

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE OUTSIDE THE UNITED STATES PURCHASING ANY SECURITIES OFFERED IN AN OFFSHORE TRANSACTION (WITHIN THE MEANING OF REGULATION S ("REGULATION S") UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT")).

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NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. ANY SECURITIES TO BE ISSUED HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

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CONFIRMATION OF YOUR REPRESENTATION: In order to be able to view the Prospectus or make an investment decision with respect to the securities, investors must be outside the United States and purchasing any securities offered in an offshore transaction pursuant to Regulations S. The Prospectus is being sent at your request and by accepting the e-mail and accessing this Prospectus, you shall be deemed to have represented to (i) Bulgarian Energy Holding EAD (the "**Issuer**"); and (ii) Citigroup Global Markets Europe AG and J.P. Morgan AG (the "**Joint Bookrunners**") that (1) you and any customers which you represent are outside the United States and purchasing any securities offered in an offshore transaction pursuant to Regulations S, and the e-mail address that you have given us is not located in the United States of America, its territories, its possessions and other areas subject to its jurisdiction; and its possessions include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands, and (2) you consent to delivery of the Prospectus and any amendments or supplements thereto by electronic transmission.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this document, electronically or otherwise, to any other person. If you receive this document by e-mail, you should not reply by e-mail to such email. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. No action has been or will be taken in any jurisdiction by the Issuer or the Joint Bookrunners that would, or is intended to, permit a public offering of the securities, or possession or distribution of the Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the securities, in any country or jurisdiction where action for that purpose is required. If a jurisdiction requires that the offering be made by a licensed broker or dealer and a Joint Bookrunner or any affiliate of the Joint Bookrunners is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Joint Bookrunner or such affiliate on behalf of the Issuer in such jurisdiction.

The attached Prospectus has been sent to you in an electronic format. You are reminded that documents transmitted in an electronic format may be altered or changed during the process of transmission and consequently none of the Issuer, the Joint Bookrunners or their respective affiliates, directors, officers, employees, representatives and agents or any other person controlling the Issuer, the Joint Bookrunners or any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard-copy version.

This document is being distributed to and is only directed at (i) persons who are outside the Republic of Bulgaria or (ii) qualified investors within the meaning of the Bulgarian Law on Public Offerings of Securities (together being referred to as "relevant persons"). Any invitation, offer or agreement to subscribe, purchase or otherwise acquire securities will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

This communication is for informational purposes only. It is not intended as an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction.



Bulgarian Energy Holding EAD

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

EUR 600,000,000 2.45 per cent. Bonds due 2028

Issue Price 100 per cent.

The EUR 600,000,000 2.45 per cent. Bonds due 2028 (the "**Bonds**", which expression, when used in "*Terms and Conditions of the Bonds*" and, where the context so permits, in other sections of this Prospectus (the "**Prospectus**") includes any further bonds issued pursuant to Condition 13 – "*Terms and Conditions of the Bonds – Further Issues*") will be issued by Bulgarian Energy Holding EAD (the "**Issuer**" or "**BEH**") on 22 July 2021 (the "**Issue Date**").

Interest on the Bonds is payable annually in arrear on 22 July in each year, commencing on 22 July 2022. 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 22 July 2028 (the "**Maturity Date**"). 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(c) 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 redeem, in whole or in part, the Bonds at any time (a) prior to the day that is 90 days prior to the Maturity Date, 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 0.5 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), or (b) during the period commencing on (and including) the day that is 90 days prior to the Maturity Date to (but excluding) the Maturity Date, at their principal amount, in each case together with interest accrued to (but excluding) the date of redemption and as further described in Condition 6(d) (*Redemption at the Option of the Issuer*) of the Terms and Conditions of the Bonds.

This Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). The Central Bank of Ireland only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer or of the quality of the Bonds that are subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the Bonds. Such approval relates only to the Bonds which are to be admitted to trading on a regulated market for the purposes of Directive 2014/65/EU (as amended, "**MiFID II**"). The Issuer intends to notify this Prospectus in accordance with the Prospectus Regulation to the Bulgarian Financial Supervision Commission as the competent authority of the host member state where the Bonds are subsequently intended by the Issuer to be admitted to trading on a regulated market. The regulated market of the Irish Stock Exchange plc trading as Euronext Dublin ("**Euronext Dublin**") is a regulated market for the purposes of MiFID II. Application has been made to Euronext Dublin for the Bonds to be admitted to the official list of Euronext Dublin (the "**Official List**") and trading on the regulated market of Euronext Dublin.

This Prospectus will be valid until the date of admission of the Bonds to trading on the regulated market of Euronext Dublin. The obligation to supplement this Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply once the Bonds are admitted to trading on the regulated market of Euronext Dublin.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or any U.S. State securities laws and may not be offered or sold in the United States 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 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 Ireland Limited ("**Fitch**") and Ba2 by Moody's Deutschland GmbH ("**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. Fitch and Moody's are not established in the UK and have not applied for registration in accordance with the CRA Regulation as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**") (the "**UK CRA Regulation**"). The rating issued by Fitch has been endorsed by Fitch Ratings Ltd. and the rating issued by Moody's has been endorsed by Moody's Investors Service Ltd, each in accordance with the UK CRA Regulation- and have not been withdrawn. As such, the ratings issued by each of Fitch and Moody's may be used for regulatory purposes in the UK in accordance with the UK 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.

Joint Bookrunners

Citigroup

J.P. Morgan

The date of this Prospectus is 20 July 2021.

MiFID II product governance / Professional investors and Eligible Counterparties only target – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Bonds (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PRIIPs Regulation / Prohibition of sales to EEA retail investors – The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

UK PRIIPs Regulation / Prohibition of Sales to UK Retail Investors – The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 ("**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

SINGAPORE SFA PRODUCT CLASSIFICATION – In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Bonds are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

NOTICE TO INVESTORS IN CANADA – The Bonds may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the

Bonds must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal adviser.

This Prospectus comprises a prospectus for the purposes of Article 6 of the Prospectus Regulation 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, of the rights attaching to the Bonds and of the reasons for the issue of the Bonds and its impact on the Issuer.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer, the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import.

Other than in relation to the documents which are deemed to be incorporated by reference (see "*Documents Incorporated by Reference*"), the information on the websites to which this Prospectus refers does not form part of this Prospectus and has not been scrutinised or approved by the Central Bank of Ireland.

In addition, the Issuer has confirmed to the Joint Bookrunners 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 does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Joint Bookrunners 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 Joint Bookrunners 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 Joint Bookrunners. 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 Joint Bookrunners accept no responsibility whatsoever for the contents of this Prospectus or for any other statement made or purported to be made by a Joint Bookrunner or on its behalf in connection with the Issuer or the issue and offering of the Bonds. Each Joint Bookrunner 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. Subject to certain exceptions, Bonds may not be offered or sold within the United States.

This Prospectus has been filed with and approved by the Central Bank of Ireland as competent authority under the Prospectus Regulation. 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 of Ireland. The Issuer is not and will not be regulated by the Central Bank of Ireland 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 their 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, Citigroup Global Markets Europe AG (the "**Stabilising Manager**") (or any persons 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 persons 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 persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

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.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The Group prepared its audited consolidated financial statements as at and for the year ended 31 December 2020 (the "**2020 Financial Statements**") and as at and for the year ended 31 December 2019 (the "**2019 Financial Statements**") and together with the 2020 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**").

ALTERNATIVE PERFORMANCE MEASURES

To supplement the Group's consolidated financial statements presented in accordance with IFRS, the Group uses certain ratios and measures included in this Prospectus that might be considered to be "alternative performance measures" (each an "**APM**") as described in the ESMA Guidelines on Alternative Performance Measures (the "**ESMA Guidelines**") published by the European Securities and Markets Authority on 5 October 2015. The ESMA Guidelines provide that an APM is understood as "a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework." The ESMA Guidelines also note that they do not apply to APMs "disclosed in accordance with applicable legislation, other than the applicable financial reporting framework, that sets out specific requirements governing the determination of such measures."

The Issuer's management believes that the inclusion of APMs, when considered in conjunction with measures reported under IFRS, is useful to investors because it provides a basis for measuring the organic operating performance of the Group in the periods presented and enhances investors' overall understanding of the Group's financial performance. APMs should not be considered in isolation from, or as a substitute for, financial information presented in compliance with IFRS. For the Group, measures that might be considered to be APMs in this Prospectus (and that are not defined or specified by IFRS or any other legislation applicable to the Group) include (without limitation) the following (such terms being used in this Prospectus as defined below):

EBITDA: calculated as EBIT plus depreciation and amortisation expense.

EBITDA Margin: calculated as EBITDA as a percentage of total revenue.

EBIT: calculated as EBT plus financial costs, minus financial income and minus share of profit from associates and joint ventures.

EBT: calculated as revenue minus expenses, before taxation.

Reconciliations of the above APMs to the applicable financial statements is not included as it is not required by the ESMA Guidelines in these circumstances, including as a result of Article 29 thereof where the items described in the APMs are directly identifiable from the financial statements (e.g., where an applicable APM is merely a calculation of one item in the financial statements as a percentage of another item in the financial statements).

QUALIFICATIONS AND EMPHASES OF MATTER IN THE FINANCIAL STATEMENTS

2020 Financial Statements

HLB Bulgaria OOD. ("**HLB Bulgaria**") has audited the Group's 2020 Financial Statements. HLB Bulgaria's audit opinion, included in the 2020 Financial Statements, contains the following qualifications and emphasis of matter paragraphs:

"Qualified Opinion"

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion* section of our report the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS as adopted by the European Union ("EU").

Basis for Qualified Opinion

1. The Group has concluded an agreement for the construction of a nuclear power plant (the "**Belene Power Plant**") (the "**Belene Project**"), disclosed in Note 19 *Property, plant and equipment* of the consolidated financial statements. In 2012 the Government of the Republic of Bulgaria (the "**Government**") decided to discontinue the construction of the Belene Power Plant (the "**2012 Decision**") and pursuant to a Decision, dated 27 February 2013, the 41st National Assembly of the Republic of Bulgaria (the "**National Assembly**") upheld this decision.

Pursuant to a Decision of the National Assembly, dated 7 June 2018, the Government made a decision to resume actions in seeking opportunities for construction of the Belene Power Plant and for a strategic investor, on a market basis and without providing a state guarantee, through separation of the assets and liabilities for the Belene Project into a separate project company (the "**2018 Decision**"). Pursuant to this decision and the decision of the Council of Ministers of 29 June 2018, the Group's subsidiary Natsionalna Elektrieska Kompania EAD ("**NEK**") issued an invitation for selection of a strategic investor for the construction of the Belene Power Plant. The invitation also gives the opportunity to declare interest in acquiring a minority stake in the future project company and / or to purchase electricity from the future power plant. In accordance with the procedure for selecting a strategic investor for the construction of the Belene Power Plant, the Ministry of Energy sent letters to five companies included in the "short list" prepared by a working group to confirm their intention to continue their participation in the selection procedure by submitting binding offers. By 31 January 2020, confirmation letters for submitting binding bids from all five companies were received by the Ministry of Energy.

The indicative deadline for candidates to submit binding offers was planned for 31 May 2020, but given the onset of the COVID-19 pandemic, the deadline for preparation of binding offers has been postponed and will start from the date on which the candidates are provided physical access to the information department for the Belene Project, located in the building of NEK.

As at 31 December 2020, the amount presented in Note 19 *Property, plant and equipment* of the consolidated financial statements includes property, plant and equipment, related to the construction of the Belene Power Plant with a total carrying amount of BGN 2,399,080 thousand (31 December 2019: BGN 2,349,474 thousand), of which assets under construction are BGN 2,325,019 thousand (31 December 2019: BGN 2,273,205 thousand). In accordance with its accounting policy, the Group has agreed to capitalise all costs directly attributable to the Belene Project as assets under construction until a final decision about the future of the Belene Project has been made.

The Group is not able to make a reliable estimate of the recognised assets related to the Belene Project and accordingly in the financial statements as at 31 December 2020 no impairment loss is recognised, as well as provisions for possible future liabilities of the Group related to the construction of the Belene Power Plant. We were unable to obtain sufficient and appropriate audit evidence regarding the recoverable value of the above stated assets of the Group and the completeness of the recognised liabilities related to the

Belene Project, respectively we have not been able to determine whether any adjustments to these amounts are necessary or to determine their effect on the consolidated financial statements as at 31 December 2020.

2. As disclosed in Note 19 *Property, plant and equipment* of the consolidated financial statements, for assets under construction with carrying amount of BGN 38,053 thousand as at 31 December 2020 (31 December 2019: BGN 37,994 thousand) implementation of which has been discontinued by the Group and postponed for a period exceeding five years, we were unable to obtain sufficient and appropriate audit evidence regarding the recoverable value of these assets to become convinced with reasonable assurance about their amount and to determine whether any adjustments of the amount of these assets are necessary and the possible amount of the impairment as at 31 December 2020.
3. As is disclosed in Note 4.27 *Provisions - Provision for decommissioning of nuclear facilities* of the consolidated financial statements, as at 31 December 2020, the Group's activity gives rise to the necessity to provide for future expenses for the decommissioning of nuclear facilities. According to the legislation currently in force and other international agreements, a portion of these expenses could be assumed by national and international funds. In accordance with the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the Group should recognise provisions for decommissioning of nuclear facilities and a separate asset for its right to receive reimbursements in the event the asset's value can be reliably determined. We were not provided with an assessment of these future expenses and any related reimbursements. Consequently, we were not able to become convinced with reasonable assurance about the assessment of provisions and receivables related to them as at 31 December 2020.
4. As disclosed in Note 35 *Related party disclosures* of the consolidated financial statements, as at 31 December 2020, the Group, through its subsidiary NEK, has not recognised any liability in respect of a commitment to a counterparty under the Agreement dated 7th March 2016 for reimbursement of expenses for capital investment amounting to BGN 23,470 thousand. Due to the lack of a mechanism under the legislation in force at the date of preparation of the 2020 Financial Statements to reimburse these costs, the Group has not recognised this liability as of the date of the report. In 2019, the counterparty initiated arbitration proceedings against the Group and filed a claim for the amount of BGN 23,470 thousand, representing the outstanding principal and BGN 1,269 thousand representing contractual interest for delay as of the date of service of the notice of arbitration.

As a result, we were unable to obtain sufficient and appropriate audit evidence, regarding the completeness of the recognised liabilities in the 2020 Financial Statements and the related receivables as at 31 December 2020.

Emphasis of matter

1. As at 31 December 2020, the Group through its subsidiary NEK, exploits property and equipment disclosed in Note 19 *Property, plant and equipment* of the 2020 Financial Statements, with a carrying amount of BGN 882,950 thousand (2019: BGN 892,867 thousand), which have been declared public state property under the Bulgarian Waters Act, in force as of January 2000 (the "**Water Act**"). According to the requirements of the Water Act, the functions of management and maintenance of dam walls and their facilities should be performed by a "dam wall operator", which as at the date of the 2020 Financial Statements has not yet been assigned to NEK by the competent authorities. As at the date of the 2020 Financial Statements, there is no change in the legislation regarding the ownership and exploitation of these assets.

