
Fuel	188,125	196,291
Spare parts	168,163	146,817
Other materials and consumables	68,130	74,315
Goods	451	497
Work in progress, including:		
- loaded unspent fresh nuclear fuel	73,563	84,673
- lignite	26,880	26,718
- others	266	561
Inventory, gross	765,988	760,966
Impairment to net realizable value	(12,106)	(15,217)
Inventory, net of impairment	**753,882**	**745,749**

Natural gas available as at the reporting date includes mainly natural gas stored at UGS Chiren.

Fuel includes discharged fresh nuclear fuel, diesel and heating oil.

Inventory write-down to net realizable value

The turnover in accumulated impairment of inventories is as follows:

	2014	2013
	BGN'000	*BGN'000*
Balance as at 1 January	(15,217)	(10,821)
Impairment loss for the period	(4,797)	(7,951)
Recovered impairment	5,332	3,555
Write-off of inventory	2,576	-
Balance as at 31 December	**(12,106)**	**(15,217)**

Allowances for impairment of inventories of the Group amounting to BGN 4,797 thousand (2013: BGN 7,951 thousand) are included within "Other operating expenses" in the consolidated statement of profit or loss for 2014 and the restored impairment at the amount of BGN 5,332 thousand (2013: BGN 3,555 thousand) as a reduction of "Other operating expenses".

25. Financial assets available for sale

A revaluation of the stock exchange price was made as at 31 December 2014 and the effect from the changes in the foreign exchange rates BGN/RON were taken into account as well. The fair value of the investment is BGN 684 thousand as at 31 December 2014 (2013: BGN 490 thousand) and has been determined on the basis of price quotations on an active market. The effects from the revaluation of the investment as of 31 December 2014 have been reported as a decrease in the revaluation reserve of financial assets available for sale.

26. Cash and short-term deposits

	2014	2013
	BGN'000	*BGN'000*
Cash in bank accounts	316,444	237,242
Cash on hand	212	444
Short-term deposits	77,805	284,443
Restricted cash with special purpose	9,844	730
	404,305	**522,859**

Cash in banks bears interest at floating rates based on the daily interest rates on bank deposits. Short-term deposits have different maturities, depending on the liquidity needs. The Group has placed one-month and three-month bank deposits as at 31 December 2014.

The amount of cash and cash equivalents, which is restricted for the Group as at 31 December 2014 is BGN 9,844 thousand due to the following reasons:

- BGN 9,283 thousand for filed lawsuits against the Group as at 31 December 2014;
- BGN 411 thousand on a current bank account with special purpose in Allianz Bank Bulgaria AD in connection with a contract with EWRC;
- BGN 150 thousand (2013: BGN 730 thousand) in a special current bank account serving as collateral for the purposes of Art. 8a of the Rules and Conditions for Access to the Electricity Transmission and Distribution Networks.

27. Loss for the year from discontinued operations

On 19 December 2012 the Council of Ministers issued Decision № 1138. According to the decision, units 3 and 4 of the nuclear power plant operated by the subsidiary NPP Kozloduy EAD were declared facilities for management of radioactive waste that have to be decommissioned. According to the decision, the property and staff related with the above units were declared private state property, which had to be transferred to the State Enerprise Radioactive Waste by simultaneously reducing and increasing the share capital of NPP Kozloduy EAD by the amount of BGN 25,411 thousand. In 2013 the transfer of assets and staff relating to units 3 and 4 was made to SE "RAW" in accordance with signed bilateral protocols.

Revenue and expenses related to units 3 and 4 were eliminated from Group's financial result from continuing operations and they were presented in a separate line "Loss for the year from discontinued operations" in the consolidated statement of profit or loss.

	2014	2013
	BGN'000	*BGN'000*
Hired services expenses	(58,515)	(65,823)
Employee benefits expense	(17)	(3,326)
Cost of materials	-	(202)
Other expenses	-	(181)
Revenue from financing	-	6,286
Loss for the year from discontinued operations	**(58,532)**	**(63,246)**

Cash flows arising from the disposal group can be represented as follows:

	2014	2013
	BGN'000	*BGN'000*
Operating activities		
Payments to suppliers	(28,790)	(70,122)
Payments to employees	(22)	(3,326)
Proceeds from funding	-	8,085
Net cash flows from discontinued operations	**(28,812)**	**(65,363)**

28. Share capital and reserves

28.1 Share capital

The registered capital of Bulgarian Energy Holding" EAD consists of 2,948,722,817 ordinary shares with a nominal value of BGN 1 each as at 31 December 2014 (2013: 2,612,003,862 units). The shares of the parent company are ordinary, unprivileged, with voting right. All ordinary shares are fully paid. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of BEH EAD. The sole shareholder of the capital of Bulgarian Energy Holding EAD is the Republic of Bulgaria via the Minister of Energy.

The shares issued and authorised during the reporting periods can be presented as follows:

	2014	2013
	Number of shares	Number of shares
Number of shares issued and fully paid:		
At the beginning of the year	2,612,003,862	2,612,003,862
Decrease of share capital during the year	-	(11,607,760)
Increase of share capital during the year	336,718,955	11,607,760
Total number of shares authorised at the end of the year	**2,948,722,817**	**2,612,003,862**

In 2014 by virtue of Protocol №RD-21-89 dated 4 September 2014, the Ministry of Economy and Energy decided to increase the share capital of Bulgarian Energy Holding EAD under art. 197 of the Commercial Act by issuing 336,718,955 new ordinary, registered, non-preferential voting shares with a nominal value of BGN 1 each. The increase of share capital was made via transfer from "Other reserves".

In 2013 with Protocol №RD-21-121 dated 27 September 2013 the Ministry of Economy and Energy decided to simultaneously decrease and increase the capital of Bulgarian Energy Holding EAD in accordance with art. 203 of the Commercial Act and the implementation of Decision 518 dated 29 August 2013 of the Council of Ministers. The purpose of the reduction of the number of shares by 11,607,760 (BGN 11,608 thousand) was the state to reacquire ownership of the administrative building on 1 St. Nedelya sq., Sofia, Bulgaria with a carrying amount of BGN 11,608 thousand as at the date of the capital decrease, 27 September 2013. The increase of capital was made via transfer from "Other reserves".

28.2 Other reserves

Other reserves are formed upon profit distribution in accordance with the Commercial Act and the Statutes of the Company or from other sources in pursuance of a decision of the sole shareholder. They comprise statutory reserves and general reserves. Statutory reserves are set aside until they reach at least 1/10 or more of the amount of the registered capital. The sources of formation of statutory reserves are at least 1/10 of the net profit, issue premiums and funds provided for in the Statutes or in a decision of the sole shareholder. Statutory reserves may be used only to cover losses from the current and previous reporting periods. General reserves are formed as a result of a proposal of the Board of Directors and may be used to cover losses from previous years, and for other purposes.

On 22 July 2014 other reserves were increased by BGN 376,411 thousand as a result of the distribution of net profit for 2013 (note 18).

On 4 September 2014 pursuant to Decision of the Ministry of Economy and Energy the share capital of BEH EAD was increased by BGN 336,719 thousand via transfer from other reserves (note 28.1)

28.3 Reserve from revaluation to fair value

The reserve from revaluation to fair value is used to recognise the revaluation of financial assets available for sale – shares of Transgaz SA, Romania (note 25), as well as the Group's share in the operating result and the revaluation of financial assets/liabilities recognised directly in equity of joint ventures and associates.

28.4 Revaluation reserve of non-financial assets

The revaluation reserve is used to reflect increases in the fair value of property, plant and equipment and decreases to the extent such decreases are related to revaluation increases for the same asset previously recognised in other comprehensive income. The reserve may be used to cover losses and pay dividends only in limited circumstances.

28.5 Reserve from translation of foreign operations

The Group has a subsidiary in Macedonia, whose currency is the Macedonian dinars. The translation reserve has been formed as a result of exchange rate fluctuations as at 31 December 2014.

28.6 Reserve from remeasurement of defined benefit plans

The reserve from remeasurement of defined benefit plans includes actuarial gains and losses resulting from the revaluation of defined benefit plans.

29. Loans and finance lease liabilities

	2014	2013
	BGN'000	*BGN '000*
Non-current		
Bond issue	972,920	971,757
Bank loans	305,302	378,349
Credit from EURATOM	192,038	236,289
	1,470,260	**1,586,395**
Current		
Bank loans	140,939	113,171
Credit from EURATOM	46,491	46,880
Bank overdrafts	7,176	4,688
Commercial loans	7,012	60,529
Bond issue	6,119	6,119
Finance lease	-	186
	207,737	**231,573**
	1,677,997	**1,817,968**

The information regarding the major terms and conditions of the loans utilised and finance lease agreements is as follows:

	Interest rate	Maturity	2014	2013
			BGN'000	*BGN'000*
(1) Debenture loan	4.25%	2018	979,039	977,876
(2) Investment commercial credit from EURATOM in EUR	EURIBOR + from 0.079% to 0.13%	2017 - 2021	238,529	283,169
(3) Investment loan in Japanese yen	2.69%	2018	135,174	169,210
(4) Investment loan in EUR	3m OeKB + 4.10%	2020	94,987	114,210
(5) Investment loan in EUR	6m EURIBOR + 2.95% and 6.3% and 4.75%	2016 - 2021	68,393	86,937
(6) Investment loan in EUR	from 4.026% to 4.844%	2022	63,521	71,983
(7) Long-term investment loan	Base interest rate + 3.19%	2016	49,962	-
(8) Working capital loan	Base interest rate + 2.44%	2015	10,011	-
(9) Working capital loan	Base interest rate + 2.30%	2015	7,667	-
(10) Funding under natural gas repurchase agreements		2015	7,012	60,529
(11) Working capital loan	Base interest rate + 3%	2015	5,999	-
(12) Short-term working capital loan	Base interest rate + 5.4%	2014	5,000	4,688
(13) Investment loan in EUR	1m EURIBOR + 2%	2016	4,507	8,216
(14) Investment loan in EUR	6m EURIBOR + 1%	2015	3,973	11,871
(15) Overdraft up to BGN 20,000	Base interest rate + 2.65%	2015	2,176	-
(16) Investment loan in EUR	1m EURIBOR +1.74%	2015	1,993	5,877
(17) Investment loan in EUR	6m EURIBOR + 5.5%	2016	54	9,712
(18) Investment loan in EUR	LIBOR + 1.5%	2014	-	4,751
(19) Investment loan in EUR	6m EURIBOR + 1.95%	2018	-	2,768
(20) Short-term working capital loan	Base interest rate + 6%	2015	-	2,751
(21) Investment loan in BGN	Base interest rate + 0.3%	2014	-	1,893
(22) Investment loan in EUR	1m EURIBOR + 1.75%	2014	-	1,341
(23) Finance lease in BGN	7.7% - 8.75%	2014	-	186
			1,677,997	**1,817,968**

(1) On 7 November 2013, the parent company BEH EAD issued bonds at the amount of EUR 500 million with the following characteristics:

- principal – EUR 500 million;
- maturity – 7 November 2018;
- interest is paid annually on 7 November with first payment on 7 November 2014. The interest rate is fixed at 4.25%;
- ISIN code XS0989152573 of the bond issue, quoted on the main market of securities of the Irish Stock Exchange;
- BEH EAD should comply with certain financial ratios calculated on the basis of the consolidated financial statements "the ratio EBITDA / financial expenses on loans should not be less than 4:1".

As at 31 December 2014 the Group is in compliance with the requirements to maintain the ratio EBITDA / financial expenses on loans more than 4:1.

(2) Long-term investment loan with an agreed amount of EUR 212,500 thousand (BGN 415,614 thousand). The loan is secured by a government guarantee in order to finance the modernisation of units 5 and 6 at NPP Kozloduy EAD. The maturity date is in May 2021 and the effective interest rate is 5.65%. The loan contract contains specific clauses with restrictive conditions about changes in the ultimate owners of NPP Kozloduy EAD, and financial performance indicators related to achieving certain levels of debt and debt coverage ratios.

(3) Long-term investment loan with an agreed amount of JPY 25,106,617 thousand (BGN 338,603 thousand). The loan is secured by a government guarantee. It matures in September 2018 and will be repaid in two equal instalments of JPY 1,255,331 thousand (BGN 16,900 thousand) per year.

(4) Agreement on export credit for financing the construction of HPP "Tsankov Kamak." The loan was granted in 2 tranches: Tranche A and Tranche B in proportion 10:90. Each withdrawal was divided in that ratio and

redistributed in two tranches. The total amount of the export credit is EUR 100,000 thousand (BGN 195,583 thousand).
- Tranche A amounts to EUR 10,000 thousand (BGN 19,558 thousand) at a variable interest rate of 3m OeKB for export credits. This tranche was fully repaid as at 31 December 2013.
- Tranche B amounts to EUR 90,000 thousand (BGN 176,025 thousand). The interest rate on this tranche is fixed at 4.10%. The nominal amount of the outstanding liabilities is EUR 48,566 thousand (BGN 94,987 thousand) as at 31 December 2014 amounts. The maturity of the loan is until December 2019.
The loan is secured by pledge of assets associated with HPP "Tsankov Kamak" with carrying value of BGN 106,298 thousand as well as a pledge on the machines and equipment necessary to build the hydropower plant "Tsankov Kamak".

(5) Commercial loans for the total amount of EUR 28,351 thousand (BGN 55,449 thousand). The loans are granted to finance the rehabilitation of the cascade "Dolna Arda" as follows:
– Credit CCA 1. The approved amount is EUR 7,425 thousand (BGN 14,522 thousand). The nominal utilised and unrepaid portion of that credit as at 31 December 2014 is EUR 2,970 thousand (BGN 5,809 thousand) The loan shall be repaid in 10 equal 6-month instalments by December 2016.
– Credit CCA 2. The approved amount is EUR 15,900 thousand (BGN 31,098 thousand). The nominal utilized and unrepaid portion of that credit as at 31 December 2014 is EUR 6,360 thousand (BGN 12,439 thousand) The loan shall be repaid in 10 6-month equal instalments by December 2016.
– Credit CCA 3. The approved amount is EUR 5,026 thousand (BGN 9,829 thousand). The nominal utilized and unrepaid portion of that credit as at 31 December 2014 is EUR 2,010 thousand (BGN 3,932 thousand). The loan shall be repaid in 10 equal 6-month instalments by December 2016.

In October 2006 the Group signed an export loan agreement for financing the rehabilitation of Dolna Arda Cascade. The loan was granted in 2 tranches: Tranche A and Tranche B in proportion 10:90. The maximum approved limit under the export loan amounts to EUR 42,075 thousand (BGN 82,292 thousand).
– Tranche A amounts to EUR 4,208 thousand (BGN 8,230 thousand) and bears variable 3-month interest rate OeKB (Oesterreichische Kontrollbank AG) on export loans plus 0.45% margin. As of 31 December 2013 the tranche was repaid in full.
– Tranche B amounts to EUR 37,867 thousand (BGN 74,062 thousand) at fixed annual interest rate 4.75%. The nominal utilised and unrepaid portion of that loan as at 31 December 2014 is EUR 25,245 thousand (BGN 49,375 thousand). The loan shall be repaid in 20 equal 6-month instalments by November 2020.

In favour of ING Bank N.V., the Netherlands, a mortgage has been established on the land and buildings of HPP Studen Kladenets, HPP Ivaylovgrad and HPP Kardzhali (Dolna Arda Cascade) with carrying amount of BGN 18,352 thousand (2013: BGN 16,322 thousand). The credits are secured also by a pledge on all current and future assets, including plant and facilities forming part of Dolna Arda Cascade. Pursuant to the credit agreement, the Group should comply with certain financial covenants related to debt servicing and current assets / current liabilities ratio.

(6) Investment loan for the amount of EUR 60,000 thousand (BGN 117,345 thousand). The loan was obtained for project "Energy 2". NEK EAD is the final beneficiary of the loan. It is secured by a state guarantee. It was granted in six tranches and each tranche has fixed rate, as follows: tranche 1 – EUR 10 million on 7 June 2004 – 4.69%; tranche 2 – EUR 7 million on 19 May 2006 – 4.285%, tranche 3 – EUR 6 million on 13 November 2006 – 4.026%, tranche 4 – EUR 13 million on 3 July 2007 – 4.844%, tranche 5 – EUR 18 million on 12 March 2008 – 4.341%, tranche 6 – EUR 6 million on 28 October 2008 – 4.555%. Principal and interest shall be paid on 15 June and 15 December, with the final repayment on 15 June 2022.

(7) Long-term investment credit from "Societe Generale Expressbank" AD for the amount of BGN 50,000 thousand. The annual interest rate is the current base interest rate as determined by Bulgarian National Bank plus a margin of 3.19%. The loan matures on 20 December 2016 and is repaid in equal monthly instalments of BGN 2,083 thousand on the 20th day of each month starting 20 January 2015. A pledge was established on 9 May 2014 in favour of Societe Generale Expressbank AD on all present and future claims and their accessories in the Agreement for purchase of electricity dated 3 January 2011, concluded between TPP Maritsa East 2 EAD and NEK EAD for the amount of the principal, interest, penalties and charges payable by TPP Maritsa East 2 EAD to Societe Generale Expressbank AD under the terms of the loan. As of 31 December 2014 the amount of the principal is BGN 50,000 thousand, including short-term portion of BGN 25,000 thousand.

(8) Working capital loan from Societe Generale Expressbank AD, Varna was agreed on 18 August 2014. The total credit limit amounts to BGN 20,000 thousand. The interest rate is calculated as the base interest rate plus 2.44%. The loan should be repaid 12 months after the date of signing the contact. The loan is not secured. As at 31 December 2014 the loan payables are BGN 10,011 thousand.

(9) Working capital loan from "United Bulgarian Bank" AD, Sofia was agreed on 17 November 2014. The total credit limit is BGN 8,000 thousand with agreed interest rate of base interest rate + 2.3%. The loan should be repaid 12 months after the date of signing the contact. The loan is not secured. As at 31 December 2014 the loan payables are BGN 7,667 thousand.

(10) Financing from repurchase agreements of natural gas amounting to BGN 7,012 thousand (2013: BGN 60,529 thousand) represents cash received from counterparties with which the Group has signed contracts for the sale of natural gas, with the agreement to buy back the same quantity of gas in the next period at a fixed price. The sold quantities of natural gas are stored in the gas storage in Chiren and the subsidiary Bulgargaz EAD has custody of them.

(11) Working capital loan from Commercial Bank D AD, Sofia dated 21 January 2014 for the amount of BGN 6,000 thousand with agreed interest rate of base interest rate + 3%. The loan should be repaid 12 months after the date of signing the contact. The loan is not secured. As at 31 December 2014 the loan payables are BGN 5,999 thousand.

(12) Short-term working capital loan. The loan is unsecured. The credit agreement was signed in November 2013. The negotiated interest rate is base interest rate + 5.40%. The loan should be repaid in November 2014.

(13) Investment loan with an agreed amount of EUR 9,203 thousand (BGN 18,000 thousand). The loan was obtained for the rehabilitation of machines and equipment in coal pit "Troianovo 1" of Mini Maritsa-iztok EAD. The principal is paid in 60 monthly annuity instalments, after a two-year grace period. The deadline for repayment of the loan is April 2016. The agreed interest rate is one-month EURIBOR + 2.00%. A pledge on the lignite coal, which is uncovered and prepared for extraction at the coal pit "Troianovo 1", for the amount of EUR 15,339 thousand is provided as collateral.

(14) Investment loan from European Bank for Reconstruction and Development for the amount of EUR 41,100 thousand (BGN 80,385 thousand). The utilised portion amounts to EUR 40,870 thousand, the remaining EUR 230 thousand are cancelled. The loan was obtained for the "Project for electricity transmission system - Energy 2". The loan is secured by a state guarantee. It should be repaid by 9 March 2015. The subsidiary NEK EAD should comply with certain financial covenants related to debt servicing and current assets / current liabilities ratio. The loan is secured by a state guarantee for the amount of EUR 41.1 million and expiry date 9 March 2015.

(15) Credit facility for working capital - overdraft from United Bulgarian Bank with a credit limit up to BGN 20,000 thousand. It is not secured. The annual interest rate is equal to the current base interest rate as determined by BNB plus a margin of 2.65%. The credit facility has been provided until 5 May 2015, which is also the repayment period. Payments are made in Bulgarian lev. The amount of the principal is BGN 2,176 thousand at 31 December 2014.

(16) Investment loan for the amount of EUR 9,203 thousand (BGN 18,000 thousand). The loan was obtained for the rehabilitation of plant and equipment at coal pit "Troyanovo 3 operated by Mini Maritsa-iztok EAD. The principal should be repaid in 60 monthly annuity instalments after the 18-month grace period. The loan should be repaid by July 2015. The interest rate is equal to one-month EURIBOR + 1.74%. The contract is not secured.

(17) Long-term investment loan with an agreed amount of EUR 9,203 thousand (BGN 18,000 thousand). The funds are intended for rehabilitation of machines and equipment in coal pit "Troyanovo 3". The principal should be repaid in 60 monthly annuity instalments after the 12-month grace period. The agreed interest rate is equal to six-month EURIBOR + 5.50%. The loan is secured by a pledge on receivables of "Mini Maritsa-iztok" EAD for sold lignite to TPP Maritsa East 2 EAD. As of 31 December 2014 the carrying value of the pledged receivables amounts to BGN 19,800 thousand. As at 31 December 2014 the loan payables are BGN 54 thousand.

(18) Investment loan for the amount of EUR 35,000 thousand (BGN 68,454 thousand) The loan is secured in favour of "UniCredit Bulbank" AD by a pledge on receivables of TPP Maritsa East 2 EAD from NEK EAD for electricity sold. It matured in June 2014 and it was repaid in two equal annual instalments of EUR 2,450 thousand (BGN 4,792 thousand). The effective interest rate was 4.76%.

(19) Investment loan with an agreed amount of EUR 7,500 thousand (BGN 14,669 thousand) obtained for the project "Construction of new substations, reconstruction of existing ones, and protection of environment and reduction of the harmful effects." The loan is granted in tranches at a variable interest rate. The loan is secured by a promissory note equal to the entire amount of the loan. If any of the financial covenants is not achieved, this should lead to a change in contract terms. The deadline for repayment of the loan is 15 November 2018. The loan was repaid early as at 31 December 2014.

(20) Short-term working capital loan with a credit limit up to BGN 15,000 thousand. No collateral was provided. The annual interest rate represents the current base interest rate as announced by BNB plus a margin of 6%. The repayment period and the expiry date of the credit facility is until 22 November 2015. By 31 December 2014 the loan was repaid in full.

(21) Investment loan for the amount of BGN 27,500 thousand. The funds are intended for the rehabilitation of machines and equipment in coal pit "Troyanovo 3". The deadline for repayment of the loan is 84 months from the date of signing the contract or until April 2014. The principal should be paid in 60 monthly annuity instalments after a 2-year grace period. The agreed interest rate is the base interest rate + 0.30% margin. The loan is secured by a pledge on uncovered and prepared for extraction lignite equivalent to 2,020 thousand tonnes and estimated at BGN 27,500 thousand.

(22) Investment loan for the amount of BGN 9,000 thousand. The loan was obtained for the purchase machinery and equipment. The principal should be paid in 60 monthly annuity instalments after a 7-month grace period. The deadline for repayment of the loan is February 2016. The agreed interest rate is one-month EURIBOR + 1.75%. The loan is secured by pledge on uncovered and prepared for extraction lignite.

Loans guaranteed by the state

The loan provided to NPP Kozloduy EAD (2) is guaranteed by the Government of Republic of Bulgaria. The loan was granted for a project for modernisation of units 5 and 6 of NPP Kozloduy EAD and project related to the radiation control system of NPP Kozloduy EAD, as well as computer information systems at the plant. Loan (6) provided to NEK EAD, as the final beneficiary, to finance the project "Rehabilitation in electricity - Energy 2" for the amount of EUR 60 million with maturity date 15 June 2022 is also state guaranteed. In relation to loan (14) provided to NEK EAD for the project "Energy 2" a state guarantee was issued for the amount of EUR 41.1 million with expiry date 9 March 2015.

The Group cannot estimate the effect of agreed interest rate and whether this guarantee would have a material effect on the fair value at that date.

In respect of the loans with state guarantees as at 31 December 2014, the Group is unable to assess the effect of the state guarantee provided on the contractual interest rates and whether such guarantee would have material impact on their fair values at that date.

Unutilised loans

As of 31 December 2014 the subsidiary TPP Maritsa East 2 EAD has unutilised investment loan totalling the equivalent of JPY 797,461,750 and EUR 736,900. The loan is designed and will be used only after the conditions are met for valid payment on irrevocable letters of credit in Japanese yen and euro opened in favour of Toshiba International (Europe) Ltd. under the contract for implement of the investment project "Rehabilitation of units 5 and 7 in TPP Maritsa east 2 EAD". The loan should be utilised until 31 January 2015 and repaid until 20 December 2018. The principal should be repaid in eight equal instalments payable on 20 June and 20 December of each calendar year for the period from 20 June 2015 to 20 December 2018. Each rapid amount of principal ahould be equal to 1/8 of the total utilised amount of the loan in Bulgarian leva. The loan was fully utilised in January 2015, amounting to BGN 13,206 thousand.

(23) Obligations under finance leases

Finance lease liabilities represent obligations under contracts for the acquisition of vehicles. In 2009, the Group entered into contracts for the purchase of 77 cars under finance leases for a period of five years.

The obligations under finance leases were as follows:

	2013	
	Minimum lease payments	Present value of instalments
	BGN'000	*BGN'000*
Within one year	195	186
Total minimum lease payments	195	186
Less the amounts representing finance charges	(9)	-
Present value of minimum lease payments	**186**	**186**

30. Deferred financing

	2014	2013
	BGN'000	*BGN'000*
Non-current portion	318,825	301,768
Current portion	7,953	8,346
	326,778	**310,114**

	2014	2013
	BGN'000	*BGN'000*
On 1 January	310,114	294,977
Granted during the year	31,099	56,174
Recognised in profit or loss:		
- *from continuing operations (note 9)*	(8,874)	(9,978)
- *from discontinued operations (note 27)*	-	(6,286)
Deducted advances	(5,561)	-
Written off financing related to assets allocated to the sole equity holder	-	(24,773)
On 31 December	**326,778**	**310,114**

The financing is associated with the following projects:

- Financing under ISPA program for the construction of FGD plants for unit 5 and unit 6. The assets were built and put into operation. The balance of the financing as at 31 December 2014 includes the carrying amount of assets amounting to BGN 15,858 thousand (2013: BGN 22,927 thousand);
- Financing from "Kozloduy International Fund" to build a plant for the dehydration of gypsum amounting to BGN 27,718 thousand as at 31 December 2014 (2013: BGN 28,824 thousand);
- Financing from "Energy Resources" Fund to build a tailings pond. The assets were built and put into operation. The amount of financing as at 31 December 2014 corresponds to the carrying value of the assets amounting to BGN 3,274 thousand (2013: BGN 3,467 thousand);
- Financing under PHARE program for flue gas desulphurization facilities at unit 8. The assets were built and put into operation. The financing as at 31 December 2014 corresponds to the carrying amount of the assets, BGN 61 thousand (2013: BGN 85 thousand).
- Funding for fixed assets amounting to BGN 20,919 thousand as at 31 December 2014 (2013: BGN 20,024 thousand) related to "Kozloduy International Fund". The administrator of the funds is the European Bank for Reconstruction and Development and the management of their utilisation on behalf of Bulgaria is carried out by Ministry of Energy. The funding is associated with the rehabilitation of the energy efficiency of heavy industrial machinery and equipment of the subsidiary Mini Maritsa-iztok EAD. The funding is EUR 15,000 thousand. So far three contracts have been signed with company's contractors who are in the initial stage of project implementation - supply of equipment and preparation of engineering project.
- Financing in relation to modernisation of pump station Kardam 1 amounting to BGN 301 thousand (2013: BGN 332 thousand) and pump station Kardam 2 amounting to BGN 130 thousand (2013: BGN 152 thousand), pipeline link Ruse - Giurgiu amounting to BGN 2,567 thousand (2013: BGN 2,567 thousand), pipeline connection Dobrich - Silistra amounting to BGN 15,150 thousand (2013: BGN 13,268 thousand) and others.
- Funding received from the European Bank for Reconstruction and Development (EBRD) for ongoing research carried out by NPP Kozloduy EAD and funding on advisory contract with consortium EDF / BNFL, at the total amount of BGN 192,193 thousand (2013: BGN 174,579 thousand);

- Financing under PHARE program, “Energy Resources” Fund, the Swiss government and the “International Fund for Decommissioning of Power units” in NPP Kozloduy for the rehabilitation of hydropower plants, transmission grid and other assets amounting to BGN 8,662 thousand (2013: BGN 43,430 thousand).

As of the date of authorisation of these consolidated financial statements for issue, there are no unfulfilled conditions relating to the received financing.

31. Liabilities for retirement employee benefits

According to Bulgarian labour legislation and collective employment agreements of the companies within the Group, the Group is obliged to pay its employees upon retirement a number of gross monthly salaries depending on the length of service in the respective enterprise. The defined benefit plan for employees upon retirement is funded.

	2014	2013
	BGN'000	*BGN'000*
Non-current portion	113,712	85,022
Current portion	23,976	39,097
Present value of the liabilities for retirement employee benefits:	**137,688**	**124,119**

The changes in the liabilities for retirement employee benefits in accordance with Labour Code during the year are as follows:

	2014	2013
	BGN'000	*BGN'000*
Liabilities for retirement employee benefits at the beginning of the year	124,119	110,753
Current service costs	15,757	11,810
Past service costs	11,197	1,676
Interest expenses	4,898	4,477
Benefits paid	(22,226)	(13,344)
Actuarial remeasurement:		
- Loss from changes in demographic assumptions	506	2,534
- Loss from changes in financial assumptions	3,316	6,213
- Loss from actual experience	121	-
Liabilities for retirement employee benefits at the end of the year	**137,688**	**124,119**

The key assumptions used to determine the liabilities for retirement employee benefits are listed below:

		2014	2013
Discount rate		3.8% - 4%	4%
Expected rate of salary increases		0% - 3%	0% - 5%
Personnel turnover:	18-30 years	5% - 16%	3% - 13%
	31-40 years	3% - 8%	3% - 9%
	41-50 years	2% - 5%	2% - 5%
	51-60 years	1%	1% - 3%
	over 60 years	0%	0%

The Group's management has made these assumptions with the assistance of independent actuaries. These assumptions are used when determining the amount of the liabilities for retirement employee benefits for the reporting periods and are considered as the best estimate of management.

Defined benefit plan expenses recognised in profit or loss are as follows:

	2014	2013
	BGN'000	*BGN'000*
Current service costs	(15,757)	(11,810)
Past service costs	(11,197)	(1,676)
Interest expenses	(4,898)	(4,477)
Total expenses recognised in profit or loss	**(31,852)**	**(17,963)**

Amounts recognised in other comprehensive income related to the Group's defined benefit plans are as follows:

	2014 *BGN'000*	2013 *BGN'000*
Remeasurement of liabilities for retirement employee benefits - actuarial loss, consisting of:		
- Loss from changes in demographic assumptions	*(506)*	*(2,534)*
- Loss from changes in financial assumptions	*(3,316)*	*(6,213)*
- Loss from actual experience	*(121)*	-
Total expenses recognised in other comprehensive income	**(3,943)**	**(8,747)**

The weighted average duration of the defined benefit obligation at 31 December 2014 is between 5 and 17 years.

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate and the salary growth rate. The calculation of the net defined benefit liability is sensitive to these assumptions. The following table summarises the effects of changes in these actuarial assumptions on the defined benefit liability at 31 December 2014:

	2014	
	Increase by 1% *BGN'000*	Decrease by 1% *BGN'000*
Change in interest rate	(8,271)	8,789
Increase in remunerations	12,902	(12,034)

The sensitivity analyses are based on a change in one assumption while not changing all other assumptions. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in the assumptions would occur in isolation of one another as some of the assumptions may be correlated.

The plan exposes the Group to actuarial risks such as interest rate risk, risk of change in life expectancy and inflation risk:

- Interest rate risk - the present value of the liabilities for retirement employee benefits is calculated using a discount rate determined by reference to market yields of government securities. A decrease in market yield on high quality government bonds will increase the Group's liabilities for retirement employee benefits.
- Risk of change in life expectancy - an increase in life expectancy of employees would increase the liabilities for retirement employee benefits.
- Inflation risk - increase in inflation would increase the liabilities for retirement employee benefits.

32. Provisions

	2014 *BGN'000*	2013 *BGN'000* Restated
Non-current		
Provision for site restoration	87,763	79,695
Provision for protection of the environment	110	57
	87,873	**79,752**
Current		
Provision for exceeding the quotas for greenhouse gas emissions	85,712	10,976
Provision for protection of the environment	545	16
Provision for site restoration	966	72
Other provisions	20,970	22,065
	108,193	**33,129**
	196,066	**112,881**

	Provision for protection of the environment	Provision for site restoration	Provision for greenhouse gas emissions	Other provisions	Total
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
1 January 2013	326	70,991	18,186	1,095	90,598
Accrued	-	7,758	-	20,970	28,728
Utilised	(41)	(72)	(7,210)	-	(7,323)
Change in estimates	-	1,090	-	-	1,090
Reversal of unused provisions	(212)	-	-	-	(212)
31 December 2013	**73**	**79,767**	**10,976**	**22,065**	**112,881**
Accrued	119	8,967	74736	-	83,822
Utilised	(11)	(5)	-	(621)	(637)
31 December 2014	**181**	**88,729**	**85,712**	**21,444**	**196,066**

Expenses for provisions

	2014	2013
	BGN'000	*BGN'000*
Costs for the purchase of greenhouse gas emissions	(35,979)	(103,745)
Accrued provisions	(83,822)	3,205
	(119,801)	**(100,540)**

Provision for protection of the environment

A provision for protection of the environment was recognised as at the reporting date. It relates to costs which are expected to be incurred in relation to the decontamination of luminescent and other mercury-containing lamps, decontamination and recycling of storage batteries, decontamination, recycling and replacement of capacitor batteries containing PHB with new ones and utilisation of bleach soil used in the base for oil regeneration.

Provision for site restoration due to mining activity

The effective environmental legislation, the upcoming development of land, developed not restored land, the value of site restoration per 1,000 m^2 of land, as well as the estimated coal deposits by 2043, when the coal mining concession granted to Mini Maritsa-iztok EAD expires have been taken into account in determining the provision.

The amount recognised as a provision at 31 December 2014 is BGN 83,933 thousand (2013: BGN 75,136 thousand) is calculated based on the following data:

	2014	2013
Lignite extracted (thousand tonnes)	27 560	25 468
Costs of recultivation (BGN / tonne production)	0.13	0.12
Reclaimed land during the period (1,000 m^2)	71	181

Provision for recultivation of disturbed lands - landfill disposal of gypsum from flue gas desulphurisation plants

Under Regulation 26 for land restoration, improvement of low productive lands and removal and utilisation of humus layer, TPP Maritsa East 2 EAD is obliged to carry out technological and biological recultivation of the landfill after its filling with gypsum from desulphurisation installations. Based on the capacity of the landfill and the amount of disposed gypsum, the landfill is expected to be filled within five years. The value of the technological and biological recultivation project is BGN 5,488 thousand. Under IAS 16 "Property, plant and equipment", paragraph 17 (c) the costs of property, plant and equipment include the initial estimate of the expected costs of site restoration (terrain recultivation), where the asset has been located after being decommissioned. Obligation for such costs shall be treated as a provision in accordance with IAS 37 "Provisions, contingent liabilities and contingent assets". The present discounted value of the provision is capitalised into the costs of the facility (Gypsum waste disposal site) and will be recognised each year as depreciation. As of 31 December 2013 the present value of the provision is calculated at the amount of BGN 4,607 thousand using a discount rate of 3.56%. Discount factors are determined at the end of each year, compared to interest rates on long-term government securities. For the purposes of discounting, an effective annual interest rate of 3.56% is used. It is based on the yield on government bonds (10-year maturity). The remaining part of the recultivation costs amounting to BGN 881 thousand will be reported as annual interest charges and a corresponding increase of the liability. As at 31 December 2014, the best estimate for the provision for recultivation of the landfill is at the amount of BGN 4,796 thousand (2013: BGN 4,631 thousand).

Provision for exceeding quotas for greenhouse gases

The Environmental Protection Act established a greenhouse gas emissions quota trading scheme. The allocation of greenhouse gas emission quotas is carried out in compliance with the National greenhouse gas emission trading quota allocation plan (NGGETQAP), which covers the period 2008 – 2012. The participants in this scheme, as greenhouse gas emitting entities, should receive the respective quota from the NGGETQAP free of charge and are obliged to recover the quantity of actually emitted gas (confirmed by verification) by 30 April of the year following the reporting year (for each year during the 5-year period).

The Directive 2009/29/EC amending Directive 2003/87/EO (so-called Directive EU ETS allowance) established a scheme for greenhouse gas emission allowance trading within the Community during the third phase (Community scheme), which started in 2013 and will continue until 2020. During this period, the general rule is that it provides full auctioning of allowances for the electricity system and transitional free allocation to other sectors. The Directive defines the exceptions in the Member States which meet certain conditions for temporary limited exceptions (derogations) pursuant to Article 10c “Option for transitional free allocation for the modernisation of electricity generation”. The total transitional free allocation in 2013 shall not exceed 70 % of the annual average verified emissions in 2005-2007, and shall gradually decrease, resulting in no free allocation in 2020.

Republic of Bulgaria has benefited from the right and has sent application documents under Art. 10c of the Directive, which by Decision C (2012) 4560 dated 6 July 2012 of the European Commission, the European Parliament and of the Council for transitional free allocation was defined as compatible with Article 10c of the Directive.

TPP Maritsa East 2 EAD is included in the draft NIP and expects to receive free of charge a total of 15,727,524 tonnes of allowances for greenhouse gas emissions for the period from 2013 to 2020, representing about 30% of the emitted quantities by the plant.

The allocation of the quantities of allowances for greenhouse gas emissions over the period is as follows:

Period	2013	2014	2015	2016	2017	2018	2019	**Total**
Quotas	3,931,881	3,370,184	2,808,486	2,246,789	1,685,092	1,123,395	561,697	**15,727,524**

As at 31 December 2014 TPP Maritza Iztok 2 EAD has reported a shortage of allowances for greenhouse gas emissions of 5,490,058 t/CO2, at the amount of BGN 77,847,746 calculated at market prices of quotas as at 31 December 2014 of ICE-ECX European Emissions (EUR 7.25 per tonne). The amount represents the difference between real verified quantities issued free of charge provided by NIP and the purchased quantities of allowances for 2014.

Provision for carbon emissions

As at the reporting date a provision is recognised for carbon emissions amounting to BGN 7,864 thousand relating to 2015.

Other provisions

As of 31 December 2014 ESO EAD has recognised a provision amounting to 20,970 thousand, which represents funds set aside for RES access under the challenged Decision W-33 issued by EWRC.

As at the reporting date a provision for the cost of access to the facilities of Polimeri AD has been recognised. The provision for the cost of access is based on the management’s best estimate of the costs that the Group had to pay in 2011, determined in accordance with paragraph 3.2. of the “Methodology to determine the costs of access granted to the transmission or distribution entity by consumers to their own devices and / or facilities to other consumers for the purpose of transformation and transmission of electricity, transmission of heat and transmission of natural gas ”. As at the date of approval of these consolidated financial statements, the Group has failed to reach an agreement with Polimeri AD as to the amount due.

33. Deferred income

Deferred income as at 31 December 2014 amounts to BGN 116,698 thousand (2013: BGN 44,756), including:
- BGN 76,403 thousand (2013: BGN 0) – income under Regulation 714/2009 of the European parliament to the subsidiary ESO EAD. According to Art. 16, item 6 of the Regulation, any revenue from distributed interconnectors is used to ensure the actual availability of the allocated capacity and / or maintenance of the interconnection capacities through network investments particularly in new interconnectors;
- BGN 36,283 thousand (2013: BGN 36,312 thousand) – income from access fees, that the Group recognises in proportion to the useful life of assets built in relation to the accession;
- BGN 2,334 thousand (2013: BGN 691 thousand) – prepaid services from clients of Bulgartel EAD on long-term contracts that provide irrevocable rights to use optical fibres;
- BGN 501 thousand (2013: BGN 687 thousand) – prepaid rent of electrical substation;
- BGN 1,177 thousand (2013: BGN 7,066 thousand) – other current deferred income.

34. Trade and other payables

	2014	*2013*
	BGN'000	*BGN'000* Restated
Non-current		
Trade payables	15,778	499
Guarantees retained	35,649	6,782
Amounts received in connection with project work	190,120	-
Financial liabilities	**241,547**	**7,281**
Current		
Trade payables	1,437,952	1,092,618
Deposits received	5,901	9,506
Guarantees retained	17,364	28,528
Insurance liabilities	3,505	5,399
Other payables	14,156	19,543
Financial liabilities	**1,478,878**	**1,155,594**
Advance payables	163,346	125,270
Payables to employees	73,206	61,381
Social security payables	13,200	12,276
Payables to the state budget	145,429	64,132
Obligations for contributions to the Nuclear Facilities Decommissioning Fund and the Radioactive Waste Fund	8,333	7,125
Other payables	10,568	11,043
Non-financial liabilities	**414,082**	**281,227**
	1,892,960	**1,436,821**

The terms and conditions of the above-mentioned trade and other payables are as follows:
- Trade liabilities are not interest bearing and are settled normally within ten to thirty days;
- Tax liabilities are not interest bearing and are settled within the statutory deadlines;
- Other payables are non-interest bearing and normally shall be settled within ten days;
- Long-term payables are related to amounts withheld from subcontractors on construction projects of non-current assets in connection with guarantees for high quality performance. The retained amounts are interest-free. The retained amounts shall be paid in accordance with the contractual terms with the subcontractors.

Non-current trade payables amounting to BGN 15,633 thousand as at 31 December 2014 (2013: BGN 0) represent liabilities to the power stations connected with payments for carbon emissions under Derogation for 2013 under long-term power purchase agreement of the subsidiary NEK EAD.

Amounts received in connection with the project activities of the Group amounting to BGN 190,120 thousand were used in 2014 to increase the capital of the joint venture "South Stream Bulgaria" AD (note 21). They are translated

directly to the project company and therefore are not reflected in the consolidated statement of cash flows during the year.
The Group reports liabilities amounting to BGN 34,666 thousand to electricity distribution companies, calculated on the basis of the non-compensated costs restored in 2014 arising from public service obligations for the period from 1 July 2012 to 31 July 2013 in accordance with Decision №TS-12 dated 30 June 2014 of EWRC on the basis of which the costs of electricity from renewable energy sources should be recovered within the next 5 regulatory periods until 30 June 2019.

As at 31 December 2014 the current trade payables include amounts due to heating power plants amounting to BGN 15,366 thousand under cession contracts of these companies to First Investment Bank AD and respectively liabilities amounting to BGN 2,756 thousand to Investbank.

35. Financial derivatives

The carrying amount of the derivatives of the Group can be analysed as follows:

	2014	2013
	BGN'000	*BGN'000*
Fair value of derivative financial instrument:		
Forward contract for the purchase of quotas of type EUA	-	11,144
Derivative financial liabilities	**-**	**11,144**

The Group uses forward contracts to mitigate the risk arising from the increase in the price of greenhouse gas emission quotas. The financial instrument is a forward contract concluded on 11 December 2012 for the purchase of 6,958,738 tonnes of type EUA quotas for the period from 15 March 2013 to 15 April 2014 at a fixed price for the entire contract period. By 15 April 2014 1,431,580 tonnes of type EUA quotas were delivered. The forward contract for the purchase of quotas for greenhouse gas emissions and the derivative financial instruments were closed as of that date.

In 2014 profit amounting to BGN 11,144 thousand (2013: profit of BGN 20,567 thousand) was recognised in "Finance income" (note 15) within the consolidated statement of profit or loss.

36. Related party disclosures

The related parties of the Group include the sole equity holder represented by the Ministry of Energy, the associates and joint ventures, the key management personnel, as well as all public sector entities which are under common control of the Council of Ministers of the Republic of Bulgaria. Information about the name, country of incorporation, and share of the capital of every subsidiary included in the consolidation is disclosed in note 1. Information about the name, country of incorporation, and share of the capital of each associate and joint venture is provided in note 21. Other related parties of the Group, with which significant transactions were carried out during the period are the state-owned enterprises BDZ, State Company Railway Infrastructure, Terem - KRZ Navy Arsenal EOOD, Minproject EAD, Water and Sanitation, Police Regional Directorate, Bulgarian Posts EAD, VMZ EAD - Sopot.

The total amounts of related party transactions and outstanding balances in the current and prior period are presented as follows:

		Sales to related parties, incl. dividends	Purchases from related parties, incl. dividends	Trade receivables from related parties	Trade payables to related parties
		BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
Sole equity holder					
Ministry of Energy	2014	-	34,754	-	27,801
Ministry of Energy	2013	-	218,725	-	16,594
Joint ventures					
TransBalkan Electric Power Trading SA - NECO S.A.	2014	34,131		2,059	8
TransBalkan Electric Power Trading SA - NECO S.A.	2013	13,818		1,602	8
South stream Bulgaria AD	2014	-	-	1	-
South stream Bulgaria AD	2013	-	-	21	-
Associates					
ContourGlobal Maritsa East 3 AD	2014	35,586	579,634	121,806	389,222
ContourGlobal Maritsa East 3 AD	2013	29,943	472,593	30,687	200,642
ContourGlobal Operations Bulgaria AD	2014	1,413	-	-	-
ContourGlobal Operations Bulgaria AD	2013	2,425	-	38	-
Allianz Bulgaria Pension Company AD	2014	3,741	1,088	-	88
Allianz Bulgaria Pension Company AD	2013	4,030	1,180	-	93
ZAD Energy	2014	12,861	33,037	1	10,454
ZAD Energy	2013	18,090	51,226	1	3,697
HPP Gorna Arda AD	2014	-	-	133	-
HPP Gorna Arda AD	2013	557	-	276	-
ICGB AD	2014	-	-	-	-
ICGB AD	2013	14	-	-	-
Other related parties under common control					
State owned companies under the control of the Council of Ministers of Republic of Bulgaria	2014	14,463	2,067	8,589	750
State owned companies under the control of the Council of Ministers of Republic of Bulgaria	2013	18,953	2,114	9,565	293
Related party receivables / payables	**2014**			**132,589**	**428,323**
Related party receivables / payables	**2013**			**42,190**	**221,327**

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are carried out at terms and conditions regulated by the sole equity holder. Balances outstanding at the year-end are not secured, not interest-bearing (except loans and those disclosed below) and their settlement is in cash. A review for impairment is carried out at the end of each financial year based on analysis of the financial position of the related party and the market in which it operates.