2. We draw attention to the disclosure in Note 4.27 *Provisions* and Note 40 *Commitments and Contingent Liabilities* of the 2020 Financial Statements, where information about the Group's commitments under a concession contract for the development and mining of coal, is disclosed. The financial collateral obligation for the decommissioning costs of the concession area is realised by setting aside funds into special security accounts that can be used only for the purpose for which they are intended. Despite the actions taken by the Group and the commencement of a procedure for opening special accounts, as at 31 December 2020 the procedure is not finalised and Group does not have funds set aside in an additional guaranteed bank account and has not issued a bank guarantee in favour of the concession provider to secure contract activities.

Our opinion is not modified in respect of these matters."

2019 Financial Statements

HLB Bulgaria has audited the Group's 2019 Financial Statements. HLB Bulgaria's audit opinion, included in the 2019 Financial Statements, contains the following qualifications and emphasis of matter paragraphs:

"Qualified Opinion

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion* section of our report the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS as adopted by the EU.

Basis for Qualified Opinion

1. The Group has concluded an agreement for the construction of the Belene Power Plant, as disclosed in Note 19 *Property, plant and equipment* of the consolidated financial statements. In 2012, the Government decided to discontinue the construction of the Belene Power Plant and pursuant to a Decision, dated 27 February 2013, the National Assembly upheld this decision. Pursuant to a Decision of the National Assembly, dated 7 June 2018, the Government repealed the 2012 Decision for termination of the construction of the Belene Power Plant in order to negotiate with potential investors and equipment manufacturers.

As at 31 December 2019, as disclosed in Note 19 *Property, plant and equipment* of the consolidated financial statements, the property, plant and equipment related to the construction of the Belene Power Plant, had a total carrying amount of BGN 2,349,474 thousand (31 December 2018: BGN 2,301,952 thousand), of which BGN 2,273,205 thousand are included as assets under construction (31 December 2018: BGN 2,223,404 thousand). According to its accounting policy, the Group capitalizes all costs directly attributable to the Belene Project as property, plant and equipment under construction until a final decision on the Belene Project's future is made.

The Group is not able to reliably estimate the recognised assets related to the Belene Project and consequently in the consolidated financial statements as at 31 December 2019 it has not recognised the impairment loss of the assets related to the Belene Project. We were unable to obtain sufficient and appropriate audit evidence regarding the recoverable amount of the above stated assets of the Group related to the Belene Project and consequently we were unable to determine whether any adjustments of these amounts are necessary and their effect on the consolidated financial statements as at 31 December 2019.

2. As disclosed in Note 19 *Property, plant and equipment* of the consolidated financial statements, implementation has been discontinued by the Group and postponed for a period exceeding five years for assets under construction with carrying amount of BGN 37,994 thousand as at 31 December 2019 (31 December 2018: BGN 37,939 thousand). We were unable to obtain sufficient and appropriate audit evidence, regarding the recoverable value of these assets to become convinced with reasonable assurance about their amount and to determine whether any adjustments of the amount of these assets are necessary and the possible amount of the impairment as at 31 December 2019.
3. As disclosed in Note 4.27 *Provisions – Provision for decommissioning of nuclear facilities* of the consolidated financial statements, as at 31 December 2019, the Group's activity gives rise to the necessity to provide for future expenses for the decommissioning of nuclear facilities. According to the legislation currently in force and other international agreements, a portion of these expenses could be assumed by national and international funds. In accordance with the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the Group should recognise provisions for decommissioning of nuclear facilities and a separate asset for its right to receive reimbursements in the event the asset's value can be reliably determined. We were not provided with an assessment of these future expenses and any related reimbursements. Consequently, we were not able to become convinced with reasonable assurance about the assessment of provisions and receivables related to them as at 31 December 2019.
4. As disclosed in Note 35 *Related party disclosures* of the consolidated financial statements, as at 31 December 2019, the Group, through its subsidiary NEK, had not recognised any liability in respect of a commitment to a counterparty under the Agreement dated 7 March 2016 for reimbursement of expenses for capital investment amounting to BGN 23,470 thousand. Due to the lack of a mechanism under the legislation in force as at the date of preparation of the 2019 Financial Statements to reimburse these costs, the Group has not recognised this obligation as of the date of the report. In 2019, the counterparty initiated arbitration proceedings against the Group and filed a claim for the amount of BGN 23,470 thousand, representing outstanding principal and BGN 1,269 thousand representing contractual interest for delay as of the date of service of the notice of arbitration.

Emphasis of matter

1. The Group through its subsidiary NEK, utilizes property and equipment, disclosed in Note 19 *Property, plant and equipment* of the 2019 Financial Statements with a carrying amount of BGN 892,867 thousand as at 31 December 2019, which are under the regulation of the Water Act and are public state property. The Act has provisions for separate management of such assets by legal entities with a hundred per cent. public ownership, or by legal entities with joint state and municipal participation, where the state has a majority share, or by legal entities whose share capital is owned by other legal entities with state participation.
2. We draw attention to the disclosure in Note 40 *Commitments and contingent liabilities* of the 2019 Financial Statements, where information about the Group's commitments under a concession contract for the development and mining of coal is disclosed. The financial collateral obligation for the decommissioning costs of the concession area is applied by setting aside funds into special security accounts that can be used only for the purpose for which they are intended. As at 31 December 2019 the Group had not set aside funds in a guaranteed bank account and has not issued a bank guarantee in favour of the concession provider to secure contract activities.

Our opinion is not modified in respect of these matters."

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 Financial Statements.

At the request of the Group, Grant Thornton OOD ("**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 for the years ended 31 December 2020 and 31 December 2019 included in this Prospectus and have compared it with the audited consolidated financial statements of the Issuer for the years ended 31 December 2020 and 31 December 2019, respectively, incorporated by reference into this Prospectus. 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 reports on the consolidated financial statements of the Issuer as of and for the years ended 31 December 2020 and 31 December 2019. No significant findings or events came to the attention of Grant Thornton as a result of their review and analysis other than such qualifications and emphases of matters as are contained in the audit reports on the consolidated financial statements of the Issuer for the years ended 31 December 2019 and 31 December 2020 as described in "*Presentation of Financial and Other Information*".

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;
- "**2019**" are to the 12 months ended 31 December 2019;
- "**2020**" are to the 12 months ended 31 December 2020; 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.

In this Prospectus, unless the contrary intention appears, a reference to a law or a provision is a reference to that law or provision as extended, amended or re-enacted.

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 (as defined in the Terms and Conditions of the Bonds) 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 600,000,000 2.45 per cent. Bonds due 2028
Joint Bookrunners	Citigroup Global Markets Europe AG J.P. Morgan AG
Fiscal, Principal Paying Agent and Transfer Agent:	Citibank N.A., London Branch
Registrar:	Citigroup Global Markets Europe AG
Issue Price:	100 per cent. of the principal amount of the Bonds.
Issue Date:	22 July 2021
Maturity Date:	22 July 2028
Interest:	The Bonds will bear interest from and including 22 July 2021 at a rate of 2.45 per cent. per annum payable annually in arrear on 22 July in each year, commencing on 22 July 2022.
Status:	The Bonds constitute (subject to Condition 4(a) (<i>Negative Pledge</i>) of the Terms and Conditions of the Bonds) direct, general, unconditional, unsecured and unsubordinated obligations of the Issuer which shall rank <i>pari passu</i> 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) (<i>Negative Pledge</i>) 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 a 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 therein. See " <i>Summary of Provisions Relating to the Bonds While in Global Form</i> ".
Use of Proceeds:	The Issuer intends to use the net proceeds from the issue of the Bonds (i) to repay its EUR 550 million 4.875 per cent. Bonds issued in August 2016 (the " 2016 Bonds ") when they become due on 2 August 2021 and (ii) for general corporate purposes, excluding coal-related activities. See " <i>Use of Proceeds</i> ".

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 1.0. This covenant may cease to apply in certain circumstances – see "*Terms and Conditions of the Bonds—Covenants—Financial Covenants*".

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 (свърхзадължен) 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 22 July 2028.

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 redeem, in whole or in part, the Bonds at any time (a) prior to the day that is 90 days prior to the Maturity Date, 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 0.5 per cent., in each case as determined by the Determination Agent, or (b) during the period commencing on (and including) the day that is 90 days prior to the Maturity Date to (but excluding) the Maturity Date, at their principal amount, in each case together with interest accrued to (but excluding) the date of redemption. 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 Issuer and 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 Issuer and 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 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 a rating of BB by Fitch and Ba2 by Moody's.

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:

There are restriction on the offer, sale and transfer of the Bonds in the United States, the United Kingdom, the EEA, Hong Kong and Singapore. See "*Subscription and Sale*" below.

Listing and Trading:

Application has been made to Euronext Dublin for the Bonds to be

admitted to the Official List and to trading on the regulated market of Euronext Dublin.. The regulated market of Euronext Dublin is a regulated market for the purposes of MiFID II.

Clearing Systems:

Euroclear and Clearstream, Luxembourg for trading on Euronext Dublin.

Security Codes:

ISIN : XS2367164576

Common Code : 236716457

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Prospectus shall be incorporated in, and form part of, this Prospectus:

- (a) the audited consolidated financial statements of the Issuer for the year ended 31 December 2020 (the "**2020 Financial Statements**"), which may be obtained from the website of the Issuer at: <https://bgenh.com/storage/app/public/uploads/files/finans/2020/31.12/FSconsBEH2020ENaud.pdf>, comprising the information set out at the following sections and pages:

Independent auditor's report	Section v, pages 1 to 8
Consolidated statement of profit or loss	Section vi, page 1
Consolidated statement of comprehensive income.....	Section vi, page 2
Consolidated statement of financial position.....	Section vi, page 3 to 4
Consolidated statement of changes in equity.....	Section vi, pages 5 to 6
Consolidated statement of cash flows.....	Section vi, page 7
Notes to the consolidated financial statements	Section vi, pages 8 to 106

- (b) the audited consolidated financial statements of the Issuer for the year ended 31 December 2019 (the "**2019 Financial Statements**") which may be obtained from the website of the Issuer at: https://bgenh.com/storage/app/public/uploads/files/finans/2019/31.12/FS_CONS_BEH_2019_ENG.pdf, comprising the information set out at the following sections and pages:

Independent auditor's report	Section v, pages 1 to 7
Consolidated statement of profit or loss	Section vi, page 1
Consolidated statement of comprehensive income.....	Section vi, page 2
Consolidated statement of financial position.....	Section vi, pages 3 to 4
Consolidated statement of changes in equity.....	Section vi, pages 5 to 6
Consolidated statement of cash flows.....	Section vi, page 7
Notes to the consolidated financial statements	Section vi, pages 8 to 118

Following the publication of this Prospectus but prior to the Issue Date a supplement may be prepared by the Issuer and approved by the Central Bank of Ireland in accordance with Article 23 of the Prospectus Regulation. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus or in a document which is incorporated by reference in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

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, 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 Group's Financing

The Group has substantial borrowings 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 amounting to BGN 3,320 million, or 38.2 per cent. of the Group's total liabilities, at 31 December 2020. As a holding company, BEH's principal sources of recurring cash flow are dividends from its subsidiaries and repayment of loans granted by BEH to its subsidiaries and third parties. 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 and repay the intercompany debt to enable BEH to service its debt, meet its other obligations or fund its planned capital expenditures without the need for additional external financing.

In particular, the 2016 Bonds are due to be redeemed in August 2021 and the EUR 400 million 3.500 per cent. Bonds issued on 28 June 2018 consolidated and forming a single series with the EUR 150 million 3.500 per cent. Bonds issued on 31 July 2018 and the EUR 50 million 3.500 per cent. Bonds issued on 10 October 2018, with a total aggregate principal amount of EUR 600 million (the "**2018 Bonds**") are due to be redeemed in June 2025 and part of these amounts 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 bonds 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, prospects, financial condition and results of operations.

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

HLB Bulgaria has audited the 2020 Financial Statements. HLB Bulgaria's audit report, included in the 2020 Financial Statements (the "**2020 Audit Report**"), is subject to certain qualifications in relation to:

- the value of certain assets and liabilities relating to the Belene Project, the construction of which was discontinued in 2012 and which gives rise to a potential impairment of property, plant and equipment of up to BGN 2,399 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. Any impairment of the assets relating to the Belene Project could have a significant material adverse impact on the Group's financial position;
- 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 38.1 million. The assets relate to various projects of NEK including the Gorna Arda hydropower cascade, the Mesta project and some other smaller projects. The impact on the 2020 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;
- the Group not recognising any provisions for decommissioning its nuclear facilities as the Group is not able to assess with a high level of certainty the amount of the provisions and the respective assets (if any) which should be recognised. If the Group is required to make provisions in relation to decommissioning its nuclear facilities, the Group's liabilities and expenses may increase materially; and
- the Group not recognising any liabilities for its commitment to Contour Global under the terms of its PPA to reimburse investment costs in the amount of BGN 23.5 million because of the lack of a mechanism for reimbursement. If the Group is required to make provisions in relation to this commitment, the Group's liabilities and expenses may increase materially.

The 2020 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. Any of these matters could have a material adverse effect on the business, prospects, financial condition and results of operations of the Group. For further detail see "*Presentation of Financial and Other Information - Qualifications and Emphases of Matter in the Financial Statements – 2020 Financial Statements*" as well as the 2020 Financial Statements (including the 2020 Audit Report) incorporated by reference into this Prospectus.

HLB Bulgaria has also audited the 2019 Financial Statements. HLB Bulgaria's audit report included in the 2019 Financial Statements (the "**2019 Audit Report**") is subject to similar qualifications as the 2020 Audit Report. The 2019 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. Any of these matters could have a material adverse effect on the business, prospects, financial condition and results of operations of the Group. For further detail see "*Presentation of Financial and Other Information - Qualifications and Emphases of Matter in*

the Financial Statements – 2019 Financial Statements” as well as the 2019 Financial Statements (including the 2019 Audit Report) incorporated by reference into this Prospectus.

The issues that are the subject of the auditors’ qualifications and emphases of matter could result in material restatements to the 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 and emphases of matter 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 and emphases of matter were accounted for 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. If NEK is declared to be insolvent by a Bulgarian court, this will result in an event of default under the 2016 Bonds, the 2018 Bonds and other Group financings.

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 a positive outlook by Fitch which was issued on 7 May 2021 and a long-term corporate family rating of Ba1, a probability of default rating of Ba1-PD and a senior unsecured debt rating of Ba2 with stable outlook by Moody's which was affirmed on 9 December 2020. 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 the Group's business, prospects, financial condition and results of operations.

Certain of the Group's debt facilities and its existing bonds 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 and existing bonds 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, prospects, financial condition and results of operations.

The Ministry of Energy has agreed to provide the Group's subsidiary, Natsionalna Elektricheska Kompania EAD ("NEK") with EUR 602 million of financial assistance following the outcome of the arbitration in connection with the discontinued Belene Project. Any steps taken by the Ministry of Energy to recover the financial assistance following a failure of NEK to repay it could have a significant material adverse impact on the Group's financial position.

Following the cancellation of the Belene Project by the 2012 Decision of the Bulgarian Government, ZAO Atomstroyexport ("ASE"), which had been contracted for the design and construction of new units of the nuclear power plant ("NPP"), commenced arbitral proceedings against NEK claiming damages and loss of profits in relation to the discontinued project. NEK and ASE reached a settlement in October 2016 which provided that NEK would pay ASE the full amount of the awarded principal and interest of EUR 601,617,133 (BGN 1,176,660,837) on or before 15 December 2016. The final payment was made on 8 December 2016.

In respect of this arbitral award, the Bulgarian government passed a law in September 2016 for the provision of reimbursable financial assistance by the Bulgarian government to NEK. Consequently, in December 2016, NEK and the Ministry of Energy signed a contract for the provision to NEK of EUR 601,617,133 (BGN 1,176,660,837) on an interest-free basis with a bullet repayment due in December 2023 (which is prior to the maturity date of the Bonds).

Unless the Belene Project is restarted by the Ministry of Energy with a strategic investor (in which case the assets and liabilities relating to the Belene Project may be transferred off the Group's balance sheet) or the Energy and Water Regulatory Commission ("EWRC") takes measures to reimburse NEK for the historical tariff deficits (see "*Business Description — Business — NEK*") which provide sufficient funds to repay the financial assistance, it is unlikely the Group will be able to repay the financial assistance in 2023. The Bulgarian Government has instructed the Ministry of Energy to resume the search for a strategic investor for the construction of the Belene Power Plant, including the acquisition of a minority interest in any future project company for the Belene Project and/or to purchase electricity from the future power plant.

Pursuant to the 2018 Decision of the National Assembly, the Government repealed the 2012 Decision to discontinue the construction of the Belene Power Plant in order to negotiate with potential investors and equipment manufacturers. Following the 2018 Decision, the Government has resumed searching for opportunities for construction of the Belene Power Plant and for a strategic investor, on a market basis principle and without providing a state guarantee. For these purposes it is proposed that the Group transfer the assets and liabilities related to the Belene Project into a separate project company once a strategic investor has been selected. Pursuant to the 2018 Decision, and to the decision of the Council of Ministers dated 28 June 2018, the Group's subsidiary NEK issued an invitation for selection of a strategic investor for the construction of the Belene Power Plant. The invitation also provides potential investors with the option to declare interest in acquiring a minority interest in the Belene Project and/or to purchase electricity from the future power plant. To aid the selection of a strategic investor, the Ministry of Energy sent requests to five short-listed candidates to confirm their intention to submit a binding offer. As at 31 January 2020, the Ministry of Energy had received confirmation from all five candidates. The indicative deadline for candidates to submit binding offers was set as 31 May 2020, but given the onset of the COVID-19 pandemic, the deadline for preparation of binding offers has been postponed and will start running from the date on which the candidates are provided with physical access to the Belene Project "data room", situated at NEK's premises. This date is dependent on the lifting of the COVID-19 restrictions that currently prevent the candidates from being able to visit the data room.

BEH believes that it is unlikely that the Ministry of Energy will take any steps to recover the financial assistance when it becomes due in December 2023, including any steps that might affect the ability of the Issuer to repay the Bonds or trigger a cross-default in any of the Group's other financings, and would expect the Ministry of Energy to

increase the equity in BEH by the value of the financial assistance. However, if NEK fails to repay the financial assistance on the date upon which it becomes due and the Ministry of Energy takes steps to recover the outstanding amount, then this could have a significant material adverse impact on the Group's business, prospects, financial condition and results of operations.

Risks related to the Group operating in Bulgaria and the Balkan region

The Group's operations are focused on 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, gas supply and electricity and gas transmission services primarily to Bulgarian customers, lignite coal to power producers in Bulgaria and exporting 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, a decline in Bulgaria's gross domestic product, a governmental budget deficit or other fiscal difficulties, unprofitable state energy ventures, changes in commodity prices and an inability or difficulty in importing gas.

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.

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 or countries with credit ratings similar to those of Bulgaria. The markets in which the Group operates have been adversely affected by "contagion" effects in the past, including macroeconomic events such as the European sovereign debt crisis, the global financial crisis and the COVID-19 global outbreak. No assurance can be given that the Group's business, financial condition, cash flows, results of operations or prospects will not be affected by similar events in the future.

In addition, adverse political or economic developments in other countries, and related market volatility and uncertainties, could have a significant negative impact on GDP, as well as the overall economic, political and social conditions, in Bulgaria and in the Balkan region.

The Group may be exposed to increased competition in the electricity and gas markets in Bulgaria and abroad, including as a result of the ongoing 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 together accounted for 56 per cent. of total electricity generation in Bulgaria in 2020.

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 particular, the Group may be exposed to competition resulting from an increase in energy generation capacities in neighbouring countries which are not part of the EU and Energy Union. 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, prospects, financial condition and results of operations.

Risks related to the Group operating in the energy sector

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. Following gradual implementation between 2013 and 2019, since 2019 the Group has been required to purchase all of its allowances through auctions. The number of emissions allowances required by the Group in any year can vary depending on several factors including changes in electricity prices and the regulated electricity quota (which determine how much electricity a plant will be able to sell and/or produce and consequently the quantities of CO₂ it will emit) and its plants' participation in tenders for auxiliary services and cold reserve (as these do not generate CO₂ and plants are paid for availability).

The legislative framework of the EU-ETS for phase 4 was revised in 2018 to ensure emissions reductions in support of the EU's 2030 emissions reduction target (of -40 per cent. relative to 1990 level) and as part of the EU's contribution to the Paris Agreement. The amendments included an increase in the annual reduction in the number of emission allowances from 1.74 per cent. to 2.2 per cent. after 2020 and until 2030 and provided for the sharing by the energy sector of part of the free allowances with energy-intensive industries. The European Union further approved the introduction of the market stability reserve (the "MRS") 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. For the period from 2019 to 2023, the percentage of the total number of allowances in circulation, which determines the number of allowances that may be put in the MRS if the threshold of 833 million allowances is exceeded, has temporarily been doubled from 12 per cent. to 24 per cent. In addition, from 2023 allowances held in the MRS above the previous year's auction volume will no longer be valid. For the period up to 31 December 2020¹, there were 1,924,551,469 allowances in the MRS and in line with the MRS rules, over a 12-month period – from 1 September 2021 to 31 August 2022, a total of 378,905,382 allowances will be placed in the MRS.

On 11 December 2019, the European Commission presented The European Green Deal (the "EGD") which contains policy initiatives aimed at achieving climate neutrality in 2050 (with no net emissions of greenhouse gases) and decoupling economic growth from resource use. In view of the new targets for carbon neutrality set out in the EGD, the EU-ETS is under review. Adoption of the amended directive was expected in the second quarter of

¹ Source: https://ec.europa.eu/clima/sites/clima/files/ets/reform/docs/c_2021_3266_en.pdf

2021, but the amendments have not yet been published. The amendments are expected to be focused on raising the EU 2030 target for greenhouse gas emission reductions to at least 55 per cent. of 1990 levels².

The European Commission is expected to review all relevant EU policies against these targets, including the EU-ETS, and the European Commission proposes extending the EU-ETS to new sectors of the economy. The EGD requires Bulgaria to take urgent and comprehensive actions for the overall reform of the energy sector, the priority being the transformation of generation facilities. The Integrated National Energy and Climate Plan of the Republic of Bulgaria 2021-2030 (the "**National Energy and Climate Plan**") sets out the following strategic goals and priorities in the area of energy and climate:

- coal-fired power plants to be among the main baseload capacities in the Bulgarian electric power industry until 2030;
- achieving at least 15 per cent. interconnection in the energy sector;
- full liberalisation of the energy power market to be achieved by the end of 2024; and
- 27 per cent. share of renewable energy in the total electricity generation mix by 2030.

For further detail on the EGD and its implementation in Bulgaria see "*Regulation, Environment and Health and Safety—Regulation*" and for the risks related to the new environmental regulations see the risk factor entitled "*New European Union environmental regulation may increase the Group's capital expenditure and have a negative effect on its financial performance*" below.

In addition, in 2020, 9 per cent. of the electricity generated by the Group's power plant, TPP Maritsa East 2, is sold at regulated prices determined by EWRC. The regulated prices do not follow the market changes in the cost of CO₂ emission allowances and thus the regulated sale prices charged by the Group do not adequately reflect the costs it incurs. This deficit may have a material adverse effect on the profitability of TPP Maritsa East 2 which in turn could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The implementation of all measures related to achieving the EGD targets and the strategic goals and priorities of the National Energy and Climate Plan, whether as a result of regulatory changes or otherwise, could make some of the Group's activities less economically viable, which would have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

Disruptions in the supply of lignite coal, fuel oil, nuclear 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, lignite 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 for the supply and removal of 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—Natural Gas—Bulgargaz*"). As a result the

² Source: <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12660-Climate-change-updating-the-EU-emissions-trading-system-ETS-en>

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 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 EWRC 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, oil and CO₂. 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 business, prospects, financial condition and results of operations.

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 smaller extent, Europe. See *"Risk Factors - Risks related to the Group operating in Bulgaria and the Balkan region - The Group's operations are focused on Bulgaria and the Balkan region. As a public utility, its results of operations are significantly affected by economic conditions in Bulgaria and the region"*. Any decline in the 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 2020, the Group's accumulated impairment charge in respect of doubtful trade receivables amounted to BGN 461 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, prospects, financial condition and results of operations.

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

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 NPP, 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.

The Group's subsidiary which operates the NPP, NPP Kozloduy EAD, will be principally responsible for the decommissioning costs of the remaining two units at the plant. To finance this future liability, NPP Kozloduy EAD contributes approximately 10.5 per cent. of its revenue from electricity sales, which amounted to BGN 131.9 million in 2020 and BGN 137.8 million in 2019, to a decommissioning of nuclear facilities fund (7.5 per cent. of revenue from electricity sales) and a radioactive waste ("RAW") fund (3 per cent. of revenue). These are state-owned funds which are managed by the Ministry of Energy. The level of contributions is the subject of regular assessments by the Ministry of Energy and 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 business, prospects, financial condition and results of operations. Pursuant to the Bulgarian Safe Use of Nuclear Energy Act, where the implementation of the decommissioning project proves more costly than the estimates of these costs approved by the Management Board of the funds, the requisite additional costs shall be for the account of the person which last operated the nuclear facility according to the operating licence as issued. See also "*— The audit opinions in respect of the Financial Statements have been qualified in a number of significant respects.*"

Electricity and gas consumption, and the Group's hydro 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 accounted for approximately 11.1 per cent. of the Group's generation in 2020, so the effects of variable hydrological conditions on the Group are limited.

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 NPP, 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 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, litigation and negative publicity from such an accident. As a result, any nuclear accident suffered by the Group's NPP could have a material adverse effect on the Group's business, prospects, financial condition and results of operations. See also "*—The Group does not insure itself against all potential risks and may become subject to higher insurance premiums*".

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 NPP. 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, prospects, financial condition and results of operations.

Risks arise for the Group's business from technological changes in the energy market

The energy market is subject to far-reaching technological change, both on the generation side and on the demand side. For example, with respect to energy generation, the development of energy storage devices (battery storage in the megawatt range) or facilities for the temporary storage of power through conversion to gas (so-called "power-

to-gas-technology”), the increase in energy supply due to new technological applications such as fracking or the digitalisation of generation and distribution networks are all examples of new technologies that could have a significant impact on the industry.

New technologies to increase energy efficiency and improve heat insulation, for the direct generation of power at the consumer level, or that enable improved refeeding (for example, by using power storage for renewable generation) may, on the demand side, lead to structural market changes in favour of energy sources with low or zero CO₂ or in favour of decentralised power generation, for instance via small-scale power plants within or close to residential areas or industrial facilities.

If the Group's business is unable to react to changes resulting from new technological developments and the associated changes in market structure, this could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

Risks related to the Group's business in general

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 2020, BEH's current and non-current borrowings amounted to BGN 3,320 million, or 16.3 per cent. of the Group's total assets. This included BGN 58.7 million (EUR 30 million), or 1.8 per cent. of the Group's total borrowings, which had been advanced as loans mainly to ICGB AD ("**ICGB**") under a EUR 109.9 million Financing Agreement between BEH and the European Investment Bank ("**EIB**"), signed in October 2019, through which EIB provides financing for the construction of the gas pipeline (the "**IGB**") connecting Bulgaria to Greece (the "**IGB Project**") secured by a state financial guarantee from the Republic of Bulgaria. BEH transferred this loan to ICGB by way of a shareholder loan agreement with the same terms and conditions as those on which it was provided by EIB, and the total amount drawn down under these loans by BEH and ICGB, respectively, as of 18 January 2021 was EUR 60 million. ICGB is a joint venture company in which BEH holds 50 per cent. of the share capital. BEH may use a similar shareholder loan structure with respect to other financings and other BEH subsidiaries.

In the event of any insolvency of BEH's subsidiaries, claims of their secured and unsecured creditors, including trade creditors, banks and other lenders, will have priority with respect to the assets of the relevant subsidiary over any claims of BEH as a shareholder or any corresponding claims that BEH's 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 in respect of any claim of BEH as a shareholder to the claims of all creditors of BEH's subsidiaries. The Conditions of the Bonds, together with those of the 2016 Bonds and the 2018 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 2020, 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 2020, outstanding loans of BGN 222 million, or 1.1 per cent. of the Group's total assets, had been guaranteed by the Bulgarian government. A further EUR 109.9 million guarantee has been given by the Bulgarian government to guarantee BEH's EUR 109.9 million financing agreement with EIB for the purposes of funding the IGB Project. 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".

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, electricity and transmission assets and storage. Capital expenditure for 2021 is expected to be approximately BGN 1,135 million, after which it is expected to average approximately BGN 680 million per year for the 2022-2025 period, comprising on average of approximately BGN 130 million in discretionary capital expenditure and approximately BGN 550 million of minimum maintenance capital expenditure. 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. In addition, the Group's projects may be adversely affected by changes in Bulgarian government policy.

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, within budget or at all. 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 may 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 will be 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, prospects, financial condition and results of operations.

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, prospects, financial condition and results of operations.

See also "*Legal, Regulatory and Tax risks - New European Union environmental regulation may increase the Group's capital expenditure and have a negative effect on its financial performance*".

Pandemics such as the COVID-19 pandemic may have a material adverse effect on the Group's business results of operations or financial condition

A severe acute respiratory illness caused by a new coronavirus (SARS-CoV-2, known as "**COVID-19**") was first reported in December 2019 and has subsequently spread throughout the world. On 30 January 2020, the World Health Organisation ("**WHO**") declared COVID-19 a public health emergency of international concern and on 11 March 2020, the WHO declared the outbreak a pandemic. COVID-19 has had and continues to have adverse repercussions in Bulgaria and across regional and global economies and financial markets which adversely affect Bulgaria.