Remuneration of key management personnel

	2014	2013
	BGN'000	*BGN'000*
Remuneration	1,394	1,426
Social security contributions	137	112
Social costs	62	43
Expenses for unused leave	26	-
Severance agreement allowances	-	7
	1,619	**1,588**

37. Categories of financial assets and liabilities

The carrying amounts of financial assets and liabilities of the Group can be summarised in the following categories:

Financial assets	Note	2014	2013
		BGN'000	*BGN'000*
Non-current financial assets			
Loans and receivables:			
Trade and other receivables	22	187,506	18,795
		187,506	**18,795**
Current financial assets			
Financial assets available for sale - shares	25	684	490
Loans and receivables:			
Trade and other receivables	22	1,560,967	999,985
Related party receivables	36	132,589	42,190
Cash and cash equivalents	26	404,305	522,859
		2,098,545	**1,565,524**
		2,286,051	**1,584,319**
Financial liabilities			
Non-current financial liabilities			
Financial liabilities, carried at amortised cost			
Loans and finance lease liabilities	29	1,470,260	1,586,395
Trade and other payables	34	241,547	7,281
Related party payables	36	21,976	-
		1,733,783	**1,593,676**
Current financial liabilities			
Financial liabilities, carried at amortised cost			
Loans and finance lease liabilities	29	207,737	231,573
Trade and other payables	34	1,478,878	1,155,594
Related party payables	36	406,347	221,327
Financial derivatives	35	-	11,144
		2,092,962	**1,619,638**
		3,826,745	**3,213,314**

See note 4.17 for information on the accounting policy for each category of financial instruments. Description of the policies and procedures for financial risk management of the Group is presented in note 38. The methods used to determine the fair values of financial assets and liabilities are described in note 39.

38. Financial risk management objectives and policies

The Group's financial assets consist of trade receivables, cash and short-term deposits, which arise directly from its operations.

The Group's financial liabilities include bond issue, loans and trade payables. The main purpose of the loans is to provide financing of the Group.

As at 31 December 2014 the Group does not hold and does not trade with derivative financial instruments. As at 31 December 2013 the Group holds derivative financial instruments amounting to BGN 11,144 thousand (see note 35).

The main risks arising from Group's financial instruments are liquidity, foreign currency exchange, credit and regulatory risks. Current risks are identified, measured and monitored through various control mechanisms in order to establish adequate prices for the services offered by the Group, as well as to appropriately assess the market conditions for the investments and the forms for maintenance of free liquid funds preventing undue concentration of other risks. Risk management of the Group is currently performed by management and the respective structural units, depending on the type and characteristics of the various types of risks to which the Group is exposed in its operations. The policy that the Group applies to manage these risks is summarised below.

38.1 Liquidity risk

Liquidity risk is the risk that the Group does not fulfil its obligations as they fall due. The Group applies a method to provide the necessary liquid resources to meet its obligations under both normal and stressed conditions, without incurring unacceptable losses.

One of the objectives of the parent company is to provide, if necessary, cash resources to its subsidiaries in order to sustain the operational activity, but also for the implementation of strategic projects.

The parent company finances the operations of the Group in two ways:

- Internal financing within the Group, through the reallocation of available cash resources. Bulgarian Energy Holding EAD acts as an intermediary between companies, coordinates the terms of the transactions between them, and monitors that transactions are carried out at market levels.
  Interest rates on cash loans and deposits are based on market levels. Interest rates on cash loans and deposits in foreign currencies are bound to a percentage, which is the market rate (fixed or floating) for this type of transactions during the period of transaction.
- External financing - in case of deficit of funds in the Group, Bulgarian Energy Holding EAD can take actions for obtaining external financing. This is the preferred way of raising funds for implementation of investment projects. On 7 November 2013 the parent company successfully placed a 5-year bond on the Irish Stock Exchange amounting to EUR 500,000 thousand, which matures on November 2018, and annual coupon payment at 4.250%.

As at 31 December, the maturity structure of the Group's financial liabilities, based on the contractual undiscounted payments, including trade payables, guarantees retained, obligations to Decommissioning of nuclear facilities Fund and Radioactive Waste Fund and other payables is presented below:

31 December 2014	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 to 5 years	More than 5 years
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Loans	1,677,997	1,858,514	73,057	175,345	520,878	1,089,234
Trade and other payables	1,720,425	1,720,425	1,398,140	80,738	51,427	190,120
Related party payables	428,323	428,323	406,347	-	21,976	-
	3,826,745	**4,007,262**	**1,877,544**	**256,083**	**594,281**	**1,279,354**

31 December 2013	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 to 5 years	More than 5 years
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Loans	1,817,782	2,031,690	123,610	143,817	535,811	1,228,452
Finance lease obligations	186	195	195	-	-	-
Trade and other payables	1,162,875	1,162,875	1,162,875	-	-	-
Related party payables	221,327	221,327	221,327	-	-	-
Financial derivatives	11,144	11,144	11,144	-	-	-
	3,213,314	**3,427,231**	**1,519,151**	**143,817**	**535,811**	**1,228,452**

38.2 Interest rate risk

The Group is exposed to risks from changes in market interest rates primarily on financial assets and liabilities with variable (floating) interest rate.

Within the structure of the Group's assets, interest-earning assets are represented by cash, bank deposits and loans, the majority of which are at fixed rate. The Group has received loans with a combined structure of interest rates, which consists of two components - fixed and variable. Group's borrowings are in the form of long and short term loans and are mainly with fixed interest rates. This minimizes the likelihood of an unfavourable change in cash flows.

The following tables illustrate the sensitivity of the net financial result after tax for the year and equity to a reasonably possible change in interest rates in regard to borrowings at variable interest rate based on EURIBOR of +/- 0.1 % (2013: +/- 0.02%) and the base interest rate published by BNB of +/- 0.1 % (2013: +/- 0.01%). These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant. There is no effect on the other components of the Group's equity.

31 December 2014	Increase / Decrease of interest rate	Effect on the net financial result	Effect on the equity
	%	*BGN'000*	*BGN'000*
Borrowings in EUR (EURIBOR)	+0.1%	(277)	(277)
Borrowings in EUR (EURIBOR)	-0.1%	277	277
Borrowings in BGN (BIR)	+0.01%	(8)	(8)
Borrowings in BGN (BIR)	-0.01%	8	8

31 December 2013	Increase / Decrease of interest rate	Effect on the net financial result	Effect on the equity
	%	*BGN'000*	*BGN'000*
Borrowings in EUR (EURIBOR)	+0.02%	(75)	(75)
Borrowings in EUR (EURIBOR)	-0.02%	75	75

38.3 Foreign currency risk

The Group carries out purchases, sales, granting and receiving loans in foreign currencies, EUR, USD, JPY, GBP, CHF and MKD. Most of these operations are carried out in EUR, USD and JPY. Since the exchange rate of Bulgarian lev against the Euro is fixed at 1.95583, the currency risk arising from the Group's euro-denominated exposures is minimal. The Group pays for construction works and supply of assets under construction, as well as utilises and repays an investment loan in Japanese yen granted by JBIC. The loan is guaranteed by the state. The loan is subject to foreign currency exchange fluctuations. Therefore, the Group's exposure to risk from changes in the exchange rate of the Japanese yen is possible, although in the presence of significant fluctuations in future the Group may hedge its exposure through derivative instruments such as currency swaps.

31 December 2014	Increase of the exchange rate BGN/foreign currency		Decrease of the exchange rate BGN/foreign currency	
	Net financial result	Equity	Net financial result	Equity
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
US Dollars (+/- 4%)	251	251	(251)	(251)
Japanese yen (+/- 1%)	(1,351)	(1,351)	1,351	1,351

31 December 2013	Increase of the exchange rate BGN/foreign currency		Decrease of the exchange rate BGN/foreign currency	
	Net financial result	Equity	Net financial result	Equity
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
US Dollars (+/- 2.1%)	(2,500)	(2,500)	2,500	2,500
Japanese yen (+/- 1%)	(1,693)	(1,693)	1,693	1,693

38.4 Credit risk

In carrying out its activities the Group is exposed to credit risk, which is associated with risk that some of the counterparties will not be able to comply fully and in time with their obligations. The Group's receivables are presented in the consolidated statement of financial position at carrying amount, net of impairment. Such impairment is made for receivables where and when events exist, which lead to identification of losses due to uncollectibility based on prior experience. The age structure of unimpaired overdue trade and other receivables is presented in note 22.

In relation to the credit risk of uncollectible receivables from counterparties, the Group takes the following precautionary measures:

- loan contracts - a pledge of machinery and equipment, real estate mortgage and others;
- trade and other receivables that are past due and at the time when they occurred, these were not secured - agreements for rescheduling of payments are signed and collateral is negotiated for an amount, which is not less than the amount initially recognised as receivable;
- other contracts which are not collaterised in advance – the following measures are taken in case of overdue receivables: setting off outstanding balances with business partners, and if the amount of the obligations is not big enough to set it off against the receivables from the same partner, other measures are taken to settle the balances without legal proceedings.

The Group's receivables are consistently monitored and analysed within the Group, along with the reasons for delayed payments and the changes in the financial position of the debtors. The terms and quality of the collateral provided by the debtors are also controlled.

The Group has significant concentration of credit risk in respect of receivables from Toplofikatsia Sofia EAD, which constitute over 10% of the total net non-current and current receivables. As at 31 December 2014 the carrying amount of receivables from Toplofikatsia Sofia EAD is BGN 603,968 thousand (note 22.2).

Credit risk arising from the other financial assets of the Group, such as cash and other financial assets represents the possibility that its contractors may not meet their obligations.

The Group's maximum exposure to credit risk is limited to the carrying amount of the financial assets recognised in the consolidated statement of financial position as of 31 December 2014 (note 37).

38.5 Market risk

Market risk exists when changes in the market prices, such as foreign currency, interest rates or equity instruments, may affect the Group's income from financial instruments. The objective of the market risk management is to manage and control the market exposure within acceptable parameters, while optimising the return.

The Group performs regular analyses of the macroeconomic environment in the country and in-depth analysis of the specific macro-indicators, including information about interest rates, which are presented to the Board of Directors. The Board of Directors is responsible for the assessment of future risks faced by the Group. If market conditions deteriorate, hedging instruments may be used.

38.6 Regulatory risk

This risk is arises from the specific operations of the Group. In accordance with Article 30, paragraph 1 of the Energy Act, the Energy and Water Regulation Commission (EWRC) regulates the following prices of electric power and natural gas:

- at which producers sell electricity to the public supplier within their availability determined by EWRC under Art. 21 para. 1, p. 21;
- at which producers sell thermal energy to the thermal power transmission company and to the directly connected consumers;
- at which the thermal power transmission company sells thermal power to the consumers;
- at which the public provider sells electricity to the distribution and transmission operators of electric power to cover the technological costs of transmission;
- at which the public supplier sells to end suppliers the purchased electricity pursuant to Art. 21 para. 1, p. 21;
- at which the public provider sells natural gas to the end suppliers of natural gas and the consumers connected to the gas transmission network;
- at which end suppliers sell natural gas to customers connected to the respective distribution networks;
- at which end suppliers sell electricity to household and non-household end customers for sites connected to the grid at low voltage level;
- for access and / or transmission through the transmission network;
- for accession to the networks;
- for access and transmission of natural gas through transmission and / or distribution networks except in cases where the Commission at its discretion approves the methodology for determining the price of access and transmission through the transmission network;
- for access and / or transmission through distribution systems;
- for access and storage of natural gas in storage facility;
- for the distribution of electric traction power in the distribution networks of railways;
- for customer services as defined by the Commission and related to the licensed activity.
- including the price or component of the price, through which all end customers connected to the grid, are involved in the offset the costs under Art. 35.

Price regulation has a significant impact on revenue and expenses, and hence on the overall economic and financial position of the Group.

38.7 Cash flow risk

The cash flow risk depends on the fluctuations of the future cash flows related to a given monetary financial instrument. The Group plans its cash flows. Its floating rate financial instruments are short-term, less than 1 year.

39. Fair value measurements

The Group's management believes that fair values of financial instruments include cash and short-term deposits, trade and other receivables, loans and borrowings, trade and other payables did not differ significantly from their carrying values due to their maturity structure and interest terms.

The Group determines the assets and liabilities at fair value into three levels based on the significance of the inputs used in determining the fair value of financial assets and liabilities. Fair value hierarchy includes the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

An asset or liability is classified at the lowest level of the significant input used to determine fair value.

39.1 Fair value measurement of financial instruments

Financial assets and liabilities measured at fair value in the consolidated statement of financial position are grouped into the following categories according to the fair value hierarchy. For more information on exchange-traded shares, see note 25.

	Level 1		Level 2	
	2014	2013	2014	2013
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
Assets				
Shares, publicly traded	684	490	-	-
Liabilities				
Financial derivatives	-	-	-	11,144

The methods and valuation techniques used to determine fair value are unchanged compared to the previous reporting period. The company owns 6,041 shares of Transgaz SA, Romania, which are traded on the Romanian Stock Exchange. The investment is classified as financial assets available for sale and is presented in BGN. Fair value as at 31 December 2014 and 31 December 2013 is determined based on quoted prices in an active market.

39.2 Fair value measurement of non-financial assets

The following table shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis at 31 December 2014:

	Level 3	Level 3
	2014	2013
	BGN'000	*BGN'000*
Property, plant and equipment	11,597,125	11,651,510

Fair value of the Company's main property assets is estimated based on appraisals performed by independent, professionally-qualified property appraisers (see note 19).

As at 31 December 2014 the Group has reviewed the major part of property, plant and equipment and found that their carrying value differs significantly from their fair value only in the subsidiary "TPP Maritsa East 2" EAD. The Group performed a revaluation of such property, plant and equipment at 31 December 2014 based on the assessment of their fair value by an independent certified appraiser. Accordingly, the revaluation amounting to BGN 34,594 thousand is recorded in other comprehensive income, net of taxes.

As at 31 December 2013 the Group also examined the major classes of property, plant and equipment and found that their carrying value is not materially different from their fair value, with the exception of assets with specific purpose in the subsidiary "TPP Maritsa East 2" EAD, for which the fair values are updated according to a report by an independent certified appraiser. Accordingly, the revaluation amounting to BGN 6,425 thousand is recorded in other comprehensive income in 2013, net of tax.

The significant unobservable input is the adjustment for factors specific to the land and buildings in question. The extent and direction of this adjustment depends on the number and characteristics of the observable market transactions in similar properties that are used as the starting point for valuation. Although this input is a subjective judgement, management considers that the overall valuation would not be materially affected by reasonably possible alternative assumptions.

40. Capital management policies and procedures

The policy of the Board of Directors is to maintain a strong capital base so as to maintain the confidence of clients, creditors and the market as a whole and be able to provide opportunities for business development in the future. The aim of the management is to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. Company's goal is to achieve a return on equity above 5%. As of 31 December 2014 return on equity amounts to -2.27% (2013: -0.2%). During the year there were no changes in the management of capital.

41. Commitments and contingent liabilities

41.1 Procedures of the European Commission against Bulgarian Energy Holding EAD and its subsidiaries

Two proceedings were started by the European Commission against Bulgarian Energy Holding EAD and its subsidiaries for possible abuse of dominant position - Case AT.39767 - BEH electricity and Case AT.39849 - BEH gas.

Case COMP/B1/AT.39767 BEH Electricity

The case COMP / AT.39767 - BEH electricity is about a possible violation of Art. 102 TFEU in relation to the inclusion of territorial restrictions (constraints) to supply contracts entered into by subsidiaries of BEH EAD - NEK EAD, NPP Kozloduy EAD and TPP Maritsa East 2 EAD, on the wholesale electricity market in Bulgaria during the period September 2008 - March 2013.
Proceedings were initiated in 2012 with a view to adopting a decision under Chapter 3, Articles 7-10 of Regulation 1/2003 of 16 December 2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the EC Treaty (Articles 101 and 102 TFEU). To date, the following activities were carried out regarding the proceedings: State of Play meeting, a Statement of Objections Issuance and Oral Hearing.
Under Regulation 1/2003 possible next stages are termination or completion of the proceedings by the issuance of Prohibition decision by the Commission under Art. 7 or Commitments decision by BEH EAD and its subsidiaries pursuant to Art. 9.
In case a Prohibitive Decision is issued (Art. 7), EC may impose behavioural or structural remedies or fines, which are set in the Statement of Objections. The limits of the penalty mentioned in the document are up to 10% of annual turnover of BEH EAD. The deadline for adopting a Prohibition decision by European Commission, following an oral hearing is not strictly defined and can range from months to years.
On 15 May 2015 the signed "Commitments submitted by Bulgarian Energy Holding EAD, Natsionalna Elektricheska Kompania EAD, TPP Maritsa East 2 EAD and NPP Kozloduy EAD on Case AT.39767 - BEH electricity" were sent to the European Commission. According to Art. 9 of Regulation 1/2003, the commitments cannot be construed as recognition by BEH EAD that the company has infringed the competition legislation. Commitments are issued provided that the Commission will discontinue the proceedings against BEH on Case AT.39767 BEH electricity without concluding whether or not there was a breach of competition legislation. European Commission is expected to launch the market test of the commitments in June 2015 and take Commitments decision in October 2015.

Court case COMP/B1/AT.39849 – BEH gas

The case COMP / AT.39849 - BEH Gas is about a possible breach of Article 102 TFEU in relation to the alleged actions of the subsidiaries of BEH EAD - Bulgargaz EAD and Bulgartransgaz EAD directed to:

- obstruction of their competitors to gain access to key gas infrastructure (transmission network, and a storage facility for natural gas) in Bulgaria, by way pf explicit or implicit denial of access to third parties or delay;
- obstruction of competitors to gain access to the main import pipeline by reserving capacity, which remains unused.

The proceedings were initiated in 2013 with a view to adopting a decision under Chapter 3 (Articles 7-10) of Regulation 1/2003. The proceedings have not undergone yet the subsequent stages of the usual anti-trust procedure - State of Play meeting, a Statement of Objections Issuance, Oral Hearing and Adoption of a decision by EC.

The possible next stages are termination or completion of the proceedings by the issuance of Prohibition decision by the Commission under Art. 7 or Commitments decision by BEH EAD and its subsidiaries pursuant to Art. 9.

On 23 March 2014 the European Commission notified Bulgarian Energy Holding EAD about the issued Statement of Objections, a formal step in the procedure for investigation into an abuse of dominant position on the natural gas market in Bulgaria by "Bulgarian Energy Holding" EAD, "Bulgargaz" EAD and "Bulgartransgaz" EAD.

The procedure, which formally started on 5 July 2013, is related to concerns of the Commission on the possible restriction of the access of third parties to the transmission network, the gas storage facility in Chiren, as well as the infrastructure for natural gas imports. The European Commission explicitly emphasized in its press release that the Statement of Objections contained only original opinion and did not prejudge the final outcome of the procedure.

Bulgarian Energy Holding EAD will examine the contents of the Statement of Objections and will take all possible current actions for the preparation of a reasoned response to the concerns of the European Commission, within the period prescribed for it. Bulgarian Energy Holding EAD will continue to cooperate with the European Commission to overcome any concerns in a constructive way.

41.2 Capital commitments

NPP Kozloduy EAD

As at 31 December 2014 the Group has capital commitments for BGN 220,008 thousand (2013: BGN 242,645 thousand), which are associated with commitments to acquire property, plant and equipment. Part of the contractual obligations are funded by the "Kozloduy" fund.
The amount of the contractual commitments for the acquisition of nuclear fuel as at 31 December 2014 is BGN 134,585 thousand (2013: BGN 158,716 thousand).

TPP Maritsa East 2 EAD

According to EU directives, national standards and IPPC permit, and in connection with implementation of the projects set out in the National Investment Plan for the period 2013 - 2020, the Group is required to build and put into operation assets with ecological use. As at 31 December 2014, the Group has capital commitments amounting to BGN 148,093 thousand associated with complete engineering of low-emission burners KA-1 to 12; full engineering gas-burning installation of the KA-1 to 12; fabrication and installation of gas-tight screens boilers; increasing the degree of desulphurization of FGD 7 and 8 under Directive 2010/75 / EC; spare parts for SG of the KA-11 and KA-12; delivery, disassembly, assembly and commissioning of transformers; extension and revision of existing fire detection and extinguishing systems and linking them to the centralized monitoring system in the building of SRI units 5 and 6; building of conveyor and dump Bulk device; major overhaul on absorber 8.

Bulgartransgaz EAD

Under Directive 2009/29/EC, Communication (2011/ C99/03) of the Commission, and Guidance document on the optional application of Article 10c of Directive 2003/87 / EC, the Ministry of Energy prepared National Investment Plan (NIP) for the implementation of a number of investment projects. "Bulgartransgaz" EAD applied for participation in the NIP with its project for modernisation of 4 pcs. compressor stations. The implementation of this project is expected to lead to reduction in CO_2 emissions by these compressor stations by about 15%.
The company was required to submitted a reasoned request for transfer of the investment to 2015 in order to take advantage of the state aid provided for NIP. The project for modernisation of the compressor stations included in NIP could not be implemented by the end of 2014 for reasons beyond "Bulgartransgaz" EAD and will be implemented with a delay, because only partial payments have been made so far and none of the turbo compressors has been commissioned yet.

NEK EAD

In connection with the implementation of investment projects, NEK EAD has concluded agreements with contractors for development, modernization and reconstruction of the power system and for rehabilitation and construction of new hydropower plants.

In connection with the Belene project on 29 November 2006 the Company signed an agreement for the construction of NPP Belene with ZAO "Atomstroyexport" as a contractor for the project and on 31 January 2005 with Worley Parsons as an architect engineer for the project. By virtue of decision of the Board of Directors of BEH EAD dated 3 October 2013, it was concluded that the contract with Worley Parsons had been lawfully terminated due to the impossibility for performance. As at 31 December 2014 there is considerable uncertainty about the future cash outflows associated with the termination of the project (note 19).

As at 31 December 2014 the Company has no capital commitments.

NEK EAD - Obligations in relation to development of the energy sector

In connection with the modernization of units 5 and 6 of “NPP Kozloduy” EAD, a loan agreement was signed on 29 May 2000 between “NPP Kozloduy” EAD as Borrower, NEK EAD as Guarantor and the European Atomic Energy Community (EURATOM) as the Lender for a loan amounting to EUR 212.5 million for the purpose of financing the modernization program of the energy units. According to clause 15.2 of the contract, NEK EAD is responsible together with “NPP Kozloduy” EAD as the sole principal debtor. On the same date a Guarantee Agreement was signed also between the Republic of Bulgaria as Guarantor and the European Atomic Energy Community (EURATOM) as Lender, according to which the state also guarantees the payment of the loan. Both agreements were ratified by an Act of the 38th National Assembly of the Republic of Bulgaria on 29 November 2000. The loan was granted in 8 tranches with a variable interest rate of six-month EURIBOR plus 0.13%, and one of tranches was with fixed interest rate of 5.76%. The period of repayment of loan principal for each tranche is different. The maturity is 10 May 2021. The loan is fully utilised and it is being repaid in compliance with the agreed terms. The loan payables to EURATOM as at 31 December 2014 amount to BGN 236,289 thousand (principal) and BGN 2,240 thousand (interest).

NEK EAD - long-term agreements to purchase electricity

On 13 June 2001 NEK EAD concluded a long-term contract with the US company AES for the construction and operation of a 670 MW replacement power generating facility 1 fuelled with local coal (lignite) at the site of TPP Maritsa East. NEK EAD has entered into a long-term (15-year) power purchase agreement, which is effective as from the commissioning date of the new facility on 2 June 2011 and achievement of the full net capacity of 600 MW by AES Galabovo TPP as of 28 December 2011. According to a pledge agreement dated 30 November 2005 NEK EAD has pledged receivables from EVN Bulgaria Power Supply AD and Bulgaria AD, EON Bulgaria Sales in order to guarantee its future commitments to purchase electrical energy. A special account at BNP Paribas was opened as a result of this. The amounts pledged equal the expected maximum total payment for electrical energy for any month in a calendar year. Pursuant to the clauses of the long-term power purchase agreement, NEK EAD is obliged to purchase a minimum quantity of energy in a calendar year of 3,156,500 MWh (or on a pro rata basis in the event of incomplete year) and the respective capacity.

On 13 June 2001 NEK EAD entered into a fifteen-year power purchase agreement with ContourGlobal Maritsa East 3 AD. The power purchase agreement became effective in February 2009 with the completion of the agreed improvement works on the existing facilities of TPP Maritsa East 3 whereby the installed capacity is now 808 MW. In accordance with this agreement, NEK EAD pledges 43% of its receivables from CEZ Electro Bulgaria AD, EON Bulgaria Sales and EVN Bulgaria Power Supply AD as a guarantee for future commitments for purchase of electrical energy. For this purpose an account has been opened at Corporate Commercial Bank AD. The sum of the pledged receivables equals 1.25 times the expected maximum total payment for purchased electrical energy for any month in a calendar year. NEK EAD has issued a promissory note in favour of ContourGlobal Maritsa East 3 AD in case the latter does not receive the amount due from clients of NEK EAD. Pursuant to the clauses of the long-term power purchase agreement, NEK EAD is obliged to purchase a minimum quantity of 3,489,000 MWh a year (or on a pro rata basis in the event of any incomplete year) and the respective capacity.

The table below shows the obligations of the NEK EAD regarding the minimum payments due for purchased electricity and availability for the remaining term of the concluded long-term contracts for the purchase of energy from the thermal power plants.

	Total minimum payments
	BGN'000
Minimum capacity payments due	6,624,319
Minimum electrical energy payments due	4,245,527
Total	10,869,846

** the amount represents the minimum obligation under the existing PPAs and is calculated on the basis of fixed price components and fixed escalation components.*
*** the amount is calculated on the basis of a price per unit of electrical energy as of December 2014*

The minimum payment for purchased availability for each of the long-term contracts to buy electricity from thermal power plants are as follows:

	Within 1 year	Between 1 and 5 years	More than 5 years	Total
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
Minimum capacity payments	611,229	2,449,002	3,564,088	6,624,319

In 2014, NEK EAD purchased from ContourGlobal Maritsa East 3 AD net electricity amounting to 3,216 GWh. which is lower than the agreed minimum of 3,489 GWh. pursuant to the contract, which includes payments for coal. Accordingly, ContourGlobal Maritsa East 3 AD purchased from Mini Maritsa-iztok EAD 5,670 thousand standard tonnes of lignite, which is below the minimum amount agreed under the Agreement for the supply of lignite due to a reduction of the electricity produced during the year.

Pursuant to the requirements of the Renewable and Alternative Energy Sources and Biofuels Act, NEK EAD, as a public supplier, shall purchase at preferential purchase prices the entire quantity of generated electric power, produced from renewable or alternative energy sources, except for the quantities generated by hydroelectric power plants with installed capacity over 10 MW. The RES Act as amended on 3 May 2011 provides for a contract term of 20 years - for the electric power produced by geothermal and solar energy and biomass, 12 years – for electric energy produced from wind energy, and 15 years – for electric energy produced by hydropower plants with installed capacity of up to 10 MW, as well as for electric energy generated by other types of renewable energy sources. The terms for mandatory purchasing shall start running as of the plant commissioning date, and for projects commissioned after 31 December 2015, the terms shall be respectively reduced by the time from this date until the date of commissioning of the energy facilities.

As at 31 December 2014 the Company has concluded these long-term contracts for the purchase of electricity from renewable energy sources:

- Wind power plants: total installed capacity of 357.5 MW. Contracts are concluded in the period 2007-2013 and have terms between 12 and 15 years.
- Photovoltaic power plants: total installed capacity of 260.87 MW. Contract is concluded in 2011-2013 and has a term of 20 years.
- Power plants on bio-mass: total installed capacity of 20.2 MW.
- Hydroelectric power plants: total installed capacity of 53.24 MW.

Due to the nature of the production of electricity from renewable sources and the uncertainty about the total amount generated, the Company cannot reliably estimate their future obligations with regard to contracts for the purchase of electricity from renewable sources.

41.3 Contingent liabilities

Litigation and claims against NEK EAD

ZAO Atomstroyexport

On July 19, 2011 "ZAO Atomstroyexport" / ACE / filed a claim against "Natsionalna Elektricheska Kompania" EAD / NEK / before the Arbitration Tribunal of the International Chamber of Commerce - Paris. The case was registered under № ICC Case No. 18086/GZ as subject are claims by ACE against NEK EAD for unpaid amounts under the Agreement between the ACE and NEK EAD, dated 29 November 2006 incl. Appendices.

On 10 September 2012 ASE increased the total claimed damages to at least EUR 1 billion (BGN 2 billion), plus any interest, penalties and any costs, fees and legal proceedings, including the fees for arbitration services.

On 30 September 2011 "Natsionalna Elektricheska Kompania" EAD filed a claim against "ZAO Atomstroyexport" (ACE) before the Arbitration Tribunal of the International Chamber of Commerce - Paris. The case was registered under № ICC Case No. 18206/GZ under Article 9 of the Framework Agreement № 77-402/71300 dated 28 November 2007 (the Contract) being subject to the same claim of NEK EAD to ACE in the following amounts, namely:

- EUR 40,215,000 for equipment that ACE had to pay and of NEK EAD under the Treaty;
- EUR 4,030,691.83 received from the ACE appliance under Appendix 1 of the Treaty, which ACE is not paid to NEK EAD;
- The difference between the amount of EUR 77,172,475 and the actual expenditure incurred under Art.5.2. and Art.5.4. of the Treaty that ACE is able to demonstrate by providing relevant primary accounting records or other supporting documents with the same value;
- Interest due for late payment of amounts under the previous three points, and all costs associated with the filing and maintenance of the arbitration, including, but not limited to legal fees, arbitration fees, and others.

The unification of arbitration proceedings ICC Case № 18086/GZ/MHM and ICC Case № 18206/GZ/MHM was confirmed by the arbitral tribunal Procedural Rules on 18 February 2013, as follows: (1) trial continues ICC Case o. 18086/GZ/MHM and terminates case against ICC Case. 18206/GZ/MHM; (2) The place on arbitration shall be Geneva, Switzerland (3) The claims of NEK EAD under ICC Case o. 18206/GZ/MHM are considered counterclaims in ongoing arbitration ICC Case No. 18086/GZ/MHM.

From 15 to 26 September 2014 in Geneva a hearing of the witnesses and experts appointed by the parties was held. By 22 May 2015, each party should submit a second round of presentations after the hearing. Within 5 June 2015 each party should submit a written statement on the costs of the arbitration proceedings. By 19 June 2015, each party should make comments on the written statement of the costs of the other side. Final award is expected after 31 August 2015.

Legal representative of NEK EAD is White End Case LLP.

Worley Parsons Nuclear Services EAD

Arbitration proceedings were initiated against NEK EAD in the Court of Arbitration at the International Chamber of Commerce, Paris, on an application filed by Worley Parsons Nuclear Services EAD, which claimed a total amount EUR 54,372 thousand (BGN 106,342 thousand) for compensation and penalties under the contract signed on 31 January 2005. The case is in its initial phase.

NEK EAD has brought an action before Sofia City Court against Worley Parsons Europe Energy Services Ltd. for the amount of BGN 117,308 thousand. NEK EAD wants Worley Parsons Europe Energy Services Ltd. to return the payments made by NEK EAD under the contract signed on 31 January 2005. No hearings have been held yet on the case and a date for the hearings has not been fixed yet.

UET United Energy Traders

UET United Energy Traders has initiated a court case for the amount of BGN 10,853 thousand related to Art. 55 para 1 of Obligation and Contracts Act. The claimant requires refund of the amounts paid by OET for green energy price component and for high-efficiency cogeneration price component. The next meeting is scheduled for 16 June 2015.

Polymeri AD

Polymeri AD filed a commercial case in 2012 and claimed BGN 3,580 thousand related to refusal of payment by NEK EAD for the full access price for the use of their facilities for the transmission of electrical energy from and to TPP Deven for the period from January 2011 to April 2011. The claim was challenged by NEK EAD before Sofia City Court of Appeals and the amount was reduced to BGN 480 thousand. The case was closed. During the period BGN 621 thousand were paid, comprising principal and interest.
Polymeri AD filed a court case in 2014 claiming BGN 2,641 thousand related to the refusal of payment by NEK EAD for the full access price for the use of their facilities for the transmission of electrical energy from and to TPP Deven for the period from May to November 2011, which is scheduled for judgment.
Group's provisions in favour of Polymeri AD as at 31 December 2014 amount to BGN 474 thousand.

Balances with Irrigation Systems EAD

NEK EAD and Irrigation Systems EAD carry out activities related to the maintenance and operation of water reservoirs, dams, hydro engineering, and ameliorative equipment in compliance with their obligations to supply water as determined by the Ministry of Environment and Water. NEK EAD, through the Dams and Cascades

branch, has provided the service "water supply" to Irrigation Systems EAD and vice versa, Irrigation Systems EAD has provided a service of similar nature to NEK EAD.
As no agreement was reached between the Group and Irrigation Systems EAD on the supplied quantities of water, and no delivery acceptance notes have been signed for the period starting May 2003 until the reporting date, additional liabilities to Irrigations Systems EAD may arise. As at the date of approval of these consolidated financial statements, the future cash outflows cannot be reliably determined.

Receivables and payables, which have not been confirmed

The subsidiary NEK EAD recognises receivables amounting to BGN 344,869 thousand and liabilities to electricity distribution companies amounting to BGN 56,235 thousand to distribution companies for which there is disagreement on their part based on Art. 94 of the Energy Act for purchased electricity from renewable sources and high-efficiency cogeneration for the period from 5 July 2013 to 31 July 2013 after the entry into force of amendments to the Energy Act and extending the regulatory period to 31 July 2013 as well as due to cancellation of the Methodology to offset the cost of the public service and end suppliers resulting from imposed public service obligations for the purchase of electricity at preferential prices from renewable energy sources and high-efficiency cogeneration of heat and energy, adopted by Decision №117 dated 16 July 2012 of EWRC, which entered into force on 1 July 2012.
Pursuant to Decision №TS-12 dated 30 June 2014 of EWRC the cost of renewable electricity should be restored within the next 5 regulatory periods from 30 June 2019 via electricity prices. The recovered expenses and the corresponding trade payables to power distribution companies related to the respective sales in 2014 are BGN 34,666 thousand as a result of the application of the above Decision №TS-12 dated 30 June 2014 of EWRC.

NPP Kozloduy EAD

As at 31 December 2014 Interpriborservice OOD was sued by the legally expelled partner Energoserviz AD, UIC 200334806 on the basis of Art. 127 in conjunction with Art. 125, para. 3 of the Commercial Code, and Art. 86 of the Obligation and Contracts Act (OCA).

According to the court decision dated 30 October 2013 on the instituted commercial case №39 / 2013 at Vratsa District Court, the Company was ordered to pay BGN 25 thousand to Energoserviz AD, UIC 200334806, representing the corresponding share of Company's net assets, together with the statutory interest at the amount of BGN 120 thousand, representing interest for the delay on the payment of principal amounting to BGN 865 thousand and the legal expenses amounting to BGN 13 thousand.

The case was brought for appeal on 2 December 2014 under the number above and as at 31 December 2014 it has not been scheduled yet for a closed session on the admissibility of the cassation appeal. At the date of preparation of these consolidated financial statements of the Group a closed meeting on the admissibility of the cassation appeal has not been scheduled.

Although the outcome of the above proceedings cannot be estimated reliably, management expects a positive decision for the Group from the above proceedings.

The Group has filed other legal claims for the amount of BGN 93 thousand (2013: BGN 158 thousand). None of the above claims is described here in detail so as not to seriously prejudice the Group's position in the related disputes.

Lawsuits against TPP Maritsa East 2 EAD

A positive favourable result for the Group would be negligible from the lawsuits including the cases for refunding of the amounts awarded in favour of "TPP Maritsa East 2" EAD on completed legal proceedings for damages, namely unpaid and recoverable tax credit according to tax inspection reports №394 dated 19 December 2005, №9900029 dated 14 May 2007, №29000381 dated 11 February 2008, and №990000025 dated 11 August 2009.

The lawsuits filed against the Group are not expected to generate significant financial returns, as the only possible positive outcome for the Group would be covering the costs incurred in the legal proceedings. The management has not recognised contingent assets at the reporting date, as they may not be realised and are therefore uncertain.

During the year various legal claims were filed against the company. Management considers these claims to be unjustified, and that the costs which the company may incur in their settlement are small, except for the cases for which provisions have already been accrued (Commercial case №370/2008). This evaluation is consistent with external independent legal advice. None of the above claims against the Group is discussed here in detail so as not to seriously prejudice the Group's position in the related disputes.

Bulgargaz EAD

Bulgargaz EAD has filed with the Supreme Administrative Court several administrative proceedings based on which Bulgargaz EAD disputes the lawfulness of the decisions of the Energy and Water Regulation Commission, by virtue of which the Commission has approved the price of natural gas for some quarters of the calendar years from 2008 to 2012.

On 29 July 2014 Decision №1054 of the Commission for Protection of Competition was issued. According to it, "Bulgargaz" EAD was alleged to have committed a violation of Art. 21 of the Law on Protection of Competition, by imposing unfair trading conditions and the imposed penalty was BGN 23,378 thousand. The management of "Bulgargaz" EAD has taken all necessary legal and factual actions to appeal against the decision at the Supreme Administrative Court (SAC). As at the date of preparation of the financial statements the proceeding is pending before the three-member panel of the SAC (first instance) and the next hearing is scheduled for 12 May 2015.

Mini Maritsa-iztok EAD

The payables of Mini Maritsa-iztok EAD to First Investment Bank AD under cession contracts with Remotex-Radnevo EAD and DZZD Remotex Minstroy 2011 are BGN 547 thousand.

ESO EAD

In 2014 ESO EAD signed contracts under the Public Procurement Act and the Ordinance on small contracts for assets repair works, under which contractual obligations arise for 2015 amounting to BGN 5,367 thousand (2013: BGN 6,917 thousand).

41.4 Promissory notes

NEK EAD

As at 31 December 2014 NEK EAD has issued promissory notes for investment projects in favour of banks providing credit facilitates for assets construction and other projects for the total amount of BGN 408,324 thousand. As at 31 December 2013 the promissory notes were for the amount of EUR 417,117 thousand.

41.5 Insurance

NPP Kozloduy EAD

The Act on Safe Use of Nuclear Energy puts a limit on the liability for damages of any nuclear accident of nuclear facility operators. The law limits the liability of the operator to BGN 96,000 thousand for each accident. The operator is required to maintain insurance or other financial security for nuclear damage for the period of operation of the nuclear plant amounting to BGN 96,000 thousand. The Group has an insurance policy covering the limits required by law. The insurance policy is concluded with the entity "Bulgarian national insurance nuclear pool". The monthly instalment paid is BGN 65 thousand.

The Company has signed an insurance contract for its property with ZAD Energy for the period from 1 April 2014 up to 1 April 2015 for the amount of BGN 11,255 thousand.

41.6 Guarantees

NEK EAD

The bank guarantees issued by order of NEK EAD in favour of other companies (third parties) as at 31 December 2014 amount to BGN 208 thousand (2013: BGN 1,655 thousand).

NPP Kozloduy EAD

The issued guarantees in favour of the Company are for the total amount of BGN 87,240 thousand. (2013: BGN 112,279 thousand). The Company has not provided any guarantees as at 31 December 2014.

41.7 Tax inspections

Bulgarian Energy Holding EAD

The latest tax inspections of BEH EAD were carried out by the tax authorities as follows:
- Income tax – up to 31 December 2008;
- VAT – up to 30 June 2009;
- Personal income tax – up to 31 December 2008;
- Social security – up to 31 December 2008.

The Group's management does not believe that there are significant risks as a result of dynamic fiscal and regulatory environment in Bulgaria, which would require adjustments to the consolidated financial statements for the year ended 31 December 2014.

Bulgargaz EAD

The tax administration may perform at any time tax inspection of "Bulgargaz" EAD within 5 years after the end of the financial year and may impose additional tax liabilities and penalties. The Company's management has no information about any circumstances which may lead to potential effective additional tax liabilities of significant size.

TPP Maritsa East 2 EAD

The latest tax inspections of TPP Maritsa East 2 EAD carried out by the tax administration are as follows:
- Personal income tax – up to 31 December 2007;
- Social security – up to 31 December 2008;
- Local taxes and fees – up to 31 December 2005;
- Corporate income tax and other taxes under CITA – up to 31 December 2010;
- VAT – up to 30 September 2011.

NEK EAD

The latest tax inspections of NEK EAD carried out by the tax administration are as follows:
- - until 31 December 2007, inclusive, a full-scope tax audit was carried out;
- - until 30 September 2009, inclusive, a VAT audit was carried out.
- - until 31 May 2009, inclusive, a social security tax audit was carried out.

As at date of preparation of the consolidated financial statements, a full tax inspection was made covering the period from 1 January 2008 to 31 December 2011, and inspection report №R-29-1200199-092-001 dated 20 April 2015 was issued.
For the period from 1 January 2012 to 31 December 2012 a full tax inspection was performed, only VAT was excluded from its scope. The tax inspection report №R-29-1300087-092-001 was issued on 11 May 2015.

42. Post-reporting date events

BEH EAD

Share capital increase of IBEX EAD

On 6 January 2015 the Minister of Energy gave permission to increase the share capital of "Independent Bulgarian Energy Exchange" EAD by BGN 350 thousand, divided into 35,000 ordinary registered shares with voting right and a par value of BGN 10 each. All new shares are issued by the sole owner BEH EAD. The share capital increase was registered in Bulgarian Commercial Register on 14 January 2015.

For the purpose of launching a stock market, the Ministry of Energy approved on 28 April 2015 the additional share capital increase of "Independent Bulgarian Energy Exchange" EAD by BGN 814,800, via issuance of 81,480 new ordinary registered shares with voting right and a par value of BGN 10 each. Thus the company's share capital was increased to BGN 1,214,800, thereby funding was provided for the conclusion of agreements to provide services for the operation of a stock market platform "a day ahead".

Changes in the Board of Directors

By a Protocol dated 20 February 2015, the Minister of Energy released Vladimir Denchev Denchev as a member of the Board of Directors and appointed Zhivko Dimitrov Dinchev with the mandate of the other members with effect from the date of registration in Bulgarian Commercial Register. The change was registered on 9 March 2015.

Case COMP/B1/AT.39767 BEH Electricity

As at the date of approval of the consolidated financial statements by the Board of Directors, the case with a view to adopting a decision under Art. 7 is stopped, due to the fact that EC, BEH EAD and its subsidiaries negotiated and produced a draft Commitments decision under Art. 9 of Regulation 1/2003. The final draft of the Commitments decision was sent to EC on 15 May 2015. The adoption of a decision under Art. 9 will not lead to any direct finance costs for BEH EAD. If no decision is reached in accordance with Art. 9 of Regulation 1/2003, the proceedings will resume its course in line with Art. 7.

Case COMP/B1/AT.39849 – BEH gas

On 23 March 2015 the European Commission notified “Bulgarian Energy Holding” EAD about sending a Statement of Objections as a formal step in the procedure for investigation into an alleged dominant position of “Bulgarian Energy Holding” EAD, “Bulgargaz” EAD and “Bulgartransgaz” EAD on the natural gas market in Bulgaria.
The proceedings were formally initiated on 5 July 2013. They are related to concerns of the Commission on the possible restriction of access of third parties to the transmission network, gas storage facility in Chiren, as well as the infrastructure for natural gas imports. The European Commission explicitly emphasizes in its press release that the Statement of Objections contains only preliminary opinion and does not prejudge the final outcome of the proceedings.
“Bulgarian Energy Holding” EAD will examine the contents of the Statement of Objections and will take all possible actions to prepare a reasoned response to the concerns of the European Commission, within the period prescribed for it.
“Bulgarian Energy Holding” EAD will continue to cooperate with the European Commission to overcome any concerns in a constructive way.

Credit rating

On 20 March 2015 the international rating agency Fitch Ratings lowered with one point the long-term credit rating of “Bulgarian Energy Holding” (BEH) EAD to “BB”.
The decrease reflects the increased deficit in the Natsionalna Elektricheska Kompania (NEK) EAD, which operates in unfavourable regulatory and market environment. The rating agency examines the regulatory environment in Bulgaria as less developed and less predictable than in Western Europe, taking into account that in 2015 it is planned to be established some legislative (some of which have already been adopted) and regulatory changes focused on reducing the deficit of NEK EAD.
The rating is placed under adverse monitoring. Preserving the rating depends on the speed and scale of the implementation of the planned regulatory and legislative changes and the renegotiation of the long-term contracts for the purchase of electricity by NEK EAD.
When determining the rating, the important position of BEH group at the electricity and gas markets in the country is taken into account and the fact that BEH EAD retains the positive effect of its capital structure with one hundred percent state-ownership. Fitch Ratings expects that the government will support BEH EAD in case of potential liquidity problems.
The achievement of a significant reduction of the deficit of NEK EAD and the predictability of cash flows of BEH group would justify the increase of the rating to its initial level. These results depend to a large extent on the progress in market liberalization and the sustainable changes in the legal and regulatory framework.

NPP Kozloduy EAD

On 11 February 2015 the subsidiary received the approved BGN 84 thousand from “Bulgarian Deposit Insurance Fund”.

According to paragraph 1, subparagraphs “b” and “c” of Order №1 of the Council of Ministers dated 16 March 2015 for profit distribution of state enterprises and companies with state participation in the share capital, “NPP Kozloduy” EAD shall pay a dividend out of its net profit after tax for 2014 amounting to 60%, after deducting the allocations for “Statutory Reserves” fund when the fund is not full. The amount of the dividend should not exceed 60 percent of the profit in the consolidated financial statements for 2014.

Bulgargaz EAD

Ceiling prices of natural gas sold by the public supplier to end suppliers and consumers connected to the gas network for the first quarter of 2015 were approved. Marginal rates are fixed via decision of the Energy and Water Regulatory Commission for the first quarter of 2015 at BGN 603.14/1000 m^3 without excise duty and VAT and BGN 610.86/ 1000 m^3 without excise duty and VAT (for customers connected to the low pressure networks).

By virtue of Decision №61-2014 dated 23 December 2014 the Board of Directors of BEH EAD appointed Ilian Doukov as member of the Board of Directors of "Bulgargaz" EAD. The decision was registered in Bulgarian Commercial register on 6 January 2015.

By virtue of Decision №164 dated 2 February 2015 of the Board of Directors of "Bulgargaz" EAD Petio Ivanov was appointed as Executive director of the company. The decision was registered in Bulgarian Commercial register on 10 February 2015.

Bulgartransgaz EAD

The new Management Board of "Bulgartransgaz" EAD comprising the following members: Tanya Zaharieva, Delyan Dimitrov and Georgi Gegov was registered in Bulgarian Commercial register on 8 January 2015. The Company is represented and managed by its Executive Director Georgi Gegov.