In response to the pandemic, the governments of more than 80 countries across the world, including Bulgaria, introduced measures aimed at preventing the further spread of COVID-19, including amongst others, orders for businesses and government institutions to temporarily suspend operations, closures of places where large groups of people gather such as schools, sports facilities and bars and restaurants, large-scale lockdowns and home confinement, border controls and travel and other restrictions. Such measures have disrupted the normal flow of business operations both globally and locally, affected global supply chains, global manufacturing, tourism, consumer spending and asset prices. The COVID-19 pandemic has triggered significant global market turmoil and has produced a negative impact on the level of global and local economic activity.

Bulgarian GDP grew by 3.7 per cent. in 2019, but contracted by 4.2 per cent. in 2020 due to the COVID-19 pandemic (mainly through the fall in exports of goods and services). According to the Bulgarian National Statistical Institute (the "NSI")³, GDP fell by 1.8 per cent. in the first quarter of 2021 as compared to the first quarter of 2020, though increased by 2.5 per cent. as compared to the fourth quarter of 2020 (according to seasonally adjusted data).

In response to the global economic downturn, central banks and monetary authorities are, as at the date of this Prospectus, engaging in an ongoing series of interventions in financial markets and national governments are announcing fiscal policy initiatives to stimulate their economies. The recovery of economies partially depends on the measures taken by governments to ease the imposed restrictions, including the success of vaccination schemes and whether vaccine resistant strains develop, and the pace of any recovery remains uncertain.

The COVID-19 pandemic has affected and may continue to affect the Group's industry and business in a number of ways, including but not limited to:

- declines in prices of the Group's products;
- decrease in sales volume of the Group's products due to a decline in demand;
- increase in transportation expenses of the Group;
- limiting the Group's ability to generate cash flow, and as a result, affecting its financial condition;
- causing the Group to delay, postpone or cancel certain of its investment projects;
- impacting the Group's ability to enter into new strategic transactions or to finalise strategic transactions on previously agreed terms and timetables;
- requiring the Group to make operational changes and implement measures to ensure the health and safety of its employees and counterparties, which may involve increased costs or operational inefficiencies; and
- deterioration of the Group's customers' creditworthiness.

As a result of the COVID-19 pandemic, the Group's sales of electricity in 2020 were affected by significant changes in the structure and volumes of the free market sales of the Group's NPP. Long-term products with a delivery period in 2020 were 3,967,453 MWh, as compared to long-term products with a delivery period in 2019 of 10,468,214 MWh, a reduction of 62.1 per cent. For the first time in its history, the sales of the NPP in the day ahead market represented the main portion of its free market sales, where the volume of exchange transactions realised in 2020 was 8,742,733 MWh, as compared to 4,089,211 MWh in 2019, an increase of 213.8 per cent. Sales on the day ahead market increased as a result of the transfer of rejected volumes under long-term contracts to the day ahead market due to the emergency situation caused by the COVID-19 pandemic. Growth of sales in the

³ https://www.nsi.bg/sites/default/files/files/pressreleases/FlashEstGDP2021q1_en_OZZXJFV.pdf

intraday market hourly segment were also reported, mainly due to the selling of rejected volumes under long-term contracts for the period March-April 2020, and imbalances in energy optimisation transactions.

Whilst as at the date of this Prospectus the Group is not able to estimate and quantify in full the negative effects that the COVID-19 outbreak might have on its business, financial condition and results of operations the Group experienced a decrease in the domestic free market sales of electricity, the sales of natural gas, the volume of natural gas transmission and the production of lignite coal all as a result of decreased customer demand due to the impact of the COVID-19 pandemic (please see "*Business Description*" and "*Financial Review*" below). The overall impact of the pandemic on the Group's business will depend on a range of factors which it is not possible to accurately predict, including the duration, severity, potential recurrence and scope of the pandemic and the extensiveness of measures adopted by governments.

There is still, as at the date of this Prospectus, significant uncertainty relating to the severity of the near and long-term adverse impact of the COVID-19 pandemic on the global economy, global financial markets and the Bulgarian economy, and the Group is not able to accurately predict the near-term or long-term impact of the COVID-19 pandemic on the Group's business, financial condition and results of operations. It is possible that the current COVID-19 pandemic will cause a prolonged global economic crisis or recession, which could have a negative impact on the Bulgarian economy in general and the Group's industry and business in particular. To the extent the COVID-19 pandemic adversely affects the Group's business and financial results, it may also have the effect of heightening many of the other risks described in this "*Risk Factors*" section.

The Group may not successfully implement its key strategies.

The Group faces many risks that could adversely affect its ability to implement its key strategies (See "*Business Description—Strategy*"), such as changes in electricity demand in Bulgaria, changes in regulatory frameworks, increases in generation and emission costs, future developments affecting the electricity infrastructure within the markets in which the Group operates, competition and political and economic developments affecting Bulgaria. Any failure to implement the Group's key strategies successfully could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

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 and U.S. dollars. 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 details of this exposure are set out in Note 37.3 to its 2020 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 37.3 to its 2020 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 business, prospects, financial condition and results of operations.

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.

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

Group companies enter into contracts with a range of counterparties, including contractors, sub-contractors, 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 the Group's business, prospects, financial condition and results of operations.

The Group does not 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, prospects, 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"*.

Risks related to the Group's sole shareholder, the Bulgarian State

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 state 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.

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.

The Bulgarian state currently owns 100 per cent. of the shares in BEH. 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, but 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. Therefore, BEH is not prevented by law from selling any portion of its shareholding in any subsidiary, although (i) the sale of any of its shareholding in any subsidiary can generally only be done with the consent of the Bulgarian Public Enterprises and Control Agency in accordance with procedures set out in the Bulgarian Law on Privatisation and Post-Privatisation Control and (ii) the sale of more than 20 per cent. of the shares of ESO or Bulgartransgaz would require the prior consent of EWRC. 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, prospects, financial condition and results of operations. 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 and/or the requirement to obtain regulatory consents 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. In addition, the sale of more than 20 per cent. of the shares of ESO or Bulgartransgaz would require the prior consent of EWRC. In the event a creditor of BEH attempts to foreclose on the shares of ESO or Bulgartransgaz in the event of a default (which a creditor generally would be entitled to do under Bulgarian law), it is unclear whether such foreclosure would require the consent of EWRC, and the process of obtaining this consent could impose restrictions on creditors seeking to make such a foreclosure.

BEH is exposed to political risk due to the upcoming elections in Bulgaria

On 11 July 2021, snap parliamentary elections will be held in Bulgaria after no party was able or willing to form a government following the April 2021 elections. The new government, once in place, could adopt different policies regarding matters relevant to the Group than the current interim government appointed on 12 May 2021. Differing views and policies could be adopted on matters including, for example, the reforms of the Bulgarian energy sector, market liberalisation, the implementing measures related to the EGD and BEH's dividend policy. Changes to policies regarding these matters may have a material adverse effect on the Group's business and profitability which in turn could affect BEH's ability to make repayments on its debt or otherwise have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

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, in its capacity as the General Assembly of BEH, to nominate and elect all five members of BEH's Board of Directors (the "**Board**") and, through BEH, the boards of directors of all its subsidiary companies. Such appointments must be made on the basis of a competitive recruitment process and election procedure, in accordance with the provisions of the Bulgarian Public Enterprises Act. Board members of BEH are elected for a five-year term and can be replaced by its sole shareholder upon the occurrence of certain events as set out under Article 24 of the Public Enterprises Act. 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 of up to 50 per cent. of the profit disclosed in the consolidated financial statements. Pursuant to the Decision of the Council of Ministers of 28 April 2021, BEH is not obliged to pay a dividend in 2021. In addition, the Group may make decisions that are different from those that it would have made without government influence. See, for example, the increase in capital of TPP Maritsa East 2, as described in "*Business Description – Business – Electricity – TPP Maritsa East 2*". 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 business, prospects, financial condition and results of operations.

Legal, Regulatory and Tax risks

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

The EDG proposes various policy initiatives aimed at transforming the EU to achieve zero net greenhouse gas emissions in the fight against global warming by 2050. The EGD requires urgent action by each member state to respond to the expected changes, resulting from the planned limitation of allowances traded under the EU-ETS and the projected increase in their price. The EGD also provides for the harmonization of the taxation of all fuels, including natural gas, by reference to their CO₂ contribution, as well as the imposition of additional entry duties at EU borders for products produced by third countries in which no adequate measures to tackle climate change are being taken.

The EGD requires Bulgaria to take urgent and comprehensive actions for the overall reform of the energy sector, the main challenge being the transformation of generation facilities. Given Bulgaria's high dependence on coal production, in order to reform the energy sector, it will be necessary to have a mechanism in place to provide for increased capacity from alternative electricity sources by 2030, while at the same time it will be necessary to implement significant investment projects to achieve low-emission production from existing coal capacities, as well as development of alternative energy generation facilities. The use of such alternative fuels and electricity sources may significantly increase the cost of electricity generation in Bulgaria, and to the extent the Group is unable to pass on such cost increases to its customers, this could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

As at the date of this Prospectus there are ongoing discussions between the Bulgarian government and the EC on a revised framework for the energy sector in Bulgaria in line with the EGD, including certain investments to be made in order to realise some of the objectives of the framework under the draft National Recovery and Sustainability Plan for Bulgaria prepared in the context of the European Commission's Plan to Recover Europe from the Coronavirus Pandemic announced in late May 2020. The revised framework is expected to be announced in the near future. Once agreed and adopted, this framework may materially alter the structure and functioning of the Bulgarian energy sector and may have a material impact on the Group. For further detail on the EGD and its implementation in Bulgaria (including the draft National Recovery and Sustainability Plan for Bulgaria) see "*Regulation, Environment and Health and Safety—Regulation*".

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**") imposing limitations on concentration levels of sulphur dioxide ("**SO₂**"), nitric oxide and nitrogen dioxide ("**NO_x**") 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, NO_x and other emissions that could affect the Group's ability to use its current production methods and limit its generation capacity. For instance, in 2017, the European Commission approved the Best Available Techniques Reference document for Large Combustion Plants (the "**BAT Document**") which sets stricter limits on emissions of mercury, NO_x and SO₂ from coal-fired power plants. These new emission limits are expected to be transposed into the IED in 2021. TPP Maritsa East 2 is not able to meet these new limits with its current equipment. In December 2018, the Bulgarian Executive Agency for the Environment granted TPP Maritsa East 2 indefinite derogations from the desulphurisation limit for SO₂ emissions and the mercury limit. An environmental association appealed the derogation decision at the Bulgarian courts and the procedure is ongoing as at the date of this Prospectus (see "*Business Description – Litigation*").

In order to comply with the terms of the derogation decision, TPP Maritsa East 2 is planning complex measures the implementation of which is expected lead to an increase in its flue gas desulphurization systems' efficiency and reduction of the emissions of SO₂. In the event that the appeal of the derogation decision is successful, TPP Maritsa East 2 would not benefit from any derogation from the new limits and these would be applicable in full, which would require material capital expenditure to bring existing equipment in line with these new requirements. The expected cost in order to modernise the existing facilities to reach the emission levels as set out in the new complex permit is BGN 12.6 million. Any such work to upgrade the equipment at TPP Maritsa East 2 to meet the new requirements could also limit the plant's ability to generate power. Any such consequences could have a material adverse effect on the Group's business, prospects, financial condition and results of operations. In 2020 a rise in carbon prices further led to restrictions on the production and sales of TPP Maritsa East 2 and a reduction in its activities including coal mining.

Any new regulations or requirements promulgated by the EU that require the Group to restructure or otherwise change its business in any way or that affect electricity generation, transmission, distribution or supply prices or related financial conditions could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

Changes in the Bulgarian energy regulatory regime, and in tariff regulations in particular, could affect the Group's results of operations and financial condition.

Despite the progress towards the liberalisation of the energy sector in Bulgaria, the Group is still subject to a certain 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, currently purchases electricity under quota obligations at regulated prices from independent producers and sells it at regulated prices principally to four end suppliers, and, in its capacity as the supplier of last resort, to around 14 customers who are connected to the high voltage grid. Also, NEK has been obliged to purchase electricity from combined heat and power generators and from renewable energy sources at feed-in tariffs established by the EWRC (as of 2 February 2021 only from those of them with installed capacity below 500 kW). 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 to date has been derived from the regulated electricity tariff rates NEK charges its customers (approximately 24.4 per cent. in 2020). In addition, a significant portion of its cost of electricity sales has been attributable to the regulated electricity prices which it pays to its suppliers. Although the Bulgarian Energy Act was gradually amended from the start of the new regulatory period beginning on 1 July 2018 until 2 February 2021 to reduce the size of the regulated electricity market, the legislation will continue to have a significant impact on the Group's business (see "*Regulation, Environment and Health and Safety — Regulation — Amendments to the legal and regulatory framework*").

In the gas market, Bulgaria is dependent on imports from Russia and the Group's subsidiary, Bulgargaz, is the only licensed public supplier of natural gas. In 2020, 94.3 per cent. of Bulgaria's gas was imported from Russia with the remaining 5.7 per cent. coming from domestic extraction by other companies, balancing contracts with Bulgartransgaz and from import deliveries from the virtual trading point ("VTP") of the gas transmission network, as a non-physical hub where registered users can trade on the natural gas market for the relevant market area, representing all entry and exit points in that market area.⁴ Bulgargaz sells this delivered gas at regulated and free market prices, and the Group is also subject to regulated prices in relation to its gas storage business. Starting from 1 January 2020, the regulated segment of the gas market (whereby EWRC approves the prices) was reduced and Bulgargaz as a public supplier is required to sell gas at regulated prices only to (i) end-suppliers of natural gas and (ii) plants that possess a license for the generation and transmission of heat energy (i.e. district heating companies). All other consumers (including industrial consumers) that are directly connected to the gas transmission grid will purchase gas at free market prices. 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. The members of EWRC are appointed by the Bulgarian parliament so tariff rates may be vulnerable to political intervention. Regulatory authorities in Bulgaria 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 the Group's business, prospects, financial condition and results of 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 and storage 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. Any failure to obtain, maintain, renew or extend all the necessary administrative permits, authorisations and

⁴ Source: Bulgargaz

licences necessary for the operation of the Group's business and execution of its strategy could have a material adverse effect on the Group's business, prospects, financial condition and 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, prospects, financial condition and results of operations. 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. 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 required to restore certain land on which it undertakes lignite 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 lignite coal mines and related infrastructure and restore the surrounding land by the earlier of when a mine's reserves are exhausted (as at 1 January 2021, the Group had proven reserves of 763 million tonnes and expected reserves of 1,108 million tonnes) 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 2020, the Group's provision in this respect amounted to BGN 108.5 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 the Group's business, prospects, financial condition and results of operations.

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

The United Nations, 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 Ukraine, including Crimea, that started in 2014 and remains unresolved.

Nearly all of the gas purchased by Bulgargaz is imported from Russia under long-term take-or-pay contracts with Gazprom Export LLC ("**Gazprom Export**") and Gazprom Export has a long-term binding contract for capacity reservations on entry and exit points of the Bulgarian gas transit network, signed with Bulgartransgaz, following the "Open Season" procedure, in accordance with the pan-European legal framework. Furthermore, in November 2010 BEH and PJSC Gazprom ("**Gazprom**") incorporated a joint venture project company, South Stream Bulgaria AD (the "**South Stream JV**"), in which they each hold 50 per cent. of the shares, in order to develop the Bulgarian section of the South Stream gas pipeline. The project was cancelled in 2014 and pursuant to the settlement reached for the dissolution of the project, South Stream JV is to be liquidated.

No shareholder, individual or entity within the Group has been designated by either the U.S. or the EU as a specific target of sanctions. However, Gazprom appears on the US Sectorial Sanctions Identification List pursuant to the US Executive Order 13662's Directive 4 (the "**SSI List**", and entities appearing thereon, "**SSIs**") and the South Stream JV, by virtue of being 50 per cent. owned by Gazprom, is itself a SSI. Directive 4 prohibits certain

transactions by U.S. persons and from, through or within the United States that relate to oil production in which SSIs have an interest. Neither the South Stream JV nor the Group are involved in any activity specified in Directive 4. Non-U.S. persons may be subject to secondary US sanctions as a result of their dealings with persons targeted by US sanctions (including Gazprom and the South Stream JV as SSIs).

The CEO of Gazprom, Alexey Miller, was listed on OFAC's List of Specially Designated Nationals and Blocked Persons (the "**SDN List**", and persons listed thereon, "**SDNs**") in April 2018. While OFAC has issued guidance that U.S. persons are not prohibited from dealing with a company whose CEO is an SDN ("**SDN CEO**"), OFAC has further advised that such dealings must not involve the provision of funds, goods, or services to the SDN. Furthermore, OFAC has demonstrated a willingness to initiate enforcement actions against U.S. persons who have entered into agreements with companies, who are not themselves SDNs, but that are nevertheless signed by an SDN CEO. Additionally, non-U.S. persons who enter into "significant" transactions with or for the benefit of SDNs risk exposure to sanctions themselves under Section 228 of the Countering America's Adversaries through Sanctions Act ("**CAATSA**"). There is therefore a risk that, in dealing with Gazprom, the Group could be deemed to have entered into a significant transaction with Gazprom's SDN CEO and could therefore be at risk of being subject to secondary sanctions under CAATSA.

Although neither Gazprom nor Gazprom Export are currently targeted under EU sanctions, there are two entities in the Gazprom group (Gazprombank and Gazpromneft) that are targeted by these sanctions, and there is therefore a heightened risk that the currently non-targeted entities of the Gazprom group, including those the Group deals with, may be caught by a future expansion of EU sanctions.

The Group also relies on the Russian companies Mayak Production Association for the servicing and waste processing of the NPP and TVEL Fuel Company for the supply of nuclear fuel, as well as certain other Russian companies providing equipment for the Group's NPP; none of these companies are currently the target of any U.S. or EU sanctions.

For further information on sanctions please refer to "*Sanctions*" below.

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 further extend the scope of sanctions if Russia fails to meet certain political conditions. Tensions between Russia and the EU and the U.S. have further increased recently as a result of (among other matters) the conflict in Syria, and there can be no assurance that the governments of the EU and the U.S. or other countries will not impose further sanctions on Russia. The further extension of sanctions against Russia may preclude the Group conducting business with Russian entities, or create reluctance on the part of certain counterparties to transact with the Group due to the Group's 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, prospects, financial condition and results of operations. Additionally, and even if the EU and U.S. sanctions regimes within respect to Russia are not expanded, the Group is exposed to reputational risk as potential counterparties may be hesitant to engage with the Group out of concerns related to the Group's exposure to Russia and risks associated with related EU and U.S. sanctions. This may be especially true with respect to counterparties located in the United States or which are otherwise seeking to comply with U.S. sanctions.

While the Group currently complies with 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, prospects, financial condition and results of operations.

None of the proceeds of the issue of the Notes will be used to fund the activities of or persons that are subject to or otherwise contrary to any of the sanctions described in this risk factor.

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, prospects, financial condition and results of operations.

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.

The Group's subsidiary, NPP Kozloduy EAD, which operates the NPP, 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 NPPs 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 licence for unit 5 of the Kozloduy nuclear plant expires in 2027. The Group is in the process of extending the useful life of its reactors, but, despite the expenditure the Group will have incurred, there is no certainty that its licences will be extended, and in any event can only be extended ten 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 NPP accounted for approximately 73 per cent. of its total generation in 2020. Accordingly, if the Group's NPP 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 NPP 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, prospects, financial condition and results of operations.

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, prospects, financial condition and results of operations.

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 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 periods audited by the Bulgarian tax authorities was in 2008 for corporate tax, social security and personal income tax and 2009 for VAT. 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 the Group's business, prospects, financial condition and results of operations.

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 2020 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 the Bonds

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 and

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 Issuer may, without the consent of Bondholders, make 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

Any pre-existing trading market for the Bonds may not be maintained. Additionally, any such market may not be very 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 Euronext Dublin, there is no assurance that such application will be accepted or that an active trading market will be maintained and/or develop on Euronext Dublin. Accordingly, there is no assurance as to the maintenance, 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 rated BB by Fitch and Ba2 by Moody's after their issuance. 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.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

Investors regulated in the UK are subject to similar restrictions under the UK CRA Regulation. As such, UK regulated investors are required to use for UK regulatory purposes ratings issued by a credit rating agency established in the UK and registered under the UK CRA Regulation. In the case of ratings issued by third country non-UK credit rating agencies, third country credit ratings can either be: (a) endorsed by a UK registered credit rating agency; or (b) issued by a third country credit rating agency that is certified in accordance with the UK CRA Regulation. Note this is subject, in each case, to (a) the relevant UK registration, certification or endorsement, as the case may be, not having been withdrawn or suspended, and (b) transitional provisions that apply in certain circumstances. In the case of third country ratings, for a certain limited period of time, transitional relief accommodates continued use for regulatory purposes in the UK, of existing pre-2021 ratings, provided the relevant conditions are satisfied.

If the status of the rating agency rating the Bonds changes for the purposes of the CRA Regulation or the UK CRA Regulation (noting that currently the rating agencies rating the Bonds are both established in the EEA and registered in accordance with the CRA Regulation, and their ratings endorsed by rating agencies established in the UK and registered in accordance with the UK CRA Regulation), relevant regulated investors may no longer be able to use the rating for regulatory purposes in the EEA or the UK and the Bonds may have a different regulatory treatment, which may impact the value of the Bonds and their liquidity in the secondary market. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Prospectus.

Investors to rely on the procedures of clearing systems 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.

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 Bonds, as defined in the Terms and Conditions, will initially be represented by a Global Certificate. The Global Certificate will only be exchangeable for Individual Bond Certificates as set out in the Global Certificate.

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 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 for its 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. 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 dated 22 July 2021 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 or 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 600,000,000 2.45 per cent. bonds due 2028 by Bulgarian Energy Holding EAD (the "**Issuer**") (the "**Bonds**") was authorised by the Issuer through a board resolution passed on 14 July 2021 and by the Minister of Energy (exercising the rights of the Bulgarian state) on 15 July 2021.

A fiscal agency agreement dated 22 July 2021 (as further amended or supplemented from time to time) (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 dated 22 July 2021 (the "**Deed of Covenant**") executed by the Issuer. 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 by Bondholders 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

- (i) 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, (A) no Event of Default has or would have occurred and is or would be continuing; (B) the EBITDA Coverage Ratio would be not less than 4.0 to 1.0; and (C) the Consolidated Leverage Ratio would not be more than 4.5 to 1.0.

The covenant in this Condition 4(b)(i) shall cease to apply if, and for so long as, (A) the Bonds and the Issuer are rated by one or more Rating Agencies and (B) each Rating Agency assigning a credit rating to the Bonds and the Issuer assigns a rating of BBB-/Baa3 (or equivalent) or better to both the Bonds and the Issuer. The covenant shall cease to apply from the date of the public announcement of such rating(s) by such Rating Agency(ies).

If one or more of the Rating Agencies subsequently assigns a credit rating to the Bonds or the Issuer of BB+/Ba1 (or equivalent) or worse, the covenant in this Condition 4(b)(i) shall apply again from the date of the public announcement of such rating by such Rating Agency.

If the rating designations employed by a Rating Agency are changed from those which are described in this Condition 4(b)(i), the Issuer shall determine in a commercially reasonable manner the rating designations of such Rating Agency as are most equivalent to the prior rating designations of such Rating Agency and this Condition 4(b)(i) shall be read accordingly.

The Issuer will cause the occurrence of an event giving rise to this Condition 4(b)(i) ceasing to apply, or applying again, to be notified to the Fiscal Agent and notice thereof to be given in accordance with Condition 14 as soon as possible after the occurrence of the relevant event but in no event later than the fifth business day in London thereafter.

In these conditions:

"Fitch" means Fitch Ratings Ireland Limited, or its successor;

"Moody's" means Moody's Deutschland GmbH, or its successor;

"Rating Agencies" means S&P and/or Moody's and/or Fitch and **"Rating Agency"** means any one of them; and

"S&P" means S&P Global Ratings Europe Limited, or its successor.

- (ii) 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 (*свърхзадължен*) 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:

- (i) 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
- (ii) 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 S&P, 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 S&P, "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;

"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 26 June 2018, 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 ("NEK"), 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;

"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;

"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 22 July 2021 at the rate of 2.45 per cent. per annum, payable annually in arrear on 22 July 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 judgement) 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 22 July 2021 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 22 July 2028 (the "**Maturity Date**").

(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 20 July 2021, 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 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 any time:

- (i) prior to the day that is 90 days prior to the Maturity Date, at a redemption price per Bond equal to the higher of the following:
 - (A) the principal amount of the Bond; and
 - (B) 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 0.5 per cent., in each case as determined by the Determination Agent, or
- (ii) during the period commencing on (and including) the day that is 90 days prior to the Maturity Date to (but excluding) the Maturity Date, at their principal amount,

in each case together with interest accrued to (but excluding) the Optional Redemption Date.

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 DBR 4.75 per cent. due 4 July 2028, 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 either 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 or by transfer to an account in the relevant currency maintained by the holder of such Bond 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 their 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 Issuer 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 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:** the Issuer or any of its Material Subsidiaries (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; 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, on a solvent basis and/or 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 Issuer and the Fiscal Agent at their specified offices 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 Issuer and 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 (including by way of conference call or by use of a videoconference platform) 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 Euronext Dublin and the guidelines of Euronext Dublin so require, notices to the holders of Bonds shall also be filed with the Companies Announcement Office of Euronext Dublin. 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 judgement 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 proceeds of the issue of the Bonds before deduction of the total fees and other costs and expenses incurred in connection with the issue of the Bonds will be EUR 600,000,000 and will be used by the Issuer (i) to repay the 2016 Bonds when they become due on 2 August 2021 and (ii) for general corporate purposes, excluding coal-related activities.

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 lignite coal mining and which hold a leading position in the electricity and gas markets 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 2020 the Group's market share of Bulgaria's electricity generation was 56 per cent.⁵ when it had an installed electricity generation capacity of 6.3 gigawatts ("**GW**") and generated 22.8 terawatt hours of electricity (gross).

BEH's principal subsidiaries are:

- NPP Kozloduy EAD ("**NPP Kozloduy**"), which owns the only nuclear generation plant in Bulgaria with installed capacity of 2,000 MW. In 2020, the Kozloduy NPP accounted for 40.8 per cent. of Bulgaria's total electricity generation;⁶
- TPP Maritsa East 2 EAD ("**TPP Maritsa East 2**"), which owns the largest lignite-fired thermal power plant ("**TPP**") in Bulgaria with installed capacity of 1,620 MW. In 2020, the Maritsa TPP accounted for 9.4 per cent. of Bulgaria's total electricity generation;⁷
- NEK, which owns 30 hydro power plants ("**HPP**") and pumped-storage power plants ("**PSPPs**") with total installed capacity of 2,713 MW which, in 2020, accounted for 5.8 per cent. of Bulgaria's total electricity generation.⁸ NEK is also the public supplier of electricity and the supplier of last resort of electricity in the country;
- Elektroenergien 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;
- Bulgartransgaz EAD ("**Bulgartransgaz**"), which is the owner and operator of Bulgaria's gas transmission and gas transit networks and also operates the only gas storage facility in Bulgaria. 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

⁵ Source: ESO 2020 energy balance

⁶ Source: ESO 2020 energy balance

⁷ Source: ESO 2020 energy balance

⁸ Source: ESO 2020 energy balance. Including PSHP generation

- Mini Maritsa Iztok EAD ("**MMI**"), which operates an open pit lignite coal mine which accounted for approximately 96 per cent. of coal extracted for the production of electricity in Bulgaria in 2018.⁹ It supplies the Group's TPP as well as other customers.

BEH and its subsidiaries are participating in three gas pipeline projects between Bulgaria and Greece, Bulgaria and Serbia and Bulgaria and Turkey, respectively, which are at different stages of development. These projects include the Interconnector Greece-Bulgaria, Interconnector Bulgaria-Serbia and the expansion of the gas transmission network from the Bulgarian-Turkish border to the Bulgarian-Serbian border ("**Balkan Stream**"). In November 2016, the gas pipeline project between Bulgaria and Romania, Interconnector Bulgaria-Romania, became operational. The transmission capacity of Interconnector Bulgaria-Romania was further expanded in 2019 with the construction of a compressor station in 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: Independent Bulgarian Energy Exchange EAD ("**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 and, in October 2016, it launched a bilateral power contracts market. In April 2018, it launched the intraday power market. BEH divested IBEX to the Bulgarian Stock Exchange AD in February 2018, in accordance with Decision C (2018) 572 of the European Commission (the "**EC**") dated 26 January 2018.

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 markets, 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 markets.

⁹ Source: 2018 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/buletinenergy2018-04.06.2019-finish.pdf>

The Group's strategy also 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 strategy for achieving these goals include the following

Electricity

- guaranteeing the security of Bulgaria's electricity supply;
- the rehabilitation and expansion of the transmission network;
- the extension of the useful life of existing nuclear facilities;
- maintaining the electricity generation balance through investments in generation facilities;
- an increase in exports to strengthen the position of Bulgaria as a strategic net exporter in the region; and
- achieving a liberalised, transparent, integrated and competitive electricity market.
- fully liberalising the energy market and integrating it into the regional and wider EU market;
- reducing the role of NEK as the single buyer and public supplier of electricity in Bulgaria;
- management and maintenance of the electricity transmission network in the country, as well as the completion of the market reform of electricity in the direction of full liberalisation; and
- implementation of European legislation in relation to European Green Deal related to policy initiatives aimed at achieving climate neutrality in 2050;

Natural gas

- guaranteeing the security of Bulgaria's gas supply;
- modernising and expanding existing gas network and storage facilities;
- diversification of sources and routes for supply of natural gas through the construction of gas interconnectors with neighbouring countries (including Greece, Serbia and Turkey);
- solidification of its position as a strategic regional gas player through the development of the Balkan gas hub; and
- expansion of the existing Chiren underground gas storage facility.