By virtue of Decision №208 dated 13 February 2015 the Director of Directorate "Appeals and tax and insurance practice" of National Revenue Agency repealed the findings in Tax Inspection Act №291300399 dated 18 August 2014 related to corporate income tax in accordance with CITA for 2007, 2008 and 2011 and the findings related to VAT for the following periods: December 2007, and from January 2008 to December 2008.

On 24 March 2015 the Executive Director of "Bulgartransgaz" EAD made a proposal to the Supervisory Board for selection of a legal representative of "Bulgartransgaz" EAD in a future court case related to some of the funds of "Bulgartransgaz" EAD, which remained blocked in KTB AD concerning three ordered bank transactions in foreign currency totalling BGN 26,780 thousand as at 31 December 2014.

NEK EAD

Branch "Hydroelectroinvest" Belovo was closed on 27 January 2015 after a decision of the Board of Directors of the Bulgarian Energy Holding EAD dated 16 January 2015. The assets and personnel of the branches are transferred to company "Hydroelectric Stations."

According to Decision of the Board of Directors of Bulgarian Energy Holding EAD dated 24 March 2015, the members of the Board of Directors of NEK EAD were changed with effect from 1 April 2015. The appointed members of the Board of Directors of the company are Petar Iliev (CEO) Momchil Vanov and Hristo Georgiev.

On 8 April 2015 agreements were signed for the change of long-term contracts with AES - 3C Maritza East I EOOD and ContourGlobal Maritsa East 3 AD. The new arrangements regulate capacity price reduction on both contracts with ContourGlobal Maritsa East 3 AD and AES - 3C Maritza East I EOOD from 1 July 2015, without increasing the contract duration. On the other hand, NEK EAD is committed to pay all overdue payables to both plants.

Independent Auditor's Report
Consolidated Financial Statements

Bulgarian Energy Holding EAD

31 December 2015

HLB Bulgaria
Audit, Analysis & Consulting

INDEPENDENT AUDITOR'S REPORT

TO THE SOLE SHAREHOLDER OF
BULGARIAN ENERGY HOLDING EAD
SOFIA

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of **"BULGARIAN ENERGY HOLDING" EAD** (Parent company) and its subsidiaries (the Group), as at 31 December 2015, which comprise the consolidated Statement of financial position as at 31 December 2015, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements, in accordance with International Financial Reporting Standards, adopted by the European Commission, and for such an internal control system as the Management determines as necessary for the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an independent opinion on these consolidated financial statements, based on our audit. We conducted our audit in accordance with the professional requirements of the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

The audit involves performing procedures to obtain audit evidence about the amounts and disclosures, presented in the consolidated financial statements. The selected procedures depended on the auditor's professional judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considered the internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the Group's internal control. The audit also includes evaluating the appropriateness of the used accounting policies and the reasonableness of the accounting estimates, made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

№ 149 -151, "Konstantin Velichkov" blvd., 1st floor, office 2, Sofia, 1309, Bulgaria. Web site: www.hlb.bg
Telephone: + 359 2 920 22 01 / +359 2 920 50 21. Fax: +359 2 920 36 65. E-mail: office@hlb-bg.com

HLB Bulgaria
Audit, Analysis & Consulting

Basis for Qualified Audit Opinion

1. The Group has concluded an agreement, for the construction of a nuclear power plant, with a third party, disclosed in Note 18 "Property, plant and equipment" to the consolidated financial statements. As at 31 December 2015, the total carrying value of property, plant and equipment, related with the nuclear power plant, amount to BGN 1,391,177 thousand, of which BGN 1,305,948 thousand are assets under construction. As at 31 December 2015, the Group's advance payments to and receivables from the principal contractor of the nuclear power plant amount to BGN 198,490 thousand, the accrued liabilities to the contractor amount to BGN 98,434 thousand and the unrecognised liabilities, arising from received invoices for works, executed in compliance with Annex 5 to the contract, amount to BGN 202,522 thousand. On 29 March 2012 the Government of the Republic of Bulgaria decided to discontinue the construction of the nuclear power plant. Pursuant to a Decision of the 41st National Assembly, dated 27 February 2013, the National Assembly supported the decision of the Government for the termination of the project for construction of a new nuclear power plant at the "Belene" platform. The Group is currently in legal disputes with the principal contractor and the architect — engineer, under the project, as disclosed in Note 40 "Commitments and contingent liabilities". The Group is not in a position to reliably estimate and hence it has not recognised provisions for liabilities or impairment losses of the recognised assets in the consolidated financial statements, related with the construction of the nuclear power plant. We were unable to obtain sufficient and appropriate audit evidence regarding the recoverable amount of the above stated assets of the Group and of the completeness of the recognised liabilities to the principal contractors under the project.

2. No actions have been taken to ensure the funding, which is necessary for the completion of the assets under construction disclosed in Note 18 "Property, plant and equipment" to the consolidated financial statements with net book value of BGN 37,794 thousand as at 31 December 2015. We were unable to obtain sufficient and appropriate audit evidence regarding the recoverability of the above stated assets, which would provide us with reasonable assurance about their amount, whether any adjustments are necessary and what would be the possible amount of the impairment.

3. The Group has filed a reimbursement claim to the Energy and Water Regulatory Commission (EWRC). The claim refers to the reimbursement of incurred expenses, associated with the cancelled "Methodology to offset the cost of public service providers and end suppliers, resulting from the imposed on such public service obligations for purchasing electricity from renewable energy sources at preferential rates", for the period beginning from July 2012 until July 2013, for the total amount of BGN 397,649 thousand. In accordance to the EWRC's Decision No TS-12 dated 30 June 2014, the costs for renewable electricity should be recovered within the next 5 regulatory periods, until 30 June 2019. Pursuant to EWRC's Decision dated 31 July 2015, the costs, incurred by the public service providers, under the same methodology, shall be compensated by the "Energy System Security Fund". The expenses, subject to compensation for the pricing period from 1 August 2015 until 31 July 2016 are estimated at BGN 79,500 thousand. The recovered expenses through revenue from sales in 2015 and proceeds from the Ministry of Energy, pursuant to paragraph 9 of the State Budget Act, amount to BGN 107,525 thousand (compared to BGN 34,666 thousand in 2014). In accordance with Decision No. TS-12 dated 30 June 2014 and Decision TS-27 dated 31 July 2015 issued by EWRC, the corresponding amounts were also recognised as current expenses and current liabilities to the electricity supply companies. The unrecognised and not fully compensated expenses, incurred under the methodology, amount to BGN 238,561 thousand as at 31 December

2015. We were not able to obtain sufficient and appropriate audit evidence on the presented values and whether any adjustments are necessary.

4. As at 31 December 2015, the Group has recognized trade receivables from electricity supply companies amounting to BGN 245,618 thousand, trade receivables from other counterparties amounting to BGN 16,579 thousand and trade payables from electricity supply companies amounting to BGN 89,665 thousand, which have not been confirmed by the respective counterparties (Note 40 "Commitments and contingent liabilities"). We were unable to obtain sufficient and appropriate audit evidence about their carrying value and whether any adjustments are necessary as at this date.

5. The Group recognises provisions for a number of obligations arising from its activities. As at 31 December 2015, the Group has recognized a provision for recovery and re-cultivation of exploited plots of land, related to the mining operations of Mini Maritsa-Iztok EAD, amounting to BGN 101,261 thousand (as at 31 December 2014 - BGN 83,933 thousand). We were unable to obtain reasonable assurance for the completeness of the recognized provision, as well as evidence, supporting the underlying assumptions, used in its calculation, in accordance with the requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". The Group does not recognize costs, and respectively —provisions for the decommissioning of nuclear facilities. According to the legislation currently in force and other international agreements, a portion of these costs could be financed by national and international funds. In accordance with the requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", the Group should recognize provisions for the nuclear facilities' decommissioning, and a separate asset for its rights to receive reimbursement of the costs, incurred in case the asset's value can be measured reliably. We were not presented with an assessment of these future costs and any related reimbursement. Consequently, we were not able to obtain sufficient and appropriate assurance about the estimated amount of the provisions and the related reimbursement assets as at 31 December 2015 and as at 31 December 2014.

6. The consolidated statement of financial position includes non-current receivables from Corporate Commercial Bank AD - in insolvency, with a gross book value of BGN 137,541 thousand and accrued impairment of BGN 22,762 thousand as at 31 December 2015. The Group's management has concluded that there are many uncertainties, associated with determining the recoverable amount of this claim and has determined as reasonable to recognise partial impairment loss for the period (Note 21 "Trade and other receivables"). Despite the performed alternative procedures, we were not able to obtain sufficient audit evidence, which would provide us with reasonable assurance about the value of these receivables presented in the consolidated financial statements and whether any adjustments to its amount are necessary.

7. As at 31 December 2015, the Group has obtained investment loan, granted by the European Atomic Energy Community (**EURATOM**), which is guaranteed by the Government of the Republic of Bulgaria (Note 28 "Loans and finance lease"). In accordance with the requirements of IAS 39 "Financial Instruments: Recognition and Measurement", the loan should have been initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method. The Group has not measured the loan under this method. This is a violation of the provisions of IAS 39 "Financial Instruments: Recognition and Measurement". As a result, the accumulated loss, and respectively the liabilities of the Group at 31 December 2015 are understated by approximately BGN 9,327 thousand.

Qualified opinion

In our opinion, except for the possible effect of the matters 1 to 6, and the effect of the matter under point 7, described in the paragraph "Basis for qualified audit opinion", the consolidated financial statements give a true and fair view of the financial position of the "BULGARIAN ENERGY HOLDING" EAD, and its subsidiaries, as at 31 December 2015, as well as of the financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards, adopted by the European Commission.

Emphasis of Matter Paragraph

1. We draw attention to Note 18 "Property, plant and equipment", where it is disclosed that during the period, a revaluation of the main part of the Group's property, plant and equipment was conducted, appointing for the purpose an independent licensed appraiser. The specifics of the Group's assets and the dynamic economic environment in the energy sector could lead to variations in the assumptions and judgments used in determining the fair value.

2. The Group uses property and equipment (Note 18 "Property, Plant and Equipment") with a carrying value amounting to BGN 923,624 thousand as at 31 December 2015, which are under the regulation of the Water Act and are public state property. The Act has provisions for the separate management of such assets by entities with a hundred per cent public ownership or legal entities with joint state and municipal participation, where the state has a majority share.

3. We draw attention to the lands and buildings with carrying amount of BGN 24,816 thousand, which are disclosed in Note 18 "Property, Plant and Equipment", and for which the Group does not have unconditional ownership rights as at 31 December 2015 because they are in pending procedure of issuing acts of ownership.

4. We draw attention to the Group's commitments under a concession contract for the exploration and extraction of coals, as disclosed in Note 40 "Commitments and contingent liabilities". According to Order of the Ministry of Economy, Energy and Tourism issued in 2010, the obligation to finance the expenses leads to securing a special guarantee deposit, which can be used only for the purpose for which it was created. As at 31 December 2015, the Group has not deposited the required amount in this special guarantee bank account.
Our opinion is not modified in relation to these matters.

Other Matters
The Group consolidated financial statements as of 31 December 2014 were audited by other auditor that issued qualified audit report with an emphasis of matter paragraph dated 17 June 2015.

Report on Other Legal and Regulatory Requirements – Consolidated Activity Report as at 31.12.2015

We have reviewed the consolidated activity report as at 31 December 2015 of "BULGARIAN ENERGY HOLDING" EAD and its subsidiaries, which are not part of the consolidated financial statements as at 31 December 2015. The historic financial information, presented in the consolidated activity report, prepared by the Management, corresponds, in all material aspects, to the financial information in the consolidated financial statements as at 31 December 2015, prepared in accordance with the International Financial Reporting Standards, adopted by the European Commission. The Management is responsible for preparing the consolidated activity report.

Specialized Audit Firm
"HLB Bulgaria" Ltd.

Representing the Auditing Company:
Vaska Gelina

Registered Auditor (CPA):
Milena Hristova
28.04.2016

Bulgarian Energy Holding EAD
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year, ended 31 December 2015

	Notes	2015	2014	
		BGN '000	*BGN '000*	
Revenues from sales	7	6,382,133	6,122,919	*
Other operating income	8	304,477	71,730	*
		6,686,610	**6,194,649**	
Cost of natural gas, electricity and other current assets sold	9	(4,007,827)	(4,297,058)	
Change in finished goods and work in progress		24,274	3,599	
Cost of acquisition of property, plant and equipment in a commercial manner		13,776	15,090	
Cost of materials	10	(319,909)	(341,276)	
Hired services expenses	11	(300,513)	(258,044)	
Depreciation and amortisation expenses	18, 19	(585,626)	(544,195)	
Impairment loss of property, plant and equipment		(5,437)	-	
Employee benefits expense	12	(783,397)	(780,954)	
(Expenses for impairment)/reintegration of impairment	21	(21,822)	148,355	
Costs for the purchase of greenhouse gas emissions	31	(184,819)	(119,801)	
Other operating expenses	13	(430,481)	(234,318)	
Operating profit/(loss)		**84,829**	**(213,953)**	
Share of profit from equity accounted investments	20	45,920	51,331	
Financial income	14	36,576	60,897	
Financial cost	15	(87,382)	(68,500)	
Profit/(loss) before tax		**79,943**	**(170,225)**	
Income tax expense	16	(20,483)	(48,671)	
Profit/(loss) for the year from continuing operations		**59,460**	**(218,896)**	
Loss for the year from discontinued operations	26	(29,957)	(58,532)	
Profit/(loss) for the year		**29,503**	**(277,428)**	
Profit/(loss) for the year, attributable to:				
The sole shareholder of the parent company		29,447	(277,030)	
Non-controlling interest		56	(398)	
		29,503	**(277,428)**	
Earnings/(loss) per share	17	***BGN***	***BGN***	
Earnings/(loss) from continuing operations		0.020	(0.081)	
Loss from discontinued operations		(0.010)	(0.022)	
Total		0.010	(0.102)	

* Restated, reclassified

Petyo Ivanov — Executive Director

Marieta Velikova — Chief Accountant

Date of preparation: 25 April 2016

The Financial Statements were authorized for issue with Decision of the Board of Directors, dated 28 April 2016.
The accompanying notes are an integral part of these consolidated financial statements.

Auditing Company
HLB Bulgaria Ltd.

Vaska Gelina — Manager

Milena Hristova — Manager, auditor in charge

Independent Auditor's report date of issue:28 April 2016

Bulgarian Energy Holding EAD
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year, ended 31 December 2015

	Notes	2015	2014
		BGN '000	*BGN '000*
Profit/(loss) for the year		**29,503**	**(277,428)**
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of property, plant and equipment	18	1,688,867	38,438
Remeasurement of defined benefits liability	30	(30,449)	(3,943)
Income tax, relating to items that will not be reclassified in profit or loss	22	(165,840)	(3,449)
		1,492,578	**31,046**
Items that will be reclassified subsequently into profit or loss:			
Share of the other comprehensive income of associates		4,419	(2,752)
Exchange differences on the translation of foreign operations		-	(35)
Gain on financial assets available for sale	24	47	194
Income tax relating to items that will be reclassified in profit or loss	22	(5)	(19)
		4,461	**(2,612)**
Other comprehensive income for the year, net of tax		**1,497,039**	**28,434**
Total comprehensive income/(loss) for the year, net of tax		**1,526,542**	**(248,994)**
Total comprehensive income/(loss) for the year, attributable to:			
Sole shareholder of the parent company		1,526,486	(248,596)
Non-controlling interest		56	(398)
		1,526,542	**(248,994)**

* Restated, reclassified

Petyo Ivanov — Marieta Velikova
Executive Director — Chief Accountant
Date of preparation: 25 April 2016
The Financial Statements were authorized for issue with Decision of the Board of Directors, dated 28 April 2016.
The accompanying notes are an integral part of these consolidated financial statements.

Auditing Company
HLB Bulgaria Ltd.
Vaska Gelina — Milena Hristova
Manager — Manager, auditor in charge
Independent Auditor's report date of issue: 28 April 2016

Bulgarian Energy Holding EAD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2015

	Note	31 December 2015	31 December 2014	1 January 2014
		BGN '000	*BGN '000*	*BGN '000*
ASSETS				
Non-current assets				
Property, plant and equipment	18	13,082,059	11,597,125	11,651,510
Intangible assets	19	23,487	24,107 *	21,397 *
Investments in associates, joint ventures and other entities	20	370,492	357,057	171,974
Trade and other receivables	21	588,524	226,827	136,717
Deferred tax assets	22	98,375	84,267	91,898
Total non-current assets		**14,162,937**	**12,289,383**	**12,073,496**
Current assets				
Inventory	23	685,441	753,882	745,749
Trade and other receivables	21	1,492,227	1,965,062 *	1,490,024
Receivables from related parties	35	264,242	132,589	42,190
Overpaid income tax		1,832	4,106	3,594
Financial assets available for sale	24	730	684	490
Cash and short-term deposits	25	833,111	404,305	522,859
Total current assets		**3,277,583**	**3,260,628**	**2,804,906**
TOTAL ASSETS		**17,440,520**	**15,550,011**	**14,878,402**

* Restated, reclassified

Petyo Ivanov — Marieta Velikova
Executive Director — Chief Accountant
Date of preparation: 25 April 2016
The Financial Statements were authorized for issue with Decision of the Board of Directors, dated 28 April 2016.
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Auditing Company
HLB Bulgaria Ltd.
Vaska Gelina — Milena Hristova
Manager — Manager, auditor in charge
Independent Auditor's report date of issue: 28 April 2016

Bulgarian Energy Holding EAD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
As at 31 December 2015

	Notes	31 December 2015		31 December 2014		1 January 2014	
EQUITY AND LIABILITIES		*BGN '000*		*BGN '000*		*BGN '000*	
Equity							
Share capital	27.1	3,188,168		2,948,723		2,612,004	
Other reserves	27.2	2,528,065		2,490,399	*	2,450,772	*
Reserve from revaluation to fair value	27.3	(23,687)		(28,148)		(25,571)	
Revaluation reserve of non-financial assets	27.4	6,691,289		5,180,043	*	5,155,397	*
Reserve from translation of foreign operations	27.5	(8)		(8)		27	
Reserve from remeasurement of defined benefit plans	27.6	(76,868)		(49,463)		(45,913)	
(Accumulated loss)/Retained earnings		(792,886)		(553,952)	*	110,006	*
Equity, attributable to the sole shareholder of the parent company		**11,514,073**		**9,987,594**		**10,256,722**	
Non-controlling interest		348		292		690	
Total equity		**11,514,421**		**9,987,886**		**10,257,412**	
Non-current liabilities							
Loans and finance lease liabilities	28	1,337,797		1,470,260		1,586,395	
Deferred tax liabilities	22	727,765		576,520		568,089	
Deferred financing	29	359,734		318,825		301,768	
Liabilities for retirement employee benefits	30	137,231		113,712		85,022	
Provisions	31	105,116		87,873		79,752	
Deferred income	32	131,358		78,828	*	1,127	*
Trade and other payables	33	238,543		241,547		7,281	
Related party payables	35	16,267		21,976		-	
Total non-current liabilities		**3,053,811**		**2,909,541**		**2,629,434**	
Current liabilities							
Trade and other payables	33	1,845,704		1,893,628	*	1,436,821	
Related party payables	35	591,902		406,347		221,327	
Loans and finance lease liabilities	28	231,143		207,737		231,573	
Liabilities for retirement employee benefits	30	26,531		23,976		39,097	
Provisions	31	159,685		108,193		33,129	
Deferred income	32	1,179		1,587	*	7,346	*
Financial derivatives	34	-		-		11,144	
Deferred financing	29	10,288		7,953		8,346	
Income tax payables		5,856		3,163		2,773	
Total current liabilities		**2,872,288**		**2,652,584**		**1,991,556**	
Total liabilities		**5,926,099**		**5,562,125**		**4,620,990**	
TOTAL EQUITY AND LIABILITIES		**17,440,520**		**15,550,011**		**14,878,402**	

* Restated, reclassified

Petyo Ivanov — Marieta Velikova
Executive Director — Chief Accountant
Date of preparation: 25 April 2016
The Financial Statements were authorized for issue with Decision of the Board of Directors, dated 28 April 2016.
The accompanying notes are an integral part of these consolidated financial statements.

Auditing Company
HLB Bulgaria Ltd.
Vaska Gelina — Milena Hristova
Manager — Manager, auditor in charge
Independent Auditor's report date of issue: 28 April 2016

Bulgarian Energy Holding EAD
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year, ended 31 December 2015

	Share capital	Other reserves	Reserves from revaluation to fair value	Revaluation reserve of non-financial assets	Reserves from translation of foreign operations	Reserve from remeasurement of defined benefit plans	Retained earnings	Total equity, attributable to the shareholder of the parent	Non-controlling interest	Total equity
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Balance as at 1 January 2015	**2,948,723**	**2,490,399**	**(28,148)**	**5,180,043**	**(8)**	**(49,463)**	**(553,952)**	**9,987,594**	**292**	**9,987,886**
Profit for the year	-	-	-	-	-	-	29,447	29,447	56	29,503
Other comprehensive income	-	-	4,461	1,519,981	-	(27,403)	-	1,497,039	-	1,497,039
Total comprehensive income for the period	**-**	**-**	**4,461**	**1,519,981**	**-**	**(27,403)**	**29,447**	**1,526,486**	**56**	**1,526,542**
Increase in the share capital and decrease of retained earnings	239,445	-	-	-	-	-	(239,445)	-	-	-
Written-off revaluation reserve	-	-	-	(8,735)	-	-	8,735	-	-	-
Transfer to reserves	-	37,669	-	-	-	-	(37,669)	-	-	-
Other changes in equity	-	(3)	-	-	-	(2)	(2)	(7)	-	(7)
Balance as at 31 December 2015	**3,188,168**	**2,528,065**	**(23,687)**	**6,691,289**	**(8)**	**(76,868)**	**(792,886)**	**11,514,073**	**348**	**1,514,421**

Petyo Ivanov — Marieta Velikova
Executive Director — Chief Accountant
Date of preparation: 25 April 2016
The Financial Statements were authorized for issue with Decision of the Board of Directors, dated 28 April 2016.
The accompanying notes are an integral part of these consolidated financial statements.

Auditing Company
HLB Bulgaria LTD
Vaska Gelina — Milena Hristova
Manager — Manager, auditor in charge
Auditor's report date of issue: 28 April 2016
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Bulgarian Energy Holding EAD
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2015

	Share capital	Other reserves	Reserves from revaluation to fair value	Revaluation reserve of non-financial assets	Reserves from translation of foreign operations	Reserve from remeasurement of defined benefit plans	Retained earnings	Total equity, attributable to the shareholder of the parent	Non-controlling interest	Total equity
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Balance as at 1 January 2014	**2,612,004**	**2,414,489**	**(25,571)**	**5,149,461**	**27**	**(45,913)**	**17,334**	**10,221,831**	**690**	**10,222,521**
Changes in the opening balances resulting from changes in the accounting policies, errors and others	-	36,283	-	5,936	-	-	(7,328)	34,891	-	34,891
Balance as at 1 January 2014 (restated)	**2,612,004**	**2,450,772**	**(25,571)**	**5,155,397**	**27**	**(45,913)**	**110,006**	**10,256,722**	**690**	**10,257,412**
Dividend distribution	-	-	-	-	-	-	(20,508)	(20,508)	-	(20,508)
Transactions with the sole shareholder	**-**	**-**	**-**	**-**	**-**	**-**	**(20,508)**	**(20,508)**	**-**	**(20,508)**
Profit for the year	-	-	-	-	-	-	(277,030)	(277,030)	(398)	(277,428)
Other comprehensive income	-	-	(2,577)	34,594	(35)	(3,548)	-	28,434	-	28,434
Total comprehensive income for the period	**-**	**-**	**(2,577)**	**34,594**	**(35)**	**(3,548)**	**(277,030)**	**(248,596)**	**(398)**	**(248,994)**
Increase in capital and decrease in reserves	336,719	(336,719)	-	-	-	-	-	-	-	-
Written-off revaluation reserve	-	-	-	(9,972)	-	-	9,972	-	-	-
Allocation of profits to reserves	-	376,411	-	-	-	-	(376,411)	-	-	-
Other changes in equity	-	(65)	-	24	-	(2)	19	(24)	-	(24)
Balance as at 31 December 2014	**2,948,723**	**2,490,399**	**(28,148)**	**5,180,043**	**(8)**	**(49,463)**	**(553,952)**	**9,987,594**	**292**	**9,987,886**

Petyo Ivanov — Marieta Velikova
Executive Director — Chief Accountant
Date of preparation: 25 April 2016
The Financial Statements were authorized for issue by Decision with the Board of Directors, dated 28 April 2016.
The accompanying notes are an integral part of these consolidated financial statements.

Auditing Company
HLB Bulgaria Ltd.
Vaska Gelina — Milena Hristova
Manager — Manager, auditor in charge
Independent Auditor's report date of issue: 28 April 2016

Bulgarian Energy Holding EAD
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year, ended 31 December 2015

	Notes	2015	2014
		BGN '000	*BGN '000*
Cash flows from operating activities			
Proceeds from sales including:		6,017,618	5,517,203
Proceeds from sales of electricity		*3,934,046*	*3,729,685*
Proceeds from sales of natural gas and accompanying services		*1,791,148*	*1,673,910*
Proceeds from sales of lignite coal		*213,060*	*107,447*
Proceeds from other sales		*79,364*	*6,161*
Payments to suppliers		(3,990,950)	(3,783,101)
Payments to the personnel and social insurance institutions		(786,488)	(729,332)
Payments to the state funds		(100,556)	(85,939)
Interest paid		(61,364)	(68,116)
Payment of fees, commissions and others		(6,958)	(5,924)
Proceeds from the Security of Electricity System Fund		183,200	-
Other payments, net, including:		(309,150)	(343,950)
Income tax paid		*(42,128)*	*(45,896)*
Payments to the State budget		*(334,187)*	*(194,952)*
Other payments for operating activities		*67,165*	*(103,102)*
Net cash flows from continuing operations		945,352	500,841
Net cash flows from discontinued operations	26	(15)	(28,812)
Net cash flows from operating activities		**945,337**	**472,029**
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		(404,606)	(385,308)
Purchases of equity accounted investments		(10,268)	-
Proceeds from sales of property, plant and equipment		5,705	1,972
Interest received		2,369	7,397
Dividends received and other proceeds from equity accounted investments		10,037	16,090
Net cash flows from investing activities		**(396,763)**	**(359,849)**
Cash flows from financing activities			
Proceeds from loans		628,437	602,166
Repaid loans		(753,128)	(694,926)
Payments under finance lease		-	(288)
Dividends paid	17	-	(20,508)
Proceeds from transactions with financial instruments		4,988	-
Net cash flows from financing activities		**(119,703)**	**(113,556)**
Cash reclassified as non-current receivables from Corporate Commercial Bank AD – in bankruptcy	21.4	**(65)**	**(117,178)**
Net change in the cash and cash equivalents		**428,806**	**(118,554)**
Cash and cash equivalents as at 1 January		**404,305**	**522,859**
Cash and cash equivalents as at 31 December	25	**833,111**	**404,305**

Petyo Ivanov — Marieta Velikova
Executive Director — Chief Accountant
Date of preparation: 25 April 2016
The Financial Statements were authorized for issue with Decision of the Board of Directors, dated 28 April 2016.
The accompanying notes are an integral part of these consolidated financial statements.

Auditing Company
HLB Bulgaria Ltd.
Vaska Gelina — Milena Hristova
Manager — Manager, auditor in charge
Auditor's report date of issue: 28 April 2016

1. Corporate Information

The consolidated financial statements of Bulgarian Energy Holding EAD and its subsidiaries ("the Group") for the year ended on 31 December 2015 were approved for issue with a resolution of the Board of Directors by virtue of Minutes of meeting №27-2016 dated 28 April 2016.

The Group's principal activities consist of:
- Generation, extraction, transmission, storage, management, distribution, sales and / or purchase of natural gas, electricity, heating, coals, as well as all other types of energy and raw materials, used in production,
- Organization of an exchange market for trading in the fields of energy and electrical supply;
- Investment activities in the fields of energy.

The average number of personnel in BEH EAD, as at 31 December 2015, is 21,239 employees (in 2014: 20,989 employees)

The parent company – "Bulgarian Energy Holding" EAD – is a single-shareholder joint stock company, registered in the Republic of Bulgaria. The entity is registered in the Commercial Register under vol. 147, page 21, and Record №10295. The entity is successor of the State enterprise "Oil and Gas" ("Neft i Gas"), incorporated in 1973, renamed in December 1975 to "Gas Supply" ("Gazosnabdyavane"). In accordance with the Decree on Business Activities, in the beginning of 1990, the entity was renamed to "Bulgargaz". Pursuant to a decision of the Council of Ministers, dated 12 May 1993, "Bulgargaz" was transformed in a single-shareholder joint stock company. Based on a transformation plan, dated 27 October 2006, and the appendices thereto, "Bulgargaz" EAD was transformed into "Bulgargaz Holding" EAD through the split of two single-shareholder joint stock companies – "Bulgartransgaz" EAD and "Bulgargaz" EAD. The division was executed under the provisions of Art. 262 (d) of the Commercial Law. "Bulgartransgaz" EAD and "Bulgargaz" EAD are legal successors of the respective portion of the property (rights and obligations) of "Bulgargaz Holding" EAD. By virtue of Decision № 45, dated 15 January 2007, the transformation was registered in the Sofia City Court.

By virtue of Protocol №RD-21-305 dated 18 September 2008 of the Minister of Economy and Energy, the company name of Bulgargaz Holding EAD was changed to Bulgarian Energy Holding EAD, with capital raise through in-kind contributing the par value of all shares of the capital of Natsionalna Elektricheska Kompania EAD, NPP Kozloduy EAD, TPP Maritsa East 2 EAD and Mini Maritsa-iztok EAD.

The Company's registered address and headquarters is as follows: Sofia - 1000, Oborishte area, 16 Veslets Str

"Bulgarian Energy Holding" EAD has principles activities: acquisition, evaluation and sales of interests in commercial entities, engaging in business activities in the fields of production, extraction, transmission, transit, storage, management, distribution, sales and / or purchases of natural gas, electricity, thermal power, coal, as well as all other types of energy and raw materials for the production and participation in the management of such entities, their financing, acquisition, evaluation, issue and sale of bonds, acquisition, evaluation and sales of patents, transfer of licenses to use the patents of the above-mentioned companies, as well as engaging in own production or commercial activities.

As at 31 December 2015, "Bulgarian Energy Holding" EAD is managed by the Board of Directors (BoD), comprised of the following members: Zhecho Donchev Stankov – Chairman of the BoD, Jacklen Yosif Cohen – Member of the BoD and Executive Director, and Zhivko Dimitrov Dinchev – Member of the BoD. The entity is represented by the Executive Director – Jacklen Cohen.

As at the date of preparation of the consolidated financial statements, 25 April 2016, "Bulgarian Energy Holding" EAD is managed by the Board of Directors (BoD), comprised of the following members: Zhecho Donchev Stankov – Chairman of the BoD, Petyo Angelov Ivanov – Member of the BoD and Executive Director and Zhivko Dimitrov Dinchev – Member of the BoD. The entity is represented by the Executive Director –Petyo Ivanov.

The sole shareholder and ultimate owner of the BEH EAD is the Republic of Bulgaria, represented by the Minister of Energy.

As at 31 December 2015, the subsidiaries, associates and joint ventures, included in the Consolidated Financial Statements, are the following:

Entity	Country of incorporation	Principal activities	2015 %	2014 %
Subsidiaries				
Natsionalna Elektricheska Kompania EAD	Bulgaria	Electricity generation and public supplier of electrical energy	100%	100%
Bulgargaz EAD	Bulgaria	Public supplier of natural gas	100%	100%
Bulgartransgaz EAD	Bulgaria	Storage and transmission of natural gas	100%	100%
Bulgartel EAD	Bulgaria	Telecommunications services	100%	100%
NPP Kozloduy EAD	Bulgaria	Generation of electricity and thermal power	100%	100%
TPP Maritsa East 2 EAD	Bulgaria	Generation of electricity and thermal power	100%	100%
Mini Maritsa – Iztok EAD	Bulgaria	Mining and selling of lignite	100%	100%
Elektroenergien Sistemen Operator EAD	Bulgaria	Transmission of electricity	100%	100%
Bulgartel Skopje DOOEL	Macedonia	Telecommunication operator	100%	100%
HPP Kozloduy EAD	Bulgaria	Hydroelectric power generation and electric power distribution	100%	100%
Interpriborservice LTD	Bulgaria	Installation and maintenance of automated systems	63.96%	63.96%
PFC Beroe – Stara Zagora EAD	Bulgaria	Professional football club	100%	100%
NPP Kozloduy – New Builds EAD	Bulgaria	Operation of nuclear power plant facilities with the purpose of generating electricity	100%	100%
TPP Maritsa East 2 (9 and 10) EAD	Bulgaria	Generation and trade of electricity	100%	100%
Gauging and Information Technologies Energy Operator EAD	Bulgaria	Commercial and technical measurement of the quality and quantity of electricity	100%	100%
Independent Bulgarian Energy Exchange EAD	Bulgaria	Organisation of an energy exchange for trade in energy and energy consumption	100%	100%
Energy Investment Company EAD	Bulgaria	Investment activities	100%	100%
Joint ventures				
ICGB AD	Bulgaria	Construction and operation of a gas transmission system	50%	50%
Nabucco Gas Pipeline International in process of liquidation	Austria	Construction and operation of a gas transmission system	17.93%	17.93%
South Stream Bulgaria AD	Bulgaria	Construction and operation of a gas transmission system	50%	50%
Transbalkan Electric power Trading S.A. – NECO S.A	Greece	Sales of electricity	50%	50%
Associates				
ContourGlobal Maritsa East 3 AD	Bulgaria	Generation of electricity	27%	27%
ContourGlobal Operations Bulgaria AD	Bulgaria	Operation and maintenance of thermal power plant	27%	27%
ZAD Energia	Bulgaria	Insurance company	48.08%	48.08%
POD Allianz Bulgaria AD	Bulgaria	Pension insurance company	34%	34%
Hydro Power Company Gorna Arda AD	Bulgaria	Construction of hydroelectric power plants	30%	30%
Other investments				
Ecologichna eksploatacia na goriva I energetichni masla OOD	Bulgaria	Research and examination of natural energy resources and their environmental exploitation	69.90%	69.90%
Bultehash OOD	Bulgaria	No activities	67%	67%

2. Basis of preparation of the consolidated financial statements

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

The consolidated financial statements are presented in Bulgarian leva (BGN), which is also the functional currency of the parent company. All amounts are presented in thousand Bulgarian leva (BGN'000) (including comparative information for 2014) unless otherwise stated.

The parent company – "Bulgarian Energy Holding" EAD (BEH EAD) – also prepared and issued Separate Financial statements for the year ended as at 31 December 2015. Investments in subsidiaries, associates and jointly controlled entities are presented in the separate financial statements at cost. The separate financial statements of BEH EAD were approved for issue in accordance of a decision of the Board of Directors, dated 29 March 2016.

The consolidated financial statements are prepared on a going concern principle. The operations and future development of the Group are based on the implementation of the state energy strategy to increase and ensure the security of energy supplies, to perform priority energy projects and to support the financial participation of the state in these projects. The Management has analysed the validity of the going concern principle, taking into account the plans, the projections and the business programs of the entities within the Group. As a result, the Management has concluded that the use of the going concern assumption is appropriate.

3. Changes in the accounting policies

3.1 Overall considerations

The Group has adopted the following new Standards, amendments and Interpretations to existing IFRS, developed and published by the International Accounting Standards Board (IASB), which have an effect on the Consolidated Financial Statements of the Group and are mandatory for annual periods, beginning on 1 January 2015:

Amendments to different Standards "Annual Improvements to IFRSs 2011-2013 Cycle", resulting from the Annual Improvements to IFRS projects (IFRS 1, IFRS 3, IFRS 13 and IAS 40), mainly targeting to eliminate discrepancies and provide clarifications of wording – endorsed by the EU on 18 December 2014 (the amendments will be applied for annual periods beginning on or after 1 January 2015),

Amendments to different Standards "Annual Improvements to IFRSs 2010–2012 Cycle", resulting from the Annual Improvements to IFRS project (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38, mainly targeting to eliminate discrepancies and provide clarifications of wording – endorsed by the EU on 17 December 2014 (the amendments will be applied for annual periods beginning on or after 1 February 2015),

Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions – endorsed by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015).
The amendments in IAS 19 clarify the Standard's requirements, related to contributions from employees or third parties, and provide the following option: contributions that do not depend on the years of services – to be treated as a reduction in the current service cost in the period in which the respective services are rendered.

3.2 Standards and Interpretations, which have not yet come in effect and are not adopted as of an earlier date

The following new Standards, amendments to existing Standards and Interpretations were published, but are not yet effective for the financial reporting year, beginning 1 January 2015, and have not been adopted by the Group as of an earlier date:

Amendments to IFRS 11 "Joint Agreements" – Accounting for Acquisition of Interests in Joint Operations – adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 01 January 2016). The amendment provides guidelines on the appropriate accounting treatment of acquired interest in joint operations, in which the activity constitutes a business.

Amendments to IAS 1 "Presentation of Financial Statements" – Disclosure Initiative – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016). The amendment relates to guidelines to the compliers of Financial Statements, when the compilers are required to exercise their judgement on the materiality of certain information and its presentation in the preparation of Financial Statements.

Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Clarification of the Acceptable Methods of Depreciation and Amortization – adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016). The amendments clarify that the use of depreciation and amortization methods, based on income, is not appropriate as the income, generated by a specific activity with non-current tangible, or intangible assets, does not reflect the use of economic benefits, expected to be obtained from those assets.

Amendment to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" – Agriculture: Bearer Plants – adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016). The amendments affect the financial reporting of bearer plants, such as vines, rubber trees and oil-palm trees. Bearer plants should be treated as property, plant or equipment as their processes are similar to production. As a result, and subsequent to these amendments, such are included under the scope of IAS 16, rather than under IAS 41. The cultivation of bearer plants continues to fall within the scope of IAS 41.

Amendment to IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016). The amendments recover the option, provided under IAS 27, for measuring and reporting, in the Separate Financial Statements, investments in subsidiaries, associates and joint ventures, under the equity method.

Amendments to various Standards "Annual Improvements to IFRSs 2012–2014 Cycle", resulting from the Annual Improvement to IFRS project (IFRS 5, IFRS 7, IAS 19 and IAS 34), targeting mainly to eliminate any discrepancies and to provide clarifications of the wording – adopted by EU on 15 December 2015 (the amendments will be applied for annual periods beginning on or after 01 January 2016).

The Management does not anticipate the new Standards and Interpretations to have a significant effect over the Consolidated Financial Statements of the Group.

3.3 Standards and Interpretations, published by the IASB that are not yet endorsed by the EU

The Management believes that it is appropriate to disclose the following new or revised Standards, new Interpretations and amendments to existing Standards, which as at the reporting date, have been issued by the International Accounting Standards Board (IASB), but have not yet been approved for adoption by the European Commission, and therefore have not been taken into account during the preparation of these Financial Statements. The effective dates shall depend on the decisions, of approval for implementation, of the European Commission.

IFRS 9 "Financial Instruments" – effective for annual periods beginning on or after 01 January 2018. The International Accounting Standards' Board (IASB) published IFRS 9 "Financial Instruments", completing thus its project to replace IAS 39 "Financial Instruments: Recognition and Measurement". The new Standard imposes significant changes in the classification and measurement of financial assets, and a new "expected credit loss" model for the measurement of the impairment of financial assets. IFRS 9 includes and new guidelines for reporting hedging activities.

IFRS 14 "Regulatory Deferral Accounts" – effective for annual periods beginning on or after 1 January 2016. IFRS 14 permits entities, which are first-time adopters of the IFRS, to continue, after adopting the IFRS, to account amounts, related with regulated prices, in compliance with the requirements of the prior accounting base. In order to facilitate the comparability of Financial Statement of those entities and of the Financial Statements of entities, which already adopted IFRS and which do not recognize such amounts, the Standard requires the effect of regulated prices to be separately disclosed.

IFRS 15 "Revenue from Contracts with Customers" – effective for annual periods beginning on or after 01 January 2018. IFRS 15 replaces IAS 18 "Revenue", IAS 11 "Construction contracts" and the related with such clarifications, and introduces a new model for recognizing income, based on control. The new Standard amends the rules for determining whether income is recognized at a specific time, or over a period of time, and results in the expansion and improvement of income related disclosures. IFRS 15 is based on a core principle that requires the entity to recognize income, in a manner that reflects the transfer of goods, or provision of services to clients, at volumes that reflect the expected remuneration, which the entity anticipates to receive in respect of those goods and services. Earlier adoption of the Standard is permitted. The entities should apply the Standard retrospectively for each prior period presented, or retrospectively – as a cumulative effect of the initial recognition – in the current period.

IFRS 16 "Leases" – effective for annual periods beginning on or after 1 January 2019. The Standard has a completely changed concept. The Standard introduces new principles of recognition, measurement and presentation of leases, targeting to achieve a more reliable presentation of these transactions. The Standard will replace the currently effective IAS 17. The core principle of the new Standard is the introduction of a uniform model of the accounting treatment of leases, which to be implemented by lessees for all leases with maturity period over 12 months, recognizing the "right of use" as an asset. The later shall be depreciated over the lease's term and the respective lease liabilities shall be reported.

Amendments in IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sales or contributions of assets between an investor and its associate or joint venture – effective for annual periods beginning on 1 January 2016. The procedures for endorsement by the EU are postponed indefinitely. The amendment arises as a result of inconsistencies in the requirements and the permissions, under IFRS 10 and IAS 28 (revised in 2011), in cases of transactions from an investor to its associate or joint venture.

Amendments in IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" – Investment Entities: Applying the Consolidation Exceptions – effective for annual periods beginning on or after 1 January 2016. The amendment arises to provide clarification on the option to be relieved of the requirement to prepare Consolidated Financial Statements.

Amendments to IAS 12 "Income Taxes": Recognition of Deferred Tax Assets for Unrealised Losses – effective for annual periods beginning on or after 1 January 2017.

Amendments to IFRS 7 "Financial instruments: Disclosures" – entities are relieved of the requirement to restate comparatives, and of the related with such disclosures, when applying IFRS 9. Effective for annual periods beginning on or after 1 January 2018. The amendment reliefs the requirement to restate comparatives in the Financial Statements and presents the option of providing modified disclosures on the transition from IAS 39 to IFRS 9 (when that happens), based on the date as of which the entity begins to apply the Standard and whether, or not, it chooses the option to restate prior periods.

Amendments to IAS 7 "Statement of Cash Flows" – disclosure initiative, effective for annual periods beginning on or after 1 January 2017. The amendment clarifies the Standard itself, namely the information provided to the Financial Statements' users, who may improve their understanding on the liquidity and the financial operations of the entity. The amendment requires additional disclosures of the changes in the entity's liabilities.

4. Accounting policies

4.1 Overall considerations

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below.

The consolidated financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in the preparation of the presented Consolidated Financial Statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

4.2 Presentation of the Consolidated Financial Statements

The Consolidated Financial Statements are presented in accordance with IAS 1 "Presentation of Financial Statements".

Two comparative periods are presented for the consolidated statement of financial position when the Group applies an accounting policy retrospectively, makes a retrospective restatement of items in its consolidated financial statements, or reclassifies items in the consolidated financial statements.

As a result of adjustment of errors and reclassifications of prior periods' amounts, presented under Note 5, the Group has presented two comparative periods in the Consolidated Financial Statements for the year ended 31 December 2015.

4.3 Basis of consolidation

The Financial Statements of the Group comprise the Consolidated Financial Statements of the parent and of all subsidiaries as at 31 December 2015. Subsidiaries are all entities under the control of the parent. The parent has control when it is exposed, or has rights, to variable return from its involvement with the investee and has the ability to affect those return through its authority over the investee. All subsidiaries have a reporting date as of 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealized losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss, and other comprehensive income of subsidiaries acquired or sold within the reporting period, are recognized as of the acquisition date, or up to the effective date of disposal, as applicable.

Non-controlling interest, presented as part of equity, represent the share of profit or loss and the net assets of the subsidiary that are not held by the Group. The total comprehensive income or loss on a subsidiary is attributed to the owners of the parent and to the non-controlling interest based on their relative share in the equity of the subsidiary.

If the Group loses control of a subsidiary, the Group recognises any investment, retained in the former subsidiary at its fair value as at the date when control is lost. The change in the book value is reflected in profit or loss. The fair value of each investment, retained in the entity as at the date when control is lost, is regarded as the financial asset's fair value on initial recognition, in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", or when appropriate, the cost on initial recognition of an investment in an associate or joint venture. Furthermore, all amounts, recognised in other comprehensive income in respect of that subsidiary, are carried at the same basis as they would be if the Group had directly disposed the respective assets or liabilities (for example – reclassified in profit or loss, or carried directly in the retained earnings, in accordance with the requirements of the respective IFRS).

Profit or loss on derecognition of an investment in a subsidiary represents the difference between the fair value of the consideration received and the fair value or all investments, retained in the former subsidiary, and the book value of the assets (including goodwill) and the liabilities of the subsidiary and any non-controlling interest.

4.4 Business combinations

All business combinations are accounted by applying the acquisition method. The consideration transferred in a business combination is measured at fair value. Fair value is computed as the sum of the acquisition-date fair values of the assets, transferred by the Acquirer, the liabilities to former owners of the acquiree, assumed by the Acquirer, and the equity interests, issued by the Group. The transferred consideration includes the fair value of assets and liabilities, arising as a result of the contingent considerations. The acquisition-related costs are carried in profit or loss, in the period in which the costs have incurred.

The acquisition method includes recognising the identifiable assets and liabilities of the acquiree including and the contingent liabilities, regardless of whether or not such are recognised in the acquiree's Financial Statements, prior to the business combination. On initial recognition, the assets and liabilities of the acquiree are included in the Consolidated Statement of Financial Position, at their fair value, used in accordance to the Group's accounting policy as a base for subsequent measurement.

For each business combination, the Group measures all non-controlling interest in the acquiree that represent a share of its capital and entitle holders to share in the event of liquidation, at either at fair value or at the proportionate share of the non-controlling interest in the acquiree's identifiable net assets. All other components of non-controlling interest are measured at fair value if other applicable measurement basis is required by another IFRS.

Goodwill is recognised after determining all identifiable intangible assets. Goodwill represents the excess of the acquisition-date fair value of the transferred consideration and the amount of any non-controlling interest in the acquiree, and in a business combination, achieved in stages, the acquisition-date fair value of the Group's previously held equity interest in the acquiree, over the acquisition-date fair value of the identifiable net assets of the acquiree. Any excess of the identifiable assets' fair value over the above-computed amount, is recognised in profit or loss immediately after the acquisition.