Mining

- guaranteeing the security of Bulgaria's lignite coal supply;
- maintaining the production capacity of MMI;

- improving the efficiency of open pit mining, which includes investment in new heavy mining equipment; and
- continue satisfying the requirements of the thermal power plants in the Maritsa East complex.

The Group's strategy also includes the following:

- improving the opportunities for capital investment in the Bulgarian energy sector;
- 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 per cent. owned by the Bulgarian state, with the Bulgarian state exercising its rights through the Minister of Energy. 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 of the Group are subject to approval by the Minister. BEH (but none of its subsidiaries) is included in the "banned 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.

The Group operates as a department of the Ministry of Energy and is the Ministry of Energy's instrument for implementing policy in the energy sector. As such BEH is mandated to manage all important state projects in the energy sector, including (but not limited to):

- the collaboration from 2015 to 2017 with the World Bank on developing policy recommendations and a road map for energy sector reform;
- the collaboration from 2017 to 2018 with the Bulgarian Academy of Sciences for developing analyses to serve as the basis for the national energy strategy;
- Balkan Stream; and
- the acquisition of a 20 per cent. shareholding participation in the Greek project company, Gastrade S.A. (which relates to the project for the development of the Alexandroupolis Independent Natural Gas System).

BEH's 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.

The Group's activities make a significant contribution to the national GDP (5.7 per cent. in 2020)¹⁰ 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 2.5 per cent. of the Group's debt accumulated as at 31 December 2020, a cash capital injection by the state of BGN 400 million in 2009, interest-free reimbursable financial aid of EUR 601,617,133 (BGN 1,176,660,837) provided to NEK by the Bulgarian government in 2016 and strong operational ties between the Bulgarian government and the Group. Furthermore, the Bulgarian government has provided a committed state guarantee of up to EUR 110 million in relation to the loan provided by the EIB in respect of the Interconnector Greece-Bulgaria project (see "*Business — Natural gas — Gas pipeline projects*").

Since 2015, the Bulgarian government has successfully implemented 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 (see "*Business — NEK*" below). These amendments to the legal framework have enabled direct cash inflow to NEK, which has led to a significant improvement in NEK and BEH's financial position in a short period of time. For example, NEK has not incurred new tariff deficits from its regulated activities since August 2015 and its net profit for the year ended 31 December 2020 amounted to BGN 46.3 million.

In recent years, the Bulgarian government has been taking significant steps on the path to full liberalisation of the Bulgarian energy market, further reducing the role of NEK as the single buyer and public supplier of electricity in Bulgaria and increasing the opportunities for the Group's energy producers to sell electricity at market prices, see "*Regulation, Environment and Health and Safety — Regulation — Amendments to the legal and regulatory framework*" below.

Government support has also assisted with ensuring favourable positioning for the Group in negotiations with international partners.

Leading position in the Bulgarian electricity and gas markets and diversified business mix

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, as well as the high voltage electricity transmission and sale (including exports);
- natural gas transmission and transit, natural gas storage and the sale and purchase of natural gas; and
- lignite coal mining and sales.

The Group has a dominant and diversified position in the Bulgarian electricity and gas markets. BEH owns approximately 6.3 GW of power generation assets, which represented 49 per cent. of the installed capacity in Bulgaria in 2020. Through its ownership of the only NPP and the largest thermal and hydro power plants in Bulgaria, it generated gross 22.847 TWh of electricity accounting for 56 per cent. of Bulgaria's total electricity generation in 2020.¹¹ The Group has a regulated monopoly position in electricity and gas transmission as well as in public supply of electricity and natural gas. It is the sole licensed natural gas transit company in Bulgaria. Furthermore, the Group is the sole supplier of lignite coal to the thermal power plants in the Maritsa East basin.

¹⁰ Source: National Statistics Institute, BEH

¹¹ Source: ESO 2020 energy balance, NEK

Bulgaria has a competitively priced generation mix. Bulgaria is a net electricity exporter with net exports in the range of 3.4-10.5 TWh per year for the last five years (around 3.4 TWh in 2020) depending on demand. Gas interconnector capacity with traditional export destinations (Greece, Turkey, Serbia and North Macedonia) is over 3,000 MW and is extensively utilised. Demand from export markets is expected to increase further with the planned expansion of interconnector capacity and the ongoing market coupling with neighbouring countries. Since the beginning of 2020 the majority of natural gas supplied in Bulgaria has been provided by a new entry point on the Bulgarian-Turkish border. On the Bulgarian side, technical capabilities provide for a constant physical reverse flow of the interconnection points with Romania and the Greece, pursuant to Directive 2009/73/EC on common natural gas market rules. The purpose of the capacity in the opposite direction is to contribute to increasing the security of supply in crisis situations and development of the natural gas market in the country.

The Group's operations are based in a single, well developed, strategic geographic hub with significant exports to neighbouring countries.

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 2020, the Group had consolidated assets of BGN 20.4 billion, making it the largest state-owned company in Bulgaria. The Group's assets are high quality and its core assets have long remaining lives.

Operating environment

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

Whilst Bulgaria's economy contracted by 4.2 per cent. in 2020 due to the COVID-19 pandemic (mainly through the fall in exports of goods and services), compared with a 3.7 per cent. growth in 2019, the Spring 2021 Economic Forecast for Bulgaria published by the European Commission in May 2021¹² forecasts that the GDP of Bulgaria will grow by 3.5 per cent. in 2021 and 4.7 per cent. in 2022 (conditional on the absorption profile of Recovery and Resilience Facility funds adopted by the government of Bulgaria on 28 April 2021). According to the Bulgarian NSI¹³, GDP fell by 1.8 per cent. in the first quarter of 2021 as compared to the first quarter of 2020, though increased by 2.5 per cent. as compared to the fourth quarter of 2020 (according to seasonally adjusted data).

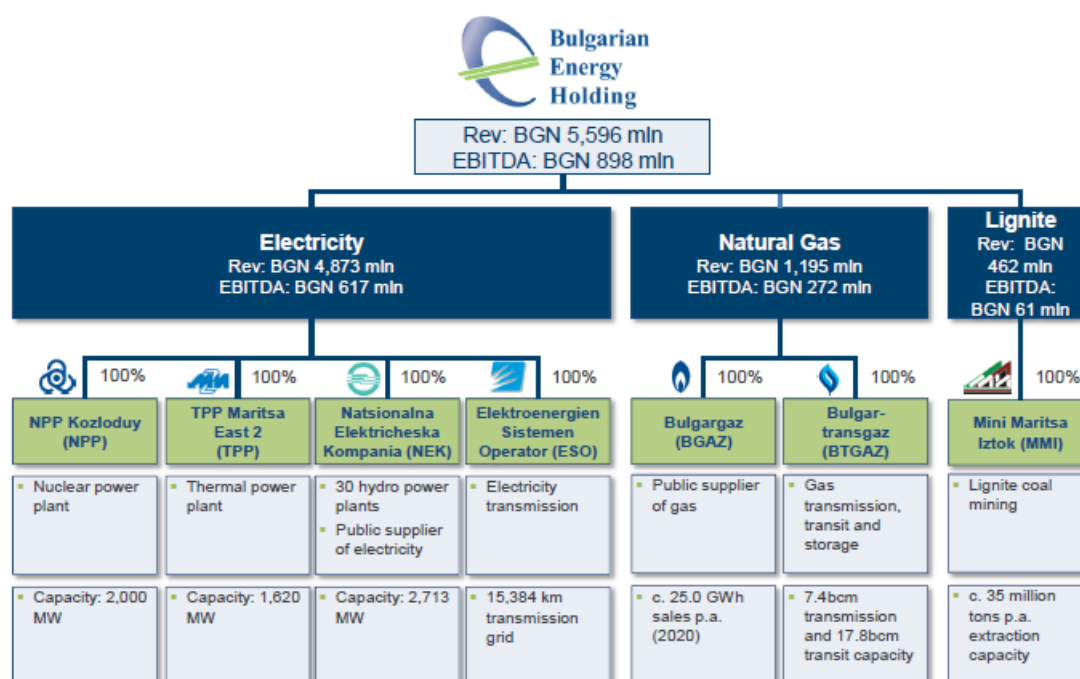
¹² Source: https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-performance-country/bulgaria/economic-forecast-bulgaria_en

¹³ https://www.nsi.bg/sites/default/files/files/pressreleases/FlashEstGDP2021q1_en_OZZXJFV.pdf

BUSINESS

Structure

As at the date of this Prospectus, the Group comprises BEH (which is a holding company) and seven wholly-owned subsidiaries as shown in the diagram below:



Electricity

The Group's electricity business is carried out by four of its subsidiaries: NPP Kozloduy, TPP Maritsa East 2, NEK and ESO. NPP Kozloduy, TPP Maritsa East 2 and NEK generate electricity through a NPP, a thermal power plant and multiple hydro power plants, respectively and sell their electricity on the regulated and free markets (including the balancing market). NEK also buys electricity on the regulated market. NEK's principal customers are the four end suppliers and, in its capacity as the supplier of last resort, approximately 14 customers who are connected to the high voltage grid. Approximately 92 per cent. of NEK's 2020 revenue was attributable to regulated activities, with 8 per cent. attributable to non-regulated activities. NEK also exports electricity via its joint venture Transbalkan Electric Power Trading Greece Sale of electricity S.A. – NECO S.A. ESO is responsible for electricity transmission and owns and operates Bulgaria's high-voltage electricity grid.

The Electricity segment's revenue was BGN 4,873 million for the year ended 31 December 2020 compared with BGN 5,426 million for the year ended 31 December 2019. The table below shows the Group's gross electricity generation mix for each of the years ended 31 December 2020 and 2019.¹⁴

2020

2019

Gigawatt Hours ("GWh")

Thousands

¹⁴ Source of indicative figures: ESO energy balance

NPP generation	15.8	15.7
Thermal power plant generation	3.3	5.8
Hydro power plant generation	2.4	2.3
Total generation	21.4	23.9

NPP Kozloduy

NPP Kozloduy owns and operates the only NPP 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. The NPP underwent 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 WWER 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. NPP Kozloduy implemented an investment strategy designed to extend the operating lifecycle of the two existing units (unit 5 and unit 6), with assessments made following completion indicating that the works had been successful in ensuring the safe operation of unit 5 up to 2047 and unit 6 up to 2049. The operational licences for units 5 and 6 were renewed for a new ten-year period in 2017 and 2019, respectively, by the Bulgarian Nuclear Regulatory Agency (the **BNRA**) (which can grant licences for a maximum period of ten years). In parallel, NPP Kozloduy also successfully executed an investment project intended to increase the heat capacity of the two units by up to 104 per cent.

NPP Kozloduy obtains nuclear fuel for the NPP under long-term contracts from a Russian supplier, JSC TVEL. NPP Kozloduy sells electricity generated by the NPP to NEK and on the Bulgarian energy exchange. Prices and volumes under the nuclear fuel supply contract are agreed periodically. In 2020, NPP Kozloduy sold approximately 18.7 per cent. of its electricity to NEK on the regulated market compared to approximately 15.5 per cent. in 2019. The remaining sales were made on the energy exchange at commercially negotiated prices. Approximately 13 per cent. of NPP Kozloduy's 2020 revenue was attributable to regulated activities and customers and 87 per cent. to non-regulated activities and customers.

In 2020, the NPP generated 15,810 GWh of electricity, equal to 42.3 per cent. of Bulgaria's total electricity generation. In 2019, the NPP generated 15,743 GWh of electricity, equal to 37.3 per cent. of Bulgaria's total electricity generation. The slight increase in electricity generation in 2020 compared to 2019 was due to higher demand on the regulated market.

More than 3,653 people worked at NPP Kozloduy as at 31 December 2020, which makes it a major employer 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 including the World Association of Nuclear Operators ("**WANO**"). The most recent follow-up corporate peer review was carried out by WANO in 2019. The main aim of this review was to assess the level of implementation of the recommendations to address any weaknesses, shortcomings and omissions identified by the main mission carried out by WANO in 2017, as well as

the progress made for the period. The main mission of WANO showed that NPP Kozloduy is sufficiently funded to maintain the highest safety standards. 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, if certain favourable financial and economic conditions are met, NPP Kozloduy will cover the annual transportation and associated costs for at least 50 tonnes of spent nuclear fuel ("SNF") from the NPP site under existing transportation, storage and processing contracts with Mayak Production Association. The transportation of this SNF creates capacity in the existing SNF repository for the storage of SNF created by units 5 and 6.

In 2018, Framework annex 19 to the Contract for transportation, temporary technological storage and repossessing in Russia of 414 WWER-1000 SNF assemblies for the period 2019-2023 was signed between NPP Kozloduy and FSUE "Production Association Mayak" ("**FSUE Mayak PA**") for the transportation and storage of SNF for Units 5 and 6, in agreement with the Euroatom Supply Agency (the "**ESA**"). In 2019, in agreement with the ESA, Annex 19-1 to Annex 19 to the Contract for the transportation, temporary technological storage and repossession of 96 WWER-100 spent nuclear fuel assemblies for the period 2019-2020 was signed. In 2020, one transport of 50 tons of heavy metal SNF was made to FSUEW Mayak PA in Russia. Detailed analysis of several different options for the management of SNF has been carried out in the formulation of the Group's strategy, as this is the most important consideration for the reliable and safe operation of Units 5 and 6 of the NPP and consequently the security of electricity supply for Bulgaria. Given the need to provide available storage sites for SNF at the NPP Kozloduy site, the transportation of SNF for technological storage and processing is of key importance to the management of the nuclear fuel cycle and ensuring safe operation of Units 5 and 6. The safe operation of Units 5 and 6 of the NPP, and the production of electricity, is only possible if a certain number of free places are provided for the emergency removal of the cassettes from the core and temporary storage of SNF in the reactor pools.

NPP Kozloduy recognises provisions for the storage, processing and transportation of SNF based on management's best estimate of the costs of such services that will be incurred in the next reporting period, including the fulfilment of its obligation under the Strategy for Management of SNF and RAW until 2030 for the transportation of 50 tons of heavy metal SNF per year. Accordingly, in 2020 NPP Kozloduy booked a provision amounting to BGN 39.9 million. As at 31 December 2020, the accumulated provision for transport, processing and storage of SNF was BGN 79.7 million.

The European Energy Security Strategy requires a comprehensive diversified portfolio of nuclear material and services supply within the nuclear fuel cycle for all NPP operators within the European Union. Accordingly, as part of NPP Kozloduy's programme for the diversification of fresh nuclear fuel supplies (which programme has been agreed with the EURATOM Supply Agency), NPP Kozloduy signed a contract on 4 February 2021 with Westinghouse Electric Sweden AB for the development of safety analyses for the licensing and implementation of alternative nuclear fuel at Unit 5 (operating at a thermal output of 3120 MW). Once finalised, the proposals will be submitted to the Nuclear Regulatory Agency with the intention of obtaining a permit for operating such alternative type of fuel assembly.