In a business combination, achieved in stages, the Group remeasures its previously held equity interest in the acquiree at its acquisition-date fair value (i.e. as at the date of obtaining control) and recognises the resulting gain or loss, in any, in profit or loss. The amounts, recognised in other comprehensive income, from equity interest in the acquiree prior to the date of obtaining control, are recognised on the same basis as would be required if the Group had directly disposed the previously held equity interest.

If the initial accounting treatment of a business combination is incomplete by the end of the reporting period, in which the combination occurs, the Group reports provisional amounts for the items for which the accounting treatment has not been completed. During the measurement period, which cannot be more than one year as of the acquisition date, the Group adjusts, retrospectively, the provisional amounts, or recognises additional assets or liabilities, to reflect new information obtained about facts and circumstances that existed as at the acquisition date and, if known, would have affected the measurement of the amounts, recognised as at that date.

All contingent considerations owed by the acquirer are recognised at fair value as at acquisition date and are included as part of the consideration, transferred in exchange of the acquired entity. Subsequent changes in the fair value of contingent considerations which are classified as assets or liabilities are recognised in compliance with the requirements of IAS 39 “Financial Instruments: Recognition and Measurement”, either in profit or loss, or as a change in other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until its final settlement within the equity. Changes in the fair value of contingent considerations, representing provisional amounts during the measurement period, are presented retrospectively with corresponding adjustments against goodwill.

4.5 Transactions with non-controlling interests

Changes in the Group’s share in the capital of a subsidiary that do not result in a loss of control are treated as transactions with the Group’s owners. The carrying amounts of the Group’s share and of the non-controlling interests are adjusted in order to reflect the changes in their relative share in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, is recognised directly in equity and is attributed to the owners of the parent company.

4.6 Segment Reporting

The Management determines the operating segments, based on the main products and services, offered by the Group:

- “Electricity” Segment
- “Natural gas” Segment
- “Mining” Segment
- “Administrative activities” Segment

The “Administrative activities” Segment comprises the segments (Administrative and Telecommunications) which have met the aggregation criteria of IFRS 8 “Operating Segments” and that do not exceed the quantitative thresholds for separate reporting.

Due to the fact that different technologies, resources and distribution approaches are used for each separate product or service, each of these operating segments are managed separately. All transactions between segments are conducted at prices, corresponding to the transactions between independent parties, where appropriate. Transactions under the “Electricity” Segment and the “Natural gas” Segment are mainly transactions at prices, stipulated by the regulatory body – the Energy and Water Regulatory Commission (EWRC). In segment reporting, the Group applies measurement policies corresponding to the policies used in the consolidated financial statements.

Financial income and finance costs are not included in the operating segment’s results. The results of the operating segments are regularly reviewed by the persons, responsible for operational decision-making.

4.7 Investments in joint ventures and associates

A joint venture is a joint agreement, whereby the Group and other independent parties engage in economic activities that are subject to joint control and the parties, having joint control of the entity have rights to the entity’s net assets. Investments in joint ventures are accounted using the equity method.

Associates are these entities over which the Group has significant influence, but which are neither subsidiaries, nor joint ventures. On initial recognition, investments in associates are recognised at cost, and subsequently are carried under the equity method. The cost of an investment comprises its acquisition costs.

Goodwill and adjustments in the fair value of the Group's share in the associate, are included in the carrying amount of the investment.

All subsequent changes in the amount of the Group's proportionate interest in the capital of an associate are recognised in the carrying amount of the investment. Changes, arising from profit or loss, realized by the associate, are reflected in the Consolidated Statement of Profit or Loss, under "Share of profit from equity accounted investments". These changes include subsequent depreciation or impairment of, the determined at acquisition, fair value of the associate's assets and liabilities.

Changes in an associate's other comprehensive income, as well as in items, recognized directly in the associate's equity, are recognised respectively in the Group's other comprehensive income or equity. In cases when the Group's share in the realised by the associate losses, exceeds the amount of its interest in the associate, including and the uncollateralized receivables, the Group does not recognise its share in the associate's future losses, unless if the Group has not assumed a contractual or actual obligation, or it has conducted payments, on behalf of the associate. If, subsequently, the associate realises profits, the Group recognises its share to the extent to which its share in the profits exceeds its accumulated share in the losses, which were not recognised previously.

Unrealised gains and losses from transactions between the Group and its associates and joint ventures are eliminated to the Group's share in these associates and joint ventures. When unrealised losses from assets' disposals are eliminated, the respective assets are reviewed for impairment by the Group.

The amounts, reflected in the Financial Statements of the associates and joint ventures, are revaluated, when needed, to ensure compliance with the Group's accounting policy.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the sum of the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

If the Group's share interest in an associate is reduced, but the Group has still significant influence over the associate, the Group reclassifies, in profit or loss, only the proportionate part of the amounts, recognised in other comprehensive income.

4.8 Foreign currency transactions

Foreign currency transactions are recognised in the functional currency of the respective entity within the Group, by applying to the foreign currency amount the spot exchange rate between the Bulgarian Levs (BGN) and the foreign currency (as issued by the Bulgarian National Bank (BNB) at the transaction date). Foreign exchange gains and losses, arising from the settlement of such transactions and in from the re-measurement of monetary items denominated in foreign currencies as at year-end are recognized as profit or loss.

Non-monetary items measured at historic cost in foreign currencies are recognised at the spot exchange rate at the date of the transactions (they are not revalued). Non-monetary items, measured at fair value in foreign currencies, are recorded at the spot exchange rate at the date on which their fair value is determined.

The functional currency of the separate entities within the Group has not been altered within the reporting period.

When consolidated, all assets and liabilities are translated in Bulgarian Levs (BGN), at the closing exchange rate as at the date of the Consolidated Financial Statements. Income and expense are translated in the Group's presentation currency, at the average exchange rate for the reporting period. Foreign exchange gains and losses result to increase or decrease in other comprehensive income and are recognised in translation reserves, in equity. On disposal of a net investment, denominated in a foreign currency, the accumulated foreign exchange gains and losses from revaluations, recognized in equity, are reclassified in profit or loss, and are recognized as part of the gain or loss on sale. Goodwill and adjustments related with determining the acquisition-date fair value are treated as assets and liabilities of the foreign entity and are translated in Bulgarian Levs (BGN) at the closing exchange rate.

4.9 Revenue recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow in the Group and the amount of the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, less all discount, rebates and other taxes and duties. The Group analyses its sales agreements, based on specific criteria, in order to determine whether to act as a principal or as an agent. The Group has concluded that it shall act as a principal in all such agreement. The following specific recognition criteria must also be met before revenue is recognised:

Sales of electricity

Revenue, generated from electric power supplies to clients, is recognised in the Statement of Profit or loss, when electricity is supplied by the electrical transmission and distribution networks, to end suppliers, to electrical distribution companies, to end-suppliers, to clients of the end-suppliers and to the freely trading market. Sales income are recognised based on the data of the consumed electric power, under the meters, or based on the registered schedules.

Sales of electricity at the balancing market

Revenue from sales of electricity at the balancing market arise as of the moment when the market participants, including NEK EAD, confirm to the operator, in his capacity of a public provider, the aggregated settlement statements for the respective reporting period (month).

Revenue, generated from the "obligation to society"

In accordance with Decision № Ц-27/31.07.2015 of the Energy and Water Regulation Commission (EWRC), revenue, generated from the price for "obligation to society" is accrued and paid by the connected in the electric power system end-clients in the freely trading electric power market, by the clients of the end-provider, by the electric transmission and electric distribution companies for the purchased electric power in order to cover the technological expenses. This decision increased the volume of costumers required to pay a price for the obligation to society.

Income, related with electricity sales

Income from access to the electric transmission grid

Income, generated from the consumers' access to the electric transmission grid, are recognised when the actually reported and validated, by the owners of trade measuring resources, data, are received by the operator.

Income, generated from the access of producers, manufacturers and proprietors, engaged in transactions, related to the export of electric energy, are recognised after validating the intersystem volume schedules of ESO EAD.

Income, generated from granted commercial transmission rights

Income generated from granted commercial transmission rights are recognised as "deferred income" when they have raised from annual and monthly auctions. These items of income are recognised when the operator announces the result of the auction on the website of ESO EAD, in compliance with the auction rules for separating and providing transmission capacities along the interconnections between the control zone of ESO EAD and its neighbouring control zones.

The annual auction is held in December in the year, prior to the calendar year for which it refers. The commercial transmission rights are used and paid on annual basis, throughout the next year. The income, generated as a result of the annual auction, is recognised as current income in the month in which the commercial transmission right is actually consumed. The monthly auction is held in the month prior to the month when the actual commercial transmission right is exercised. Income generated during the monthly auctions from the commercial transmission rights granted are recognised as a current income in the period in which the commercial transmission right is actually consumed.

Income, generated in connecting consumers and producers, and manufacturers, of electric power, to the electric transmission grid

In accordance with IAS 18 "Revenue" and in compliance with Interpretation 18 "Transfers of Assets from Customers" of the IFRS Interpretations Committee (IFRIC), income, generated under the services "joining the electric power transmission grid", provided to clients in exchange of transfers of sites, build by the later and recognised as assets in the transmission grid, is recognised in the current financial result for the year, in which the connection fee is invoiced.

Specific proceeds (income), received from the distribution of interconnectors (intersystem electric power lines)

Specific proceeds (income), received from the distribution of the interconnectors (intersystem electric power lines), are not recognised as (current) income in the Statement of Profit or loss when received. Those amounts are allocated (reserved) in the account "Special reserve, in accordance with Regulation № 714/2009" and are presented as Deferred Income. The allocated (reserved) amounts are recognised as (current) income in the Statement of Profit or Loss when the expenses, intended to cover (secure), in accordance with Art. 16, para. 6 of the EU's Regulation № 714/2009 are incurred (accrued). The allocated (reserved) amounts are recognised in the amount of the recognised specific expense.

Sales of natural gas

Income, generated from sales of natural gas is recognised at the end of each month after accounting the consumed within the month natural gas from the Group's customers. Income is accrued based on signed, bilateral protocol for gas supplies for a period of 1 month. The validity of the protocols is established by the signatures of the authorised by the Group and by the client officers.

In compliance with the Bulgarian legislation, the Group cannot apply its own pricing strategy in respect of the natural gas that it sells. The selling prices of natural gas to all consumers connected to the transmission and distribution network are uniform throughout the country and are set by the State Energy and Water Regulation Commission.

Income from natural gas transmission and storage

Income is formed under the licenced activities of the Group in respect of the provided services for natural transmission on the territory of the country, natural gas transmission from the boarders of the Republic of Bulgaria with Romania, to the boarders with Greece, Turkey and FYROM, and for storage of natural gas. The services are recognised at fair value of the consideration received, or receivable, or the consideration, less all discounts and rebates.

Sales of coal

The Group engages in coal mining and in sales of coal. Income, generated from sales of coal is recognised when the significant risks and rewards of their ownership are transferred to the buyer. Significant risks and rewards of ownership are regarded as transferred to the buyer when delivered coal is accepted without objections.

Sales of other goods

Income from sales of goods is recognized when the significant risk and rewards of ownership (of the goods) are transferred to the buyer. This usually happens when the goods are dispatched.

Rendering of services

Revenue, generated from rendering of services is recognized by reference to the stage of completion of the transaction, as at the reporting date. The stage of completion is determined proportionately, over the term of the contract, in respect of which the services shall be rendered. When the result of the transaction (contract) cannot be reliably measured, revenue is recognized only to the extent to which the incurred expenses are recoverable.

Interest Income

Interest Income is recognized on a time base, over the periods for which such relate, using the effective interest rate method – i.e. the interest rate that accurately discounts the estimated future cash flows, over the expected useful life of the financial instrument, to the book value of the financial asset.

Dividend Income

Dividend income is recognized when the right to receive such payments is established.

4.10 Operating expenses

Operating expenses are recognized in profit or loss upon utilization of the service or at the date of their origin in accordance with the accrual and matching principle.
Deferred advance payments are not recognised immediately, but are rather recognised as a current expense, in the period to which they relate.

4.11 Interest expense and borrowing costs

Interest expense is recognised on an accrual basis, for the periods to which they relate, using the effective interest method.
Borrowing costs are mainly comprised of interest on bank loans obtained by the Group. All borrowing costs, directly attributable to the acquisition, production or construction of a qualifying asset are capitalised in the period in which the asset is expected to be completed or ready for use, or sold, by applying a capitalization rate to the expenses on that asset. The capitalisation rate is the weighted average of the borrowing costs, attributable to the loans of the Group, which are unsettled during the period, excluding loans, obtained exclusively for the purpose of acquiring a qualifying asset.

Other borrowing costs are expensed in the period in which they are incurred in the consolidated profit or loss within 'Finance costs'.

4.12 Profit or loss from discontinued operations

Discontinued operations are components of the Group that either have been disposed or were classified as “held-for-sale”, or as held for distribution to the owners, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary, acquired exclusively with a view to resale.

Profit or loss from discontinued operations and the components of profit or loss from previous periods are presented as a single amount in the consolidated statement of profit or loss.

Disclosure of discontinued operations from the previous year is related to all the activities that were discontinued at the reporting date for the latest period presented. If the activities that have been presented as discontinued in the previous period, be renewed during the current year, the relevant disclosures for the previous period should be changed.

4.13 Property, plant and equipment

Items of property, plant and equipment are initially measured at cost, which comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Their subsequent evaluation is applied to a whole group of identical assets as follows:

№	Class of property, plant and equipment	Subsequent measurement – Method
1	Land	Revaluation model
2	Improvements on land and plots	Revaluation model
3	Buildings and constructions	
	• massive	Revaluation model
	• non-massive	Cost model
4	Machinery, plant and equipment	Revaluation model
5	Computer systems	Cost model
6	Transport vehicles	
	• Freight vehicles	Revaluation model
	• Automobiles	Cost model
	• Specialised motor vehicles	Revaluation model
7	Furniture, Fixtures and fittings	Cost model
8	Spare parts, accounted as property, plant and equipment	Revaluation model
9	Other property, plant and equipment	Cost model

Property, plant and equipment measured under the revaluation model are subsequently carried at revalued amount, being their fair value at date of revaluation less subsequent accumulated depreciation and impairment losses. The conducted revaluations are recognised in the Statement of Comprehensive Income and are accumulated in equity (revaluation reserve), if they are no already accrued expenses. When the revalued asset is sold or disposed the remaining revaluation reserve is transferred to retained earnings.

Revaluations are carried out according to the following frequency of revaluation:

- when the fair value of the assets undergoes only minor changes, revaluation is performed every three years;
- when the fair value of property, plant and equipment changes significantly in shorter intervals, revaluation is carried out at shorter intervals so that the carrying amount of the asset does not differ materially from its fair value.

When applying the revaluation model the frequency of subsequent revaluations of property, plant and equipment, depends on whether the carrying amount of a revalued assets differs materially from its fair value as at year-end.

Therefore, during the annual stock take (end of the fiscal year) the Group analyses the items of property, plant and equipment and tests them for indications that their carrying amounts differ materially from their fair value at each reporting date.

Any differences, in the carrying amounts of property, plant and equipment from their fair value as at the date of preparation of the Financial Statements, of more than 5% are regarded as material. Differences (between the carrying values of assets and their fair value) of less than 5%, are regarded as material too, if the cumulative value of the property, plant and equipment is essential for the preparation of the Consolidated Financial Statements.

Property, plant and equipment carried at the cost less the accumulated depreciation and any accumulated impairment losses. Impairment losses are recognized in the consolidated statement of comprehensive income for the respective period.

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

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

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

Buildings	5 years - 80 years
Machinery, plant and equipment	2 years – 50 years
Transport vehicles	2 years – 30 years
Fixtures and fittings	2 years – 30 years
Other items of property, plant and equipment	3 years – 30 years
Depreciable Buffer Gas	60 years

The annual depreciation rate for the depreciable lands for coal mining is computed as a coefficient, and can be presented as follows:

$$C = \frac{CP}{DCR + BR + CRIP}$$

Where:

CP	Coal Production, in tons
FCR	Discovered Coal Reserves
BR	Blocked Reserves
CRIP	Coal Reserves In Progress

Depreciation costs are included in the consolidated statement of profit or loss, under “Depreciation and Amortisation costs” and as part of the “Loss from discontinued operations for the year”.

Buffer gas

Natural gas at Chiren (Chiren UGS) includes working gas and buffer gas. Natural gas at Chiren UGS is measured through reservoir simulation using special software ECLIPSE. Changes in pressure during different drillings during reservoir simulation of operation of the underground section are analysed and compared with the actually measured pressure levels.
Buffer gas maintains the stratum pressure required for the successful extraction of working gas. Buffer gas at the underground gas storage is accounted for as a non-current asset.

The amount of buffer gas has been estimated by technical experts of the Group based on the stratum pressure during drilling and the pressure at the Chiren UGS exit, i.e. the point where the natural gas is fed into the gas pipeline.

Buffer gas includes physically extractable and non-extractable natural gas. The quantity of physically extractable natural gas has been estimated. The extractable cushion gas is the natural gas which could be extracted from Chiren UGS if the gas is fed into the gas pipeline under certain pressure. The extractable buffer gas is not depreciated. The non-extractable buffer gas is depreciated.

Minimum quantities of natural gas required for the functioning of the highway and transit gas pipelines

The minimum quantities of natural gas required for the normal functioning of the highway and transit gas pipeline have been estimated applying the volume method and a certain methodology. These quantities are reported as non-current assets.

Technical experts of the Group have estimated the unrecoverable quantity of natural gas which would be irretrievably lost in case of dismantling the transit and highway gas pipelines. This quantity is depreciable gas. The rest of the estimated minimum quantity of natural gas required for the normal functioning of the gas transmission network is non-depreciable. This natural gas could be extracted in case of dismantling.

The gain or loss on disposal of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset.

4.14 Intangible assets

Intangible assets acquired separately are measured initially at cost, comprised of its purchased price, including import duties, non-refundable purchase taxes and any directly attributable cost of preparing the asset for its intended use. The capitalized costs are then amortized on the straight-line method over the defined period of the assets useful life as it is considered to be finite.

Intangible assets are subsequently measured at cost less any accumulated amortization and accumulated impairment losses. Impairment losses are reported as expenses and are recognised in the Consolidated Statement of Profit or loss for the respective period.

Intangible assets with finite useful life are amortised over their useful life and are reviewed for impairment when there are indications that their carrying amount may be impaired. The amortisation period and amortisation method of intangible assets with a finite useful life are reviewed at least at the end of each financial reporting period. Changes in the expected useful life, or in the pattern of consumption of future economic benefits embodied in the asset are recognised by changing the amortisation period or the amortization method and are treated as changes in accounting estimates.

Subsequent expenditure on intangible assets after the initial recognition is recognised in the Consolidated Statement of Profit or loss for the period when such are incurred except of the cases when because of these subsequently incurred costs the intangible asset can generate more than the initially estimated future economic benefits and when such costs can be reliably measured and attributed to the asset. If these conditions are satisfied the incurred expenditure is added to the cost of the asset.

At the end of each financial reporting period the Management review the estimates on residual value and useful life of intangible assets.

Intangible assets are amortized on the straight-line basis over the assets' useful life. The useful life of intangible assets is defined as finite as follows:

Software	2 years – 10 years
Licences	The validity period of the licence
Products from development activities	5 years – 20 years
Other Intangible Assets	3 years – 10 years

Amortization costs are included in the Consolidated Statement of Profit or loss, under "Depreciation and amortisation costs" and as part of the "Loss for the year from discontinued operations".

Gains or losses arising from the derecognition of intangible assets are determined as difference between the net disposal proceeds and the carrying amount of the asset. They are included in the Consolidated Statement of Profit or loss when the asset is disposed.

The intangible assets created under the development activities of Group to serve the purpose of intergroup usage are recognised in accordance with decision of committee of experts appointed by the Management depending on the intangible assets' completion stage, if the conditions below are met:

- The Group has the technical ability to complete the asset;
- The Group intends to complete the asset;
- The asset can be used or sold and there is a market for the asset or the asset is useful for intergroup use;
- The expenses incurred in the development of the asset can be measured.

Research activities

Research costs incurred for gaining new scientific or technical knowledge are recognised in profit or loss in the period in which when incurred.

Research and Development costs incurred in respect of external orders under signed contracts with clients are recognised as assets for sale.

Indirect technological production costs are allocated based on labour. The cost of a created asset is comprised of the direct cost and the indirect technological production costs.

Development activities

Development activities include a production plan or project for the creation of new or significantly improved products and processes. Development costs are capitalised only if these expenses can be reliably measured, the product or the process is technically and commercially possible, future economic benefits are probable and the Group intends to and has sufficient resources to complete the development, and to use or sell the asset. The capitalised costs include materials, labour, production overheads directly attributable to the asset's preparation for its intended future use and capitalised interest expense. Other development costs are recognised in profit or loss when incurred. The capitalised development costs are measured at cost less any accumulated amortization and accumulated impairment losses.

Costs, incurred in the development of intangible assets that do not satisfy the criteria for capitalization are recognised in Profit or loss when occurred.

4.15 Leases

Determining whether an arrangement is or contains a lease, depends on the substance of the arrangement as at inception date and requires an assessment of whether fulfilling the arrangement depends on the use of a specific asset, or assets, and whether the arrangement transfers the right to use the asset.

The Group as a lessee

In accordance with IAS 17 "Leases" the ownership rights of an asset are transferred from the lessor to the lease when the lessee bears substantially all the risks and rewards related to the ownership of the leased asset.

Upon signing a finance lease contract, the Group recognises the related asset at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognised as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

The finance lease liabilities are reduced by subsequent lease payments, which consist of repayment of principal and finance costs.

Assets, acquired under finance leases are depreciated over the useful life of the respective asset in compliance with the requirements of IAS 16 "Property, plant and equipment" or of IAS 38 "Intangible assets".

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to profit or loss over the period of the lease.

All other leases are treated as operating leases. Payments under operating leases are recognised as an expense, on the straight-line basis over the lease term. Operating lease charges such as insurance and maintenance costs are recognised in profit or loss when incurred.

The Group as a lessor

Leases, under which the Group retains substantially all the risks and rewards of ownership of the leased assets, are classified as operating leases. Initial direct costs incurred by the Group in negotiating and arranging an operating lease, are added to the carrying amount of the leased asset and are recognised as an expense over the lease term, on the same basis as is lease income. Contingent rents are recognised as revenue, in the period in which they are earned.
Assets leased under operating leases are presented in the Consolidated Statement of Financial Position of the Group, and are depreciated in compliance with the requirements of IAS 16 "Property, plant and equipment", or of IAS 38 "Intangible assets". Income, earned under operating leases is recognised as revenue in the Consolidated Statement of Profit or loss for the reporting period.

4.16 Impairment testing of non-financial assets

When calculating the amount of impairment, the Group defines the smallest identifiable group of assets, for which independent cash flows can be determined (cash-generating unit). As a result, some of the assets are tested for impairment on an individual basis, while others as the cash-generating unit.

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value, less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or a CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount

When assessing the value in use of an asset the expected future cash flows are discounted to their present value, using a discount rate free of tax, that reflects the current market time value of money and the risks specific to the asset. The fair value, less disposal costs, is estimated by using an appropriate valuation model. The computed calculations are confirmed by using other valuation models or other sources of information on the fair value of an asset or a cash-generating unit.

Impairment losses are recognised as expense in the Consolidated Statement of Profit or loss, except for non-current assets that have been revalued in prior periods and the revaluation increase is recognised in other comprehensive income. In this case, the impairment losses are carried to other comprehensive income, to the amount of the previously recognised for the respective asset revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the Group determines the recoverable amount of the asset or the cash generating unit. An impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Reversal of the impairment loss is restricted so that the carrying amount of the asset would not exceed its recoverable amount nor the carrying amount (after amortisation charges) that would have been determined had no impairment loss been recognised for the asset in prior years. Reversal of impairment loss is recognised in the consolidated income statement, unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase.

4.17 Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual terms of the financial instruments.

4.17.1 Financial assets

Classification
Financial assets within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are classified as financial assets, at fair value through profit or loss, or as loans and receivables, or as held-to-maturity investments, or as held-for-sale financial assets, or as derivatives, designated as hedging instruments in effective hedging, as appropriate. The Group classifies its financial assets at the initial recognition.
The Group's financial assets comprise cash and deposits, trade and other receivables, loans granted, unquoted investments, held-for-sale investments.

Initial recognition
Financial assets are measured at the initial recognition, at fair value plus in the case of financial assets that are not measured at fair value through profit or loss the transaction costs that are directly related to the acquisition of the financial asset.
Purchases and sales of financial assets that are required to be transferred during a time period, established usually with a decree or an effective in the respective market (regular purchases) practise, are recognised as of the trading date (transaction), i.e. the date at which the Group has committed to purchase or sell the asset.

Financial assets available-for-sale
Financial assets available-for-sale include equity instruments, designated as available-for-sale and not classified under any other category. Usually such instruments are share or interests in other entities, acquired with investment

purposes (available investments and available-for-sale investments) and include in the non-current assets, unless if they are intended to be sold within the next twelve months and the entity actively seek for a buyer.

After their initial recognition, financial assets available-for-sale are measured at fair value, except of investments in equity instruments that are not quoted in an active market and whose fair value cannot be measured reliably. The effects of revaluation to the fair value and the unrealized profits and losses, of the available-for-sale investments are carried in the Statement of Comprehensive Income and are accumulated to individual components of equity – "revaluation reserves to fair value". When impairment of such constantly occurs or when the available-for-sale investments are sold, the cumulative impairment and all accumulated negative reserves are recognised in the Statement of profit or loss. When financial assets available-for-sale are sold the accumulated, unrealised profits from the reserve are recognised in the Statement of profit or loss.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or quoted payments which are not quoted in an active market. After their initial recognition, loans and receivables are measured at amortized cost, using the effective interest rate (EIR) method, less the accumulated impairment losses. The amortized value is computed by accounting all discounts and premiums on acquisition, and all taxes and fees that are an integral part of the EIR. Amortization under EIR is included under the financial income in the Statement of Profit or loss. The impairment losses are recognised in the Statement of profit or loss as other expenses.
This group of financial assets comprises: granted loans, trade receivables, other receivables from counterparties and other parties and cash and cash equivalents. Such are included in the group of current assets when they mature within 12 months. All financial assets, with maturity longer than 12 months, are classified as non-current.

Derecognition
Financial assets (or where applicable, a part of a financial asset, or part of a group of financial assets) are derecognised, when:

- the contractual rights over the cash flows from that financial asset have expired;
- the contractual rights to receive cash flows from that financial asset are transferred, or the Group has assumed a contractual obligation to fully pay the received cash flows, without material delays, to a third party, under a transfer agreement; whereby (a) all risks and rewards of the financial asset's ownership are substantially transferred; or (b) all risks and rewards of ownership of a financial assets are neither transferred, nor are retained, but the Group has not retained control over the financial asset.

When the Group transfers the contractual rights to receive cash flows from a financial asset or when the Group has entered into an agreement to transfer and it has neither transferred, nor has it substantially retained all the risks and rewards of ownership of a financial asset, but the Group has retained control over it, the Group continues to recognise the transferred financial asset to the extend to its continuous involvement in it. In this case, the Group recognises and the related with it liability. The transferred asset, and the related with it liability, are measured on a base, reflecting the retained rights and obligations.

The degree of continuing involvement, in the form of guarantees over the transferred asset, is measured at the lower of the initial carrying amount of the asset and the maximum value of the consideration that may be required to be recovered by the Group.

Financial Assets Gains and Losses
Gains and losses arising from changes in the fair value of financial assets are recognized as follows:

- Gains or losses, arising from a financial asset that it is classified as measured at fair value through profit or loss are recognized in the Statement of Profit or loss;
- Gains or losses arising from available-for-sale financial assets are recognized in other comprehensive income with the exception of impairment losses and exchange rate gains and losses, accumulated until the financial asset is derecognized. At that point the accumulated gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment;
- Dividends from own equity instruments, which are available-for-sale, are recognized in the Statement of profit or loss, when the entity's right to receive a payment is established;
- The gains or losses, related to financial assets measured at amortized cost are recognized in the Statement of profit or loss when the financial asset or financial liability is written-off or impaired, as well as due to amortization.

Impairment of Financial Assets

At each balance sheet date, the Group assesses whether there is objective evidence of impairment of a financial asset or a group of financial assets. A financial asset or a group of financial assets are considered as impaired and impairment losses as incurred when there is objective evidence of impairment, as a result of one or more events that occurred after the initial recognition of the asset (a "loss" event) and when that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor, or a group of debtors, experience severe financial difficulties or fail to, or have delayed to pay interests or principals, or it is probable to declare insolvency/over indebtedness, or to undertake a financial reorganization, or when the observable data indicate a measurable decrease in the estimated future cash flows, such as changes in the arrears, or in the economic conditions, associated with defaults by debtors.

Financial assets, carried at amortised cost
When financial assets are carried at amortised cost it is first assessed whether objective evidence of impairment exist. Such assessments are done separately for financial assets that are individually significant and collectively for financial assets that are not individually significant. If it is established that there is no objective evidence of impairment for an individually assessed financial asset, regardless of whether it is significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and this group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which impairment loss is or continues to be recognized are not included in the collective assessment for impairment.
If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.
The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognised in the Statement of Profit or loss. Interest income continues to be accrued based on the original effective interest rate that is used for discounting the future cash flow when determining the amount of the impairment loss. Interest income is included in the Statement of Profit or loss, under "Finance income". Loans and the associated allowance accounts are written-off when there is no expectation of future recovery and all collaterals has been realized or have been transferred by the Group. Impairment loss estimated in prior period increases or decreases because of an event occurring after the impairment was recognized. The impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, any previously charged amount is recognised in the Statement of Profit or loss.

Available-for-sale investments
Review for existence of objective evidence that an available-for-sale financial investment or a group of investments, has been impaired is conducted at each balance sheet date it is assessed whether there is.
The objective evidence of impairment of equity investments classified as "available-for-sale" include significant or prolonged decrease in the fair value of the investment below its acquisition cost. "Significant decrease" should be evaluated against the initial cost of the investment, while "prolonged decrease" is assessed against the period in which the fair value is below the initial cost. The cumulative loss as evidence of impairment is estimated as the difference between the acquisition cost and the current fair value less the impairment loss on this investment, previously recognised in the Statement of Profit or loss – it is excluded from other comprehensive income and is recognised in the Statement of Profit or loss. Impairment losses on equity investments are not reversed through the Statement of Profit or loss, but rather the increase in their fair value is recognised directly in other comprehensive income.

4.17.2 Financial liabilities

The Group classifies debt instruments and equity instruments either as financial liabilities or as equity depending on the nature and the contractual conditions of these instruments.

Initial recognition and measurement
Financial liabilities, within the scope of IAS 39 are classified as financial liabilities at fair value in profit or loss, or as financial liabilities at amortised cost. The Group determines, on initial recognition, whether to classify a financial liability at fair value or at amortised cost.
On initial recognition, financial liabilities are measured at fair value, plus in cases of financial liabilities that are not measured at fair value in profit or loss – the transaction costs that are directly attributable to the acquisition or issuance of a financial liability.
The financial liabilities of the Group include lands, trade and other liabilities and deposits.

Subsequent measurement

Loans, trade and other liabilities
After initial recognition, loans and borrowings are measured at amortized cost using the EIR method. Gains and losses on loans and borrowings are recognised in the Statement of Profit or loss when the liability is derecognised, as well as during the amortization process.
Amortization is calculated by considering all discounts and premiums on acquisition, taxes and fees that are an integral part of the EIR. Amortization under the EIR method is included in the Statement of Profit or loss under "finance costs".
Trade and other liabilities that do not have a fixed maturity are carried at cost after their initial recognition.

Gains and losses on financial liabilities
Gains and losses on financial liabilities classified as carried at fair value through profit or loss are recognised in the Statement of Profit or loss.
Gains and losses on financial liabilities carried at amortised cost are recognised in the Statement of Profit or loss when the financial liability is derecognised and during the amortization process.

Derecognition
Financial liabilities are derecognised when they are settled, i.e. when the liability defined in the contract has been discharged, cancelled or expired.
When an existing financial liability is replaced by another financial liability from the same creditor, under significantly different terms and conditions or the terms and conditions under an existing liability are significantly modified, the exchange or modification is treated as derecognition of the initial liability and new liability is recognised. The difference between the respective carrying amounts is recognised in the Statement of profit or loss.

Compensating financial liabilities

Financial assets and financial liabilities are compensated when there is a legal right to compensate the recognised amounts and the entity intents to settle on a net base or to simultaneously realize the assets and settle the liabilities. Net amount of compensated financial instruments is presented in the Statement of Financial Position.

Fair value of financial instruments

The fair value of financial instruments traded on active markets is estimated based on quoted market rates or quotes by dealers ("buying" prices for short positions and "selling" prices for short positions), without discounting the transaction costs at each reporting date

The fair value of the financial instruments is estimated by using various valuation techniques when there is no active market available. These techniques include the use of recent market direct transactions; references to the present fair value of another instrument that is substantially the same; analysis of the discounted cash flows and other valuation models.

4.17.3 Derivatives

The Group uses derivative financial instruments such as foreign currency and interest swaps for hedging the risks associated with changes in foreign currency and in interest rates. These derivative financial instruments are initially recognised at the fair value as at the date on which the derivative contract is concluded. After their initial recognition, derivatives are measured at fair value. When They are recorded as assets when fair value is positive and as financial liabilities when fair value is negative.

For the purpose of hedge accounting, hedges are classified as follows:
- Cash flow hedges, when they hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the currency risk associated with an unrecognised uncancellable commitment;
- Fair value hedges, when they hedge the exposure to changes in fair value of a recognised asset or liability or an unrecognised uncancellable commitment (except for foreign currency risk);
- Hedges of a net investment in a foreign operation.

At the inception of the hedging formal designation and documenting is made for the hedging relation, to which the Group has decided to use hedge accounting and of the risk management goal and strategy of the hedging. This documentation includes designation of the hedging instrument, the hedged item or transaction, the nature of hedged risk and the ways the Group would use to measure the effectiveness of the movements in the fair values of the hedged instrument upon offsetting the exposure to changes in the fair value of the hedged item or cash flows which are due to the hedged risks. Hedging is expected to be highly effective to offset the changes in the fair values or cash flows due to the hedged risk, and regular assessments are made to determine whether hedging has been highly effective within the reporting financial periods in which hedging is designated.

Hedging relationships, conforming to the strict accounting-reporting hedging terms, are carried as follows:

Fair value hedges
value hedge for the relevant risks associated with changes in market prices. This agreement was concluded in order to reduce the risk of changes in the price of the quotas. For the current accounting period, this has led to the recognition of financial liabilities carried on the consolidated statement of financial position as non-current financial liabilities.

The derivative financial instruments, used for fair value hedge, are initially recognized at fair value and are subsequently measured at fair value in the consolidated statement of financial position. Fair value is determined based on quoted market prices or, in their absence, other techniques. Derivatives are carried as assets when the fair value increases and as liabilities when their fair value decreases.

4.18 Inventory

Inventories comprise raw materials, finished products, work in progress and goods. Cost of inventories includes all expenses directly attributable to the purchase or manufacturing process, recycling and other direct expenses connected to their delivery as well as suitable portions of related production overheads, based on normal operating capacity. Financing costs are not included in the cost of the inventories. At the end of every accounting period, inventories are carried at the lower of cost and net realizable value. The amount of any write-down of inventories to net realizable value is recognised as an expense in the period the impairment.

Net realizable value is the estimated selling price of the inventories less any applicable selling expenses. A new assessment is made of net realisable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed (i.e. the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realisable value. The reversal of the write-down is accounted for as decrease in inventory expenses for the period in which the reversal takes place.

The Group determines the cost of inventories by using the weighted average cost.

When inventories are sold, the carrying amount of those inventories is expensed in the period in which the related revenue is recognised.

Nuclear fuel

Fuel loaded in the reactors, is the outstanding value (remaining lifetime) of nuclear fuel contained in the reactors at the reporting date. Calculations are based on the established “Methodology for reporting supply and cost of fresh nuclear fuel at NPP Kozloduy EAD”, taking into account the value of filled fresh nuclear fuel in the combustion campaign and estimated fuel component that is determined by dividing the value of loaded nuclear fuel into the reactor by the estimates of electricity production for the period in kWh. The product of the gross energy produced by the respective unit fuel cycle and the fuel component represents the cost of nuclear fuel during that period.

Operational gas

Operational volumes of natural gas are recorded as inventory. Natural gas is initially measured at acquisition cost (its purchase price) plus the relevant transportation costs. When consumed, the operational natural gas is carried at an average weighted price. Operational gas is measured at the lower of its acquisition cost (purchase price) and its net realizable value. The net realizable value is the determined by the Energy and Water Regulatory Commission price, applicable for each quarter after the balance sheet date.

Stripping costs

These expenses represent stripping costs of coal deposits. Such costs include expenses for geodesic research, surveys, development of the mines and other direct costs associated with the preparation for coal mining. The costs are deferred based on the coal quantities, prepared for extraction at year-end and are presented as part of the work-in-progress of coal inventory.

4.19 Income tax

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. The management analyses the various items in the tax return, when the applicable tax provisions are subject to interpretation and recognizes provisions where appropriate.

Current taxes are recognized directly in equity (not in the statement of profit or loss) if the tax relates to items which have been recognized directly in equity.

Deferred income tax

Deferred tax is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts.
A deferred tax liability is recognised for all taxable temporary differences:

- except, where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss
- for temporary taxable differences related to investments in subsidiaries, associates and joint venture interests, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference would not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses:

- except, where the deferred income tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- for deductible temporary differences related to investments in subsidiaries, associates and joint venture interests, deferred tax asset is recognised only to the extent it is probable that the temporary difference will reverse within the foreseeable future and taxable profit will be available to utilize the temporary difference.

The carrying amount of deferred tax assets is reviewed by the Group at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent it has become probable that future taxable profit will be gained, which would allow recovery of the deferred tax asset.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred taxes related to items recognised outside the profit or loss are recognised outside the profit or loss. Deferred taxes are recognised depending on the related transaction either in the other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset the current tax assets against current income tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

4.20 Cash and cash equivalents

Cash and short-term deposits in the consolidated statement of financial position include cash at bank, cash in hand and short-term deposits with original maturities of three or fewer months.

4.21 Non-current assets and non-current liabilities, classified as held for distribution to the owner

When the Group is committed to distribute assets (or disposal group) to the owner, the assets or disposal group are classified as held for distribution to the sole equity holder and are presented separately in the consolidated statement of financial position. For this purpose, the assets must be available for immediate distribution in their present condition and the distribution must be highly probable. For distribution to be highly probable, actions should be initiated to complete the distribution and should be expected to be completed within one year from the date of classification. Actions required to complete the distribution should indicate that it is unlikely that in the distribution shall occur significant changes or be withdrawn.

Liabilities are classified as held for distribution to the sole equity holder and are presented as such in the consolidated statement of financial position, only if they are directly related to the disposal group.

Assets classified as held for distribution to sole shareholder are measured at the lower of their carrying value immediately after their designation as held for distribution to the sole shareholder and their fair value less the costs of their distribution. Assets classified as held for distribution to sole shareholder are not subject to depreciation after their classification as held for distribution to the sole shareholder.

4.22 Share capital, reserves and dividend payments

The share capital of the parent reflects the nominal value of the issued shares.
Other reserves comprise of total reserves and additional reserves.

The reserve from valuation to fair value includes the effects of revaluation of financial assets available for sale as well as the Group's share of the revaluation of financial assets/liabilities of associates or joint ventures, which are recognised directly in equity.

The revaluation reserve of non-financial assets is formed by the difference between the carrying amount and fair value of items of property, plant and equipment at the date of revaluation, less its corresponding deferred tax liability.

The reserve from translation of foreign operations includes foreign exchange differences on translating the financial statements of subsidiaries when their functioning currency is different from the functional currency of the Group.

The reserve from remeasurement of defined benefit plans involves the revaluation of defined employee benefits plans, defined by reports of independent actuarial appraisers.

Retained earnings (accumulated loss) include the current year financial result and the retained earnings and accumulated loss from prior periods.

Dividends payable to the sole equity holder are included in 'Related party payables' when dividends have been approved at the general meeting prior to the reporting date.

All transactions with the sole equity holder have been presented separately in the consolidated statement of changes in equity.

4.23 Liabilities for retirement employee benefits and short-term employee benefits

Short-term employee benefits

The short-term employee benefits comprises salaries and wages, bonuses and social contributions and benefits (payable within 12 months of the end of the period, in which the respective employees has rendered services related to these benefits or has satisfied the requisite conditions) are recognized as an expense in the Statement of Profit or loss, unless other IFRS requires the amount to be capitalized in the cost of an asset as a current liability (net of the already paid amounts and deductions) for the period in which labour, related to these benefits was provided and / or the requirements for their receipt were satisfied.

The Groups accounts current liabilities under compensated absences arising from unused annual paid leaves in cases when these leaves are expected to be used within 12 months after the end of the accounting period during which the employees have provided labour related to those leaves. As at the date of each set of Financial Statements the entity assesses the amount of the estimated expense for accumulated paid leaves, subject to compensation, expected to be paid as a result of the unused, entitled, accumulated leave. The assessment includes the estimate of the expenses related to remuneration, as well as expenses for social security contributions and health contributions owed by the employer.

Long-term, retirement benefits

The Group must provide its personnel with retirement benefits computed in accordance to the defined benefit plans and the defined contribution plans.

Defined contribution plans.

Defined contribution plans are retirement plans under which the Group pays by fixed contributions to the state funds.
The employer's fundamental obligation is to pay the compulsory social security contributions with regards to the hired personnel contributions to Fund "Pension", "Supplementary Compulsory Pension Insurance", "Illness and Maternity", "Unemployment", "Accidents at Work and Occupational Disease" and to the Health Insurance Fund.

The amounts of the social security contributions are explicitly defined under the State Budget of the State Social Security (SSS) Code and the State Budget of the National Health Insurance Fund Act, effective for the respective year. The contributions are proportionately allocated between the employer and employee. This proportion changes are made on annual basis and determined under the Social Security Code.
These insurance and retirement schemes (plans) applied by the Group in its capacity of an employer and are defined benefit plans.

These insurance pension plans applied by the Group as employer are defined contribution plans . Employer pays monthly contributions to state funds as well as universal and professional pension funds - based on rates fixed by law and has no legal or constructive obligation to pay funds future contributions when they do not have sufficient funds to pay the relevant persons worked-out over the period of service. There are similar obligations are applicable to health insurance.

The contribution liabilities under defined contribution plans related to social and health insurance are recognised as an expense in the Statement of Profit or loss, unless another IFRS requires this amount to be capitalised in the cost of an asset and as a current liability.

Defined benefit plans

According to Bulgarian labour legislation, the Group as an employer is obliged to pay two or six gross monthly salaries to its employees upon retirement, depending on the length of their service. If an employee has worked for the same employer for the last 10 years of his/ her service, the retirement benefit amounts to six gross monthly salaries upon retirement, otherwise, two gross monthly salaries. The retirement benefit plan is unfunded.

The liabilities for retirement employee benefits are determined by the Group using the actuarial valuation method. The Group's management assesses the obligation under defined benefit plans annually by an independent actuary. The estimate of the post-retirement benefit obligations is based on standard rates of inflation, medical cost trends and mortality. It also takes into account the Group's specific anticipation of future salary increases. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Service costs on the liabilities for retirement employee benefits are included in "Employee benefits expense" and the amount of discounting liabilities is included as interest expense in "Finance costs". Actuarial gains or losses are transferred to Group's reserves via other comprehensive income.

The liabilities for retirement employee benefits presented in the Consolidated Statement of Financial Position comprise the present value of the obligation, payable in respect of these benefits.

4.24 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax discount rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

Provision for environmental protection

A provision for environmental protection costs is recognised when it is probable that costs would be incurred or restoration works would be carried out and the Group has a legal or contractual obligation to undertake such actions. When it is expected that the expenses would be incurred over a long period of time, the present value of the expected future expenses is recognised as a provision and the effects of discounting are recognised as finance income and costs. At the reporting date of these consolidated financial statements a provision for environmental protection costs is recognised related to the safeguarding of the luminescent and other types of lamps containing mercury, safeguarding and recycling of storage batteries, deactivation, recycling and replacement of capacitor batteries containing PHB with new ones and utilisation of bleaching soil used in the base for oil regeneration.

Provisions for recultivation

Provisions, related to the estimated costs of recultivation of land plots damaged from the coal mining in “Mini Maritza – Iztok” EAD are calculated by taking into account the requirements of the current environmental law, the forthcoming lands’ seizure, the seized uncultivated land, the value of recultivation 1 decare. of land, as well as the estimated quantities of coal inventory until the year 2060. Due to the fact that there is significant uncertainty on the volume of the recultivation activities, which shall be performed over time, the provisions are not discounted and are not presented, in the current Consolidated Financial Statement at their present value.

Provisions for recultivation of destructed, from desulphurization installations, terrains for gypsum disposals

In accordance with Regulation No. 26 relating recultivation of damaged terrains and improvement of low-fertility lands removal and utilization of the humus layer, the Group has an obligation to engage in technical and biological recultivation of a landfill, following its filling with gypsum from desulphurization installations. Based on the capacity of the landfill and the disposed amount of plaster, it is expected that the landfill will be filled in up to 5 years. The value of the technical and biological recultivation, under the project, amounts to 5,488 thousand BGN. In accordance with IAS 16 “Property, plant and equipment”, pt. 17 (c), the asset’s value includes the initial estimate of the expected cost to recover the site (terrain’ recultivation), where the asset was located, after being withdrawn from use.

Provision for decommissioning nuclear facilities

The required financial resources for disposal of used nuclear facilities are not estimated and assessed in addition to that no activity plan is developed for disposal of those assets and no provision is accrued.
In accordance with the requirements of IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” for determining the best “reliable estimate”, the Group has not accrued any provisions for “disposal of nuclear facilities”, due to the following reasons:

- “Kozloduy NPP” is subject to specific statutory acts – the Act on the Safe Use of Nuclear Energy, Pricing Regulations and Decisions, adopted by the Council of Ministers to raise funds in the “RWF” and the “FDNF” Funds. Current expenses are accrued in accordance with the requirements of those statutory acts. Those expenses are related to contributions due to above stated funds and paid into government accounts. All accrued amounts are presented in the Statement of Profit or loss and in the Statement of Other Comprehensive Income. Additional expenses are recognised in compliance with the principle of “comparability of revenue and expenses” stated in the Accountancy Act to the amount of the contributions, due to the “FDNF” and the “RWF”. This contribution is related to the price of electricity on the regulated market defined by the EWRC;
- In accordance with the agreements with the European Commission for early disposal of Units 1, 2, 3 and 4, the State has negotiated funding agreements. This shall finance the building of dry storage facilities for the

consumed nuclear fuel (CNF), they shall finance the expenses, incurred for salaries and social security contributions for the personnel employed in Unit 3 and Unit 4, as well as for other related other activities;

- Pursuant to Decision No. 839 of the Council of Ministers, the assets in Unit 1 and Unit 2 were transferred for no consideration in December 2008 from "Kozloduy NPP" EAD to SE "RAW", Sofia, which main activities are "disposal of assets". Pursuant to Decision No. 1038 of the Council of Ministers, as of 19 December 2012, Unit 3 and Unit 4 of "Kozloduy NPP" EAD are carried as radioactive waste management facility and their management should be transferred to SE "RAW". On 1 March 2013, the assets owned by Unit 3 and Unit 4, together with the related personnel, were transferred to SE "RAW".

In accordance with the regulatory requirements, when the costs of the implementation of the project for disposal of assets from use exceeds the approved by the Management Board of the "FDNF" evaluations the additionally required costs should be paid in by the last legal entity that has operated the nuclear facility (in this case "Kozloduy NPP" EAD). Due to the fact that as at the date of approval of this Financial Statement, there no clear national strategy for the disposal of nuclear facilities and the estimated cost of the project have not been estimated by the "FDNF", the entity cannot reliably estimate its liability and has not recognized any provision for decommissioning of nuclear facilities as at 31 December 2015 and 31 December 2014.

Provisions for consumed nuclear fuel

Under the current National Strategy for Management of Nuclear Fuel and nuclear waste until 2030, enforced by the Ministry council on 5 January 2011, the Group has a legal obligation to incur expenses for transportation, processing and storage of at least 50 tons spent nuclear fuel to Russia. The provision for spent nuclear fuel is based on the best estimate of the costs that will be incurred in the next reporting period for the processing and storage of spent nuclear fuel. As there is no long-term strategy on the management of the spent nuclear fuel, the Group cannot assess its obligation in relation to the spent nuclear fuel.

Greenhouse gas emission allowances

The quotas for greenhouse gas emissions (tons of carbon dioxide equivalent) are reported in "net liability method" under which the Group recognizes a liability for carbon dioxide emissions when the emissions are emitted and are in excess over distributed (according to the National Allocation Plan quotas for trade in greenhouse gas emissions) and additionally purchased allowances. Emissions which exceeds the allocated quotas of the Company for the year is purchased from the open market. The Group currently recognizes an expense and a corresponding obligation for emissions in excess of the allocations. The estimation of such allowances is the best possible estimate of the prospective resources will be needed to purchase, i.e. market price at the end of the reporting period.

4.25 Government grants and deferred financing

Government grants and deferred financing are recognised when there is reasonable assurance that the grant/financing will be obtained and that all related with it conditions will be satisfied. When the grant/financing relates to an expense item, it is recognised as income over the periods, necessary to match and compare the grant/financing, on a systematic basis, with the costs that it is intended to compensate. When the grant/financing relates to the acquisition of a non-current asset, it is presented as deferred income and it is recognised in profit or loss, in equal amounts, over the estimated useful life of the related asset.

When the Group receives non-monetary government grants, the donation and the asset are stated at nominal value. The grant/financing is recognised as income in the Statement of Profit or loss, in equal portions each year, over the useful life of the asset.

4.26 Significant management judgements in applying the accounting policies

When preparing the Consolidated Financial Statements, the Management is required to apply certain accounting assumptions, accounting estimates and judgements that affect the values of the recognised assets and liabilities and the disclosures of contingent liabilities as at the reporting date, as well as the values of the recognised revenues and expenses for the period. The uncertainties, associated to these accounting assumptions and estimates, could result in actual results that require significant adjustments in the carrying amounts of the respective assets and liabilities in future reporting periods. The main issues, raising uncertainties in the use of accounting estimates are described in Note 4.27

Long-term contracts for electric power purchases – the Group as a lessee

The Group has entered into long-term contracts for purchase of electricity with the following contractors who operate thermal power plants in the Maritsa basin – "AES-3C Maritsa Iztok 1" EOOD (contract's term – 15 years) and "ContourGlobal Maritsa East 3" AD (contract's term – 15 years). Based on the long-term contracts signed, the Group is entitled to set the quantities of electricity that each of the two thermal power plants is to generate over a certain period of time based on the installed capacity, and over the term of the contract the Group is obliged to purchase the minimum quantities of generated electricity agreed, the corresponding availability and the availability provided by the power plants, which is not related to the electricity purchased by NEK EAD. The Group may set bigger quantities than the minimum agreed, if necessary.

The Group has analysed the above mentioned long-term contracts, comparing them to specific criteria, and it has concluded that in terms of the provided commitment to purchase the availability, the contracts contain lease agreements.

The Management believes that since all significant risks and rewards of ownership of the above-mentioned thermal power plants are not taken over by the Group, the long-term contract for purchase of electricity are to be treated as operating leases. Additional information on the long-term contracts is presented within Note 40.

Deferred tax assets

Deferred tax assets are recognised for all unused taxable losses to the extent to which it is probable that taxable profits will be recognised, against which these loses can be utilized. In determining the amount of deferred tax assets, the Management is required to make assumptions on the length of the period and the approximate amount of the future taxable profits, including the assessment of the future strategy for tax planning. The Group has not recognised deferred tax assets for all taxable losses. Additional information is disclosed under Note 22.

4.27 Uncertainty of the accounting estimates

In preparing the Consolidated Financial Statements, the Management makes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, revenue and expenses. The actual results may differ from the judgements, estimates and assumptions, made by Management and will seldom equal the estimated results. Information about the significant judgements, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, revenue and expenses are discussed below.

Fair value of Property, plant and equipment

In order to determine the fair value of the main classes of property, plant and equipment that are subsequently measured by using the revaluation method, the Group uses reports, issued by independent external appraisers. Thorough information on the revaluation, the valuation methods, assumptions and judgements used in determining the fair value is disclosed in Note 18.

Impairment of financial assets

The Management assesses whether the financial assets, classified within "loans and receivables" need to be impaired, based on an aging structure analysis of the receivables, past experience about the level of derecognition of bad debts, as well as an analysis of the respective client's ability to settle his liabilities, any changes in the contractual payment terms and others. If the financial position and the operating results of the client deteriorates more than expected the amount of receivables that must be written-off in future reporting periods may exceed the estimated amount as at the reporting date. As at 31 December 2015 the Management's best estimate on the need of impairment of trade and other receivables of the Group is disclosed under Note 21.

Group's provisions

The Group recognises provisions for environmental protection, recultivation, for exceeding the greenhouse gas emissions quotas and others. In determining the amount of these provisions, the Management is required to estimate the expected costs needed to cover the respective liabilities of the Group, as well as their time frame. As at 31 December 2015 the Management's best estimate of the provisions is presented within Note 31.

Provisions for environmental protection and other provisions

The Group recognises provisions for environmental protection, for legal claims and for appropriations for access to renewable energy source under challenged decision of EWRC Ц-33. When determining the amounts of these provisions, the Management is required to assess the estimated costs needed to cover the respective liabilities of the Group and their timing. As at 31 December 2015 the Management's best estimate of these provisions amounts to BGN 17,455 thousand (in 2014: BGN 21,625 thousand). Additional information is provided within Note 31.

Provision of transport, processing and storage of consumed nuclear fuel

Provisions for liabilities related to consumed nuclear fuel are based on the Management's best estimate of the expenses, which shall be incurred within the next reporting period in respect of transport, processing and storage of consumed nuclear fuel. In accordance with the effective until 2030 Strategy for Management of the Consumed Nuclear Fuel and Radioactive Waste, adopted by a Decision of the Council of Ministers, dated 5 January 2011, the entity has a regulatory obligation to perform 10 numbers of transport, processing and storage of nuclear fuel consumed in Russia, at least 50 tons of heavy metal per year. As at 31 December 2015 the Entity is obliged to execute 2 more numbers of transport of consumed nuclear fuel of at least 50 tons of heavy metal per year. The provisions related to the liabilities for consumed nuclear fuel are based on the Management's best estimate of the expenses, which shall be incurred, within the next reporting period, for transport, processing and storage of consumed nuclear fuel. As at 31 December 2015, provisions for consumed nuclear fuel are recognized in the Financial Statements and amount to BGN 29,942 thousand which represents the estimated liability for the estimated transportation in 2016 by taking into consideration the fact that a portion of the consumed nuclear fuel may be stored in the Entity's facilities, used for storage of consumed nuclear fuel.

A provision of decommissioning of nuclear facilities

In compliance with the requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", provisions must be recognised in respect of future amounts with uncertain timing and amount. Provisions are recognised only if the following criteria is satisfied:

- The entity has a present obligation, arising from a past event;
- It is possible that an outflow of the entity's cash resources, embodying economic benefits, may be required to settle the liability; and
- The liability can be reliably estimated.

In compliance with the requirements, under the Standard, on "reliable estimates", the Group has not accrued any provisions for "decommissioning of nuclear facilities" and for "safe storage of the consumed nuclear fuel", due to the following:

- The Group is subject to specific laws – The Safe Use of Nuclear Energy Act, the Pricing Ordinances and Decrees for the Raising of Funds in Radioactive Waste Fund and Nuclear Facilities Decommissioning Fund adopted by the Council of Ministers. In accordance with the requirements of these statutory acts, current expenses, related to contributions due to those funds, paid into budgetary accounts, are accrued in the Consolidated Statement of Profit or loss and Other Comprehensive Income. In compliance with the matching principle of revenue and expenses, under the Accountancy Act, the price of electricity on the regulated market, defined by the EWRC, is recognized as an expense to the amount of the contributions, due to the "FDNF" and the "RWF";
- In connection to the agreements with the European Commission for early decommissioning of Units 1 to 4, the State has agreed financing from external sources. This shall finance the construction of dry storage facilities for the consumed nuclear fuel (CNF) and the expenses, incurred for salaries and social security contributions in respect of the personnel, employed in Unit 3 and Unit 4, as well as other activities;
- Pursuant to Decision No. 839 of the Council of Ministers, the assets in Unit 1 and Unit 2 were transferred free of charge in December 2008 from "NPP Kozloduy" EAD to SE "RAW" – Sofia, on the grounds of "decomissioning". Pursuant to Decision No. 1038 of the Council of Ministers, as of 19 December 2012, Unit 3 and Unit 4 of "NPP Kozloduy" EAD are treated as radioactive waste management facilities and their management was transferred to SE "RAW".
- On 1 March 2013 the assets and the employees related to the third and fourth energy units were transferred to SE RAW.

".In accordance with the requirements of the special acts as at 31 December 2015 if the implementation of the decommissioning project is more expensive than the estimates made by the Management Board of the Nuclear Facilities Decommissioning Fund, such additional costs shall be covered by the entity operating the nuclear facility last (which is the Group in this case). Since as at the date of approval of the consolidated financial statements there is no clear national strategy on the decommissioning of nuclear facilities and no estimate of the forecasted costs has been made by the Nuclear Facilities Decommissioning Fund, the Group is unable to measure reliably the liability and has not set aside a provision as at 31 December 2015 and 31 December 2014.

Post-employment (Retirement) benefits

The Group's obligation for post-employment (retirement) benefits is determined by actuarial valuation. This assessment requires making assumptions about discount rates, future salary increases, and staff turnover and mortality rates. Due to the long-term nature of the retirement benefits, these estimates are subject to considerable uncertainty. As at 31 December 2015 the Group's liabilities for post-employment (retirement) benefits amounts to

BGN 163,762 thousand (in 2014: BGN 137,688 thousand). Additional information regarding these liabilities is disclosed within Note 30.

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

At the end of each reporting period, the Management reviews the useful life of the depreciable assets. As at 31 December 2015 the Management determines the useful life of assets as the years that the assets are expected to be used by the Group. Information on the useful life of property, plant and equipment, is presented within Note 4.13. Information on the useful life of intangible assets is disclosed within Note 4.14. The carrying amounts of the assets are analysed in Note 18 and Note 19. The actual useful life of an asset may differ from its estimated useful life, as a result of technical or moral obsolescence.

Impairment of inventories

The Group recognises impairment on slow-moving and obsolete inventories to their net realizable value. Management assesses, on an annual basis, the adequacy of this impairment and the cost of inventories is reduced to their estimated net realizable value. As at 31 December 2015 the best estimate of the impairment of inventories amounts to BGN 19,847 thousand (in 2014: BGN 12,106 thousand). Additional information is disclosed within Note 23.

5. Effect of adjustments of prior period errors

The Consolidated Statement of Financial Position of the Group, as at 31 December 2015, include an adjustment of prior period errors. This prior period errors, relate to periods before 1 January 2013, and 2014 and have resulted in a decrease of the net financial result as at 1 January 2014 of BGN 1,392 thousand, and of the financial results for 2014 – with BGN 2,690 thousand.

Adjustments of the Group's financial result and financial position, arise from:
- Recognised liabilities to suppliers, which refer to 2014, that resulted in an increase in hired services expenses, with BGN 668 thousand;
- Decrease of penalty interest income under a contract for the supply of natural gas, amounting to BGN 2,022 thousand;
- Decrease in the net book value of intangible assets, as a result of a derecognition, at the amount of BGN 1,392 thousand
- Decrease in deferred income from transmission– BGN 36,283 thousand.

Adjustments of prior period errors are presented in the Consolidated Statement of the Group as at 31 December 2015, as follows:

ASSETS	As at 01.01.2014	Adjustment	As at 01.01.2014 revalued	As at 31.12.2014	Adjustment	As at 31.12.2014 revalued
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Non-current Assets						
Intangible assets	22,789	(1,392)	21,397	-	-	-
Current Assets						
Trade and other receivables	-	-	-	1,967,084	(2,022)	1,965,062
TOTAL ASSETS	**22,789**	**(1,392)**	**21,397**	**1,967,084**	**(2,022)**	**1,965,062**
EQUITY AND LIABILITIES						
Equity Capital						
Other reserves	2,414,489	36,283	2,450,772	-	-	-
Revaluation reserve of non-financial assets	5,149,461	5,936	5,155,397	5,180,020	23	5,180,043
Accumulated loss / retained earnings	117,334	(7,328)	110,006	(551,239)	(2,713)	(553,952)
TOTAL EQUITY	**7,681,284**	**34,891**	**7,716,175**	**4,628,781**	**(2,022)**	**4,626,091**
Non-current Liabilities						
Deferred income	36,032	(34,905)	1,127	-	-	-
Trade and other liabilities	-	-	-	-	-	-
Current Liabilities						
Deferred income	8,724	(1,378)	7,346	-	-	-
Trade and other liabilities	-	-	-	1,892,960	668	1,893,628
TOTAL LIABILITIES	**44,756**	**(36,283)**	**8,473**	**1,892,960**	**668**	**1,893,628**
TOTAL EQUITY AND LIABILITIES	**7,726,040**	**(1,392)**	**7,724,648**	**6,521,741**	**(1,354)**	**6,519,719**

5.1 Restatement of retained earnings

	As at 1 January 2014	**As at 31 December 2014**
	BGN '000	BGN '000
Decreased penalty interest income from Toplofikatsia Sofia EAD	-	(2 022)
Decreased net book value of intangible assets	(1 392)	-
Increased hired services expenses	-	(668)
Total effect – decrease in the current financial result	**(1 392)**	**(2 690)**
Transfer to revaluation reserve of non-financial assets	(5 936)	(23)
Total effect on the retained earnings/accumulated loss	**(7 328)**	**(2 713)**

5.2 Recognising the effects on the assets

	As at 1 January 2014	**As at 31 December 2014**
	Thousands of BGN	*Thousands of BGN*
Decreased trade and other receivables from Toplofikatsia Sofia EAD	-	(2 022)
Decreased net book value of non-current intangible assets	(1 392)	-
Total effect – decrease in the assets	**(1 392)**	**(2 022)**
Increased trade and other liabilities	-	668
Decreased deferred income	(36 283)	-
Total effect on liabilities	**(36 283)**	**668**

5.3 Reclassification

In this set of Consolidated Financial Statements, comparable data amounts have been reclassified in order to improve the presentation of the disclosed information.

6. Segment reporting

Currently, the Management determines the following products and services of the Group as operating segments, as described in Note 4.6 – "electricity", "natural gas", "mining" and "administration activities". These operating segments are monitored by the Management, who takes strategic decisions based on the adjusted operating results of the different segments.

Moreover, smaller operating segments that do not exceed the quantitative thresholds, are united in the "administration activities" segment. The activities and the main source of income of the "administration activities" segment relate to the provision of services to entities from the other segments of the Group. Information on the separate segments, for the presented reporting periods, may be analysed as follows:

For 2015	Electricity	Natural gas	Mining	Administrative activities	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Revenue from sales and other operating income from:					
- external clients	4,760,681	1,610,736	312,192	3,001	6,686,610
- other segments	557,285	152,439	270,468	92,938	1,073,130
Segment Revenue	**5,317,966**	**1,763,175**	**582,660**	**95,939**	**7,759,740**
Changes in finished goods and work in progress	9,229	448	14,597	-	24,274
Cost of acquisition of property, plant and equipment	9,710	-	4,066	-	13,776
Cost of natural gas, electricity and other assets sold	(3,212,349)	(1,340,667)	-	-	(4,553,016)
Cost of materials	(492,058)	(6,923)	(145,416)	(148)	(644,545)
Hired services expenses	(232,495)	(21,302)	(51,252)	(5,797)	(310,846)
Depreciation and amortisation	(423,386)	(72,319)	(89,143)	(1,168)	(586,016)
Employee benefits expense	(478,375)	(56,111)	(244,253)	(4,688)	(783,427)
Net impairment of trade receivables	(8,769)	(5,932)	(4,199)	(9,333)	(28,233)
Net impairment of property, plant and equipment	(1,012)	(1,279)	(3,140)	(6)	(5,437)
Provisions	(167,359)	-	(17,460)	-	(184,819)
Other operating expenses	(360,545)	(138,750)	(29,298)	(846)	(529,439)
Operating profit/(loss) from the segment, from continuing operations	**(39,443)**	**120,340**	**17,162**	**73,953**	**172,012**
Operating loss from the segment, from discontinued operations	**(29,957)**	**-**	**-**	**-**	**(29,957)**
Segment Assets	**12,809,954**	**2,635,779**	**1,476,731**	**4,813,351**	**21,735,815**
Segment Liabilities	**5,507,052**	**408,485**	**640,145**	**1,177,982**	**7,733,664**

For 2014 Restated	Electricity	Natural gas	Mining	Administrative activities	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Sales income and other operating income from:					
- external clients	4,222,388	1,723,325	245,740	3,196	6,194,649
- other segments	724,612	179,477	248,250	88,387	1,240,726
Segment Revenue	**4,947,000**	**1,902,802**	**493,990**	**91,583**	**7,435,375**
Changes in finished goods and work in progress	(10,430)	444	13,585	-	3,599
Cost of acquisition of property, plant and equipment	9,868	-	5,221	1	15,090
Cost of natural gas, electricity and other assets sold	(3,510,995)	(1,509,417)	-	-	(5,020,412)
Cost of materials	(461,543)	(7,420)	(133,965)	(246)	(603,174)
Hired services expenses	(212,957)	(16,120)	(45,265)	(6,250)	(280,592)
Depreciation and amortisation	(411,753)	(70,086)	(61,770)	(1,249)	(544,858)
Employee benefits expense	(490,402)	(49,610)	(236,048)	(4,894)	(780,954)
Net impairment of trade receivables	(4,794)	(12,895)	-	166,584	148,895
Provisions	(110,995)	-	(8,806)	-	(119,801)
Other operating expenses	(182,944)	(169,296)	(17,989)	(770)	(370,999)
Operating profit/(loss) from the segment, from continuing operations	**(439,945)**	**68,402**	**8,953**	**244,759**	**(117,831)**
Operating loss from the segment, from discontinued operations	**(58,532)**	**-**	**-**	**-**	**(58,532)**
Segment Assets	**11,456,581**	**2,656,635**	**1,222,625**	**4,713,772**	**20,046,613**
Segment Liabilities	**5,312,511**	**540,272**	**473,547**	**1,203,184**	**7,529,514**

The total segments revenue, the total operating profit, the total assets and total liabilities are equalised with the respective items in the Consolidated Financial Statements of the Group, as follows:

	As at 31 December 2015	As at 31 December 2014
	Thousands of BGN	*Thousands of BGN*
Revenue		
Total Segment revenue	7,759,740	7,435,375
Elimination of inter-segment revenue	(1,073,130)	(1,240,726)
Revenue of the Group	**6,686,610**	**6,194,649**
Profit/(loss)		
Segment operating profit/(loss)	172,012	(117,831)
Elimination of profit from transactions between segments	(87,183)	(96,122)
Operating profit/(loss)of the Group	**84,829**	**(213,953)**
Share of profit from equity accounted investments	45,920	51,331
Finance costs	(87,382)	(68,500)
Finance income	36,576	60,897
Profit/(loss) for the Group, before tax, from continuing operations	79,943	**(170,225)**
Loss for the Group, before tax, from discontinued operations	**(29,957)**	**(58,532)**
Assets		
Total Segment Assets	21,735,815	20,046,613
Consolidation	(4,295,295)	(4,496,602)
Group Assets	**17,440,520**	**15,550,011**
Liabilities		
Total Segment Liabilities	7,733,664	7,529,514
Consolidation	(1,807,565)	(1,967,389)
Group Liabilities	**5,926,099**	**5,562,125**

7. Revenue from sales

	2015	2014	
	BGN '000	*BGN '000*	
Revenue from sales of electricity	3,671,480	3,474,758	*
Revenue from sales of natural gas	1,356,556	1,533,516	
Revenue from sales of lignite coal	296,418	229,402	
Revenue from other sales, including:	1,057,679	885,243	
Related with sales of electricity	*832,950*	*690,122*	
Revenue, generated from the "Obligation to society" fee	*406,727*	*190,623*	
Revenue, associated with the transmission through the electrical supply network	*333,484*	*382,413*	*
Revenue, generated under access fees	*66,640*	*88,853*	
Revenue, associated with reactive electric power	*21,724*	*28,104*	
Revenue, generated under connection fees	*4,375*	*129*	
Related with sales of natural gas	*209,454*	*180,075*	
Revenue, generated from the transmission of natural gas	*209,454*	*180,075*	
Revenue, generated from "water supply" services	*4,593*	*4,726*	
Revenue from sales of thermal power	*2,026*	*2,037*	*
Revenue from rendered transport services	*4,332*	*3,519*	*
Revenue from rendered communication services	*2,899*	*3,130*	*
Revenue from other sales	*1,425*	*1,634*	*
	6,382,133	**6,122,919**	

8. Other operating income

	2015	2014	
	BGN '000	*BGN '000*	
Income, generated by the "Security of the Electricity System" Fund (Note 29)	183,200	-	
Income from penalties and fees	65,009	24,814	
Income from financing activities (Note 29)	18,763	8,874	
Income from sale of current assets	6,237	3,728	
Income, generated under insurance compensations	4,566	2,166	
Income from sale of property, plant and equipment	3,104	1,331	
Rental income	2,130	5,906	
Income from liquidation of assets	1,505	1,877	
Income from surplus of assets	16	1,773	
Other income	19,947	21,261	*
	304,477	**71,730**	

The "Security of the electricity system" Fund was established pursuant to the amendments in the Energy Act (EA), S.G. issue 56, dated 2015. The Fund is a legal entity, domiciled in Sofia. The provisions, governing the activities of the Fund are stated under Art. 36b – Art. 36g of the Energy Act.
The Fund's purpose is to manage the proceeds for covering expenditure, incurred by the Public Supplier – "Natsionalna Elektricheska Kompania" EAD, arising from its obligations to purchase electricity from producers, connected to the electric power grid, under long-term contracts for purchase of electricity and availability, as well as the electricity, generated from renewable energy sources, from highly efficient co-generation of electric and thermal

energy, and the electric power from producers, using indigenous primary energy sources (of fuel), up to 15 per cent of the overall primary energy, requisite to produce electricity.

Other expenses of the Public supplier that may be covered by “Security of the Electricity System” Fund are the expenses, specified by decision of the Commission, including such for past regulatory periods. Payments to the Public Provider, to cover expenses via the Fund provided by the “Security of the Electricity System” Fund, are to be performed on a monthly basis.

The funds are collected on a monthly basis, mainly from:

1. Contributions of 5% on the revenue of electricity suppliers, generated from sales of electricity (net of VAT) and of proprietors, importing electricity on the local market (net of VAT).
2. Revenue, generated under tenders for sales of C02 emission quotas, used in the development of renewable energy sources.
3. Interest income, including interest on delayed contributions, as per p. 1.
4. Donations.
5. Revenue, generated from strategic transfers of renewable energy, used in the development of renewable energy sources.

The contributions per p. 1 and 2 above are public receivables. The unpaid contributions are established and collected, under the order of the Tax– Insurance Procedure Code, by the bodies of the National Revenue Agency.

Pursuant to Decision No C-27/31.07.2015, issued by EWRC, the estimated revenues in the “Security of the electricity system” Fund amount to BGN 226,000 thousand from the sales of CO2 emission quotas and revenue, generated from the contributions by electricity suppliers with respect of the electricity sold, and by proprietors, who import electricity in the market, amount of BGN 211,000 thousand. Payments, intended to cover the expenses incurred by the Public Provider with proceeds from the Fund, are estimated at BGN 437,000 thousand for the current tariff period. By virtue of Decision C-35/01.11.2015, payments, intended to cover the expenses incurred by the Public Provider with proceeds from the Fund, are amended to BGN 434,984 thousand for current tariff period.

Per their nature, the provided by the “Energy Security System” funds are grants, provided by the State and fall within the scope of IAS 20 “Accounting Treatment of Government Grants and Disclosure of Government Assistance”. The cash funds, obtained from the “Energy Security System” Fund, are recognised as revenue, on a systematic basis (monthly) over the periods in which the entity recognises as expense, the respective expenses, which the grants are designated to cover. The amount of the monthly assistance is computed, based on the decisions of EWRC, for the respective price period and the internal rules and regulations of NEK EAD. After the Fund or the Ministry of Energy exercises control and confirms the amount of the funds, the difference is to be recognised as a decrease in the recognised receivables, and respectively as a decrease in the recognised revenue.

For the price period, from 1 August 2015 to 31 December 2015, the Group has received funds, at the amount of BGN 183,200 thousand, from the Ministry of Energy, in compliance with para. 9 of the State Budget Law, effective for 2015.

The Group has signed long-term contracts for sales of lignite coal with its main clients. Clauses, are included under these contacts, for the purchase of minimum monthly and total annual lignite coal quantities. Furthermore, clauses are included for penalties and charges on delayed current payments by customers. In 2015, the commitments for purchases of minimum monthly and total annual lignite coal purchases were met. The Group did not accrue the respective revenue, generated from penalties on delayed payments from clients. In 2015, the Group did not accrue the respective revenue, generated from penalties for incompliance with the clause for purchase of the minimum annual lignite coal quantities, as well.

9. Cost of natural gas, electricity and other current assets sold

	2015	2014
	BGN '000	*BGN '000*
Electricity	(2,723,348)	(2,831,175)
Natural gas	(1,283,511)	(1,464,944)
Other current assets	(968)	(939)
	(4,007,827)	**(4,297,058)**

10. Cost of materials

	2015	2014
	BGN '000	*BGN '000*
Fuel	(181,185)	(174,325)
Spare parts	(69,687)	(66,110)
Electricity	(22,575)	(63,101)
Limestone	(20,774)	(15,258)
Cost of materials for the acquisition of plant and equipment	-	(454)
Other raw materials and consumables	(25,688)	(22,028)
	(319,909)	**(341,276)**

11. Hired services expenses

	2015	2014
	BGN '000	*BGN '000*
Repairs	(69,655)	(73,563)
Insurance services	(60,233)	(62,376)
Security	(35,436)	(30,518)
Concession fees and licences	(21,807)	(18,987)
Other charges and fees	(46,395)	(10,806)
Transport services	(15,942)	(13,913)
Consultancy services	(12,865)	(11,934)
Communication services	(1,711)	(1,747)
Rent	(1,515)	(1,695)
Others	(34,954)	(32,505)
	(300,513)	**(258,044)**

Audit services

This set of Consolidated Financial Statements are audited by the Auditing Company "HLB Bulgaria" LTD and the registered auditor (CPA) and Manager of the company – Milena Hristova. The remuneration, paid to the registered auditor (CPA) is in regards to the conducted independent financial audit of the Consolidated Financial Statements. During the year, the registered auditor has not provided any other services. This disclosure is in compliance with the requirements of Art. 38, para. 5 of the Accounting Act.

12. Employee benefit expenses

	2015	2014
	BGN '000	*BGN '000*
Remuneration	(523,877)	(501,026)
Social security	(145,499)	(158,086)
Social costs	(89,025)	(72,287)
Expenses, accrued in respect of long-term retirement benefits (Note 30)	(13,933)	(26,954)
Expenses for unused annual leave and the respective social security contributions	(3,019)	(728)
Other benefits and allowances	(8,044)	(21,873)
	(783,397)	**(780,954)**

13. Other operating expenses

	2015	2014
	BGN '000	*BGN '000*
Green energy costs	(126,483)	(40,197)
Contributions to the "Nuclear Facilities Decommissioning" Fund and "Radioactive waste" Fund	(86,644)	(87,147)
Fines and penalties	(57,460)	(24,818)
5% fee on the revenue of electricity suppliers to the "Security of the Electricity System" Fund	(36,647)	-
Food and uniforms	(31,995)	(13,126)
Technological losses of natural gas	(12,735)	(12,024)
Impairment of inventory	(17,990)	(4,797)
Reversal of impairment of inventory	656	5,332
Excise duty and other taxes	(6,224)	(5,498)
Local taxes and charges	(6,041)	(3,719)
Written off inventory and property, plant and equipment	(4,224)	(10,353)
Business trips	(4,562)	(3,794)
Tax on certain expenses	(1,567)	(787)
Trainings and qualifications	(1,415)	(618)
Other	(37,150)	(32,772)
	(430,481)	**(234,318)**

Contributions in the "Nuclear Facilities Decommissioning" Fund and the "Radioactive Waste" Fund

According to the provisions of the Council of Ministers' ordinances on the amount, accumulation, expenditure and control of the funds and the amount of the instalments due to the "Nuclear Facilities Decommissioning" Fund and "Radioactive Waste" Fund, "NPP Kozloduy" EAD makes payments to the budget accounts of these funds. The payments due are determined in compliance with the requirements of the regulations mentioned above. The payments are expensed as incurred forming a pricing element of the electrical energy generated by "NPP Kozloduy" EAD for the regulated market.

14. Financial income

	2015	2014
	BGN '000	*BGN '000*
Interest income, generated under receivables from Toplofikatsia Sofia EAD	23,600	16,612
Interest income on bank deposits	5,085	4,366
Interest income on bank accounts	454	2,639
Other interest income on financial instruments carried at amortized cost	1,577	4,160
Total Interest income, generated under financial instruments that are not carried at fair value in profit or loss	*30,716*	*27,777*
Gains from the change in the fair value of financial derivatives	-	11,144
Gain on foreign currency exchange, net	5,772	21,711
Dividend income from financial assets available for sale	88	-
Others	-	265
	36,576	**60,897**

15. Financial costs

	2015	2014
	BGN '000	*BGN '000*
Interest expense on borrowings carried at amortized cost	(58,767)	(59,633)
Interest expense on finance leases	-	(8)
Total Interest expense, incurred under financial instruments that are not carried at fair value through profit or loss	*(58,767)*	*(59,641)*
Interest expense on actuarial valuations (Note 30)	(5,576)	(4,898)
Interest expense on tax liabilities, fees and public receivables	(10,840)	(2,328)
Bank fees	(832)	(1,039)
Result from operations with financial instruments	(11,367)	-
Loss on change in the fair value of a financial derivative	-	(594)
	(87,382)	**(68,500)**

16. Income tax expense

The relation between the expected tax expense based on the applicable tax rate in Bulgaria of 10 % (2014: 10 %) and the reported tax expense in profit or loss can be reconciled as follows:

	2015	2014
	BGN '000	*BGN '000*
Accounting profit/(loss) from continuing operations	79,943	(170,225)
Accounting loss from discontinued operations	(29,957)	(58,532)
Accounting profit/(loss) before tax	49,986	(228,757)
Tax rate	10%	10%
Estimated income tax expense	(4,999)	-
Tax effect from:		
Increased financial result for tax purposes	(61,873)	(60,717)
Decreased financial result for tax purposes	17,681	24,663
Current Income tax expense	(44,192)	(36,054)
Deferred tax (expense) / income:		
Origination and reversal of temporary differences	28,708	(12,617)
Income tax expense	**(20,483)**	**(48,671)**
Deferred tax (expense)/income, recognised in other comprehensive income	(165,845)	(3,468)

Note 22 provides information on the amounts of deferred tax assets and deferred tax liabilities, recognised in profit or loss, including amounts recognised directly in other comprehensive income.

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17. Earnings/(loss) per share and dividends

17.1 Earnings/(loss) per share

Earnings /(loss) per share has been calculated using the net loss attributed to sole shareholder of the parent company as the numerator. The weighted average number of outstanding shares used for calculating the profit/(loss) per share as well as the net profit/(loss) attributable to the sole equity holder are as follows:

	2015	2014 revalued
	BGN '000	*BGN '000*
Profit/ (loss) of the Group attributable to shareholders	29,447	(277,030)
Weighted average number of shares	3,030,724,635	2,712,160,006
Earnings/(loss) per share	**0.010**	**(0.102)**

17.2 Dividends paid

Profit distributions of the parent, "Bulgarian Energy Holding" EAD, are performed pursuant to a decision of the sole shareholder, as follows:

- At least 10% of the profit is transferred to "Statutory Reserves";
- as proposed by the Board of directors, portion of the attributable profit may be allocated to other reserves;
- dividends are paid out from the remaining portion.

The amount of dividends payable to the state are determined annually by the State Budget Act.

With decision under protocol №RD-21-79/22.07.2014, of the Minister of Economy and Energy, in compliance with Decree № 5, issued by the Council of Ministers, dated 11 June 2014, and in accordance with the State Budget Act, effective for 2014, the 2013 financial result, before restatement, conducted in compliance with IAS 19 (revised), is distributed as follows:

- Dividends Allocated to the State – BGN 20,508 thousand (BGN 0.01 dividend per 1 share).
- Allocated to the "Statutory Reserves"– BGN 39,692 thousand;
- Allocated to "Other Reserves" – BGN 336,719 thousand.

"Bulgarian Energy Holding" EAD has not paid dividends during 2015 (2014: BGN 20,508 thousand).

On 18 February 2016, Order № 2, of the Council of Ministers was accepted. By virtue of Order №2, the dividends distributed by shareholding companies, preparing Financial Statements in compliance with Art. 37, para. 2 of the superseded Accounting Act (supr. S.G. issue 85, dated 2015), should not exceed 50 per cent of the profit, disclosed in the Consolidated Financial Statements for 2015.

18. Property, plant and equipment

For 2015	Lands and Buildings	Plant and equipment	Transport vehicles	Fixtures and fittings and other assets	Acquisition costs	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Gross carrying amount:						
Balance as at 1 January 2015	**933,265**	**9,288,134**	**69,639**	**97,768**	**2,043,727**	**12,432,533**
Additions	358	161,918	3,533	718	424,377	590,904
Disposals	(1,199)	(23,567)	(1,083)	(530)	(192,968)	(219,347)
Transfers from acquisition costs	10,806	201,334	5,264	445	(217,849)	-
Written off carrying value upon revaluation	(66,753)	(744,402)	(4,481)	-	-	(815,636)
Revaluation	306,012	1,479,116	5,840	-	-	1,790,968
Recognised impairment	(37,095)	(70,162)	(281)	-	-	(107,538)
Balance as at 31 December 2015	**1,145,394**	**10,292,371**	**78,431**	**98,401**	**2,057,287**	**13,671,884**
Depreciation:						
Balance as at 1 January 2015	**(69,040)**	**(681,908)**	**(30,573)**	**(53,887)**	**-**	**(835,408)**
Depreciation	(29,152)	(536,585)	(7,722)	(5,457)	-	(578,916)
Disposals	475	7,171	715	502	-	8,863
Depreciation written off upon revaluation	66,753	744,402	4,481	-	-	815,636
Balance as at 31 December 2015	**(30,964)**	**(466,920)**	**(33,099)**	**(58,842)**	**-**	**(589,825)**
Carrying amount as at 31 December 2015	**1,114,430**	**9,825,451**	**45,332**	**39,559**	**2,057,287**	**13,082,059**

	Lands and Buildings	Plant and equipment	Transport vehicles	Fixtures and fittings and other assets	Acquisition costs	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Gross carrying amount:						
Balance as at 1 January 2014	**955,666**	**9,562,116**	**67,715**	**68,113**	**2,008,085**	**12,661,695**
Additions	681	12,397	1,687	572	473,153	488,490
Disposals	(678)	(50,577)	(1,036)	(2,398)	(20,827)	(75,516)
Transfers from acquisition costs	18,824	364,756	1,273	31,481	(416,334)	-
Transfers to intangible assets	-	(7)	-	-	(350)	(357)
Written off carrying value upon revaluation	(37,181)	(643,064)	-	-	-	(680,245)
Revaluation	(4,069)	42,507	-	-	-	38,438
Reversal of impairment recognised previously in profit or loss	22	6	-	-	-	28
Balance as at 31 December 2014	**933,265**	**9,288,134**	**69,639**	**97,768**	**2,043,727**	**12,432,533**
Depreciation:						
Balance as at 1 January 2014	**(75,140)**	**(856,075)**	**(24,530)**	**(54,440)**	**-**	**(1,010,185)**
Depreciation	(31,090)	(497,356)	(6,885)	(1,834)	-	(537,165)
Disposals	9	28,459	842	2,387	-	31,697
Depreciation, written off upon revaluation	37,181	643,064	-	-	-	680,245
Balance as at 31 December 2014	**(69,040)**	**(681,908)**	**(30,573)**	**(53,887)**	**-**	**(835,408)**
Carrying amount as at 31 December 2014	**864,225**	**8,606,226**	**39,066**	**43,881**	**2,043,727**	**11,597,125**

Property, plant and equipment include the Nuclear Power Plant "NPP Kozloduy" EAD, the Thermal Power Plant "TPP Maritsa East 2" EAD, the coal mining facilities "Mini Maritza-Iztok" EAD, highway and transit gas pipelines, the UGS facility "Chiren", owned by "Bulgartransgaz" EAD, as well as the electric power transmission network, the hydropower plants and the PSHPP, owned by NEK EAD, etc.

Acquisition costs
The costs, incurred for the acquisition of property, plant and equipment as at 31 December 2015, primarily relate to:
- Project for the construction of the Nuclear Power Plant "Belene", the "Gorna Arda" cascade - in "NEK" EAD;
- Modernization of the compressor stations and gas pipelines Intersystem Gas Connection Bulgaria - Romania (Ruse - Giurgiu) - in "Bulgartransgaz" EAD;
- Dry storage for consumed nuclear fuel, which will ensure the safe storage of the consumed nuclear fuel from reactors type WWER-440, within the next 50 years. The total capacity of the facility is 5,256 cartridges, which will be placed in containers type CONSTOR 440/84. The storage was completed in 2011. On 28 January 2016, license No. 5016 was issued by the Nuclear Regulatory Agency. The construction of the storage is financed by the International Decommissioning Support Fund, for Units 1-4 of the Nuclear Power Plant "Kozloduy", administered by the European Bank for Reconstruction and Development;
- Activities to extend the useful life of Unit 5 and Unit 6 of "NPP Kozloduy " EAD;
- Engineering, supply, construction and commissioning of internal gas pipeline network and gas regulation points (GRP) for Units 1 - 8 of TPP "Maritsa East 2" EAD;
- Rehabilitation of excavators for coal mining, in "Mini Maritsa-Iztok" EAD;
- Construction of optical cable lines in "BulgarTel" EAD and other projects.

"Belene" nuclear power plant project
Construction under the project for building and construction of the "Belene" Nuclear Power Plant was initiated in 1981. The financing of the project was suspended in 1991.
In May 2004, the Government of the Republic of Bulgaria decided to continue working on the construction of "Belene" Nuclear Power Plant, and on 7 April 2005, in accordance with the requirements of Art. 45 of the Act on the Safe Use of Nuclear Energy, a final decision for the building and construction of the "Belene" Nuclear Power Plant was taken.
On 30 October 2006, "NEK" EAD officially declared the contractor "ZAO Atomstroyexport", with Option A92 to construct two 1,000 MW units with light water reactors on the "Belene" site.
"ZAO Atomstroyexport" and "NEK" EAD signed, on 29 November 2006, in Sofia, an agreement for the construction of the "Belene" Nuclear Power Plant.
The expenses under the project NPP Belene, included within the carrying amount of assets under construction, as at 31 December 2015 amount to BGN 1,305,948 thousand (2014: BGN 1,305,958 thousand). Property, plant and equipment, with carrying amount as at 31 December 2015 of BGN 85,229 thousand (2014: BGN 83,070 thousand) also related to the Belene project.
The activities invoiced by ZAO "Atomstroyexport", related with manufacturing of equipment with a long production cycle, amounting as at 31 December 2015 to BGN 202,522 thousand (2014: BGN 202,522 thousand), are recognised by NEK EAD as off-balance sheet items, as the Company believes that the ownership of the equipment with long production cycle and the related risks and benefits of ownership will be transferred to NEK EAD as soon as the equipment is in the territory of the Republic of Bulgaria.
On 29 March 2012, the Government of the Republic of Bulgaria decided to terminate the construction of the Nuclear Power Plant "Belene". Pursuant to the decision, dated 27 February 2013, the 41st National Assembly supported the decision of the Government to terminate the project for the construction of a new nuclear power plant on the "Belene" site and insisted on its final termination.
Based on the above stated facts, the Company's Management believes that, as at 31 December 2015, there is significant uncertainty regarding the future realization of the project, the recoverable amount of the assets, related with the project for construction of NPP "Belene", as well as the possible cash outflows, which would be due upon the termination of the contractual agreement between NEK EAD and ZAO "Atomstroyexport".
The legal claims, associated with the projects termination, are disclosed under Note 40 Commitments and Contingent Liabilities.

Revaluation of property, plant and equipment
In accordance with the applied accounting policies, property, plant and equipment are revalued at least once in every 3 years. The prior revaluation of property, plant and equipment was conducted in 2012. As at 30 June 2015, the fair value of property, plant and equipment was measured. The valuation was performed in compliance with the requirements of IAS 16 "Property, plant and equipment" and IFRS 13 "Fair value measurement". The revaluation was performed based on their fair value measurements, computed by an independent licences appraiser – "Engineering service Sofia" OOD.

In accordance with IFRS 13 "Fair value Measurement", the probability of a given market participant, to generate economic benefits by using the asset, in order to maximise their value, or through their sale to another market participant, who shall use it in this way, is taken into account when measuring the fair value of non-financial assets. The Group's assets, included in the revaluation review are specific, strictly related to the activities and the

alternative use for most of them is either impossible or hard to accomplish – i.e. a different use of the assets from market participants is unlikely to result in maximization of the assets' value – and hence it is accepted that their current use in the activities maximizes their values.
During this revaluation the following main approaches and valuation methods for measuring fair value of the different categories of property, plant and equipment are applied:

- "Market approach" via the "Market analogues method" – The market price (computed under the comparability method) of lands and buildings, for which there is a real market and observable data for the prices and recent market transactions of similar properties, adjusted by specific factors, such as area, location and current use, is regarded as their fair value.

- "Cost Approach" via the "Depreciable replacement cost method" – lands and construction of special nature

- "Cost Approach" via the "Depreciable replacement cost method" – machinery, plant and equipment. The "Depreciable replacement cost method" is applied because of the special nature, configurations and uniqueness of machines, plants and equipment, owned by the Group and the absence of market evidence and analogues. The carrying amounts of the assets are measured by determining their new carrying amount, as at the valuation date. That carrying amount reflects their acquisition costs, less their physical wear, and their operational and economic impairment, resulting from their use.

- Valuation of specialised transport vehicles – the cost approach and market analogues approach are applied.

Fair value measurement, as at 30 June 2015, is based on observable and non-observable data, adjusted by specific factors, such as area, location and current use. The direct and indirect observable input data, used in the valuation, is subject to adjustments. This is the reason why the applied hypothesis is categorised at 3rd level.

Significant non-observable data relates with adjustments of the specific factors for the Group's assets. The degree and direction of such adjustments depends on the number and the characteristics of the observable market transactions with similar assets, used for the purposes of the valuation. Despite the fact that these data are subjective, the Management believes that the final valuation would not be significantly affected by other possible assumptions.

Impairment review
As at 31 December 2015, in compliance with the requirements of IAS 36 "Impairment of assets", the entity's Management performed an impairment review for property, plant and equipment, together with the licenced appraiser "Engineering service Sofia" OOD.

No indications were identified that the carrying amount of property, plant and equipment exceeds their recoverable amount as a result of the conducted review, with the exception of the assets, associated with the project NPP Belene and some of the assets under construction, associated with other projects.

The effects of the impairment review and the excess of the carrying amount over the recoverable amount of property, plant and equipment, are as follows:

	Lands, improvements on land and buildings	Plant and equipment	Transport vehicles, excluding cars	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*
Excess of the fair value of property, plant and equipment over the carrying amount				
Increase / decrease in the gross carrying amount				
Increased revaluation reserve	304,863	1,477,746	5,794	**1,788,403**
Revenue, presented within the Statement of Profit or loss	1,149	1,370	46	**2,565**
Total	**306,012**	**1,479,116**	**5,840**	**1,790,968**
Excess of the carrying amount of property, plant and equipment over the recoverable amount				
Impairment, decreasing the revaluation reserve under other comprehensive income	(31,868)	(67,449)	(219)	**(99,536)**
Impairment, decreasing the expenses of the current profit or loss	(5,227)	(2,713)	(62)	**(8,002)**
Total	**(37,095)**	**(70,162)**	**(281)**	**(107,538)**
Net result in the Statement of Profit or loss	**(4,078)**	**(1,343)**	**(16)**	**(5,437)**
Net result in other comprehensive income	**272,995**	**1,410,297**	**5,575**	**1,688,867**

Advances under contracts for construction of property, plant and equipment
Advances under contracts for building and construction works on NPP "Belene", and other capital projects amount to BGN 190,708 thousand as at 31 December 2015 (2014: BGN 190,651 thousand), and are included within "Advance payments to suppliers", part of "Trade and other receivables", under Note 21.

Assets declared public state property
As at 31 December 2015, assets declared as public state property in compliance with the Water Act, with a carrying amount of BGN 923,624 thousand (2014: BGN 933,505 thousand) are included in property, plant and equipment. According to the law, legal entities with 100% state ownership or legal assets with combined state and municipal participation, where the majority stake belongs to the State, should manage separately this type of assets. As of the reporting date no specific actions were taken by Bulgarian authorities with regard to the future ownership and use of these assets. Until the future changes on the aforementioned aquaculture facilities are specified, they are managed by the subsidiary NEK EAD, against which the Group generates revenue.