In November 1999, the Bulgarian government and the EC 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**") was established and is 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. BEH has no obligations towards the KIDSF which is funded by the EU. 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 Kozloduy is required to pay annually an amount equal to 10.5 per cent. of its revenue from electricity sold, which amounted to BGN 131.9 million in 2020 and BGN 137.8 million in 2019, to decommissioning and radioactive waste funds. These are state-owned funds, under the governance of the Ministry of Energy. The level of contributions is the subject of regular assessments by the Ministry of Energy. See *"Risk Factors — The Group may become liable for increased decommissioning costs or be required to keep additional amounts as restricted funds for the decommissioning of its NPP."*

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 and three flue-gas desulphurisation ("**FGD**") plants covering the output of all the generation units with around 96 per cent. efficiency. The installed generation capacity of the TPP was increased in 2014 from 1,600 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 was renewed in 2020 and is valid for 20 years, expiring in 2041. The TPP's principal supplier is MMI.

The TPP sells electricity on the regulated market and free market. In 2020, approximately 93.3 per cent. of the TPP's sales were to NEK, compared to 51.3 per cent. in the same period in 2019. This increase was primarily due to the substantial decrease of sales on the free market, resulting from lower demand due to the COVID-19 pandemic and the higher price of European Union Allowance (which adversely affected the competitiveness of the TPP). Sales of electricity generated by the TPP on the free market in 2020 were approximately 3.7 per cent., compared to 44.0 per cent in 2019. A further 3.0 per cent. was sold to ESO in 2020, compared to 4.7 per cent in 2019. Approximately 94 per cent. of TPP Maritsa East 2's 2020 revenue was attributable to regulated customers and activities, with 6 per cent. attributable to non-regulated customers and activities.

The prices for sales to NEK are regulated by EWRC. The price for the availability of cold reserve and balancing services (i.e. the available capacity of the plant to maintain a secure electricity system) are tendered by ESO. The price at which the TPP purchases coal from MMI is set by 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 contract does not contain any take-or-pay arrangements.

In 2020, the TPP's gross generation was 3,820 GWh of electricity, equal to 9.3 per cent. of Bulgaria's total electricity generation. In 2019 the TPP's gross generation was 6,624 GWh of electricity, equal to 15.0 per cent. of Bulgaria's total electricity generation. The TPP's generation decreased in 2020, principally as a result of lower

domestic demand caused by the COVID-19 outbreak and the higher prices of EUA, which led to a decrease in sales on the free market.

The National Assembly made a Decision on 31 January 2020 that the Council of Ministers, acting through the Minister of Energy, should by 29 February 2020 take measures to ensure the normal function of TPP Maritsa East 2, including a capital increase in the company funded by BEH, with the aim of guaranteeing Bulgaria's energy security as part of its national security and regardless of the input of the European Commission.

In its National Energy and Climate Plan, the Republic of Bulgaria assessed the socio-economic challenges of decarbonisation in carbon-intensive sectors and regions. These regions are exposed to risks related to economic underperformance and job losses and, therefore, regional investment and economic support for any such transition is needed. The coal sector in Bulgaria is currently concentrated in three regions, one of which is Stara Zagora.

Support for such transaction in Member States from the fund established for these purposes will be based on state-prepared plans for territorial transition and will depend on approval by the European Commission. The Ministry of Economy is currently in the process of preparing a territorial plan for a fair transition, including the region of Stara Zagora. Stabilisation measures are to be targeted not only at the operations of TPP Maritsa East 2, but also the lignite mines and the Maritsa East power complex as a whole.

The Ministry of Economy has stated that the transition measures for the region involves several different projects, which will be focused on achieving the following objectives:

- utilisation of the potential of reclaimed MMI lands for the realisation of energy projects and related social and agricultural activities;
- construction of steam and gas capacities at TPP Maritsa East 2, as a transitional solution for transformation of the region and a smooth transition to greener energy capacity, where it is economically reasonable and technologically feasible; and
- the creation of clear and transparent mechanisms for integrating capacities with a clear focus on the stability and sustainability of the energy system, and without prioritising individual technologies or participants, or applying other discriminatory criteria.

Laws and Decisions of the National Assembly are binding on all state authorities and organisations, and the capital of TPP Maritsa East 2 was increased by an issue of 59,795,526 ordinary registered voting shares with nominal value of BGN 10 each, subscribed for entirely by BEH. This was funded through a non-monetary contribution (a "contribution in kind") in accordance with the Commerce Act, in the form of loans from BEH to TPP Maritsa East 2 amounting to BGN 597,955,260 structured as a debt to equity swap. This capital increase was entered into the Commercial Register on 9 March 2020.

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

Approximately 2,324 people worked at TPP Maritsa East 2 as at 31 December 2020, which makes it a major employer in Bulgaria.

NEK

NEK acts as the single buyer, public supplier and provider of last resort of electricity in Bulgaria. It has a central position in the Bulgarian electricity system. It generates power through 30 HPPs and PSPPs owned and operated by

it with total installed capacity of 2,713 MW. NEK operates under a number of licenses issued by EWRC which are due to expire between 2027 and 2039. In the regulated market, NEK acts as a single buyer from certain power generators. Pursuant to the Bulgarian Energy Act and the regulatory framework, NEK is currently obliged to purchase electricity at preferential prices set by EWRC from renewable energy source ("**RES**") producers up to the "net specific generation" determined by the regulator and from cogeneration producers for the quantities produced in compliance with highly efficient cogeneration criteria which are subject to being certified as such by EWRC. As of 2 February 2021, NEK's purchasing obligation relates only to RES and highly-efficient cogeneration producers ("**HE CHP**") with installed capacity of less than 500 kW, as the plants with installed capacity greater than 500 kW are obliged to sell their production on the free market. NEK is also obliged to purchase electricity at contractual prices from TPP AES 3C Maritsa East 1 EOOD ("**AES**") and TPP Contour Global Maritsa East 3 AD ("**Contour Global**") under their respective long-term power purchase agreements ("**PPAs**"). The PPAs oblige NEK to purchase a minimum quantity of electricity per year (3.2 million MWh from AES and 3.5 million MWh from Contour Global) as well as purchasing availability from AES and Contour Global, regardless of whether that minimum amount is used. The minimum payments for the remaining terms of the two PPAs amount to BGN 7.0 billion. The PPA with Contour Global expires in 2024 and the PPA with AES expires in 2026, however, the Bulgarian government is currently negotiating an earlier voluntary termination of the PPAs. This is expected to have a positive effect on NEK as it would no longer have to incur costs in purchasing electricity under the PPAs at above-market prices.

The amendments to the Bulgarian Energy Act that have applied since the commencement of the regulatory period beginning on 1 July 2018 have gradually reduced NEK's single buyer function and have required certain producers to sell electricity on the free market. Pursuant to further amendments in 2019, since 1 July 2019 NEK acts as a single buyer only in relation to (i) producers with preferential prices (i.e. RES and HE CHP) with installed capacity of less than 1 MW and (ii) AES (670 MW) and Contour Global (908 MW) under their respective long-term PPAs. RES and HE CHP with installed capacity of less than 1 MW, the total installed capacity of which is 281 MW, sold approximately 387 GWh to NEK in 2020, compared to 1,303 GWh in 2019. This decrease was a result of the aforementioned amendments. The total electricity purchased by NEK from AES and Contour Global under the PPAs was 6.9 million MWh in 2020 and 7.7 million MWh in 2019. All other producers are required to sell electricity on the power exchange.

Since 2015, NEK is eligible to receive compensation from the Security of the Electricity System Fund ("**SESF**") in the form of premiums for the amount representing the difference between the preferential price NEK must pay and the market price, as determined by EWRC. See "*Regulation, Environment and Health and Safety — Regulation — Amendments to the legal and regulatory framework*" below for further information.

As the sole public supplier, NEK resells the purchased energy from the regulated segment to end suppliers at regulated tariffs set by EWRC and on the power exchange the quantities purchased from the affected RES producers since 26 June 2020. With the legislative changes in the Energy Act in force from 26 June 2020, all non-household (commercial low voltage) consumers from 1 October 2020 have been transferred to the free market and EWRC approve regulated prices for those customers only for the period 1 July 2020 to 30 September 2020. The amendments are in line with the requirements of Directive (EU) 2019/944 of the European Parliament and of the Council of 5 June 2019 on common rules for the internal electricity market. Until September 30, 2020, each non-household customer could enter into a contract with an electricity supplier at freely negotiated prices or remain with the existing supplier, in its role of electricity trader with a standard contract. As of 31 August 2020, the EWRC approved a draft of the standard contract, which regulates the rights and obligations of the parties, the conditions for supply of electricity and for termination of the contract. In order to make the transition to a liberalised electricity market as smooth as possible and to minimise the risk of disconnection due to power outages, the legislation provided for any non-household (commercial low voltage) customer connected to a low voltage grid

who had not chosen a supplier by 30 September 2020 to be supplied by their final supplier in its capacity as an electricity trader under a standard contract with a term from 1 October 2020 to 30 June 2021. Customers who did not choose another supplier by 30 June 2021, are now supplied by a supplier of last resort. These developments have further reduced NEK's function as a public supplier of electricity.

Between 2011 and 2015, there was an upward trend in generation costs due to the expansion of renewables stimulated by favourable feed-in-tariffs. However, the increased generation costs were not fully compensated by the electricity tariffs set by EWRC which led to the accumulation of tariff deficits in NEK. Since 2015, the Bulgarian government has successfully implemented 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. The measures have led to a significant improvement in NEK and BEH's financial position in a short period of time (NEK has not incurred new tariff deficits from its regulated activities since August 2015 and in 2020 NEK's net profit was BGN 46.3 million) by establishing a legal and regulatory framework which enabled direct cash inflow to NEK as well as a reduction of costs for purchasing electricity under its sole buyer obligation. The recent regulatory changes implemented in 2021 are expected to further improve the financial position of NEK. See *"Regulation, Environment and Health and Safety — Regulation — Amendments to the legal and regulatory framework"* below for further information.

As the public provider of electricity in Bulgaria, NEK is the single supplier of electricity at regulated prices to the four end suppliers and, in its capacity as the supplier of last resort, to around 14 customers who are connected to the high voltage 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 2,711 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 2020¹⁵ the total gross electricity generated by NEK's HPPs and PSPPs amounted to 2,397 GWh of electricity, equal to 5.9 per cent. of Bulgaria's total electricity generation. In 2019¹⁶ the total electricity generated by NEK's HPPs and PSPPs amounted to 2,359 GWh of electricity, equal to 5.3 per cent. of Bulgaria's total electricity generation. The generation was relatively stable in 2019 and 2020 and it was typical for a dry year with less water reserves in the dams. Hydropower represents 43 per cent. of the Group's total generation capacity. The Yadenitsa HPP Project will increase pumped storage hydro capacity and create optimal operating conditions for renewables and nuclear generation. The Yadenitsa HPP Project is aimed at increasing the generation capacity of the lower compensation basin of the pumped storage hydro power plant ("PSHPP") Chaira ("PSHPP Chaira") through the construction of the Yadenitsa reservoir and a reversible tunnel connecting the Yadenitsa reservoir to the Chaira reservoir. This system of interconnected tunnels will allow the transfer of water by gravity from one reservoir to the other, which will lead to an increase in the volume of the lower reservoir of the Chaira PSHPP by 9 million cubic metres ("Mlnm³") (from 5.6 Mlnm³ to 14.6 Mlnm³). This will enable the PSHPP Chaira to switch from a daily to weekly mode of water volume equalisation and to have the capability to operate at full generator power for 20 hours as compared to the current 8.5 hours and for the pumped storage mode to operate for 22.5 hours as compared to the current 11 hours.

The Gorna Arda HPP Project involves the construction and operation of a hydropower cascade along the upper flow of the Arda River, consisting of 3 dams and 3 HPPs, together with a pumped-storage mechanism in order for

¹⁵ Source: ESO Energy balance 2020

¹⁶ Source: ESO Energy balance 2019

the HPPs to operate in a similar pumped storage mode to a PSHPP. This will add roughly 150 MW in additional hydro capacity and over 330 GWh of production per year.

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 regulated volume of storage reservoirs in Bulgaria.¹⁷ 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, expiring in 2036. NEK also has a separate public supply licence which expires in 2039. NEK conducts electricity trading under a licence which expires in 2027.

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 on the electricity market. Within Bulgaria, NEK sells electricity on the free market through the Bulgarian energy exchange platforms for the "Day-ahead", "Intraday" and "Long-term" trading segments. In each of 2020 and 2019, approximately 90 per cent. of NEK's sales were made on the regulated market and approximately 10 per cent. were made on the free market.

NEK seeks to maintain and increase its market presence in the Balkan region.

The table below shows NEK's purchases and sales of electricity in each of the years 2020 and 2019. The figures in the table include intra-Group transactions.

	2020	2019
	GWh	
Electricity purchased	13,698	14,564
Regulated market	13,604	14,346
Balancing market	18	45
Free market	76	173
Electricity sold	15,615	16,565
Regulated market	13,979	14,730
Balancing market	30	47
Free market, exports and last resort supplies	1,606	1,788

ESO

ESO owns, maintains and operates Bulgaria's 15,384¹⁸ km national high voltage electricity transmission grid and 297 electrical sub-stations under a 35-year licence granted in December 2013, expiring in 2048. It also administers the balancing market for electricity, holds tenders for transmission capacity and provides the centralised dispatching of the national electric power generation system. It also cooperates with the power systems of other

¹⁷ Source: <https://nek.bg/dams/index.php/bg/>

¹⁸ Source: ESO Financial report 2020

countries to ensure effective transmission. Approximately 73 per cent. of ESO's 2020 revenue was attributable to regulated customers and activities, with 27 per cent. attributable to non-regulated customers and activities.

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, as well as access and transmission tariffs, which are determined by EWRC. The Bulgarian transmission network is also connected to the neighbouring systems of Greece, Romania, Turkey, Serbia and North Macedonia. Turkey, Greece and North Macedonia 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 2020, the volumes transmitted by ESO amounted to 33.8 TWh¹⁹, compared to 36.9 TWh²⁰ in 2019. The decrease resulted primarily from a reduction in electricity demand because of the COVID-19 pandemic.

The balancing market for electricity is organised on a market basis where all balancing services providers submit their bids for providing balancing services. Balancing service providers are all producers with dispatchable aggregates, as well as consumers which have met the technical requirements of ESO. The specific pricing mechanism for the determination of the balancing energy price is stipulated in the Electricity Trading Rules (as approved by EWRC). In 2020, rules for conducting tender procedures for purchasing of availability for reserves for frequency containment reserve (primary control), automatic frequency restoration reserve (secondary control) and manual frequency restoration and exchange capacities have been developed and implemented by ESO. As a transmission system operator, ESO incurs the costs for availability for ancillary services which are recovered through the price for access collected by the system operator, and the costs for upward and downward regulation which are transferred in the prices for energy deficit and energy surplus on the balancing market. In 2020 the total energy deficit was 524 GWh, compared to a total energy deficit of 625 GWh in 2019. The total liability of the trade participants to ESO for energy amounted to BGN 91.7 million as at 31 December 2020. In 2020, the energy to cover the energy surplus is 900 GWh, compared to 985 GWh in 2019. The total liability of ESO to trade participants for the realised energy surplus amounts to BGN 8.4 million.