Assets with disputable ownership
NEK EAD
As at 31 December 2015, a procedure for issuing issuing acts for state property is undergoing in respect to land and buildings with a carrying amount of BGN 17,877 thousand (2014: BGN 18,476 thousand).
ESO EAD
As at 31 December 2015, in ESO EAD has certain real estate properties with no documents certifying their ownership. Based on the accounting data, this property owned by ESO EAD has a carrying amount of BGN 6,939 thousand (2014: BGN 7,097 thousand). These properties were transferred from NEK EAD, by virtue of a Decision of BEH EAD, entered in Protocol № 71-2013, for restructuring, registered in the Commercial Registry on 4 February 2014.

Collateral on loans received by NEK EAD
As a collateral for export and commercial loans from ING Bank NV - The Netherlands, NEK EAD provided a mortgage of land and buildings of HPP Studen Klatenets, HPP Ivaylovgrad and HPP Kardzhali (cascade "Dolna Arda") with a carrying value of BGN 18,425 thousand as at 31 December 2015 (2014: BGN 17,245 thousand). All current and future assets, including machinery and equipment, part of cascade "Dolna Arda" are pledged in favour of ING Bank NV.

Assets, related with the Water Power Plant "Tsankov Kamak", with carrying amount as at 31 December 2015 of BGN 103,922 thousand (2014: BGN 104,433 thousand) are placed as collaterals to secure the loans of "NEK" EAD from Bank of Austria Creditanstalt. All current and future facilities, acquired by the subsidiary "NEK" EAD in connection with the construction and operation of the Water Power Plant, diversion channel, high-pressure pipeline, earth-water facility and all other gears, constituting the Water Power Plant "Tsankov Kamak" were placed as mortgages, in favour of the banks, crediting the project. A pledge of the entity Water Power Plant "Tsankov Kamak" is registered and a promissory note is issued in favour of the Bank.

Collateral on loans received by Mini Maritsa Iztok EAD
A collateral of machinery and equipment, with a carrying amount of BGN 7,404 thousand, is placed to secure an investment credit from Commercial Bank D AD, Sofia.

Other disclosures
As a result of the specificity of the accounting records of property, plant and equipment, and the prior period changes thereto, disclosures of the carrying amount of these assets, if they were measured after initial recognition at acquisition cost, requires significant money and time resources. These exceed the benefits, which would be obtained by the users of the consolidated financial statements, had these been disclosed. As a result, the Group's Management has decided not to disclose such information.

19. Intangible assets

	Software	Patents and licences	Other intangibles assets	Development costs	Concession	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Gross carrying amount						
Balance as at 1 January 2015	60,780	14,704	93,880	47,597	3,056	220,017
Additions	922	77	1,547	-	-	2,546
Disposals	(576)	(393)	(64)	(19)	-	(1,052)
Transfers	1,586	1,659	422	-	(94)	3,573
Balance as at 31 December 2015	**62,712**	**16,047**	**95,785**	**47,578**	**2,962**	**225,084**
Amortization						
Balance as at 1 January 2015	(52,978)	(10,030)	(85,965)	(44,139)	(2,798)	(195,910)
Amortization	(3,281)	(1,057)	(1,127)	(1,164)	(81)	(6,710)
Disposals	576	393	37	19	-	1,025
Transfers	(72)	72	(94)	-	92	(2)
Balance as at 31 December 2015	**(55,755)**	**(10,622)**	**(87,149)**	**(45,284)**	**(2,787)**	**(201,597)**
Carrying amount as at 31 December 2015	**6,957**	**5,425**	**8,636**	**2,294**	**175**	**23,487**

Impairment of intangible assets

The Group has performed an impairment review of intangible assets as at 31 December 2015. No indicators were identified that the carrying amount of intangible assets exceed their recoverable amount at that date. As a result, no impairment losses are recognised in the consolidated financial statements.

	Software	Patents and licences	Other intangibles assets	Development costs	Concession	Total
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Gross carrying amount						
Balance as at 1 January 2014	58,852	13,000	93,215	44,766	2,905	212,738
Additions	2,410	3,304	696	2,988	-	9,398
Disposals	(583)	(1,679)	(57)	(157)	-	(2,476)
Transfer from property, plant and equipment	101	79	26	-	151	357
Balance as at 31 December 2014	**60,780**	**14,704**	**93,880**	**47,597**	**3,056**	**220,017**
Amortization						
Balance as at 1 January 2014	(49,442)	(11,083)	(84,888)	(43,186)	(2,742)	(191,341)
Amortization	(4,119)	(626)	(1,119)	(1,110)	(56)	(7,030)
Disposals	583	1,679	42	157	-	2,461
Balance as at 31 December 2014	**(52,978)**	**(10,030)**	**(85,965)**	**(44,139)**	**(2,798)**	**(195,910)**
Carrying amount as at 31 December 2014	**7,802**	**4,674**	**7,915**	**3,458**	**258**	**24,107**

20. Investments in associates, joint ventures and other entities

	Country of incorporation	Share	2015 Amount of investment BGN '000	Share	2014 Amount of investment BGN '000
Joint ventures					
ICGB AD	Bulgaria	50%	15,862	50%	5,803
Nabucco Gas Pipeline International OOD – in process of liquidation	Austria	17.93%	-	17.93%	-
South Stream Bulgaria AD	Bulgaria	50%	213,457	50%	215,611
Transbalkan Electric Power Trading S.A. – NECO S.A.	Greece	50%	2,643	50%	2,457
			231,962		223,871
Associates					
ContourGlobal Maritsa East 3 AD	Bulgaria	27%	95,659	27%	88,713
ContourGlobal Operations Bulgaria AD	Bulgaria	27%	1,388	27%	1,442
ZAD Energy	Bulgaria	48.08%	25,395	48.08%	28,372
POD Allianz Bulgaria AD	Bulgaria	34%	15,481	34%	13,826
HEC "Gorna Arda" AD	Bulgaria	30%	602	30%	828
			138,525		133,181
Total associates and joint ventures			370,487		357,052
Other investments					
Ecologichna Eksploatatsia na Goriva I Energetichni Masla OOD	Bulgaria		3	70%	3
Bultehash OOD	Bulgaria		-	67%	-
Zevs Holding	Bulgaria		2	4%	2
			5		5
			370,492		357,057

ICGB AD
BEH EAD is a partner in the entity "ICGB" AD. The project company shall build a gas interconnection system between Greece and Bulgaria, with capacity up to 3 billion m^3/g., from Komotini to Stara Zagora, with track length of 182 km. The joint venture is expected to construct and own the gas pipeline, and receive revenue from the transmission of natural gas.

Nabucco Gas Pipeline International OOD – in liquidation
BEH EAD is a partner in the entity "Nabucco Gas Pipeline International" OOD – in liquidation, Austria, as of the entity's establishment in 2005. The entity is established for the realization of the "Nabucco" project, namely for constructing a gas pipeline for transmission of natural gas from the Kaspirian region to Europe. In July 2013, the partners decided to terminate the project. As a result, as at 31 December 2015, the investment in the project company was fully impaired and impairment expenses of BGN 52,070 thousand were recognised. In 2015, BGN 1,719 thousand of the investment, was recovered by the project entity (2014: BGN 4,754 thousand). The recovered amounts are presented under "Share in the profits of associates and jointly controlled entities". The project company does not prepare and it does not present any financial statements. This is and the reason why this set of consolidated financial statements do not include any financial information on the assets and liabilities of this entity.

South Stream Bulgaria AD
In June 2014, pursuant to a decision of the Minister of Economy and Energy, an agreement for the receipt of funds from Gazprom EP International BP was concluded. The funds shall be used to finance the participation of BEH EAD in the entity, established for the purposes of the project - "South Stream Bulgaria" AD. The reimbursement of the funds, under the agreement, shall be made only after BEH EAD receives dividends from the entity, established for the purposes of the project. On 11 August 2014, an instalment of BGN 191,009 thousand, representing the

instalment of BEH EAD, was received by the entity. The received funds were used to increase, on 18 August 2014, the capital of the entity, established for the purposes of the project. The capital was increased by the two shareholders – BEH EAD and PAO "Gazprom" by BGN 382,018 thousand. By virtue of a decision, entered in Protocol, in 2014 the Minister of Economy and Energy ordered BEH EAD to take all necessary measures to suspend the assigning of all tender procedures with regard to the "South Stream" project, as well as the conclusion of any contracts, related with its realization, until the procedures of the European Commission against the Republic of Bulgaria – case №2014/2176 – are finalized.
In December 2014, representatives of the Russian shareholder in "South Stream Bulgaria" AD – PAO Gazprom – publically announced their intentions to terminate the project. Until the date on which these Financial Statements were authorised for issue, the Management of BEH EAD has not received any official information of the project' termination or any additional information on the other shareholder's intentions. In 2015, in light of the uncertainties, actions were taken to minimize the entity's expenses and compress the organizational – management structure. Furthermore, actions were taken to settle the relationships under current contracts in order to terminate the activities, until the project's future is determined.

Transbalkan Electric Power Trading S.A. – NECO S.A.
The Group owns 50% of the capital of NECO S.A., a jointly controlled entity with core activities –trade of electricity, as well as construction and reconstruction of thermal power plants.

ContourGlobal Maritsa East 3 AD
Via NEK EAD, the Group owns 27% of the capital in the thermal power plant (TPP) ContourGlobal Maritsa East 3 AD. The entity's core activities relate to the production, supply and sale of electricity and thermal energy.

ContourGlobal Operations Bulgaria AD
Via NEK EAD, the Group owns 27% of the capital in ContourGlobal Operations Bulgaria AD. The entity's core activities relate to the management and maintenance of ContourGlobal Maritsa East 3 AD.

ZAD Energy
The Group owns 48.08% of the capital of ZAD Energy, an entity engaging in insurance activities.

POD Allianz Bulgaria AD
The Group owns 34% of the capital of POD Allianz Bulgaria AD, an entity engaging in pension-insurance activities.

HEC "Gorna Arda" AD
The Group owns 30% of the capital of HEC "Gorna Arda" AD – an entity, registered to perform valuations, structuring and planning activities, requisite for the construction of the "Gorna Arda" cascade, as well as construction of water power plants with total capacity of 160 megawatts, ensuring the financing and the construction of the Gorna Arda cascade and managing the usage rights of the facilities (after obtaining the respective licences and permissions).

At the General Meeting of Shareholders of HEC "Gorna Arda" AD, held on 11 June 2012decided decision was made to increase the entity's capital from BGN 2,330 thousand to BGN 21,888 thousand, by issuing 195,580 ordinary, registered shares with voting rights and a nominal value of BGN 100 each. On 19 June 2012, NEK EAD deposited twenty-five per cent of the newly issued shares, amounting to BGN 1,467 thousand. At the General Meeting of Shareholders, held on 14 December 2015, decided decision was made to decrease the Entity's capital by BGN 19,588 thousand (from BGN 21,888 thousand to BGN 2,330 thousand) by revocation of the 195,580 ordinary, registered shares with voting rights and a nominal value of BGN 100 BGN each, registered by the shareholders during the last capital increase, dated 11 June 2012. The decision to decrease the entity's capital was announced, as presented in the Commercial Register, on 29 December 2015.
The extraordinary General Meeting of Shareholders also decided to transfer the shareholders' contribution at the amount of BGN 4,889,550 from the revoked shares to capital reserves, without any payments from the shareholders.
Ecologichna Eksploatatsia na Goriva i Energetichni Masla OOD
The Group owns 69.90% of the capital of Ecologichna Eksploatatsia na Goriva iEnergetichni Masla OOD. The entity engages mainly in research of material natural energy sources: gas, coal, oil derivatives, their input and operational control and environmental exploitation. As at 31 December 2015, the carrying amount of the investment is BGN 3 thousand BGN (2014: BGN 3 thousand). Ecologichna Eksploatatsia na Goriva i Energetichni Masla OOD does not perform any activities and the partners are in discussion of its termination.
Bultehash OOD
The entity "Bultehash" OOD is in liquidation and the investment is impaired.

Summarized financial information on the associates and joint ventures

The table hereafter presents summarised financial information, based on the financial statements of the Group's associates and joint ventures, as at 31 December of the respective year:

Associates and Joint Ventures **31 December 2015**	ICGB AD	Nabucco Gas Pipeline International	South Stream Bulgaria AD	Transbalkan Electric Power Trading S.A. – NECO S.A.	ContourGlobal Maritsa East 3 EAD	ContourGlobal Operations Bulgaria AD	ZAD Energia	POD Allianz Bulgaria AD	HEC "Gorna Arda" AD	**Total**
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Non-current Assets	7,544	-	37,147	66	726,471	3,731	-	510	1,943	777,412
Current Assets (a)	24,916	-	391,531	13,732	676,642	11,282	116,128	47,525	489	1,271,775
Total Assets	**32,460**	**-**	**428,678**	**13,798**	**1,403,113**	**15,013**	**116,128**	**48,035**	**2,432**	**2,049,187**
Non-current Liabilities (b)	-	-	97	-	565,234	3,633	-	-	-	568,964
Current Liabilities (c)	737	-	1,667	8,512	483,588	6,241	63,309	2,393	427	556,404
Total Liabilities	**737**	**-**	**1,764**	**8,512**	**1,048,822**	**9,874**	**63,309**	**2,393**	**427**	**1,125,368**
a) including cash and cash equivalents	24,751	-	386,856	2,926	69,886	170	7,596	2,557	461	489,083
b) including non-current loans	-	-	-	-	451,262	-	-	-	-	451,262
c) including current loans	-	-	-	-	55,442	-	-	-	-	55,442
Revenue	24	-	-	23,142	559,663	28,970	66,867	31,132	-	709,798
Depreciation expenses	-	-	(209)	-	(79,541)	-	136	(107)	-	(79,857)
Income tax expense	-	-	-	(159)	(12,627)	(583)	(1,783)	(1,834)	-	(16,986)
Profit / (loss) for the year	(418)	-	(4,307)	364	112,605	4,999	17,503	18,261	(755)	148,252
Other comprehensive loss for the year	-	-	-	-	16,119	-	139	-	-	16,258
Total comprehensive income / (loss) for the year	**(418)**	**-**	**(4,307)**	**364**	**128,724**	**4,999**	**17,642**	**18,261**	**(755)**	**164,510**
Share in the profit / (loss) for the year, attributable to the Group	**(209)**	**1,719**	**(2,154)**	**186**	**30,404**	**1,350**	**8,639**	**6,211**	**(226)**	**45,920**
Total Net Assets	31,723	-	426,914	5,286	354,291	5,139	52,819	45,533	2,005	923,819
Share interest of the Group	50%	17.93%	50%	50%	27%	27%	48.08%	34%	30%	-
Carrying amount of the investment	**15,862**	**-**	**213,457**	**2,643**	**95,659**	**1,388**	**25,395**	**15,481**	**602**	**370,487**

Associates and Joint Ventures **31 December 2014**	ICGB AD	Nabucco Gas Pipeline International	South Stream Bulgaria AD	Transbalkan Electric Power Trading S.A. – NECO S.A.	ContourGlobal Maritsa East 3 EAD	ContourGlobal Operations Bulgaria AD	ZAD Energia	POD Allianz Bulgaria AD	HEC "Goma Arda" AD	**Total**
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Non-current Assets	6,149	47	40,248	763	766,861	2,797	30,246	39,835	1,943	888,889
Current Assets (a)	5,670	15,353	397,643	9,903	491,091	10,275	70,829	2,973	1,063	1,004,800
Total Assets	**11,819**	**15,400**	**437,891**	**10,666**	**1,257,952**	**13,072**	**101,075**	**42,808**	**3,006**	**1,893,689**
Non-current Liabilities (b)	-	-	112	-	661,111	2,751	-	-	-	663,974
Current Liabilities (c)	214	12,877	6,558	5,752	268,274	4,981	42,065	2,142	246	343,109
Total Liabilities	**214**	**12,877**	**6,670**	**5,752**	**929,385**	**7,732**	**42,065**	**2,142**	**246**	**1,007,083**
a) including cash and cash equivalents	5,505	2,791	393,140	4,509	26,438	313	6,751	1,755	976	442,178
b) including non-current loan	-	-	22	-	527,750	-	-	-	-	527,772
c) including current loans	-	-	48	-	64,651	-	-	-	-	64,699
Revenue	-	2,641	-	40,906	485,555	28,551	58,484	28,314	-	644,451
Depreciation expenses	-	-	(200)	-	(80,633)	-	(313)	(162)	-	(81,308)
Income tax expense	-	(3)	-	(667)	(12,409)	(573)	(2,454)	(1,495)	-	(17,601)
Profit / (loss) for the year	(180)	2,524	(4,760)	3,366	111,370	5,121	22,649	16,309	(824)	155,575
Other comprehensive loss for the year	-	-	-	-	(9,745)	-	(237)	(22)	-	(10,004)
Total comprehensive income / (loss) for the year	**(180)**	**2,524**	**(4,760)**	**3,366**	**101,625**	**5,121**	**22,412**	**16,287**	**(824)**	**145,571**
Share in the profit / (loss) for the year, attributable to the Group	**(90)**	**4,753**	**(2,380)**	**1,349**	**30,070**	**1,383**	**11,100**	**5,537**	**(391)**	**51,331**
Total Net Assets	11,605	2,523	431,221	4,914	328,567	5,340	59,010	40,666	2,760	886,606
Share interest of the Group	50%	17.93%	50%	50%	27%	27%	48.08%	34%	30%	-
Carrying amount of the investment	**5,803**	**-**	**215,611**	**2,457**	**88,713**	**1,442**	**28,372**	**13,826**	**828**	**357,052**

Investments in associates and joint ventures are carried at the equity method. The date of the Financial Statements of associates and joint ventures is 31 December. All transfers of cash to the Group, as well as all payments of dividends is performed after the approval of at least 51% of all shareholders in the associates.
The presented as at 31 December 2015 data of POD Allianz Bulgaria AD and Transbalkan Electric Power Trading S.A. – NECO S.A. are according to the unaudited financial statements of the respective entities.

21. Trade and other receivables

	Note	2015	2014
		BGN '000	*BGN '000*
Trade receivables, gross		732,868	53,559
Accumulated impairment of trade receivables		(259,143)	-
Trade receivables, net	21.2	**473,725**	**53,559**
Receivables from KTB AD – in liquidation	21.4	137,541	135,239
Accumulated impairment		(22,762)	(1,292)
Receivables from KTB AD – in liquidation, net		**114,779**	**133,947**
financial assets		**588,504**	**187,506**
Advance payments to suppliers		-	8
Prepaid services	21.1	20	39,313
Non-financial assets		**20**	**39,321**
Trade and other receivables – non-current portion		**588,524**	**226,827**
Trade receivables, gross		1,103,711	1,713,827
Accumulated impairment of trade receivables		(8,031)	(306,646)
Trade receivables, net	21.2	**1,095,680**	**1,407,181**
Litigations and claims, gross		293,092	290,732
Accumulated impairment of litigations and claims		(204,568)	(187,675)
Litigations and claims, net		88,524	103,057
Receivables from ZAO Atomstroyexport		7,883	7,883
Interest receivables on overdue payments, gross		-	6,602
Interest receivables on bank deposits		-	16
Other receivables, gross		2,311	34,950
Accumulated impairment of other receivables		(272)	(744)
Other receivables, net		2,039	34,206
Financial assets		**1,194,126**	**1,558,945**
Advances to suppliers		258,638	301,003
Prepaid services	21.1	30,501	96,442
Recoverable taxes		8,962	8,672
Non-financial assets		**298,101**	**406,117**
Trade and other receivables – current portion		**1,492,227**	**1,965,062**
Trade and other receivables		**2,080,751**	**2,191,889**

Trade receivables are not interest bearing and are usually have a maturity of 1 to 30 days.

The movement of accumulated impairment of doubtful receivables and bad debts of trade and other receivables, is as follows:

Impairment of trade and other receivables	2015	2014
	BGN '000	*BGN '000*
On 1 January	**496,357**	**674,338**
Accrued within the year	35,702	18,668
Recovered	(13,880)	(167,023)
Written-off	(23,403)	(29,626)
Total impairment of trade and other receivables	**494,776**	**496,357**

As at 31 December, the aging structure analysis of the trade and other receivables is presented in the table hereafter:

	Not overdue	Over due			Total
		0-180 days	180-360 days	>360 days	
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
31 December 2015					
Trade receivables, gross	1,043,257	147,546	130,176	956,427	**2,277,406**
Impairment	(67,348)	-	-	(427,428)	**(494,776)**
Net	**975,909**	**147,546**	**130,176**	**528,999**	**1,782,630**
31 December 2014					
Trade receivables, gross	963,775	84,273	514,450	680,310	**2,242,808**
Impairment	(271,413)	-	-	(224,944)	**(496,357)**
Net	**692,362**	**84,273**	**514,450**	**455,366**	**1,746,451**

21.1 Prepaid services

As at 31 December 2015, the prepaid services amount to BGN 30,251 thousand. The prepaid services, amounting to BGN 135,755 thousand as at 31 December 2014 include BGN 117,908 thousand of prepaid services of "unpurchased availability" from NEK EAD. These refer to expenses, incurred in the prior price period, relating to the accumulated liabilities of "unpurchased availability" from "AES 3C Maritsa Iztok 1" EOOD and "ContourGlobal Maritsa East 3" AD, which shall be compensated on stages, for the period 1 January 2014 to 30 June 2016, in compliance with the Motives under Decision № C-43/30.12.2013 of EWRC. The expenses are not included as recoverable expenses by Decision Ц-27, dated 31.07.2015 of EWRC for the price period 1 August 2015 – 31 July 2016, and are included in current expenses for the period.

21.2 Receivables from Toplofikatsia Sofia EAD

	2015	2014
	BGN '000	*BGN '000*
Non-current receivables from Toplofikatsia Sofia EAD, gross	538,128	53,491
Impairment	(64,403)	-
Non-current receivables from Toplofikatsia Sofia EAD, net	**473,725**	**53,491**
Current receivables from Toplofikatsia Sofia EAD, gross	154,442	614,880
Impairment	-	(64,403)
Current receivables from Toplofikatsia Sofia EAD, net	154,442	550,477
	628,167	**603,968**

On 11 December 2015, after long negotiations, an agreement was made between "Bulgarian Energy Holding" EAD and "Toplofikatsia" EAD in accordance to which the liabilities of the "Toplofikatsia" EAD to "Bulgarian Energy Holding" EAD are united and novated. The debtor recognises the liabilities of BGN 500,465 thousand in full and unconditionally. The obligations shall be repaid in a twelve-year period, with a five-year grace period and interest on the principal at the amount of 3.25%. The obligations, amounting to BGN 52,311 thousand BGN representing

the difference between the liability recognised by the debtor and the full amount, claimed by the creditor, are disputable and shall be subject to an additional agreement by and between the parties. The agreement stipulates that if a concession contract is signed between Sofia Municipality and a third party, the latter is obliged to pay "BEH" EAD an initial instalment of at least BGN 200,000 thousand within a period of 120 days from the date on which the concession agreement is in force, while the remaining portion shall be paid under terms contracted by the parties. The receivables, included in the agreement as classified as non-current.
The current receivables comprise sales of the entities in the Group to "Toplofikatsia Sofia" EAD.

21.3 Receivables from electric distribution companies

As at 31 December 2015, the Group, through its subsidiary "NEK" EAD, accounts for receivables from electric distribution companies at the amount of BGN 245,618 thousand. The parties are in dispute whether these receivables are payable on the grounds of: Art. 94 of the Energy Act, for the purchase of electric power from RES and highly efficient combined thermal and electric power generation for the period from 5 July 2013 to 31 July 2013 after the amendments of the Energy Act enacted and the extension of the regulatory period until 31 July 2013, as well as on the grounds of the cancellation of the Methodology to compensate for the costs, incurred by the Public Supplier and the end-suppliers which arise from the imposed on them "Obligation to Society" liabilities for purchases of electricity under preferential prices from renewable energy sources and from highly efficient combined thermal and electric power generation, adopted by Decision No117/16.07.2012 of EWRC, in force as of 1 July 2012. By virtue of Decision №TS-12/30.06.2014 of EWRC, the electricity expenses from RES should be recovered within the next 5 regulatory periods, until 30 June 2019, via the price of electricity.
In compliance with Decision №TS-27/31.07.2015 of EWRC, the expenses, incurred by the Public Supplier under the Methodology for green energy for the period from 1 July 2012 to 31 July 2013, shall be compensated by proceeds from the "Energy Security System" Fund. For the price period 1 August 2015 to 31 July 2016 are estimated at BGN 79,500 thousand.
The amount recovered by means of sales revenue realised in the regulatory period 2014 – 31 July 2015, and by part of the revenue, generated in 2015 from proceeds by the Ministry of Energy, in accordance with para. 9 of the State Budget Act, amounts to BGN 107,525 thousand (2014: BGN 34,666 thousand) and is recognised as current expenses and current liabilities to electric distribution companies, in compliance with the provisions of Order № TS-12/30.06.2014 and № TS–27/31.07.2015 of EWRC.

21.4 Receivables from CCB AD – in liquidation

The Group has receivables from Corporate Commercial Bank AD, in liquidation as at 31 December 2015. By virtue of Order №664/22.04.2015 of the Sofia District Court, Corporate Commercial Bank AD (CCB AD) is in liquidation. The claimed receivables are approved and are included in the list of creditors.
Specific circumstances exist related to part of the receivables from CCB AD (in liquidation), amounting to BGN 28,828 thousand, thus imposing the requirement to address the issue whether these receivables should be withdrawn from the list of creditors. Procedural actions are undertaken by the subsidiary "Bulgartransgaz" EAD against CCB AD (in liquidation), and third parties, in respect of these receivables. The Management believes that all facts and circumstances will be taken into account in the forthcoming legal actions, which could result in a positive outcome for the Entity.
As at the date of the Consolidated Financial Statements, the Management determined, on the grounds of Protocol №11-2016 of the Board of Directors of BEH, the effect of uncertainties, with regard to the recoverable amount, available as at the date of the report, namely: an effective decision of the Sofia Administrative Court, by virtue of which CCB AD is declared in liquidation as of 20 June 2014, the unknown amount of the bankruptcy estate, the uncertainty caused by the inaccuracies within the list of creditors, announced by the trustees, as well as taking into account the available information, experiences and practices related with bankruptcy procedures of other significant for the national economy entities declared bankrupt and the subsequent satisfaction of their creditors. Based on this, the Management of BEH EAD has decided that it is reasonable to recognize a partial impairment loss on receivables of the entities in the Group from Corporate Commercial Bank AD - in liquidation during 2015. The impairment amount is set at 20% of the amount of the receivables.

22. Deferred tax assets and deferred tax liabilities

Deferred tax assets / (liabilities)	Balance as at 1 January 2015	Recognised in profit or loss	Recognised in other comprehensive income	Recognised directly in equity	Balance as at 31 December 2015
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment, and intangible assets	(576,518)	17,646	(168,886)	-	(727,758)
Financing	3,435	3,891	-	-	7,326
Unused annual leave	2,237	196	-	-	2,433
Provisions	17,050	7,753	-	-	24,803
Retirement benefits (liabilities related to post-employment benefits)	13,790	(459)	3,046	-	16,377
Outstanding liabilities, related to personnel remuneration	1,678	(233)	-	-	1,445
Available-for-sales financial assets	(2)	-	(5)	-	(7)
Impairment of investments in joint ventures	4,803	(172)	-	-	4,631
Impairment of inventory	2,358	470	-	-	2,828
Impairment of trade and other receivables	30,882	1,497	-	-	32,379
Tax losses	8,034	(1,881)	-	-	6,153
	(492,253)	28,708	(165,845)	-	(629,390)
Recognised as:					
Deferred tax assets	84,267				98,375
Deferred tax liabilities	(576,520)				(727,765)

Deferred tax assets / (liabilities)	Balance as at 1 January 2014	Recognised in profit or loss	Recognised in other comprehensive income	Recognised directly in equity	Balance as at 31 December 2014
	BGN '000	*BGN '000*	*BGN '000*	*BGN '000*	*BGN '000*
Property, plant and equipment and intangible assets	(568,089)	(4,609)	(3,844)	24	(576,518)
Financing	2,548	887	-	-	3,435
Unused annual leave	2,029	208	-	-	2,237
Provisions	8,730	8,320	-	-	17,050
Retirement benefits (liabilities related to post-employment benefits)	12,437	959	395	(1)	13,790
Outstanding liabilities, related to personnel remuneration	1,335	343	-	-	1,678
Available-for-sales financial assets	17	-	(19)	-	(2)
Derivatives	1,114	(1,114)	-	-	-
Impairment of investments in joint ventures	70	4,733	-	-	4,803
Impairment of inventory	3,124	(766)	-	-	2,358
Impairment of trade and other receivables	49,697	(18,815)	-	-	30,882
Tax losses	10,797	(2,763)	-	-	8,034
	(476,191)	(12,617)	(3,468)	23	(492,253)
Recognised as:					
Deferred tax assets	91,898				84,267
Deferred tax liabilities	(568,089)				(576,520)

The amount of income tax, related with each of the elements of other comprehensive income, may be presented as follows:

	2015		
	Before tax	Tax (expense)/ revenue	Net of tax
	BGN '000	*BGN '000*	*BGN '000*
Impairment of property, plant and equipment	1,688,867	(168,886)	1,519,981
Impairment of liabilities under defined benefit plans	(30,449)	3,046	(27,403)
Gains / (losses) on financial assets available-for-sale	47	(5)	42
Share of the other comprehensive income of associates	4,419	-	4,419
Other comprehensive income	**1,662,884**	**(165,845)**	**1,497,039**

	2014		
	Before tax	Tax (expense)/ revenue	Net of tax
	BGN '000	*BGN '000*	*BGN '000*
Impairment of property, plant and equipment	38,438	(3,844)	34,594
Impairment of liabilities under defined benefit plans	(3,943)	395	(3,548)
Losses on financial assets available-for-sale	194	(19)	175
Share of the other comprehensive income of associates	(2,752)	-	(2,752)
Foreign exchange gains / (losses) from translation of foreign activities	(35)	-	(35)
Other comprehensive income	**31,902**	**(3,468)**	**28,434**

The amount of unused tax losses, in respect of which deferred tax assets were not recognised in the Consolidated Financial Statements, amounts to BGN 1,008,052 thousand as at 31 December 2015 (2014: BGN 958,354 thousand) and can be carried forward for tax purposes until 2020 the latest.

23. Inventory

	2015	2014
	BGN 000	*BGN '000*
Natural gas	196,074	240,410
Fuel	158,858	188,125
Spare parts	163,003	168,163
Other raw materials and consumables	70,973	68,130
Goods	208	451
Work in progress, including:		
- loaded, unconsumed, fresh nuclear fuel	82,478	73,563
- lignite coal	33,426	26,880
- other	268	266
Inventory, gross	705,288	765,988
Impairment to net realizable value	(19,847)	(12,106)
Inventory, net of impairment	**685,441**	**753,882**

The available as at the reporting date natural gas mainly comprises of natural gas, stored at UGS "Chiren". Fuel mainly comprises of unloaded, fresh nuclear fuel, diesel and oil fuel.

Impairment to the net realizable value of inventory
The movement of the accumulated impairment of inventory is as follows::

	2015	2014
	BGN '000	*BGN '000*
Balance as at 1 January	(12,106)	(15,217)
Impairment, accrued for the period	(17,990)	(4,797)
Reversed impairment	656	5,332
Written-off inventory	9,593	2,576
Total impairment	**(19,847)**	**(12,106)**

The expenses, incurred for impairment of the Group's inventory, amounting to BGN 17,990 thousand (2014: BGN 4,797 thousand), are included in "Other Operating Expenses" in the Consolidated Statement of Profit or loss for 2015. The Reversed impairment of BGN 656 thousand (2014: BGN 5,332 thousand) is included as a decrease in "Other Operating Expenses".

24.Financial assets available for sale

On 17 December 2007, "Bulgarian Energy Holding" EAD participated in the Initial Public Offering of securities of TRANSGAZ S.A., Romania for increasing the entity's capital, thus acquiring 6,041 shares. A revaluation of the stock exchange price was conducted as at 31 December 2015 and as at 31 December 2014. During the revaluation, the effects of changes in the exchange rate BGN/RON was also taken into account. The fair value of this investment as at 31 December 2015 is BGN 730 thousand (2014: BGN 684 thousand) and is determined based on the issued quotes of prices in active markets. All effects of the revaluation of the investment as at 31 December 2015 are carried as an increase in the revaluation reserve of available-for-sale financial assets and is presented in the consolidated statement of changes in equity, in the "reserve from revaluation to fair value".

25.Cash and short-term deposits

	2015	2014
	BGN '000	*BGN '000*
Cash in bank accounts	731,776	316,444
Cash on hand	416	212
Short-term deposits	100,399	77,805
Restricted cash with special purpose	520	9,844
Total	**833,111**	**404,305**

The cash in bank accounts bear interest at floating interest rates, based on the daily interest rates of the bank deposits. The short-term deposits are with different maturity, depending on the liquidity needs. The Group has placed one-month, three-months and one-year bank deposits as at 31 December 2015.

The amount of cash and cash equivalents, which is restricted for the Group as at 31 December 2015 is BGN 9,063 thousand due to the following reasons:

- BGN 8,543 thousand in connection to legal claims, filed against the Group as at 31 December 2015;
- BGN 370 thousand under current accounts, with special designation in Allianz Bank Bulgaria AD, in respect of a contract with EWRC;
- BGN 150 thousand in special current accounts and serve as a collateral, as per the meaning of Art. 8a of PURDEEM.

26.Loss, from discontinued operations, for the year

On 19 December 2012 the Council of Ministers issued Decision №1138. According to the decision, units 3 and 4 of the nuclear power plant operated by the subsidiary NPP Kozloduy EAD were declared facilities for management of radioactive waste that have to be decommissioned. According to the decision, the property and staff related with the above units were declared private state property, which had to be transferred to the State Enerprise Radioactive Waste ("RAW") by simultaneously reducing and increasing the share capital of NPP Kozloduy EAD by the amount of BGN 25,411 thousand. In 2013 the transfer of assets and staff relating to units 3 and 4 was made to SE "RAW" in accordance with signed bilateral protocols.

The revenue and expense, associated with Unit 3 and Unit 4, are eliminated from Group's financial result from continuing operations and they were presented in a separate line "Loss for the year from discontinued operations" in the consolidated statement of profit or loss.

	2015	2014
	BGN`000	*BGN`000*
Hired services expenses	(15)	(58,515)
Employee benefits expense	-	(17)
Provisions for transportation of the spent nuclear fuel	(29,942)	-
Loss for the year from discontinued operations	**(29,957)**	**(58,532)**

The cash flows arising from the disposal group can be represented as follows:

	2015	2014
	BGN`000	*BGN`000*
Operating activities		
Payments to suppliers	(15)	(28,790)
Payments to the personnel	-	(22)
Net cash flows from discontinued operations	**(15)**	**(28,812)**

27. Share capital and reserves

27.1 Share capital

The registered capital of "Bulgarian Energy Holding" EAD consist of 3,188,168,127 ordinary shares at nominal value of BGN 1 each (2014: 2,948,722,817 shares). The shares of the parent company are ordinary, registered, unprivileged, with voting rights. All ordinary shares are fully paid. Each shares entitles its shareholder to 1 voting right, as well as rights to receive dividends and liquidation shares in the entity's property. The sole shareholder of the capital of the "Bulgarian Energy Holding" EAD is the Republic of Bulgaria, via the Minister of Energy.

The shares issued and authorised during the reporting periods can be presented as follows:

	2015	**2014**
	Number of shares	Number of shares
Number of issued and fully paid shares:		
At the beginning of the year	2,948,722,817	2,612,003,862
Decrease of share capital during the year	-	-
Increase of share capital during the year	239,445,310	336,718,955
Total number of shares, authorised at the end of the year	**3,188,168,127**	**2,948,722,817**

In 2015, by virtue of Protocol №RD-21-4/29.07.2015, issued by the Ministry of Energy, it was decided to increase the share capital of "Bulgarian Energy Holding" EAD by issuing 239,445,310 new ordinary, registered shares with a nominal value of BGN 1 each. The increase of share capital was made via transfer from "Other reserves".

In 2014, by virtue of Protocol № E-RD-21-89/04.09.2014, issued by the Ministry of Economy and Energy, it was decided to increase the share capital of "Bulgarian Energy Holding" EAD, under Art. 197 of the Commercial Act, by issuing 336,718,955 new ordinary, registered shares, each providing 1 voting right and at nominal value of 1 BGN each. The capital increase was funded by the 2014 retained profits.

27.2 Other reserves

The other reserves are formed from profit distributions in accordance with the requirements of the Commercial Act ant the Statutes of the entities in the Group, or by other sources, pursuant to a decision of the sole shareholder. These include legal reserves and general reserves. Legal reserves are put aside until they reach at least 1/10 or more of the amount of the registered capital. The sources of formation of statutory reserves are at least 1/10 of the net profit, issue premiums and funds provided for in the Statutes or in a decision of the sole shareholder. Legal reserves may be used only to cover to cover losses from the current and previous reporting periods. General reserves are formed pursuant to a proposal of the Board of Directors and may be used both to cover prior period loss, as well as for other purposes.

27.3 Fair Value Revaluation Reserves

The reserve from revaluation to fair value is used to recognise the revaluation of financial assets available for sale – shares of Transgas S.A., Romania, (Note 24), as well as the share of the Group in the operating results and the revaluation of financial assets/liabilities, recognised directly in the equity of associates and joint ventures (Note 20).

27.4 Revaluation reserve of non-financial assets

The revaluation reserves are used to reflect the increases in the fair value of property, plant and equipment, and the decreases, to the extent to which such decreases are associated with an increase in the same asset, previously recognised in other comprehensive income. The reserve may be used to cover losses or for dividend distribution, only in limited circumstances.

27.5 Translation of foreign activities reserve

The Group has an established subsidiary in Macedonia. The functional currency of the subsidiary is the Macedonian Denars. The translation reserve is formed as a result of foreign exchange gains and losses as at 31 December 2015.

27.6 Revaluation reserve of defined benefit plants

The reserve from measurement of defined benefit plans includes actuarial gains and losses, arising from the remeasurement of defined benefit plans.

28. Loans and finance lease liabilities

	2015	2014
	BGN`000	*BGN`000*
Non-current portion		
Bond issue	974,137	972,920
Bank loans (i.e. credits)	215,865	305,302
Credit, obtained from EURATOM	147,788	192,038
Finance lease	7	-
	1,337,797	**1,470,260**
Current portion	-	
Bank loans (i.e. credits)	158,953	140,939
Credit, obtained from EURATOM	46,058	46,491
Bank overdrafts	20,000	7,176
Commercial loans	-	7,012
Bond issue	6,119	6,119
Finance lease	13	-
	231,143	**207,737**
	1,568,940	**1,677,997**

The information regarding the major terms and conditions of the loans utilized and finance lease agreements is as follows:

	Interest rate	Maturity	2015	2014
			Thousands of BGN	*Thousands of BGN*
(1) Debenture loan	4.25%	2018	980,256	979,039
(2) Investment commercial credit from EURATOM in EUR	EURIBOR + 0.079% to 0.13%	2017 - 2021	193,846	238,529
(3) Investment loan in Japanese yen	1.49% plus risk premium 0.94%	2018	111,431	135,174
(4) Investment loan in Euro	3 m. OeKB and 4.10%	2020	75,442	94,987
(5) Investment loan in Euro	6 m. EURIBOR + 2.95% and 6.3% and 4.75%	2016 - 2021	49,866	68,393
(6) Investment loan in Euro	from 4.026% to 4.844%	2022	55,061	63,521
(7) Investment and working capital loan	BIR + 3.19%, 6 m. sofibor+4,674% BIR + 1.28%	2016	44,167	49,962
(8) Working capital loan - overdraft	BIR + 2.44%	2015	39,948	10,011
(9) Working capital loan - overdraft	BIR + 2.30%	2015	-	7,667
(10) Financing under contracts for repurchase of natural gas		2015	12,054	7,012
(11) Working capital loan	EURIBOR+5.1%	2015	2,280	5,999
(12) Current loan – working capital	BIR + 5.4%	2014	-	5,000
(13) Investment loan in Euro	1 m. EURIBOR + 2%	2016	3,934	4,507
(14) Investment loan in Euro	6 m. EURIBOR + 1%	2015	-	3,973
(15) Overdraft of up to BGN 20,000	BIR + 2.65%	2015	-	2,176
(16) Investment loan in Euro	1 m. EURIBOR +1.74%	2015	635	1,993
(17) Investment loan in Euro	6 m. EURIBOR + 5.5%	2016	-	54
(18) Finance lease in BGN	7.7% - 8.75%	2015	20	-
			1,568,940	**1,677,997**

(1) On 7 November 2013, the parent company BEH EAD issued bonds at the amount of EUR 500 million, with the following characteristics:

- principal – 500 million euros;
- maturity - 7 November 2018;
- interest is payable once per annum, on 7 November, with the first payment due on 7 November 2014, at annual interest rate of 4.25%;
- ISIN code XS0989152573 of the bond issue, quoted on the Main Securities Market of the Irish Stock Exchange;
- BEH EAD should comply with specific financial indicators and ratios, computed based on the Consolidated Financial Statements: the EBITDA / financial expense on loans ratio should not be less than 4:1

On 7 November 2014, the Group paid the first due interest, amounting to BGN 41,561 thousand, within the contracted under the placed bond issue time frame. On 5 November 2015, the second interest payment, amounting to BGN 41,561 thousand, was paid.

As at 31 December 2015, the Group is in compliance with the requirements to maintain EBITDA/financial expenses ratio, namely the ratio to be not more than 4:1, of the bond issue

(2) Long-term investment loan, of EUR 212,500 thousand (or BGN 415,614 thousand). The loan is secured by a government guarantee in order to finance the modernisation of Unit 5 and Unit 6 at “Kozloduy NPP” EAD. The loan must be repaid until May 2021. The loan agreement provides special restrictive clauses, relating to changes in the ultimate owners of “Kozloduy NPP” EAD, and financial performance indicators related to achieving certain levels of debt and debt coverage ratios.

(3) Long-term investment loan, of JPY 25,106,617 thousand (or BGN 338,603 thousand). The loan is secured by a government guarantee. The loan matures in September 2018 and shall be repaid in two equal instalments of JPY 1,255,331 thousand, per annum.

(4) *Agreement on export credit for financing the construction of HPP "Tsankov Kamak."*. The loan is granted in two tranches – at proportion 10:90 for Tranche A and Tranche B respectively. Each withdrawal from the loaned resources is allocated per this ratio and is redistributed in two tranches. The total amount of the export credit is EUR 100,000 thousand (or BGN 195,583 thousand).

- Tranche A amounts to EUR 10,000 thousand (or BGN 19,558 thousand), at floating quarterly interest rate of OekV in export credits. As at 31 December 2015, this tranche is fully repaid;
- Tranche B amounts to EUR 90,000 thousand (or BGN 176,025 thousand). The interest rate under this tranche is fixed and amounts to 4.10%. The nominal unpaid portion under this tranche as at 31 December 2015, amounts to 39,139 thousand Euros (or BGN 76,550 thousand). The maturity of the loan is until December 2019.

The loan is secured by a mortgage on the property and a pledge of the assets, associated with the HPP "Tsankov Kamak", at carrying amount of BGN 103,922 thousand. As pledge on the entity HPP "Tsankov Kamak" is also entered as a collateral under the loan. A promissory note has been issued. In accordance with the loan agreement, NEK EAD must comply with certain financial conditions, relating to the debt performance (leverage) rations and the interest coverage.

(5) Commercial loans at total amount of EUR 28,351 thousand Euros (BGN 55,449 thousand BGN). The loans are granted to finance the rehabilitation of the "Dolna Arda" cascade. The loans are granted with floating interest rate, computed on the basis of 6 months EURIBOR, plus a margin of 2.95%. The maximum, approved, limit under the three loans is EUR 28,351 thousand (or BGN 55,450 thousand).

- Credit CCA 1. The approved amount is EUR 7,425 thousand (BGN 14,522 thousand. The nominal utilized and unpaid portion under this credit amounts to EUR 1,485 thousand (BGN 2,904 thousand) as at 31 December 2015. The loan shall be repaid in 10 equal, six month instalments, up to December 2016;
- Credit CCA 2. The approved amount is EUR 15,900 thousand (BGN 31,098 thousand). The nominal utilized and unpaid portion under this credit amounts to EUR 3,180 thousand (BGN 6,220 thousand) as at 31 December 2015. The loan shall be repaid in 10 equal, six month instalments, up to December 2016;
- Credit CCA 3. The approved amount is EUR 5,026 thousand (BGN 9,829 thousand). The nominal utilized and unpaid portion under this credit amounts to EUR 1,005 thousand (BGN1,966 thousand) as at 31 December 2015. The loan shall be repaid in 10 equal, six month instalments, up to December 2016.

In October 2006, a contract for export loan was concluded. The loan was obtained for financing the modernization and rehabilitation of the "Dolna Arda" cascade. The loan is provided in two tranches, distributed at 10:90 among Tranche A and Tranche B. The maximum, approved limit, under the export loan, is EUR 42,075 thousand (BGN 82,292 thousand).

- Tranche A amounts to EUR 4,208 thousand (BGN 8,230 thousand), at floating quarterly interest rate of OekV in export credits and margin of 0.45%. As at 31 December 2015, this tranche is fully repaid;
- Tranche B amounts to EUR 37,867 thousand (or BGN 74,062 thousand). The interest rate under this tranche is fixed to 4.75%. The nominal unpaid portion under this tranche as at 31 December 2015, amounts to EUR 21,038 thousand (BGN 41,146 thousand). The loan shall be repaid in 20 equal 6-month instalments, by November 2020.

In favour of ING Bank N.V. – Netherlands, a mortgage has been established on the lands and the buildings at HPP Studen Kladenets, HPP Ivaylovgrad and HPP Kardzhali ("Dolna Arda" cascade), with carrying amount of BGN 18,425 thousand. The loans are secured and also by a pledge on all current and future assets, including plant and equipment, part of the "Dolna Arda" cascade. Promissory notes are issued. Pursuant to the credit agreement, the Group should comply with certain financial covenants related to debt servicing and current assets / current liabilities ratio.

(6) Investment loan, for the amount of EUR 60,000 thousand (BGN 117,345 thousand). The loan is provided to finance the "Energy 2" project. NEK EAD is the ultimate beneficiary under the loan. The loan is guaranteed by the State. The funds, under the loan, are provided in six tranches, each fixed with an interest rate, as follows: Tranche 1 – EUR 10 million, provided on 7 June 2004, at interest rate of 4.69%, Tranche 2 – EUR 7 million, provided on 19 May 2006, at interest rate of 4.285%, Tranche 3 – EUR 6 million, provided on 13 November 2006, at interest rate of 4.026%, Tranche 4 – EUR 13 million, provided on 3 June 2007, at interest rate of 4.844%, Tranche 5 – EUR 18

million, provided on 12 March June 2008, at interest rate of 4.34169%, Tranche 6 – EUR 6 million, provided on 28 October 2008, at interest rate of 4.555%. The principal and interests are paid on 15 June and 15 December. The final instalment is due on 15 June 2022.

(7) Long-term investment loan from "Societe General Expressbank" AD with total amount – BGN 50,000 thousand. The interest rate is the effective basic interest rate of the BNB, plus a margin of 3.19% annually. The loan matures on 20 December 2016 and shall be repaid in equal instalments of BGN 2,083 thousand monthly, at the 20th day of each month, starting from 20 January 2015. The loan is secured with a pledge, dated 9 May 2014, in favour of "Societe General Expressbank" AD on all current and future receivables and belongings under the Agreement for electric power purchases, dated 3 January 2011, concluded between TPP "Maritsa East 2" EAD and NEK EAD, for the amount of the principal, the interest, the penalties and charges, payable by the TPP "Maritsa East 2" EAD to "Societe General Expressbank" AD under the terms of the loan. As at 31 December 2015, the principal amounts to BGN 25,001 thousand, including and the short-term portion of 25,001 thousand BGN.
Long-term investment loan from "Societe General Expressbank" AD with total amount – the equivalent of 794,461,750 Japanese yens and of EUR 736,900 Bulgarian Levs. The loan matures on 20 December 2018 and shall be repaid in 8 equal instalments, due on 20 June and 20 December of each calendar year, for the period 20 June 2015 until 20 December 2018. The repayments shall be performed in Bulgarian Levs. As at 31 December 2015, the principal amounts to BGN 9,838 thousand, including and the short-term portion of BGN 3,276 thousand and a non-current portion of BGN 6,562 thousand. The agreed interest rate is six months SOFIBOR + 4.674%.
A working capital credit line in the form of an overdraft from "Societe General Expressbank" AD, with credit limit of BGN 25,000 thousand. No collaterals are placed to secure this. The applied interest rate is the basic interest rate of the BNB, plus 1.28% margin per annum. The credit line is provided until 4 May 2017. During this period the funds may be utilized and need to be fully repaid on 4 May 2017. All payments shall be performed in Bulgarian Levs. As at 31 December 2015, the utilized funds amount to BGN 9,328 thousand. The same are not repaid.

(8) Working capital loan from "Societe General Expressbank" AD – Varna, dated 18 August 2014. The total credit limit amounts to BGN 20,000 thousand, agreed in September 2015. The interest rate is BIR + 2.44%. The loan must be repaid in 12 months as of the date on which it is concluded. The loan is not secured. As at 31 December 2015, the liabilities, under this loan, amount to BGN 19,906 thousand. As at 31 December 2015, the loan amount is overdue. After the ends of the reporting period, the loan is rescheduled.
"Societe General Expressbank" AD – Varna – working capital credit line, in the form of an overdraft, amounting to BGN 20,000 thousand, concluded in September 2015. The interest rate is BIR + 2.44%. The loan is not secured. The loan must be utilized and fully repaid in 12 months after the date on which it is concluded. As at 31 December 2015, the liabilities, under this loan, amount to BGN 2,042 thousand, of which BGN 20,000 thousand is the principal and BGN 42 thousand is the interest.

(9) Working capital loan, obtained from "United Bulgarian Bank" AD – Sofia, dated 17 November 2014. The total credit limit amounts to BGN 8,000 thousand. The agreed interest rate is BIR + 2.3%. The loan should be fully repaid in 12 months after the date on which it is concluded. The loan is not secured. As at 31 December 2015, the loan is fully repaid.

(10) Financing from repurchase agreements of natural gas amounting to BGN 12,054 thousand (in 2014: BGN 7,012 thousand) represent amounts, received from counterparties with which the Group has signed agreements for the sales of natural gas, with the agreement to buy back the same quantity of gas in the next period at a fixed price. The sold quantities of natural gas are stored in the gas storage in Chiren and the subsidiary Bulgargaz EAD has custody of them.

(11) Working capital loan from "Commercial Bank D" AD – Sofia, dated 21 January 2014. The agreed interest rate – annual interest on the actually utilized credit amounts EURIBOT + 5.10% margin per annum. Plant and equipment, at book value of BGN 7,404 thousand are given as guarantee under the contract. The term for utilizing and repaying the credit amounts – 120 months as of the date on which the contract is signed, with 24-month grace period and repayment in 96 instalments, after the grace period. As at 31 December 2015, the utilized portion amounts to BGN 2,280 thousand. By virtue of an Annex, dated 9 April 2015, the credit limit of the contract is decreased to BGN 2,400 thousand.

(12) Short term working capital loan. The loan is not secured. The loan agreement is concluded in November 2013, with agreed interest rate of BIR + 5.40%. As at 31 December, the loan is fully repaid.

(13) Investment loan of EUR 9,203 thousand (BGN 18,000 thousand). The amounts are designated for the rehabilitation of plant and equipment in coal pit "Troianovo 1" of "Mini Maritsa Iztok" EAD. The loan's principal shall be repaid in 60 monthly instalments, after the grace period. The loan matures in February 2016. The agreed interest rate is one month EURIBOR + 2.0%. Loan's Collateral - pledge on uncovered and prepared to seize stocks

of lignite from the coal pit "Troianovo 1", of up to EUR 15,339 thousand. As at 31 December 2015, the liabilities under this loan amount to BGN 3,934 thousand, representing principal of BGN 3,875 thousand, including overdue principal of BGN 3,218 thousand and interest of BGN 60 thousand.

(14) Investment loan from the European Bank for Reconstruction and Development. The agreed loan amounts to EUR 41,100 thousand (BGN 80,385 thousand). The utilized portion amounts to EUR 40,870 thousand, while the remaining EUR 230 thousand are cancelled. The loan is granted with the purpose of financing the "Project of electrical transmission system – Energy 2". The loan is guaranteed by the State and is fully repaid as at 31 December 2015.

(15) Working capital credit line in the form of an overdraft from United Bulgarian Bank. The credit limit is BGN 20,000 thousand and no collaterals are placed in respect of this loan. The applied interest rate is the basic interest rate of BNB, plus a 2.65% annual margin. The credit line is provided and all liabilities under it should be fully repaid until 05 May 2015. All payments are in Bulgarian Levs. The working capital credit line, in the form of an overdraft, was fully repaid in 2015 and the contract was terminated.

(16) Investment loan of EUR 9,203 thousand (BGN 18,000 thousand). The funds are designated for the rehabilitation of plant and equipment in the mine of "Mini Maritsa Iztok" EAD – coal pit "Troianovo 3". The principal shall be repaid in 60 monthly, annuity instalments, after the 18 month year grace period expires. The deadline for repayment of the loan in July 2015. The contracted interest rate is one month EURIBOR + 1.74%. The contract is not secured. As at 31 December 2015, the liabilities under this loan amount to BGN 635 thousand, representing BGN 633 thousand of principal and BGN 2 thousand interest, the entire amount is overdue.

(17) Long-term investment loan. The contracted loan amount is EUR 9,203 thousand (BGN 18,000 thousand). The amounts are designated for the rehabilitation of plant and equipment at the coal pit "Troianovo 3". The fund must be utilized in 6 months as of the date on which the contract is signed. The principal shall be repaid in 60 monthly annuity instalments, after the 12 month grace period expires. The agreed interest rate is six months EURIBOR + 5.50%. The loan is secured by a pledge on the receivables of "Mini Maritsa Iztok" EAD for coal, sold to "TPP Maritsa East 2" EAD. As at 31 December 2015, the loan is fully repaid.

Loans guaranteed by the state

The loan, provided to "Kozloduy NPP" EAD (2) is guaranteed by the Government of the Republic of Bulgaria. The loan is granted under a project for modernization of Unit 5 and Unit 6 of the NPP Kozloduy and under a project, related with the radioactive control system of "Kozloduy NPP" EAD, as well as the computer IT systems of the central. The granted to NEK EAD, as ultimate beneficiary, loan (6), amounting to EUR 60 million, with maturity 15 June 2022 for financing the project "Rehabilitation in the Electrical Power – Energy 2" is secured guaranteed by the Government of the Republic of Bulgaria.

The Group cannot estimate the effect of agreed interest rate and whether this guarantee would have a material effect on the fair value at that date.

In respect of the loans with state guarantees as at 31 December 2015, the Group is unable to assess the effect of the state guarantee provided on the contractual interest rates and whether such guarantee would have material impact on their fair values at that date.

Unutilized loans

As at 31 December 2014, the Group, via its subsidiary "TPP Maritsa East 2" EAD has an unutilized investment loan totalling the equivalent of JPY of 794,461,750 and EUR 736,900. The loan is intended to be used only after the occurrence of valid conditions for payment under irrevocable accreditation letters, in Japanese yen and euro, established in favour of Toshiba International (Europe) LTD, under the contract for implementation of an investment project "Rehabilitation of Unit 5 and Unit 7 in "TPP Maritsa East 2" EAD". The loan was fully utilized in January 2015, at the amount of BGN 13,206 thousand.

As at 31 December 2015, the Group has an unutilized limit, under granted overdrafts, amounting to BGN 15,672 thousand BGN.

29. Deferred financing

	2015	2014
	BGN`000	*BGN`000*
Non-current portion	359,734	318,825
Current portion	10,288	7,953
	370,022	**326,778**

	2015	2014
	BGN`000	*BGN`000*
On 1 January	326,778	310,114
Granted during the year	57,712	31,099
Granted during the year from Security of the electricity system fund	183,200	-
Recognised in profit or loss:		
– as a result of continuing operations (Note 8)	(197,668)	(8,874)
Deducted advances	-	(5,561)
On 31 December	**370,022**	**326,778**

The findings related to the following projects:

Financing, under the "ISPA" programme for the construction of gas desulphurisation installations for Unit 5 and Unit 6. The assets are constructed and put in operation. The balance of the funding, as at 31 December 2015, includes the carrying amount of the assets, amounting to BGN 14,396 thousand (in 2014: BGN 15,858 thousand);
Financing by the "Kozloduy International Decommissioning Support Fund" (KIDSF) for construction of dewatering of gypsum. The assets are constructed and put into operation. The balance of the funding, as at 31 December 2015, includes the carrying amount of the assets, amounting to BGN 26 015 thousand BGN (in 2014: BGN 27 718 thousand);
Financing by the "Energy Resources" Fund for the building of an ash pond. The assets are constructed and put in use. The balance of the funding, as at December 2015, includes the book value of the assets, amounting to BGN 3 080 thousand (in 2014: BGN 3 274 thousand);
Financing under the PHARE programme, for construction of gas desulphurization installation to Unit 8. The assets are constructed and put in operation. The balance of the funding, as at 31 December 2015, includes the carrying amount of the assets, amounting to BGN 37 thousand (in 2014: BGN 61 thousand);
Financing for fixed assets (currently amounting to BGN 20,000 thousand as at 31 December 2015 (in 2014: BGN 20 919 thousand), related to KIDSF. The European Bank for Reconstruction and Development is the administrator of the funds in the KIDSF and the management of their utilization is carried out by the Ministry of Energy. The funding is associated with the rehabilitation of energy efficiency of heavy industrial mining equipment of the subsidiary "Mini Maritsa-Iztok" EAD (MMI-EAD). The total financing amounts to EUR 30,150 thousand. So far, five contracts have been concluded with contractors, of which two had been completed and the assets are brought into operation, under the third contract for the design, commissioning, construction, start-up and testing of equipment the criteria are met. Guarantee tests on assets are forthcoming. The two remaining contracts are at an early stage of implementation;
Financing in respect of modernization CS Kardam 1, amounting to BGN 1,271 thousand (2014: BGN 301 thousand) and CS Kardam 2, amounting to BGN 2,109 thousand (in 2014: BGN 130 thousand) and the gas pipeline interconnection Ruse-Giurgiu, amounting to BGN 2,567 thousand (in 2014: BGN 2,567 thousand) and gas pipeline interconnection Dobrich –Silistra, amounting to BGN 16 320 thousand BGN (in 2014: BGN 15 150 thousand), etc.;
Financing for ongoing research carried out "Kozloduy NPP" EAD. The financing is obtained from the European Bank for Reconstruction and Development (EBRD). Financing under an advisory contract with consortium EDF/BNFL, for a total amount of BGN 191,736 thousand (in 2014: BGN 192,193 thousand);
Funding under the PHARE programme, "Energy Resources Fund", the Swiss Government and Kozloduy International Decommissioning Support Fund to rehabilitate of hydro-power plants, electricity network and other assets, in the amount of 12,268 thousand BGN (in 2014: 8,662 thousand BGN).

As at the date on which the consolidated financial statements were approved for issued, there were no outstanding conditions, relating to these financings.

30. Liabilities for retirement employee benefits

In accordance with the Bulgarian labour legislation and the collective labour contracts in the entities of the Group, the Group is obliged to pay personnel a number of monthly gross monthly salaries, upon retirements, depending on their years of services in the entity. The defined benefit plan upon retirement is not fixed.

	2015	2014
	BGN`000	*BGN`000*
Non-current portion	137,231	113,712
Current portion	26,531	23,976
The present portion of the liabilities, related to retirement (post-employment) benefits:	**163,762**	**137,688**

The changes in the provisions for impairment on retirement, in compliance with the Labour Code, within the year, are presented hereafter:

	2015	2014
	BGN`000	*BGN`000*
Liabilities, related to the retirement (post-employment) benefits in the beginning of the year	137,688	124,119
Current service costs	16,022	15,757
Past service costs	(3,351)	11,197
Interest expense	5,576	4,898
Benefits paid	(23,887)	(22,226)
Actuarial gains/losses	31,714	3,943
Liabilities for retirement employee benefits at the end of the year	**163,762**	**137,688**

The main assumptions used to determine the liabilities with regards to the retirement (post-employment) benefits, are presented hereafter:

		2015	2014
		BGN`000	*BGN`000*
Discounting rate		2.8% - 4%	3.8% - 4%
Future increase in remunerations		0% - 3%	0% - 3%
Personnel's turnover:	18-30 years old	4% - 16%	5% - 16%
	31-40 years old	3% - 8%	3% - 8%
	41-50 years old	1% - 5%	2% - 5%
	51-60 years old	1%	1%
	Over 60 years old	0%	0%

The Group's Management has made these assumptions with the help of independent appraisal actuarial. These assumptions are used in determining the amount of liabilities, related with retirement (post-employment) benefits, for the reporting periods, and are consider as the Management's best estimate.

The total amount of expenses, incurred under defined benefit plants in the Group, recognised in profit or loss, may be presented as follows:

	2015	2014
	BGN`000	*BGN`000*
Current service costs	(16,022)	(15,757)
Past service costs	3,351	(11,197)
Interest expenses	(5,576)	(4,898)
Actuarial gains/losses, recognised in profit or loss	(1,262)	-
Total expense, recognised in profit or loss	**(19,509)**	**(31,852)**

The total expenses, incurred under defined benefit plants in the Group, recognised in other comprehensive income, may be presented as follows:

	2015	2014
	BGN`000	*BGN`000*
Remeasurement of the liabilities under defined benefit plans – actuarial loss, including:		
- *Losses, incurred as a result of changes in the demographical assumptions*	(5,541)	(506)
- *Losses, incurred as a result of changes in the financial assumptions*	(24,028)	(3,316)
- *Losses, incurred in the actual course of activities (actual experience)*	(880)	(121)
Total expenses recognised in other comprehensive income	**(30,449)**	**(3,943)**

The significant actuarial assumptions for the determination the amount of liabilities under defined benefit plans, relate with the discount rate and the estimated increase in the salaries and wages. The table hereafter presents a sensitivity analysis and summarises the effects of changes of these actuarial assumptions on the liabilities, under defined benefit plans, as at 31 December 2015:

	2015	
	Increase by 1%	Decrease by 1%
	BGN`000	*BGN`000*
Change in the interest rates	(17 466)	18 833
Increase in the salaries and wages	26 146	(23 628)

The sensitivity analysis is based on change only in two of the used assumptions. The analysis may differ from the actual change in the liabilities, under defined benefit plans, as changes in the assumptions are often interrelated. The plan exposes the Group to actuarial risks, such as the interest risk, the risk of changes in life expectancy and the inflation risk:

- Interest risk – the present value of the liabilities, under defined benefit plans is computed at a discount rate, determined by reference to market yields of the Government securities. A decrease in market yield on high quality government bonds will increase the Group's liabilities for retirement employee benefits.
- Risk of change in life expectancy – an increase in life expectancy of employees would increase the liabilities for retirement employee benefits.
- Inflation risk – increase in inflation would increase the liabilities for retirement employee benefits.

31. Provisions

	2015	2014
	BGN`000	*BGN`000*
Non-current portion		
Provisions for recultivation	105,035	87,763
Provisions for environmental protection	81	110
	105,116	**87,873**
Current portion		
Provisions for exceeding the greenhouse gas emissions allowances	111,176	85,712
Provisions for environmental protection	208	545
Provisions for recultivation	1,193	966
Provisions for consumer nuclear fuel	29,942	
Other provisions	17,166	20,970
	159,685	**108,193**
	264,801	**196,066**

	Provisions for environmental protection	Provisions for recultivation	Provisions for exceeding the greenhouse emissions allowances	Provisions for consumed nuclear fuel	Provisions for legal claims and other provisions	Total
	BGN`000	*BGN`000*	*BGN`000*	*BGN`000*	*BGN`000*	*BGN`000*
					-	-
Balance as at 1 January 2014	73	79,767	10,976	-	22,065	112,881
Accrued	119	8,967	74,736	-	-	83,822
Utilized	(11)	(5)		-	(621)	(637)
Balance as at 31 December 2014	**181**	**88,729**	**(85,712)**	**-**	**21,444**	**196,066**
Accrued	114	17,499	42,742	29,942	(4,348)	85,949
Utilized	(6)	-	(17,278)	-	70	(17,214)
Balance as at 31 December 2015	**289**	**106,228**	**111,176**	**29,942**	**17,166**	**264,801**

Cost of greenhouse gas emission allowances and provisions

	2015	2014
	BGN`000	*BGN`000*
Cost of purchase of greenhouse gas emissions	(128,812)	(35,979)
Recognised provisions	(56,007)	(83,822)
	(184,819)	**(119,801)**

Provision for environmental protection
As at the reporting date, provisions for environment protections are recognised. These relate to expenses, estimated to be incurred in respect of the disposal of fluorescent and other mercury-containing lamps, the disposal and recycling of batteries, the disposal, recycling and replacement of condensing batteries, containing PCBs, with new ones, and utilization of bleaching soil, used in the base of the oil regeneration processes.

Provisions for recultivation
In determining provisions for recultivation of "Mini Maritza Iztok" EAD the following have been taken into account: the current environmental law, the forthcoming lands' seizure, the seized non-recultivated land, the value of rehabilitation of 1 decare of land, as well as the estimated quantities of coal reserves until 2043, when the concession for the coal mining, to "Mini Maritsa-Iztok" EAD expires.

The amount of the accrued as at 31 December 2015 provisions of BGN 101,261 thousand (in 2014: BGN 83,933 thousand), is computed based on the following data:

	2015	2014
Lignite extracted (thousands of BGN)	32,324	27,560
Recultivation expense (BGN / ton of production)	0.15	0.13
Recultivated in the period lands (decares)	-	71

Provisions for recultivation of destructed, from desulphurization installations, terrains for gypsum disposals

In accordance with Regulation No. 26, relating to the recultivation of damaged terrains, the improvement of low-fertility lands, removal and utilization of the humus layer, the Group has an obligation to carry out technical and biological recultivation of a landfill, following its filling with gypsum from desulphurization installations. Based on the capacity of the landfill and the disposed amount of plaster, it is expected that the landfill will be filled in up to 5 years. The value of the technical and biological recultivation, under the project, amounts to BGN 5,488 thousand. In accordance with IAS 16 “Property, plant and equipment”, pt. 17 (c), the cost of property, plant and equipment includes the initial estimate of the expected cost to recover the site (terrain’ recultivation), where the asset was located, after being withdrawn from use.
The liability for these expenses is treated as provisions and is recognized in compliance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”. This present discounted value of the provision is capitalized to the value of the facility (ash pond) and shall be recognized each year as depreciation. As at 31 December 2013, the present value of the provision is computed in the amount of BGN 4,607 thousand, using a 3.56% discounting rate. Discounting rates are determined at the end of each year, by comparing them to the interest rates for long-term government securities. The effective interest rate of 3.56 % is used for the purpose of discounting. The effective interest rate is based on the yield of the issued long-term government securities (with a 10-year maturity). The remaining portion of recultivation cost, amounting to BGN 881 thousand, shall be disclosed each year as interest expense and a corresponding increase of the liability. The interests expense, related to the provision, amount to BGN 171 thousand as at 31 December 2015 (in 2014: BGN 165 thousand).
As at 31 December 2015, the best estimate of the necessary provision of recultivation of the landfill, amounts to BGN 4,967 thousand (in 2014: BGN 4,796 thousand).

Provisions for exceeding the greenhouse gas emissions allowances

Directive 2009/29/EC, amending Directive 2003/87/EC (the so-called Directive for the European Union Emissions Trading System), introduces the concept of a community, harmonized approach with regards to the allocation of allowances in the third phase of the European trading system for greenhouse gas emissions quotas (ETS), beginning as of 2013 and until 2020. During this period, the general rule provides for full auctioning of allowances for production of an electrical and transitional free allocation of allowances to other industries. This Directive defines and the exceptions in Member States, which have met certain conditions of temporary limited exemptions (derogation) under Article 10c — transitional allocation of free of charge allowances in connection with the modernisation of electricity generation. The total quantity of the transitionally allocated free of charge allowances in 2013 will apply at maximum 70 % of the average annual quantity of established emissions, in the period 2005 – 2007. And that total quantity will gradually decline so that in 2020 there will be no allocation of any free allowances.
The Republic of Bulgaria has availed itself of its right and has submitted an application in accordance with Article 10c of the Directive, which by Decision C(2012)4560, dated 6 July 2012, of the European Commission, the European Parliament and the Council on Transitional Free Allocation of Allowances, was found to be compatible with Article 10c of the Directive.
“TPP Maritsa East 2” EAD is included in the draft NIP and looks forward to receiving free of charge part of the quantities of greenhouse gas emission allowances - a total of 15 727 524 tons for the period 2013-2020, which represents about 30 % of the emitted quantities by the plant.
In accordance with the allocation of the provided quantities of greenhouse gas emissions for each year they are as follows:

Period	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
Quantity of allowances	3 931 881	3 370 184	2 808 486	2 246 789	1 685 092	1 123 395	561 697	**15 727 524**

As at 31 December 2015, the Group had reported provisions for shortage of greenhouse gas emission allowances of 5 593 254 t/CO2, at an amount of BGN 68,433,737.18. 650 024 t/CO2, at an amount of BGN 7,543,932.97 are requested but undelivered as at 22 March 2016 quantities. The value of the same is computed based on exchange

prices for allowances, as at the respective date of the request, increased by the agreed margin, according to a concluded contract to supply allowances. The undeclared quantity of GHG, amounts 4 943 230 t/CO2 and BGN 60,889,804.21 BGN, calculated at the average stock exchange price of allowances for March 2016, as quoted on the InterContinental Exchange (ICE) (with a margin), in compliance to the concluded contract to supply allowances. The quantity of shortfalls is the difference between the actually emitted and verified quantities issued free of charge under the NIP and the purchased quantities in 2015 available at the accounts of the Group in the National Register, as at 22 March 2016.
As at 31 December 2014, the Group had reported provisions for shortage of greenhouse gas emission allowances of 5 490 058 t/CO2, at an amount of BGN 77,847,746, calculated on stock prices of allowances as to 31 December 2014 of ICE-ECX European Emissions (7,25 Euro / ton). The quantity of shortfalls is the difference between the actually issued and verified quantities, and the grants under the NIP and other available, at the account of the Group in the National Register, as at 31 December 2014 quantities of allowances purchased in 2014.

Provisions for carbon emissions
The Group recognizes provisions for carbon emissions, under the terms of long-term agreements with “AES 3C Maritsa Iztok 1” EOOD and “ContourGlobal Maritsa East 3” AD. As of the date of the statement of financial position provisions of carbon emissions amounting to BGN 42,742 thousand relating to 2015 are recognized.

Other Provisions

As at 31 December 2015, ESO EAD has recognized provisions of BGN 11,923 thousand, representing allocated to RES access funds, under a disputable pricing decision TS-33 of EWRC.

As at the reporting date, the subsidiary NEK EAD, has recognized provisions of BGN 5,106 thousand BGN, representing principal and interest, under a disputable of an established liability, under tax audit reports to the NRA.

As of 31 December 2015, the subsidiary “Mini Maritza – Iztok” EAD has recognised provisions for legal claims, amounting to BGN 132 thousand.

32. Deferred income

As at 31 December 2015, deferred income amounts to BGN 132,537 thousand (in 2014: BGN 80,415 thousand), of which

- BGN 129,304 thousand (2014: BGN 76,403 thousand) is income, generated under Regulation 714/2009 of the European Parliament of the subsidiary ESO EAD. In accordance with Art. 16, point 6, from the Regulation, all income, generated under distributed electric power distribution system are used for guarantying the actual availability of allocated capacities and / or maintenance of system capacities, through network investments, especially in new electric power distribution system;
- BGN 2,157 thousand (2014: BGN 2,334 thousand) represent prepaid expenses from clients of “BulgarTel” EAD under long term contracts for provided inalienable rights to use optical fibre;
- 307 thousand BGN (in 2014: 501 thousand BGN) represent rent for electric power substation;
  31 December 2015 – BGN 769 thousand (2014: BGN 1,177 thousand) represent other current income for the period.

33. Trade and other liabilities

	2015	2014
	BGN`000	*BGN`000*
Non-current		
Trade liabilities	46,711	15,778
Retained guarantees	1,754	35,649
Amounts received for project work	190,078	190,120
Financial liabilities	**238,543**	**241,547**
Current		
Trade payables	1,379,018	1,438,620
Deposits obtained	9,304	5,901
Retained guarantees	45,270	17,364
Insurance liabilities	599	3,505
Other payables	12,097	14,156
Financial liabilities	**1,446,288**	**1,479,546**
Advance payables	63,811	163,346
Liabilities to SES Fund	19,567	
Payables to the personnel	62,366	73,206
Social security payables	23,219	13,200
Payables to the state budget	199,839	145,429
Obligations for contributions to Nuclear Facilities Decommissioning Fund and Radioactive Waste Fund	11,925	8,333
Other payables	18,689	10,568
Non-financial liabilities	**399,416**	**414,082**
	1,845,704	**1,893,628**

The terms and conditions of the above quoted trade and other payables are as follows:
- The trade payables are not interest bearing and are usually settled within ten to thirty days;
- The tax liabilities are not interest bearing and are usually settled with the statutory deadline;
- The other liabilities are not interest bearing and are usually settled within ten days;
- In accordance with contracts with subcontractors, related with investment projects, the Group retains certain amounts as guarantees for the quality execution of building and construction works (performance guarantees). The retained amounts are determined as a percentage of the invoiced building and construction works. The retained amounts are interest-free. The retained amounts should be paid in accordance with contractual relations with subcontractors.

Non-current trade liabilities include liabilities, amounting to BGN 11,571 thousand as at 31 December 2015 (in 2014: BGN 15,633 thousand) that represent liabilities to thermal power plants, related to payments for carbon emissions under the Derogation for 2013, in compliance with the long-term contract for electric power purchases from the subsidiary NEK EAD.

The amounts, received with regards to the Group's project activities, amounting to BGN 190,120 thousand, are used in 2014 to increase the capital of the joint venture – "South Stream Bulgaria" AD (Note 20).

The entity reports liabilities to electrical supply companies, amounting to BGN 89,665 thousand (as at 31.12.2014: BGN 34,666 thousand), computed on the basis of the recovered liabilities in 2015, through the sales revenue realized in the regulatory period 2014 – 31 July 2015, through part of the income from proceeds from the Ministry of Energy, in compliance with par. 9 of the State Budget Act, non-compensated expenses arising from public service obligations in the period 1 July 2012 – 31 July 2013 which are in compliance with decision № C-12/30.06.2014 of EWRC on the basis of which the costs of electricity from renewable energy sources should be recovered within the next 5 regulatory periods until 30 June 2019.

As at 31 December 2015, the current liabilities to thermal power plants, amounting to BGN 12,787 thousand, mainly arise from cession contracts, of these entities to First Investment Bank AD, and the respective liabilities, amounting to BGN 2,782 thousand to Investbank AD. As at the date of issue of this Financial Statements, these liabilities are repaid.

34. Financial derivatives

The Group uses forward contracts to minimize the risk arising from the increase in the prices of greenhouse gas emission allowances. The financial instrument represents a forward contract, concluded on 11 December 2012, for the purchase of 6,958,738 tons of EUA allowances for the period 15 March 2013 to 15 April 2014, at fixed price for the entire contract period. By 15 April 2014 1,431, 580 tons of EUA allowances were delivered. The forward contract for purchase of greenhouse gas emission allowances was executed and the derivative financial instrument were closed. In 2014 profit of BGN 11,144 thousand are recognised in "Financial income" in (Note 14) the consolidated statement of profit or loss.

35. Related party disclosures

The related parties in the Group include the sole shareholder, represented by the Ministry of Energy, the associated and joint ventures, the key Management personnel, as well as all entities from the public sector that are under the joint control of Ministries and the Council of Ministers of the Republic of Bulgaria. Information on the name, country of incorporation, shares and voting rights for each subsidiary, included in the Consolidation, is provided under Note 1. Information on each associates' name, country of incorporation, share and voting rights, is provided under Note 20. Other related parties of the Group, with which significant to the total (amount for the period) transactions are concluded, are the State controlled entities Bulgarian State Railway (BDZH), the National Company "Railway infrastructure", "Terem – KRZ Flotski Arsenal" EOOD, "Minproekt" EAD, "Water and Sanitation", National Police Department, Bulgarian Post EAD, VMZ EAD – Sopot.
The total amount of transactions with related parties and the balances of those for the current and the prior reporting period are presented hereafter:

		Sales to related parties, including dividends	Purchases from related parties, including dividends	Trade receivables from related parties	Trade liabilities to related parties
		BGN`000	*BGN`000*	*BGN`000*	*BGN`000*
Sole shareholder					
Ministry of Energy	2015	-	22 720	-	53 227
Ministry of Energy	2014	-	34 754	-	27 801
Joint ventures					
Transbalkan Electric Power Trading S.A. – NECO S.A.	2015	14 768	-	-	-
Transbalkan Electric Power Trading S.A. – NECO S.A.	2014	34 131	-	2 059	8
South Stream AD	2015	-	-	1	-
South Stream AD	2014	-	-	1	-
Associates					
ContourGlobal Maritsa East 3 AD	2015	176 601	500 680	254 400	527 867
ContourGlobal Maritsa East 3 AD	2014	35 586	579 634	121 806	389 222
ConturGlobal Operations Bulgaria AD	2015	1 466	-	-	-
ConturGlobal Operations Bulgaria AD	2014	1 413	-	-	-
POD Allianz Bulgaria AD	2015	4 557	1 034	-	81
POD Allianz Bulgaria AD	2014	3 741	1 088	-	88
IJSC (ZAD) Energy	2015	11 426	20 936	2 493	26 177
IJSC (ZAD) Energy	2014	12 861	33 037	1	10 454
HEC Gorna Arda AD	2015	-	-	269	-
HEC Gorna Arda AD	2014	-	-	133	-
Other related parties under common control					
State owned companies under the control of the Council of Ministers of Republic of Bulgaria	2015	15 203	1 648	7 079	817
State owned companies under the control of the Council of Ministers of Republic of Bulgaria	2014	14 463	2 067	8 589	750
Related party receivables / payables	2015			**264 242**	**608 169**
Related party receivables / payables	2014			**132 589**	**428 323**

Terms and conditions of the transactions with related parties

The purchase from and sales to relate parties are conducted under conditions regulated from the sole shareholder. Balances outstanding at the year-end are not secured, not interest-bearing (except loans and those disclosed below) and their settlement is in cash. A review for impairment is carried out at the end of each financial year based on analysis of the financial position of the related party and the market in which it operates.

Key management remuneration

	2015	2014
	BGN`000	*BGN`000*
Remuneration	1,688	1,394
Social security contributions	171	137
Social costs	50	62
Expenses for unused leave	-	26
Severance agreement allowances	3	-
	1,912	**1,619**

36. Categories of financial assets and financial liabilities

The carrying amount of the Group's financial assets and financial liabilities, can be presented in the following categories:

Financial assets	Notes	2015	2014
		BGN`000	*BGN`000*
Non-current financial assets			
Loans and receivables:			
Trade and other receivables	21	588,504	187,506
		588,504	**187,506**
Current financial assets			
Financial assets available-for-sales – shares	24	730	684
Loans and receivables:			
Trade and other receivables	21	1,194,126	1,558,945
Related party receivables	35	264,242	132,589
Cash and short-term deposits	25	833,111	404,305
		2,292,209	**2,096,523**
		2,880,713	**2,284,029**
Financial liabilities			
Non-current financial liabilities			
Financial Liabilities at amortised costs			
Loans and finance lease liabilities	28	1,337,797	1,470,260
Trade and other payables	33	238,543	241,547
Related party payables	35	16,267	21,976
		1,592,607	**1,733,783**
Current financial liabilities			
Financial Liabilities at amortised costs			
Loans and finance lease liabilities	28	231,143	207,737
Trade and other payables	33	1,446,288	1,479,546
Related party payables	35	591,902	406,347
		2,269,333	**2,093,630**
		3,861,940	**3,827,413**

See Note 4.17 for more information on the accounting policies, applied in respect of each category of financial instruments. Description of the policies of the Group for risk management of financial instruments is disclosed under Note 37. The methods, issued in the evaluation of fair value of financial assets and financial liabilities, carried at fair values, are disclosed under Note 38.

37. Financial risk management – purpose and policies

The Group's financial assets consist of trade receivables, cash and short-term deposits, which arise directly from its operations.

The Group's financial liabilities include bond issue, loans and trade payables. The main purpose of the loans is to provide financing of the Group.

As at 31 December 2015 and as at 31 December 2014 does not hold and does not trade with derivative financial instruments. As at 31 December 2013, the Group holds derivative financial instruments at carrying amount of BGN 11,144 thousand.

The main risks arising from Group's financial instruments are liquidity, foreign currency exchange, credit and regulatory risks. Current risks are identified, measured and monitored through various control mechanisms in order to establish adequate prices for the services offered by the Group, as well as to appropriately assess the market conditions for the investments and the forms for maintenance of free liquid funds preventing undue concentration of other risks. Risk management of the Group is currently performed by management and the respective structural units, depending on the type and characteristics of the various types of risks to which the Group is exposed in its operations. The policy that the Group applies to manage these risks is summarized below.

37.1 Liquidity risk

Liquidity risk is the risk that the Group does not fulfil its obligations as they fall due. The Group applies a method, ensuring that the necessary resources exist to meet its obligations under both normal and stressed conditions, without incurring unacceptable losses.

One of the goals of the parent is to provide, where necessary, cash resources to the subsidiaries in order to maintain their operations, but also to undertake strategic projects.

The parent finances the operations of the subsidiaries within the group in two ways:

- Internal financing within the economic group, through the reallocation of available cash resources. Bulgarian Energy Holding EAD acts as an intermediary between companies, coordinating the terms between them and monitoring that transactions are carried out at market rates.

  The interest rates, applied to cash loans and deposits are based on market levels. The interest rates on cash loans and deposits in foreign currencies are tied to the market rates, prevailing for similar types of transactions during the period of the transactions (fixed or floating).

- External financing – when there is shortage of cash within the group, "Bulgarian Energy Holding" EAD can obtain external financing. This is the preferred way of raising funds for the implementation of investment projects. On 7 November 2013 the pared successfully issued a bond on the Irish Stock Exchange for the principal amount of EUR 500,000 thousand, a five-year maturity (November 2018), and an annual coupon payment of 4.250%.

As at 31 December, the maturity structure of the Group's financial liabilities, based on the contracted non-discounted payments, including trade liabilities, retained guaranteed, liabilities to the "Nuclear Facilities decommissioning" Fund and the "Radioactive waste" Fund and other liabilities, is presented hereafter:

As at 31 December 2015	Book value	Contracted cash flows	6 months or sooner	6 - 12 months	1 - 5 years	Over 5 years
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Loans	1,568,940	1,728,020	127,093	144,376	1,431,901	24,650
Trade and other payables	1,684,831	1,686,108	1,344,772	136,816	14,442	190,078
Related party payables	608,169	609,964	589,163	2,971	17,830	-
	3,861,940	4,024,092	2,061,028	284,163	1,464,173	214,728

As at 31 December 2014	Book value	Contracted cash flows	6 months or sooner	6 - 12 months	1 - 5 years	Over 5 years
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Loans	1,677,997	1,858,514	73,057	175,345	520,878	1,089,234
Trade and other payables	1,720,425	1,720,425	1,398,140	80,738	51,427	190,120
Related party payables	428,323	428,323	406,347	-	21,976	-
	3,826,745	4,007,262	1,877,544	256,083	594,281	1,279,354

37.2 Interest risk

The Group is exposed to risks from changes in market interest rates primarily on financial assets and liabilities with variable (floating) interest rate.

Within the Group's asset' structure, the interest-bearing assets are represented by cash, bank deposits and loans, the majority of which are at fixed rate. The Group has and loans with a combined structure of interest rates, which consist of two components - fixed and variable. The Group's borrowed funds are in form of long term and shot term loans, and are mainly at fixed interest rate. This minimizes the likelihood of an unfavourable change in cash flows.

The following tables illustrate the sensitivity of the net financial result after tax for the year and equity to a reasonably possible change in interest rates in regard to borrowings at variable interest rate based on EURIBOR, in the amount of +/- 0.1 % (2014: +/- 0.01%) and based on the BIR in Bulgaria, amounting to +/- 0.01 % (2014: +/- 0.01%). These changes are determined as possible based on the observations and the current market conditions. The computations are based on changes in the average market interest rate and the financial instruments held by the Group at the end of the reporting period, which are elastic to changes in the interest rates. All other parameters are accepted as constant. There is no effect over the other components in the Group's equity.

As at 31 December 2015	Increase/Decrease in the interest rate	Effect on the net financial result	Effect on equity
	%	*BGN'000*	*BGN'000*
Loans, denominated in Euro (EURIBOR)	+0,1%	(269)	(100)
Loans, denominated in Euro (EURIBOR)	-0,1%	269	100
Loans, denominated in BGN (BIR)	+0,1%	(25)	(4)
Loans, denominated in BGN (BIR)	-0,1%	25	4

As at 31 December 2014	Increase / Decrease in the interest rate	Effect on the net financial result	Effect on equity
	%	*BGN'000*	*BGN'000*
Loans, denominated in Euro (EURIBOR)	+0.1%	(277)	(277)
Loans, denominated in Euro (EURIBOR)	-0.1%	277	277
Loans, denominated in BGN (BIR)	+0.01%	(8)	(8)
Loans, denominated in BGN (BIR)	-0.01%	8	8

37.3 Currency risk

The Group performs purchases, sales, provision and receipt of loans, in foreign currencies – Euros, USD, Japanese yens, British Pounds, Swiss Francs and Macedonia Denars. The main part of these transactions are performed in Euros, USD and Japanese yens. As the exchange rate BGN/EUR is fixed at 1.95583, the currency risk, arising from the Group's euro exposures is minimal. The Group executes payments for building and construction works and supplies for assets under construction, as well as it utilizes and repays an investment loan in Japanese yens, provided by JBMS. The loan is guaranteed by the state. There is risk, associated with changes in the exchange rates, associated with this risk. Therefore, the Group's exposure to changes in the exchange rate of the local currency to the Japanese yen is possible, although in significant future uncertainties, the Group could hedge its exposition by derivative instruments as currency swaps.

As at 31 December 2015	Increase in the exchange rate to the Bulgarian Levs		Decrease in the exchange rate to the Bulgarian Levs	
	Net financial result	Equity	Net financial result	Equity
	BGN`000	*BGN`000*	*BGN`000*	*BGN`000*
USD (+/- 4%)	2,459	2,459	(2,459)	(2,459)
Japanese yens (+/- 1%)	(1,119)	(1,119)	1,119	1,119

As at 31 December 2014	Increase in the exchange rate to the Bulgarian Levs		Decrease in the exchange rate to the Bulgarian Levs	
	Net financial result	Equity	Net financial result	Equity
	BGN`000	*BGN`000*	*BGN`000*	*BGN`000*
USD (+/- 4%)	251	251	(251)	(251)
Japanese yens (+/- 1%)	(1,351)	(1,351)	1,351	1,351

37.4 Credit risk

In carrying out its activities, the Group is exposed to credit risk, which is associated with the risk that some of its counterparties may not be able to comply fully and in time with their obligations. The Group's receivables are presented in the Consolidated Statement of Financial Position at carrying amount, net of impairment. Such impairment is made for receivables where and when there are circumstances, identifying losses due to uncollectability based on prior experience. The aging structure of the non-impaired, overdue trade and other receivables is disclosed in Note 21.

In relation to the credit risk with regards to the collectability of receivables, the Group takes the following precautionary measures:

- trade and other receivables that are overdue and at the time when they occurred, these were not secured - agreements for rescheduling of payments are signed and collateral is negotiated for an amount, which is not less than the amount initially recognised as receivable;
- other contracts which are not collaterised in advance – the following measures are taken in case of overdue receivables: off-setting the Group's liabilities with the outstanding receivables from the same counterparty, and if the amount of the obligations is not big enough to off-set it against the receivable, other measures are taken to settle the balances without legal proceedings.

The Group`s receivables are consistently monitored and analysed, along with the reasons for delayed payments and the changes in the financial position of the debtors. It also controls the terms and quality of the collateral provided by debtors.
The Group is exposed to significant credit risk with regards to the receivables from "Toplofikatsia Sofia" EAD, comprised over 10% of the total amount of the net non-current and current receivables. As at 31 December 2015, the carrying amount of receivables from "Toplofikatsia Sofia" EAD amounts to BGN 628,167 thousand (Note 21.2).

The credit risk, arising from the Group's other financial assets, such as cash equivalents and other financial assets, representing the credit exposure of the Group, arising from the probability that its counterparties do not fulfil its obligations.

The maximum credit exposure of the Group with regards to the recognised financial assets, arising to their respective carrying amount of the Consolidated Statement of Financial Position as at 31 December 2015 (Note 36).

37.5 Market risk

The market risk relates to the Group's income from financial instruments being affected by changes in the market prices, such foreign currencies, interest rates or capital instruments. The purpose of the market risk management is to exercise control on the market exposure, in acceptable parameters, while optimising the return.

The Group undertakes regular analysis of the macroeconomic environment in the country and a thorough analysis of the specific macro-indicators, including and information on the interest rates, presented before the Board of Directors. It is responsible for the evaluation of the future risks, to which the Group is exposed. In case of deterioration of the market conditions, hedging instruments can be used.

37.6 Regulatory risk

The regulatory risk shall be determined from the specificity of the activity. Pursuant to Art.30, para. 1 of the Energy Act, the following prices, are subject to regulation by the Energy and Water Regulatory Commission (EWRC):

- at which producers, within the defined by the EWRC under Art. 21, para. 1 pt. 21 availability, sell electrical power to the public supplier;
- at which producers, sell thermal energy to the thermal power transmission company and to directly connected customers;
- at which the thermal transmission company sells thermal energy to customers;
- at which the public supplier sells electric power to the operators of electrical power transmission and distribution systems to cover technological costs for the transmission;
- at which the public supplier sells to end-suppliers the electrical power, purchased pursuant to Art. 21, para. 1, pt. 21;
- at which the public supplier sells natural gas to the end-suppliers of natural gas and to customers, connected to the gas network;
- at which end-suppliers sell natural gas to customers, connected to the respective gas-supply networks;
- at which end-suppliers sell electricity to households and non-household end-customers in regards to establishments, connected to the electricity distribution network, on low voltage levels;
- for access to and/or for transmission of through the electrical power network;
- for connecting to networks;
- for access to and transmission of natural gas through transmission and/or distribution systems, except in cases where the EWRC, at its discretion, approves a methodology for pricing on access and transmission through the transmission network;
- for access and/or for transmission over electricity distribution systems.
- for access to and storage of natural gas in a storage facility;
- for the distribution of traction electricity, along distribution networks of the rail transport;
- for provided services to customers, defined by EWRC and relating to licensed activities.
- including the price or the price component by which all end-users, connected to the electrical grid, participating in the compensation of costs, under Art. 35.

Price regulation has a significant impact on revenue and expenses, and hence on the overall economic and financial situation of the Group.

37.7 Cash flows risk

The cash flow risk depends on variations on the amount of future cash flows related to a specific financial instruments. The Group plans its cash flows, while the financial instruments at floating interest rates are short term – i.e. payable / receivables within 1 year.

38 Fair value measurement

The Group's Management believes that the fair value of its financial instruments, comprising of cash and short-term deposits, trade and other receivables, loans and borrowings, trade and other payables, do not significantly differ from their carrying amounts due to their maturity structure and interest rate terms.

The Group defines its assets and liabilities, carried at fair value, into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: input data, other than quoted prices, included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: input data for the asset or liability that are not based on observable market data (unobservable inputs).

A financial asset or liability is classified at the lowest level of significant input information, used in its fair value measurement.

38.1 Fair value measurement of financial instruments

Financial assets and financial liabilities, measured at fair value in the Consolidated Statement of Financial Position are grouped into the following categories, according to the fair value hierarchy. For more information on the shares, traded on the stock exchange, refer to Note 25.

	Level 1	
	2015	2014
	BGN'000	*BGN'000*
Assets		
Shares, trades on the stock exchange	730	684

The methods and valuation techniques used to determine fair value are unchanged compared to the prior reporting period. The Group holds 6,041 shares of Transgas S.A. Romania, traded on the Romanian Stock Exchange. The investment is classified as available-for-sale financial assets and is presented in BGN. The fair value of the same as at 31 December 2015 and 31 December 2014 were determined based on the published quoted price in an active market.

38.2 Fair value measurement of non-financial assets

The below table shows the levels within the hierarchy of non-financial assets measured at fair value on a recurring basis at 31 December:

	Level 1	Level 1
	2015	2014
	BGN'000	*BGN'000*
Property, plant and equipment	10,985,213	11,597,125

Fair value of the Group's main property, plant and equipment is estimated based on appraisals performed by independent, professionally-qualified property appraisers (see Note 18).

39 Capital management – policies and procedures

The policy of the Board of Directors is to maintain a strong capital base so as to maintain the confidence of clients, creditors and the market as a whole, and be able to provide opportunities for business development in the future. The Management targets to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security, afforded by a sound capital position. The Group's goal is to achieve a return on equity above 5%. As of 31 December 2015, the return on equity amounts to 0.7% (2014: 1.7%). During the year, there were no changes in the Group's capital management.

40 Commitments and contingent liabilities

40.1 Procedures of the European Commission against "Bulgarian Energy Holding" EAD and its subsidiaries

The European Commission has initiated two proceedings against "Bulgarian Energy Holding" EAD and its subsidiaries, on the grounds of possible abuse of their dominant position – Case AT.39767 – BEH electricity and Case AT.39849 – BEH gas.

Case COMP/AT.39767 — BEH Electricity has as subject the possible infringement of Art. 102, of the Treaty on the Functioning of the European Union (TFEU), related with the inclusion of territorial limitations (restrictions) of supply contracts, concluded by subsidiaries of BEH EAD: "NEK" EAD, "Kozloduy NPP" EAD and TPP "Maritsa

East 2" EAD, in the market for wholesale electrical power in Bulgaria, during the period September 2008 – March 2013.
The proceedings were initiated in 2012, in light of the adoption of Decision, under Chapter 3 (Articles 7-10) of the Council's Regulation 1/2003, dated 16 December 2002, regarding the implementation of competition rules and regulations, laid down in Articles 81 and 82, of the TEC (Articles 101 and 102 TFEU). In order to avoid a prohibitive decision and a fine and to remove any concerns of the European Commission regarding fair competition practices, it was proposed that the entities "BEH" EAD, "TPP Maritsa East 2" EAD, "NEK" EAD and "NPP Kozloduy" EAD undertake commitments, pursuant to Art. 9 of the Regulation 1/2003.
The commitments were approved by the Boards of Directors of "BEH' EAD, "TPP Maritsa East 2" EAD, "NEK" EAD and "NPP Kozloduy" EAD. Pursuant to Decision No E-RD-21 23/28.04.2015 of the Minister of Energy, the signed commitments were sent to the EC on 14 May 2015.
The EC conducted a market test of the proposed commitments in June 2015 (the non-confidential version of the commitments is published in the Official Journal of the EU C202/2, dated 19 June 2015). Following the conducted, in October 2015, market tests "BEH" EAD, 'IBEX" EAD, "TPP Maritsa East 2" EAD, "NEK" EAD and "Kozloduy NPP" EAD, submitted on 16 October 2015, to the EC the final text of the Commitments. The final text of the Commitments was approved by the Boards of Directors of "BEH" EAD, of "IBEX" EAD, of "TPP Maritsa East 2" EAD, of "NEK" EAD and of "Kozloduy NPP" EAD. The signing of the commitments and their sending to the EC, was authorized by the Minister of Energy with Protocol E-RD-21 54/13.10.2015.
By virtue Decision C (2015) 8860, dated 10 December 2015, relating of Case AT.39767 — BEH electricity: the EC confirmed the Commitments as legally binding for a period of five years, starting from the date of operation of the day-ahead market (DAM), proposed by "Bulgarian Energy Holding" EAD, "Natsionalna Elektricheska Kompania" EAD, "TPP Maritsa East 2" EAD, "Kozloduy NPP" EAD and "Bulgarian Independent Energy Exchange" EAD. Thus the case was closed.
As at present moment, actions have been taken to fulfil the Commitments, proposed under the case. The EC is expected to approve a monitoring trustee to control the day-to-day management of "IBEX" EAD and the operations of the PDN platform, according to the conditions and obligations, related with Decision of the European Commission.
In accordance with the Commitments, "BEH" EAD undertakes the commitment to unbundle "IBEX" EAD from its structure and to transfer the ownership of the capital of "IBEX" EAD to the Ministry of Finance, dated 14 June 2016, through the conclusion of a final agreement for transfer. A working group was set up from representatives of the Ministry of Energy, the Ministry of Finance and "BEH" EAD, structuring the process and specify the details of the transfer of the company.

Case COMP/B1/AT.39849 — BEH Gas
Case COMP/AT.39849 – BEH Gas has as subject the possible breach of Art. 102 of TFEU, namely alleged actions carried out by the subsidiaries of "BEH" EAD – "Bulgargaz" EAD and "Bulgartransgaz" EAD, in respect of:

- Preventing competitors from accessing key gas infrastructure (to gas transmission grid and to the storage facility for natural gas) in Bulgaria, by explicitly or implicitly refusing access for third parties, or in delays in providing this access;
- Preventing competitors from accessing the main gas import pipeline, by booking capacities that remains unused.

The proceedings were initiated in 2013, in light of the adoption of Decision, under Chapter 3 (Articles 7-10) of Regulation 1/2003.
On 23 March 2015, the EC issued a statement of objections. "BEH" EAD and its subsidiaries, submitted replies to the EC. A technical meeting took place on 6 October 2015 on Case AT.39849 — BEH Gas, instead of an oral hearing.
The proceedings may be terminated or completed by the EC's adoption of either a prohibitive decision, under Art. 7, or a decision that obligates "BEH" EAD and its subsidiaries – "Bulgargaz" EAD and "Bulgartransgaz" EAD – to undertake legal commitments, under Art.9.
In the event of a prohibitive decision, the EC may impose behavioural or structural remedies and a fine. According to the Guidelines on the Fine Setting Method and Art. 23 of Regulation 1/2003, for each enterprise participating in the infringement, the fine shall not exceed 10 % of its total turnover in the preceding reporting period. The EC may take into account aggravating or mitigating circumstances of the case.
In the course of the proceedings "BEH" EAD will continue to provide all requisite help to the EC and provide timely all necessary information. As at the preparation date of these Annual Financial Statement of BEH EAD, case has not been dismissed and no decision has enacted. Legal actions by the European Commission are forthcoming.

Capital commitments
"Kozloduy NPP" EAD
As at 31 December 2015, the Group has capital commitments of 128,821 thousand BGN (in 2014: 220,008 thousand BGN), related with undertaken commitments to acquire property, plant and equipment.

The amount of the contracted commitments for acquisition of nuclear fuel amount to 125,511 thousand BGN as at 31 December 2015 (in 2014: 134,585 thousand BGN).

TPP Maritsa East 2 EAD
In compliance with the requirements of the European Directives, the national legislations and the integrated permit, as well as in relation to the implementation of projects, defined under the National Investment Plan for 2013-2020, the Group is obliged to build and put into operations environmental assets.
As at 31 December 2015, the Group has capital commitments of BGN 36,546 thousand, connected with full engineering of low-emission burners K-A 1 to 12; full engineering of gas ignition installation of K-A 1 to 12; construction and installation of gas density screens of boilers; improvement of the degree of desulphurization of a desulphurisation installation 7 and 8 under Directive 2010/75/EC; supply of spare parts for the DV pump of KA-9 to KA-12; supply, dismantling, installation and putting into service of transformers; extension and revamp in existing fire detection and firefighting equipment and connecting them with the centralized monitoring system in the building of the desulphurisation installation unit 5 and 6; replacement of operator stations, servers, controllers and software for management of desulphurization installation 7/8; replacement of rubber-conveyors and reducers of transporters; reconstruction and modernization of pumps and replacement of the lining of Absorbers 1 and 2; supply of loading device for limestone for car unloading on desulphurisation installation 7-8.

Electric power System Operator EAD
In 2015, contracts under the Public Tender Law and the Small Public Tenders Decree for repairs and current maintenance of the assets of ESO EAD were concluded. By virtue of the signed agreements, contractual commitments for 2016 arise and such amount to BGN 48,347 thousand.

Bulgartransgaz EAD
As required by Directive 2009/29/EC and Communication (2011/C99/03) of the Commission, Guidance document on the optional application of Article 10c of Directive 2003/87/EC, the Ministry of Energy has prepared a National Investment Plan (NIP), including investment projects. “Bulgartransgaz” EAD applied for inclusion in NIP with a project for the modernization of 4 compressor stations. With the realization of this project it is expected the CO2 emissions emitted by these compressor stations to decrease by 15%.
As an applicant in the NIP, in 2015, “Bulgartransgaz” EAD reported quarterly on the execution stage of the projects and submitted a summary, dated15 January 2015 on the annual level of implementation of the projects included in the NIP. A reference for the payments made, as well as information on the reason for failing to utilize and realize the investments for projects Modernization of compressor stations “Petrich”, “Lozenets” and “Strandzha”, accompanied by a reasoned request for transfer of their realization in 2016, was submitted. The submission of the reasoned request for transfer of investments to 2016 was needed so that the company avails of its right to State aid within the NIP, because the plans for the modernization of the compressor stations included in the NIP could not materialize by the end of 2015 for reasons independent of ”Bulgartransgaz” EAD and will be implemented with delay. As of 31 December 2015, the only project completed is the Modernization of CS “Ihtiman“ and one gas turbo compressor unit is put into service, for which by the end of March an application to obtain funds from the NPI will be submitted.

NEK EAD
In connection to the execution of investment projects, NEK EAD has signed contracts with executors for the development, modernization and reconstruction of the electric transmission system, for the rehabilitation and construction of new Water Power Plants.

With regards to the project NPP Belene, on 29 November 2006, the entity signed a Contract agreement for the building and construction of NPP Belene with ZAO “Atomstroyexport” as the executor of the project, and with Worley Parsons, on 31 January 2005, as architect – engineer of the project. Pursuant to a decision of the Board of Directors of BEH EAD, dated 3 October 2013, it is concluded that the contract with Worley Parsons is rightfully terminated due to the inability to execute the project. There is significant uncertainties, as at 31 December 2015, regarding the future cash outflows, related with the project’s termination (Note 18).

NEK EAD — liabilities related to the development of the energy sector
In connection with the modernization of units V and VI of “NPP Kozloduy” EAD, a loan agreement was signed, on 29.05.2000, between “NPP Kozloduy” EAD, in the capacity of a borrower, the “National Electricity Company” (NEK) EAD, as the guarantor, and the European Atomic Energy Community (EURATOM), as a creditor. The loan refers to EUR 212.5 million, aimed to finance the Programme for the modernization of the energy units. Pursuant to clause 15.2 of that agreement, “NEK” EAD together with “Kozloduy NPP” EAD bear liability as a single principal debtor. On the same date, a guarantee agreement was signed between the Republic of Bulgaria, as guarantor, and the European Atomic Energy Community, as creditor (EURATOM), by virtue of which the State

also ensures the repayment of the loan. The two agreements are ratified by an Act of the 38th National Assembly of the Republic of Bulgaria on 29 November 2000. The loan was granted in 8 instalments, with floating interest rate – six months EURIBOR, plus a mark-up to 0.13% and one of the tranches has a fixed interest rate of 5.76 %. The repayment period of the principals, under the loan, differ from tranche to tranche. The deadline for the loan's repayment is 10 May 2021. The loan is fully utilized and is being repaid pursuant to the reached agreements. The outstanding loan portions, granted by EURATOM as at 31 December 2015, amounts to 192,038 thousand BGN (principal) and 1,807 thousand BGN (interest).

NEK EAD — long term power purchase agreements
On 13 June 2001, "NEK" EAD concluded a long-term agreement with "Consolidated continental commercial limits'", now "AES – 3C Maritsa Iztok 1" EOOD (AES), for the construction and operation of a 670 MW replacement power generating facility 1 on the site of the TPP "Maritsa Iztok 1", fuelled with locally extracted lignite. "NEK" EAD has entered in 15-year power purchase agreement which is effective as from the commissioning date of the new facility on 2 June 2011 and achievement of the full net capacity of 600 MW by AES Galabovo TPP as of 28 December 2011. . Pursuant to an agreement dated 30 November 2005, "NEK" EAD had pledged its receivables for electrical power sold from "Elektrorazpredelenie Plovdiv" and "Elektrorazpredelenie Varna" as guarantee against future obligations for power purchases. The sum of the projected receivables is equal to the expected maximum collective payment for electricity purchased, for each month of the calendar year. In accordance with the concluded long-term power purchase agreement "NEK" EAD is obliged to purchase a minimum of 3,156,500 MWh electricity per year or on a pro rata basis in the event of incomplete year) and the respective capacity.
On 13 June 2001 NEK EAD entered into a fifteen-year power purchase agreement with ContourGlobal Maritsa East 3 AD. The power purchase agreement became effective in February 2009 with the completion of the agreed improvement works on the existing facilities of TPP Maritsa East 3 whereby the installed capacity is now 808 MW. Pursuant to a contract for a registered pledge of 01.02.2002 and an Agreement amending the contract on a registered pledge of 24.03.2010, "NEK" EAD had put some of its receivables from electricity sold by "CEZ Elektro Bulgaria" AD, "EON Bulgaria sales" and "EVN Bulgaria Elektrosnabdiavane" AD as guarantee against future obligations to purchase electric power. The sum of the pledged receivables is equal to 1.25 times the expected maximum collective payment for electricity purchased for any month during the calendar year. In performance of the contract for the purchase of electric power and availability, "NEK" EAD annually issues promissory notes in favour of "Contour Global Maritsa Iztok 3" AD. In accordance with the concluded long-term power purchase agreement, "NEK" EAD has an obligation to purchase a minimum of 3,489,000 MWh electricity per calendar year (or on a pro rata basis in the event of any incomplete year) and the respective capacity.

The table hereafter disclosed the liabilities of NEK EAD with regards to the minimum due payments for purchased electricity and availability for the remaining term of the concluded long-term contracts for purchasing electric power from thermal power plants.

	Total minimum due amounts
	BGN`000
Minimum due payments in respect of purchased availability *	5,948,015
Minimum due payments in respect of purchased electric power * *	3,983,458
Total	9,931,473

* *the amount represents the minimum obligation under the existing PPAs and is calculated on the basis of fixed price components and fixed escalation components.*
*** The quoted amount is computed based on the price per unit of electricity, for December 2015*

The minimum payments for purchased availability under each of the three long-term contracts for purchase of electric power from thermal power plants, are as follows:

	Up to 1 year	**1 year to 5 years**	**Over 5 years**	**Total**
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*
Minimum payments for purchased availability	640,208	2,422,626	2,885,181	5,948,015

In 2015 NEK EAD bought from "Contour Global Maritsa Iztok 3" AD net electricity of 4,273 GWh, which is higher than the minimum agreed 3,489 GWh under the PPA. The higher, compared to 2014, workload of the plant, resulted in higher usability, which also had a positive impact on the price at which "NEK" EAD purchases power. 3,332 GWh net electrical power was purchased by "AES Maritza Iztok 1", which is in excess of the mandatory minimum purchase amount of electricity 3,156 GWh. Here the usability has also been improved since 2014 and the buying-in price has been optimized.

As required by the Renewable Energy Act, "NEK" EAD as the Public supplier until 24 July 2015 has an obligation to purchase the entire quantity of electricity produced from renewable and alternative energy sources, with the exception of electricity produced from hydroelectric power plants with an installed capacity of over 10 MW. With the amendment of art. 31, par. 5 of the same Act, the public supplier and respectively the end suppliers purchase the electricity output from renewable sources at a preferential price for the amount of electricity up to the amount of the net specific production of electrical power which is taken into account when calculating the preferential prices by EWRC. The amounts of electricity over the net specific production are purchased at a price of surplus on the balancing market or under art. 31, par. 12 and may be sold on the free market. The mandatory purchase of electricity is carried out under power purchase agreements. In compliance with the Renewable Energy Act, as modified on 3 May 2011, the duration of the agreements shall be 20 years for electricit produced from geothermal and solar energy and for electricity produced from biomass, 12 years — for electricity produced from wind energy and 15 years — for electricity produced from hydroelectric power plants with an installed capacity of up to 10 MW and electricity produced from other types of renewable energy sources. The time limits for mandatory purchase shall commence on the date of commissioning of power facilities and for power facilities commissioned after 31 December 2015, the periods shall be reduced by the time between that date and the date of commissioning of the power facility.

As of 31 December 2015, the Company has concluded the following long-term power purchase agreements with RES installations that are put into service:

- Wind power plants: with total installed capacity of 357.50 MW. The agreements were concluded in 2008 – 2013 for a period of 12 years;
- Photovoltaic power plants: with total installed capacity of 260.69 MW. The agreements were concluded in 2011-2012 for a period of 20 years;
- Biomass power plants: with total installed capacity of 20.7 MW. The agreements were concluded in 2009-2012 for a period of 20 years;
- Hydropower: with total capacity of 49.84 MW. The agreements were concluded in 2009-2013 for a period of 15 years.

Due to the nature of the production of electricity from renewable sources and the uncertainty about the total amount generated, the Company cannot reliably estimate their future obligations with regard to contracts for the purchase of electricity from renewable sources.

Concession agreement "Mini Maritza – Iztok" EAD
Under a concession agreement on the exploration and extraction of coal, the Company is obligated to put aside cash in favour of the Ministry of Energy, which may only be used for the purpose for which it is intended (activities for the final exit from the concession area) and following an explicit permission by the Ministry of Energy. In letter with ref. NoE-26-M-155/09.07.2014 an updated schematic draft for leaving the concession area was coordinated with a total value for final exit of BGN 134,378,000 thousand. As of 31 December 2015, the Company is renegotiating the amount which shall be paid to the fiduciary account. Annexto the agreement is to be concluded in the near future.

40.2 Contingent liabilities

Lawsuits and claims against NEK EAD
"ZAO Atomstroyexport"
On 19 July 2011 "ZAO Atomstroyexport" filed a claim against "Natsionalna Elektricheska Kompania" EAD (NEK) before the Arbitral Tribunal to the International Chamber of Commerce, Paris. The case was registered under No ICC Case No. 18086/GZ as subject to the same are claims of "ZAO Atomstroyexport" against "NEK" EAD for non-payment under an Agreement between "ZAO Atomstroyexport" and "NEK" EAD of 29 November 2006 and the Annexes to the agreement.
In the framework of this arbitration case, "ZAO Atomstroyexport" brought against "NEK" EAD a total of 7 (seven) key claims, part of which had multiple sub-claims and/or alternatively filed claims. The value of the claim of "ZAO Atomstroyexport" according to the most recently transmitted by the Claimant written statements in May 2015,

amounts to at least EUR 1 billion - interests, penalties and indirect costs plus all costs, fees and expenses, including the arbitration services.

On 30 September 2011, "Natsionalna Elektricheska Kompania" EAD filed a claim against "ZAO Atomstroyexport" before the Arbitration Tribunal to the International Chamber of Commerce, Paris. The case was registered under No ICC Case No 18206/GZ, pursuant to Article 9 of Framework Agreement No 77-402/71300 of 28 November 2007, and subject to the same is a claim made by "NEK" EAD to "ZAO Atomstroyexport".

On 6 December 2013, "NEK" EAD gave a detailed Statement in its defence and its counterclaims to "ZAO Atomstroyexport". By the Statement "NEK" EAD increased the amount of its counterclaims. On 25 July 2014, "NEK" EAD submitted a response to the reply of "ZAO Atomstroyexport" of 18 May 2014 and amended the amount of the counterclaims.

To the most recently submitted by "NEK" EAD written comments of May 2015, NEK EAD claims are as follows:

- The net amount of EUR 59,845,459 pursuant the Preliminary contract and the Annexes thereto;
- The amount of EUR 40,215,000 in regards to equipment which "ZAO Atomstroyexport" had not paid under the Framework Agreement;
- The amount of EUR 4,030,591 in respect of equipment, received by "ZAO Atomstroyexport", according to Appendix 1 to the Agreement which "ZAO Atomstroyexport" had not paid to "NEK" EAD under Appendix 1 to the Framework Agreement.
- The difference between the amount of EUR 77,172,475 and the actually paid expenses in compliance with Art. 5.2 and 5.4 of the Agreement which "ZAO Atomstroyexport" can demonstrate by providing the relevant primary accounting documents or other supporting documentation by the same amount.
- Interest due for late payment of the amounts referred to in the previous three items, as well as all fees to start and proceed the arbitration case, including, but not limited to lawyers' fees, arbitration charges etc.

The unification of arbitration proceedings ICC Case № 18086/GZ/MHM and ICC Case № 18206/GZ/MHM was confirmed by the arbitral tribunal Procedural Rules on 18 February 2013, as follows: (1) trial continues ICC Case o. 18086/GZ/MHM and terminates case against ICC Case. 18206/GZ/MHM; (2) The place on arbitration shall be Geneva, Switzerland (3) The claims of NEK EAD under ICC Case o. 18206/GZ/MHM are considered counterclaims in ongoing arbitration ICC Case No. 18086/GZ/MHM.

From 15 to 26 September 2014 in Geneva a hearing of witnesses and experts named by the parties was held. In 2015 the parties submitted a second round of statements following the hearing; each party presented a written submission of expenses of the arbitration proceedings, each party made comments on the statement of expenses of the other party. The final arbitration decision is expected by the end of 2016.

According to the opinions of the legal representative and legal advisors of "NEK" EAD, as of 31 December 2015, it is not possible to indicate what the outcome of this case would be or what amounts (even if estimates) the parties would be ordered to pay with the arbitration ruling. This is due to the following circumstances:

- This case is extremely complex from legal, technical and factual point of view;
- The amount of the claims between the parties exceeds EUR 1 billion;
- The Claimant "ZAO Atomstroyexport" filed a total of 7 (seven) claims, part of which consist of multiple sub-claims;
- For a part of the Claimant's claims, multiple alternative claims have been filed for which the amounts claimed differ from those covered in the principal claim;
- "NEK" EAD has filed counterclaims against the claims of "ZAO Atomstroyexport";
- Both parties made claims to the Tribunal for the interception of amounts due, which if granted, could also affect the actual amounts payable after the arbitration ruling.

The procedural representative of "NEK" EAD is "White and Case" LLP.

Worley Parsons Nuclear Services JSC

An arbitration proceeding has been initiated by Worley Parsons Nuclear Services JSC against the Company at the Arbitration Court in the International Chamber of Commerce, Paris, aiming to obtain the total of EUR 54,372 thousand (BGN 106,342 thousand) for compensation and penalties under a contract. The case is at an early stage.

In the above mentioned case, "NEK" EAD has initiated proceedings before the Sofia City Court with subject matter –a claim against an act of the International Court of Arbitration to the International Chamber of Commerce, Paris, which is disregard of recusal by "NEK EAD", in its capacity of defendant in Case ICC No 20351/MHM, to the arbitrator F. Brunner on the basis of Art. 16 (1) of the Law on International Commercial Arbitration. By order of 22 October 2015, the proceedings were terminated. On 29 October 2015, "NEK" EAD submitted an appeal registered under No 140372 against the order for termination.

On 10 February 2016, the case was referred to the Sofia Court of Appeal.

"NEK" EAD has initiated proceedings at the Sofia City Court against "Worley Parsons Europe Energy Services" EOOD in the amount of BGN 117,308 thousand, with which "NEK" EAD claims from "Worley Parsons Europe Energy Services" EOOD to return the received payments by "NEK" EAD under contract settlements of 31 January 2005. Hearings on the case have not been held yet and are to be scheduled. The case is suspended on the basis of article 229 paragraph 1 item 4 of the Code of Civil Procedure, pending until the completion of enforced court decision of commercial case No 7114/2014 of the Sofia City Court. On 9 February 2016, "NEK EAD" filed a request for resumption of proceedings, due to failure of the reason for suspension of the case.

OET- United energy traders

OET-United energy traders have brought an action at the amount of BGN 10,853 thousand, regarding Art. 55, par. 1 of the Obligations and Contracts Act — return of unduly paid by the OET amounts representing charge for green energy and high-efficient co-generation charges. Collateral is allowed in the case, by imposing distrainment on the bank account of "NEK" EAD in BNP Paribas at the amount of BGN 6,290 thousand.
As of 15 February 2016, by decision of the Sofia City Court the claim is rejected. The claimant has filed an appeal at Sofia Court of Appeal.

Polimeri AD

Polimeri AD has filed a commercial claim in 2014, claiming BGN 2,641 thousand, relating to outstanding payments by NEK EAD, at full price for access and use of their facilities for electric power transmission from and to TPP Deven, for the period May – November 2011. Pursuant to a decision, dated 23 July 2015, the case is terminated, with the amount, ruled in favour of Polimeri AD, being solidarity distributed between NEK EAD and ESO EAD.
On 16 November 2015, an agreement was concluded between NEK EAD, ESO EAD and "Polimeri" AD. In order NEK EAD and ESO EAD to avoid additional expenses, the two companies will take action to repay their obligation, in instalments. A complaint was filed at the Sofia Administrative Court by the applicant.

As at 31 December 2015, other legal claims were filed against the entity on different legal grounds: for balanced energy, for delayed payments, for off-setting of amounts with final (balanced) payments, for outstanding interest on delayed payments. These claims are either pending or in process of appeals. As a result, the entity's Management has decided not to accrue additional provisions under court claims, with the exception of the amounts, accrued for delayed or outstanding payments.

Payables / Receivables with "Napoitelni Systemi'" EAD

NEK EAD and Irrigation Systems EAD carry out activities related to the maintenance and operation of water reservoirs, dams, hydro engineering, and ameliorative equipment in compliance with their obligations to supply water as determined by the Ministry of Environment and Water. NEK EAD, through the Dams and Cascades branch, has provided the service "water supply" to Irrigation Systems EAD and vice versa, Irrigation Systems EAD has provided a service of similar nature to NEK EAD.
As no agreement was reached between the Group and Irrigation Systems EAD on the supplied quantities of water, and no delivery acceptance notes have been signed for the period starting May 2003 until the reporting date, additional liabilities to Irrigations Systems EAD may arise. As at the date of approval of these consolidated financial statements, the future cash outflows cannot be reliably determined.

Unconfirmed receivables and liabilities

The entity carries receivables of BGN 245,618 thousand and liabilities of BGN 89,665 thousand to electricity supply companies, for which there is disagreement on their part to confirm and pay on the basis of Art. 94 of the Energy Act for purchased electricity from RES and HECG for the period from 5 July 2013 to 31 July 2013, after the entry into force of the amendments in the Energy Act and the extension of the regulatory period until 31 July 2013, as well as due to the cancellation of the Methodology for compensation of the expenses of the public supplier and end suppliers, arising from the obligations to society imposed on them to purchase electricity under preferential prices from renewable energy sources and from high-efficient co-generation of heat and electricity, adopted by Decision No 117/16.07.2012 of EWRC, which entered into force on 1 July 2012. Pursuant to Decision No Ц-12/30.06.2014 of EWRC, expenses for electricity from RES should be reimbursed within the next 5 regulatory periods until 30 June 2019 through the price of electricity. The reimbursed amounts in 2015 through the income from sales for the regulatory period 2014 to 31 July 2015 and through part of the proceeds from the Ministry of Energy pursuant to paragraph 9 of the State Budget Act amount to BGN 107,525 thousand (2014: BGN 34,666 thousand) recognized as current expenses. The payables to power distribution companies as of 31 December 2015 amount to BGN 89,665 thousand. As of 31 December 2015, the legal dispute with "Energo-Pro sales" AD is terminated and the outstanding balances was offset. At the date of the financial statement, there are legal disputes between "NEK" EAD and power distribution companies "EVN Bulgaria Elektrosnabdiavane" AD and "CEZ Elektro Bulgaria" AD, and the part of the decision for payments and liabilities towards power supply companies in accordance with the provisions of Decision No Ц-12/30.06.2014 of EWRC is not attached hereto.

Others

As at the date of the authorization of the financial statements, a complete tax review for the period 1 January 2008 to 31 December 2011 was performed. A Tax Review Report, №R-29-1200199091-001/15.06.2015 was issue. A Tax Review Report for adjustment of the Tax Review Report - №P-9002915117240-003-001/14.07.2015 was

issued. With Decision №1843/04.12.2015 of the ODOP, the portion of the determined VAT result for tax period March 2012 is cancelled for the principal, amounting to BGN 389,049.30 and interest – BGN 94,185.55. The remaining portion, in the amount of BGN 5,105,591.09, representing principal and interest, for which the entity reports provision expenses, is confirmed. An administrative case №262/2016 for the disputable part of the case was filed within the statutory deadline
As at the date of the authorization of the financial statements, a tax review for the period 1 January 2012 – 31 December 2012 was performed (a review under the VAT Act was excluded from the scope of the performed review) on the types of liabilities. A Tax Review Report, № R-29-1300087-091-001/02.07.2015, was issued. It was confirmed by Decision №1760/20.11.2015 of the ODOP. An administrative case №532/2016 was filed, within the statutory time frames, for the disputable part of the case.

Lawsuits and claims against "NPP Kozloduy" EAD
As of 31 December 2015, an action has been brought against "Interpriborserviz" OOD by the legally-removed shareholder "Energoserviz" AD, UIC No 200334806. The action is brought on the legal basis of art. 127 in relation with Art. 125, paragraph 3 of the Commercial Law, Art. 86 of the Obligations and Contracts Act.
The initiated commercial case No 43/2015 on the register of Vratsa District Court, for which three public hearings were held: on 27 October 2015, on 22 December 2015 and on 23 February 2016. Vratsa District Court is expected to issue a decision on the merits of the dispute.
Proceedings on the commercial case were initiated based on application with ref. N 4265/28.05.2015 for the award of an amount of BGN 839,664.25 representing the remainder of the value of the company share of "Energoserviz" AD in the capital of the Company on the date of entry into force of Decision No 612/15.06.2009 in civil case No 573/2009 in the register of Sofia Court of Appeal, Civil Division, 3 members, by which the decisions adopted at the General Assembly
of the associates of "Interpriborserviz" OOD, held on 1 May 2007, are repealed as unlawful.
The company registered the response to the claim in which the claims are challenged.
Although the outcome of the above legal procedure cannot be estimated reliably, the Company Management anticipates a decision in favour of the Company from the above proceedings.

Legal cases and claims against Bulgargaz EAD
Bulgargaz EAD has filed with the Supreme Administrative Court several administrative proceedings based on which Bulgargaz EAD disputes the lawfulness of the decisions of the Energy and Water Regulation Commission, by virtue of which the Commission has approved the price of natural gas for some quarters of the calendar years from 2008 to 2012.

Legal cases and claims against Mini Maritsa Iztok EAD
The entity has a liability to First Investment Bank AD, under signed cession contracts with Remotteks – Radnevo EAD, at sum of BGN 431 thousand.

40.3 Insurance

"Kozloduy NPP" EAD
The Act on the Safe Use of Nuclear Energy puts a limit on liability for damages, caused by any nuclear accident in the operators of nuclear facilities. The Law limits the liability of the operator to BGN 96,000 thousand, due for each accident. The operator is obliged to maintain insurance or other financial security, for nuclear damages over the period use of the nuclear installation amounting BGN 96,000 thousand. The Group has entered into an insurance policy covering the statutory limits. The insurance policy was concluded with the Bulgarian national insurance pool, for BGN 776 thousand, which is paid in one instalments.
The Group has property insurance, with IJSC (ZAD) "Energy" for the period 1 January 2015 – 31 December 2015 amounting BGN 11,255 thousand. On 8 December 2015 Annex №15 was signed with the General insurance policies for insurance of the entity's property, for the period from January to December 2016, for an amount of BGN 10,130 thousand.

40.4 Guarantees

NEK EAD
As at 31 December 2015, the balance of the issued bank guarantees to other entities (third parties), pursuant to an order of NEK EAD, amounts to BGN 198 thousand (2014: BGN 208 thousand).

40.5 Promissory notes

As at 31 December 2015, NEK EAD has issued promissory noted under investments projects in favour of banks, As at 31 December 2015, NEK EAD has issued promissory noted under investments projects in favour of banks, providing loans under contracts for construction of this sites, and other projects, at total amount of BGN 410,563 thousand. As at 31 December 2014 - the promissory notes amount to BGN 408,324 thousand.

"Kozloduy NPP" EAD
Guarantees, amounting to BGN 109,815 thousand (2014: BGN 87,240 thousand), are placed in favour of the entity. As at 31 December 2015, the entity has not placed any guarantees.
As at 31 December 2015, the entity has placed the following guarantees and collaterals:

- Collateral under contract for balancing (cash guarantees) – BGN 326 thousand;
- Collateral under contract for access to and transmission of electricity (cash guarantees) – BGN 7 thousand;
- Collateral for concluding an agreements of electricity trading (cash guarantees) – BGN 150 thousand;
- Collateral for securing the participation in the electricity stock exchange (cash guarantees) – BGN 50 thousand BGN;

40.6 Tax reviews

Bulgarian Energy Holding EAD
The last tax reviews on BEH EAD are conducted by the tax administration, as follows:

- Corporate tax – up to 31 December 2008;
- Value Added Tax – up to 30 June 2009;
- Personal income tax) – up to 31 December 2008;
- Social security – up to 31 December 2008.

The Group's Management does not believe that there are significant risks as a result of the dynamic fiscal and regulatory environment in Bulgaria, which would impose adjustments in the Financial Statements for the year, ending as at 31 December 2015.

Bulgargaz EAD

The tax authorities' bodies can perform, at any time, tax reviews on "Bulgargaz" EAD, within 5 years after the end of the financial year and may impose additional tax liabilities and penalties. The entity's Management does not have information on whatever circumstances, which could impose potential effective additional tax liabilities of significant amount.

TPP Maritsa East 2 EAD
The last tax reviews, performed on "TPP Maritsa East 2" EAD are conducted by the tax administration, as follows:

- Personal income tax – up to 31 December 2007;
- Social security– up to 31 December 2008.
- Local taxes and fees – up to December 2005;
- Corporate tax and other taxes, under the CITA – up to 31 December 2010;
- Value Added Tax – up to 30 September 2011.

NEK EAD
As at the date of the authorization of the financial statements, a complete tax review for the period 1 January 2008 to 31 December 2011 was performed. Tax Review Report №R-29-1200199091-001/15.06.2015 was issued. A Tax Review Report, for adjustment of the prior Tax Review Report, was issued - №P-9002915117240-003-001/14.07.2015. By Decision №1843/04.12.2015 of the ODOP, relating to the portion of the determined VAT result for tax period March 2012, is cancelled: for principal amounting to BGN 389,049.30 and interest – BGN 94,185.55, and is confirmed in the remaining portion, in the amount of BGN 5,106 thousand representing principal and interest, for which the entity reports expense provisions. An administrative case №262/2016 was filed, within in the statutory time frames. For the disputable part of the case.
As at the date of the authorization financial statements, a tax review for the period 1 January 2012 – 31 December 2012 was performed (a review under the VAT Act was excluded from the scope of the performed review) on the types of liabilities. A Tax Review Report, № R-29-1300087-091-001/02.07.2015, was issues. It was confirmed by Decision №1760/20.11.2015 of the ODOP. An administrative case №532/2016 was filed, within the statutory deadline, for the disputable part of the case.

Bulgarian Independent Energy Exchange EAD
Commitments to the European Commission
Under the requirements of Article 9 of Regulation 1/2003 "Bulgarian Energy Holding' EAD (BEH EAD) and its subsidiary companies—"NEK" EAD, TPP "Maritsa Iztok 2" EAD and "NPP Kozloduy" EAD, as well as 'Bulgarian Independent Energy Exchange EAD' proposed commitments to the European Commission in the context of the investigation in Case AT.39767-BEH Electricity, initiated on 27 November 2012.

By Decision C (2015) 8860 of 10 December 2015 in Case AT.39767 BEH — Electricity, the EC defined as legally binding the Commitments for a period of five years from the starting date of operation of the "day-ahead market" platform (DAM), proposed by "BEH" EAD, "NEK" EAD, "NPP Kozloduy" EAD, TPP "Maritsa Iztok 2" EAD and "IBEX" EAD and terminated the case.
In line with the Commitments "BEH" EAD shall unbundle "IBEX" EAD from its structure and transfer the ownership of the capital of "IBEX" EAD to the Ministry of Finance by 14 June 2016, by concluding a final agreement for transfer.
On the basis of those Commitments, an agreement between the parties was drawn up, whereby the "BEH" EAD commits to ensure that each one of its subsidiaries, namely "NEK" EAD, TPP "Maritsa Iztok 2" EAD and "NPP Kozloduy" EAD will help to provide liquidity for the power exchange operator, by ensuring the referred to in the Commitments amounts of power for the day-ahead market platform from the date on which the power exchange market in the Republic of Bulgaria starts operating. It should be noted that liquidity of the power market is provided by "NEK" EAD, TPP "Maritsa East 2" EAD and "NPP Kozloduy" EAD by bidding for sale of electrical power in terms of solidarity for all trading days.
In 2015 "Bulgarian Independent Energy Exchange" EAD concluded contracts for participation on the power exchange with the following counterparties:
"Energoinvestment" AD, "CEZ Trade Bulgaria" EAD, TPP "Maritsa Iztok 2" EAD, "Energo-Pro Energy Services" EOOD, "Future Energy" OOD, "EVN Trading South East Europe" EAD, "Energy market" AD, "GEN-I d.o.o", "Group Trans Energy" OOD, "Energeo" EOOD.

41 Events after the reporting period

BEH EAD

Increasing the capital of subsidiaries

IBEX EAD

On 14 March 2015, the Minister of Energy gave permission to increase the share capital of "Independent Bulgarian Energy Exchange" EAD by BGN 460 thousand, divided into 46,000 ordinary registered shares with voting right and a par value of BGN 10 each. All new shares are issued by the sole owner BEH EAD. The share capital increase was registered in Bulgarian Commercial Register on 25 March 2015. The entire amount of the registered and paid capital of "Independent Bulgarian Energy Exchange" EAD is BGN 1 674 800.

"TPP Maritsa East 2" EAD

On 1 April 2016, the Minister of Energy gave permission to increase the share capital of "TPP Maritsa East 2" EAD by BGN 49 550 750 divided into 4 955 078 ordinary, registered shares with voting rights and a par value of BGN 10 each. All new shares are issued by the sole owner BEH EAD.

Changes in the Board of Directors

Based on protocol decision №E-RD-21-4 dated February 9, 2016 the Minister of Energy is discharged as a member of the Board of Directors Jacklen Josif Cohen, while Petyo Angelov Ivanov was appointed as his successor with the same mandate as the other board members – until 30 June 2016 as of the date of registration in the Commercial register. The change was registered in the Commercial Register on 15 February 2016. By decision of the Board of Directors, Petyo Angelov Ivanov was appointed as an Executive Director of "Bulgarian Energy Holding" EAD.

Monitoring trustee, under case COMP/AT.39767 – BEH Electricity

By Decision C(2016)2246 the European Commission approved the mandate of the Monitoring Trustee in relation to Case COMP / AT.39767 - BEH Electricity, who will control the operational management of IBEX EAD and the day-ahead-market (DAM) platform under the EC conditions and obligations.

Case COMP/B1/AT.39849 – BEH gas

At the date of approval of the consolidated financial statements, there were no other circumstances to be issued by the Board of Directors, except those disclosed in note 40.1 Procedures of the European Commission against the "Bulgarian Energy Holding" JSC and its subsidiaries.

Obtained loan

On 21 Aril 2016, a contract was signed between BEH EAD and the consortium Banca IMI S.p.A. - London Branch, Bank of China Limited - Luxembourg Branch and J.P. Morgan Securities. After obtaining permission from EWRC, a contract was signed between BEH EAD and NEK EAD for funding amounting to EUR 521,625 thousand. In compliance with the arrangements stipulated in the signed agreements for amending the long-term contracts for purchasing electric power, contracts were signed between NEK EAD, Mini Maritsa Iztok EAD and the two plants – AES - 3C MARITSA EAST 1 EOOD and Contour Global Maritsa East 3 AD for entering into debt, under which the debts of the plants to Mini Maritsa Iztok EAD are undertaken by NEK EAD. As a result, on 26th April 2016 NEK EAD paid its overdue payables to AES - 3C MARITSA EAST 1 EOOD and Contour Global Maritsa East 3 AD and paid its obligations to Mini Maritsa Iztok EAD.
With the undertaken actions, the agreed price reductions of the available capacity between NEK EAD, AES - 3C MARITSA EAST 1 EOOD and Contour Global Maritsa East 3 AD enter into force.

Credit rating contract
On 15 March 2016 under contract with second rating agency Moody's to assign and maintain an international credit rating of "Bulgarian Energy Holding" JSC and to assign and maintain a credit rating of the planned bond issue in 2016.

Agreement on providing liquidity to the power exchange market managed by "Bulgarian Independent Energy Exchange" EAD
On 22nd January 2016, an agreement was approved and signed between Independent Bulgarian Energy Exchange EAD, Bulgarian Energy Holding EAD and its subsidiaries NEK EAD, TPP Maritsa East 2 EAD and NPP Kozloduy, whereby BEH EAD undertakes to ensure that each of its subsidiaries, namely NEK EAD, TPP Maritsa East 2 EAD and NPP Kozloduy will help to provide liquidity on the stock exchange operator of electricity.

As of 19th January 2016, NPP Kozloduy, TPP Maritsa East 2 EAD, NEK EAD have been active participants on the "day-ahead-market" platform operated by IBEX EAD. The parameters of the submitted bids comply with the Agreement for providing liquidity on the exchange - the electricity quantities offered by NPP Kozloduy are based on a solidarity principle of joint participation of the companies included in BEH EAD in the "day-ahead-market".

Bulgargaz EAD
On 15th February 2016, with decision №7-2016/15.02.2016 of the Board of Directors of Bulgarian Energy Holding EAD, Nikolay Pavlov was elected Executive Director and member of the Board of Directors of Bulgargaz EAD, replacing Petyo Ivanov. This circumstance was entered in the Commercial Register on 19th February 2016.

On 15th March 2016, a cession contract was signed between Bulgargaz EAD and NEK EAD, by virtue of which Bulgargaz EAD has transferred with compensation receivables from Toplofikacia Sofia EAD amounting to BGN 51,114 thousand including principal amounting to BGN 37,100 thousand and forfeits for overdue debts amounting to BGN 14,014 thousand.

NEK EAD
In February 2016, there was an extraordinary meeting of the General Assembly of the Shareholders of Transbolkan Electric Power Trading SA - NECO S.A (a jointly controlled enterprise of NEK EAD), when it was decided to increase the capital of the Company in order to obtain a licence for electricity supply in Greece. The increase will be an in-kind contribution for the expense of the retained earnings of the company. 54 000 new shares amounting to EUR 540,000 thousand will be issued. The newly issued shares shall be distributed equally between the two shareholders.

ESO EAD
By Order №E-RD-16-535 / 30.10.2015 of the Minister of Energy, on the grounds of Article 22 of the Ordinance concerning the organization and control of the implementation of the "National Investment Plan for the period 2013-2020", Rules for determining the delivery mechanism and the way of spending and controlling the funds from the "National Investment Plan" Account were approved, promulgated in the State Gazette, issue 31 of 4th April 2014. In November 2015, ESO EAD submitted an Application for reimbursement of the costs for the relevant sites falling within the scope of the National Investment Plan (NIP). In December 2015, on the grounds of Order №E-RD-16-666 / 23.12.2015 of the Minister of Energy, reimbursements under NIP in the amount of BGN 40,660 thousand were approved, of which the actual amounts received by 31st December 2015 were BGN 16,853 thousand. The amounts received on 27th December 2016 amounted to BGN 23,807 thousand.

Agreements have been signed with producers of renewable energy for final settlement of the relations arising from or related to the cancellation of decision №C-33/14.09.2012 of EWRC. As a result of this:

- Invoices were issued for a total amount of BGN 222,199.96, constituting the costs for ESO EAD related to the cancellation of decision C-33/14.09.2012
- ESO EAD recovered BGN 4,276,080.71 - the difference between the amounts paid under decision C-33/14.09.2012 and the costs of ESO EAD negotiated by the parties, which are related to the cancellation of this decision;
- After the entry into force of the court order for nullification of the court decisions/approval of court settlements, ESO will recover BGN 155,239.17 of legal expenses.

TPP Maritsa East 2 EAD

Pursuant to Decision under p. I.2, under Protocol № 14-2016/15.03.2016, the Board of directors of BEH EAD has decided to increase the capital of "TPP Maritsa East 2" EAD by BGN 49,550,780, (Loan contract № 41-2013/12339, dated 25.07.2013), including principal amounting to BGN 49,550,780.04. Minister of energy issued a Protocol № E-RD-21-19/01.04.2016 with approval to increase the share capital of "TPP Maritsa East 2" EAD by issuing new shares under the requirements of Art. 193 of the Commercial Act, granted to BEH EAD. In this way, the share capital of "TPP Maritsa East 2" EAD will reach BGN 89,676,350.00, distributed among 8,967,535 ordinary, registered, voting shares, at nominal value of BGN 10 each.

Independent Bulgarian Energy Exchange EAD

Bulgarian Energy Holding received permission to increase the capital of the subsidiary Independent Bulgarian Energy Exchange EAD in accordance with Protocol №E-RD-21-17 dated 14.03.2016 of the Minister of Energy. Bulgarian Energy Holding registered and acquired the entire new issue of shares which comprise 46 000 new ordinary shares with voting rights and nominal value of BGN 10 each. Increase of share capital was registered in the Commercial Register on 25 March 2016. The purpose of this increase is the extent of the company's the portfolio by including a market for sale and purchase of electricity by usage of bilateral contracts.

ISSUER

Bulgarian Energy Holding EAD
16, Veslets Street
Sofia 1000
Republic of Bulgaria

JOINT LEAD MANAGERS

Banca IMI S.p.A.
Largo Mattioli 3
Milan
Italy

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

CO-MANAGERS

BALKAN ADVISORY COMPANY IP EAD
20 Damyan Gruev Street, 2nd Floor, Office 4
Sofia. 1606
Bulgaria

BANK OF CHINA LIMITED, LONDON BRANCH
1 Lothbury
London EC2R 7DB
United Kingdom

FIRST FINANCIAL BROKERAGE HOUSE LTD.
2 Enos Street, Floor 4&5
1408 Sofia, Bulgaria

FISCAL AGENT AND TRANSFER AGENT

Citibank N.A., London Branch
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

REGISTRAR

Citigroup Global Markets Deutschland AG
5th Floor Reuterweg 16
60323 Frankfurt
Germany

LEGAL ADVISERS

To the Issuer as to English law
Allen & Overy LLP
One Bishops Square
London E1 6AD
United Kingdom

To the Issuer as to Bulgarian law
Spasov & Bratanov Lawyers Partnership
Office Centre "Slavyanska", floor 2
29A Slavyanska Street
Sofia 1000
Republic of Bulgaria

To the Managers as to English law
Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

To the Managers as to Bulgarian law
Djingov, Gouginski, Kyutchukov & Velichkov
10 Tsar Osyoboditel Blvd.
Sofia 1000
Republic of Bulgaria

AUDITORS OF THE ISSUER

In relation to the 2014 Financial Statements	*In relation to the 2015 Financial Statements*
Grant Thornton OOD.	**HLB Bulgaria OOD.**
26, Cherni Vrah Blvd	149 – 151 Konstantin Velichkov blvd.
Sofia 1421	1309 Sofia
Republic of Bulgaria	Republic of Bulgaria

REPORTING ACCOUNTANTS

(See "Presentation of Financial and Other Information")

Grant Thornton OOD
26, Cherni Vrah Blvd
Sofia 1421
Republic of Bulgaria

LISTING AGENT

Arthur Cox Listing Services Limited
Earlsfort Centre, Earlsfort Terrace
Dublin 2
Ireland

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