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 Bulgarian 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,

¹⁹ Source: ESO Energy balance 2020

²⁰ Source: ESO Energy balance 2019

referring to the conditions for access to the network for cross-border electrical power exchange and repealing Regulation (EC) № 1228/2003.

Natural Gas

The Group's natural 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. In 2019, a new subsidiary named Balkan Gas Hub EAD ("**Balkan Gas Hub**") (see "- *Balkan Gas Hub*" below) was established under the governance of Bulgartransgaz. Its main activity is the operation of the natural gas exchange platforms in Bulgaria. The gas segment's revenue in 2020 was BGN 1,195 million, compared with BGN 1,763 million in 2019. The main reason for this decrease was the lower volume of natural gas consumption and lower selling price.

Bulgargaz

Bulgargaz is principally engaged in the purchase and public supply of natural gas under a 35-year licence granted in November 2006, expiring in 2041. 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 Export. In November 2012, Bulgargaz and Gazprom Export 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 2.9 billion cubic metres per year. In 2020, Bulgargaz and Gazprom Export signed an addendum to the contract to renegotiate the pricing formula in the contract as a result of the European Commission decision following its antitrust investigation against Gazprom (the "**Addendum**"), which came into force on 1 March 2020 and extends the contract's expiry date to 2022. This Addendum contained (i) a new pricing formula for setting the supply price under the contract, which assigns a 30 per cent. weighting to oil derivatives and a 70 per cent. weighting to "the "month-ahead" futures price for the Dutch gas hub "TTF" (which is considered the most-liquid on the European gas market and thus, is used as a reference for determining market price levels for natural gas), and (ii) a refund to Bulgargaz of overpaid amounts for the period from 5 August 2019 to 29 February 2020. The new pricing formula was applied retroactively from 5 August 2019 - the date on which Bulgargaz submitted to Gazprom Export a request for a review of pricing under the contract. At the time of the retroactive application of the new pricing formula, the delivery price of the natural gas shipped from the Russian Federation decreased by about 40 per cent. The contract contains an 80:20 take-or-pay provision, whereby regardless of consumption Bulgargaz is required to pay for at least 80 per cent. of the total contracted quantity of natural gas (with the contract being flexible for the remaining 20 per cent.). In addition, approximately 0.33 per cent. of the gas purchased by Bulgargaz in 2020 and 0.21 per cent. in 2019 was purchased from a local producer under a purchase agreement with prices and volumes being agreed on a periodic basis. Furthermore, in 2020 approximately 5.4 per cent. of the gas purchased by Bulgargaz was from the VTP of the gas transmission network, compared to 14.9 per cent. in 2019. The process for the renewal or extension of the contract with Gazprom Export will commence towards the end of 2021 and in the first quarter of 2022. This will involve consideration of the overall market situation but a significant reduction in the current contract volumes is anticipated following the commencement of deliveries under the long term supply contract with Azerbaijan Gas Supply Company Limited ("**AGSC**") as of 31 December 2020.

A long-term contract between Bulgargaz and AGSC for securing gas supplies from Shah Deniz II offshore field in the Caspian Sea was signed in 2010. The first natural gas supplies from Azerbaijan under this contract started as of 31 December 2020. Due to the delay in the commissioning of the IGB interconnection, the gas is delivered to

Bulgaria through a temporary interconnection point "Nea Mesimvria", which is part of the Greek natural gas transmission system operated by The Hellenic Gas Transmission System Operator (DESPA) S.A. ("DESPA"). In agreeing this temporary supply route with DESPA to enable the delivery of gas by AGSC, Bulgargaz has been able to achieve diversification of its gas supplies. The Group plans to extend the operation of this temporary supply route to 1 July 2022, which is the date on which ICGB anticipates commencement of the operation of the IGB.

Bulgargaz has an obligation under its contract with AGSC to provide a bank guarantee to the supplier of the gas purchased by Bulgargaz as security for the obligations of Bulgargaz in respect of such purchase. Bulgargaz and BEH signed a credit facility with the guaranteeing bank in relation to the provision of this bank guarantee in 2020. This bank facility is recognised in the financial statements of Bulgargaz as a contingent asset and BEH agreed to be a co-borrower under this credit facility to address the periods during the year when Bulgargaz has liquidity constraints. Bulgargaz has further pledged as collateral for its obligations under the credit facility a secured account containing cash equivalent to 50 per cent. of the value of the guarantee, which is recognised as a contingent liability for Bulgargaz. As of the date of this Prospectus, the maximum amount of the guarantee is USD 94 million.

Starting from 1 December 2019, Bulgargaz is required to offer for sale annually certain quantities of natural gas on the organised gas exchange market in Bulgaria, according to the "Natural Gas Release Programme" (which has been implemented pursuant to the Bulgarian Energy Act and is aimed at increasing liquidity and providing real access to a competitive environment for all participants in the natural gas market in Bulgaria) (see "*Regulation, Environment and Health and Safety – Regulation – Regulation of activities in the energy sector - Natural gas market*"). The total quantity of natural gas offered for sale by Bulgargaz in accordance with the requirements of the Natural Gas Release Programme in 2020 was 2,220 GWh or about 8.8 per cent. of the total sales of Bulgargaz. The actual volume of natural gas sold by Bulgargaz under the Natural Gas Release Programme in 2020 was 739,016 MWh. In the following years the quantities that have to be released on the gas exchange under the Natural Gas Release Programme will increase as follows: 4,281 GWh in 2021; 6,342 GWh in 2022; 8,720 GWh in 2023; 11,099 GWh in 2024. The weighted average market price on the Balkan Gas Hub for 2020 is BGN/MWh 27.01, compared with the price of BGN/MWh 27.10 that was achieved by Bulgargaz for the year ended 31 December 2020. The natural gas quantities released on the organised gas exchange market in 2020 represent only 9 per cent. of the total sales of Bulgargaz in 2020 and, therefore, the impact of this release programme on Bulgargaz is not thought to be significant. These quantities are offered for sale under the terms and conditions of an agreement (approved by the EWRC on 29 November 2019) implementing the "Natural gas release program" entered into between Balkan Gas Hub as operator of the organised natural gas market and Bulgargaz as public supplier.

In addition, starting from 1 January 2020, the regulated segment of the gas market (whereby EWRC approves the prices) was reduced and Bulgargaz as a public supplier is required to sell gas at regulated prices only to (i) end-suppliers of natural gas and (ii) plants that possess a license for the generation and transmission of heat energy (i.e. district heating companies). All other consumers (including industrial consumers) that are directly connected to the gas transmission grid now purchase gas at free market prices. This has led to the market negotiation of the prices at which natural gas is supplied by Bulgargaz for the majority of its clients. The distribution companies representing such end-suppliers of natural gas and district heating companies represented approximately 45 per cent. of the total quantity of natural gas supplied by Bulgargaz to its clients in 2020.

Bulgargaz supplies gas to approximately 186 customers including end suppliers, district heating and industrial customers directly connected to the transmission network. The customers request the quantities of gas they require on a daily, weekly, monthly and quarterly basis and pay on a monthly basis for the gas supplied. The standard customer contract provides for two payment methods: (i) if the customer provides a bank guarantee then payments can be made in arrears; (ii) otherwise payments are made in two monthly instalments in advance with credit or debit notes issued by Bulgargaz after the month of delivery to reflect the difference between the invoiced quantities and the quantity of gas actually received by the customer.

The price for sales on the regulated segment of the gas market is determined by the EWRC on a monthly basis based on the expected cost paid and the expected quantities of natural gas to be purchased by the public supplier for the next month.

The table below shows the volumes of natural gas purchased and sold by Bulgargaz in the years 2020 and 2019. The decrease in volumes in 2020 compared to 2019 was caused by the COVID-19 pandemic.

	2020	2019
	MWh	
Natural gas purchases	25,038	29,204
<i>of which, imports</i>	23,605	24,789
Natural gas sales	25,044	29,230

Bulgartransgaz

Bulgartransgaz owns, operates and maintains the 1,835 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. As of 1 January 2020, the delivery point for natural gas supply from Russia changed with the new delivery point (Strandzha/Malkochlar 2) being situated on the Bulgarian-Turkish border. With this new delivery point, the access and transmission costs through Romania have been terminated. There is a separate contract between Gazprom Export and Bulgartransgaz as a transiter, containing a 90 per cent. ship or pay clause. This transit contract was signed in 1998 with Gazprom Export. In 2006 the contract was extended to 2030. Following the "Open Season" procedure for allocation of the Balkan stream transmission capacity, Bulgartransgaz has concluded two long-term contracts with Gazprom Export and MET Energy Trading Bulgaria EAG for 90 per cent. capacity reservation on the entry point of the gas network pipeline on the Bulgarian-Turkish border and for 80 per cent. capacity reservation on the exit point on the Bulgarian-Serbian border. The contracts were signed in 2019 and for a duration of 20 years.

The "Open Season" procedure is the procedure by which the transmission system operator ("TSO") offers transmission capacity to applicants by way of a transparent capacity allocation mechanism. The "Open Season" procedure is generally organised in three phases: an open assessment of market demand, non-binding applications and binding applications.

The licences in respect of the transmission, transit and storage of natural gas were granted by EWRC for a period of 35 years in November 2006, expiring in 2041.

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 information relating to the Bulgarian gas transmission and transit networks in each of the years 2020 and 2019. The decrease in natural gas transited in 2020 compared to 2019 is due to the lower quantities transited to Turkey (90 Mlnm³ in 2020 compared to 4,349 Mlnm³ in 2019) after the commissioning of the offshore part of the Turkish stream pipeline, which provided an alternative route of supply for Turkey. In this same period, the transited quantity to Greece and North Macedonia increased 21.6 per cent. year on year (2,733 Mlnm³ in 2020 compared with 2,248 Mlnm³ in 2019) and 14.5 per cent. year on year (296 Mlnm³ in 2020 compared with 339

Mlnm³ in 2019) respectively. The decrease in natural gas transmitted in 2020 compared to 2019 was caused by the lower domestic consumption as a result of the COVID-19 pandemic.

	2020	2019
	Mlnm³	
Natural gas transmission grid capacity	7,400	7,400
Natural gas transit grid capacity	17,800	17,800
Natural gas transited	3,162	6,893
	GWh	
Natural gas transmitted	31,337	35,979

Bulgartransgaz also owns Chiren Under Ground Storage Facility ("**UGS Chiren**"), which is the only underground gas storage facility in Bulgaria. Chiren UGS has 23 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 UGS is currently 550 million m³ of gas storage. In addition, there is 750 million m³ of buffer gas which cannot be exploited because it serves to maintain storage pressures. The maximum daily flow is 4.2 million m³ for extraction and 3.2 million m³ for compression. Bulgartransgaz's investment programme includes a project to expand the capacity of Chiren UGS which is due to be completed by 2024. The project aims to achieve a larger storage capacity (up to 1 billion m³), higher average daily flow rates for injection and withdrawal (8 million to 10 million m³) and an increased maximum reservoir pressure of up to 150 bar. These parameters have been determined based on available geological, geophysical and reservoir-engineering information and further studies are planned to reach more precise storage expansion options, including 3-D field seismic studies on the Chiren structural area. In March 2021, a contract was signed with the Bulgarian Engineering Company for the design of the above-ground equipment relating to the project. Following the outcomes of the 3D field seismic surveys, a public procurement will be launched for the design of the underground equipment.

In 2015, Bulgartransgaz was certified as independent transmission operator of the Bulgarian gas transmission system with 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 EC of 22 April 2015.

As of 2017, the "entry-exit" model was introduced as part of the methodology for determining the prices for access to and transmission through the gas transmission network. The methodology is approved by EWRC and incorporates different price zones depending on the entry-exit points, in compliance with transparent pricing principles. The transparent pricing principles require prices to be applied in a non-discriminatory manner to users of the respective networks, taking into account the need for integrity of the networks, the reflection of actual costs required for the provision of natural gas transmission services and the inclusion of economically justified returns on existing assets and new investments. Price formation is based on the "revenue cap" approach, where the regulatory period can be between two and five years. This is currently set to five years for 2020-2025. After a

regulatory review, EWRC approves the required revenues 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.

In December 2014, the Bulgarian government proposed to the European Commission to build an EU-funded regional gas distribution centre (the "**Balkan Gas Hub**") near the Black Sea port of Varna to dispatch gas deliveries to Greece, Romania, Hungary, Croatia, Slovenia and, via those countries, to EU member states in central and western Europe, as well as to non-EU states including Serbia, North Macedonia, and Bosnia and Herzegovina. The intention is that natural gas can be fed into the Balkan Gas Hub from a variety of sources including from Russia, from Bulgaria's potential gas deposits in the Black Sea or, via interconnectors with Greece and Turkey, from the Caspian region or the Eastern Mediterranean, or from the Greek and Turkish liquid natural gas ("**LNG**") terminals. The goal of the Balkan Gas Hub is to connect the natural gas markets of the region and ensure energy security in South-Eastern Europe.

Interconnection and infrastructure development projects

Directly or through its subsidiaries, BEH is currently participating in three gas interconnection pipeline projects between Bulgaria and Greece, Serbia and Turkey, respectively, which are at different stages of development. It is also involved in the expansion of Chiren UGS capacity (see "*Bulgartransgaz*" above) and development of the LNG terminal near Alexandroupolis. The implementation of these projects is interrelated and will contribute to the realisation of the Balkan Gas Hub concept in Bulgaria, as well as the development of the single European gas network. These projects are, therefore, projects of common interest for the EU pursuant to Regulation (EU) 347/2013. The Group also participated in the completed gas interconnection pipeline project connecting Bulgaria and Romania.

The Balkan Gas Hub projects are the following and further details of these gas interconnection pipeline projects and the development of the LNG terminal near Alexandroupolis are provided below:

- the development of the IGB and interconnections between Greece and Serbia;
- the projects for the expansion of the gas transmission infrastructure from the Bulgarian-Turkish to the Bulgarian-Serbian border;
- the expansion of Chiren UGS capacity;
- the development of the LNG terminal near Alexandroupolis.

Gas pipeline projects

For the development of the IGB, the Group is involved via ICGB, an equally held joint venture company (the "**IGB Joint Venture**") with IGI Poseidon S.A. (which itself is an equally held joint venture between DEPA S.A. and Edison S.p.A). IGB will connect South-eastern Europe with natural gas supplies from the Caspian region, the 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, with the possibility for an increased annual capacity of up to 5 billion cubic metres. The total capital expenditure for the project is expected to be approximately EUR 247 million, which is to be financed by an equity contribution of EUR 59.3 million, a EUR 110 million loan to BEH from the European Investment Bank ("**EIB**") and EUR 84 million in grant funding (as outlined below). EUR 34.9 million of this grant funding has been disbursed. BEH's projected share of the capital expenditure for the project is estimated to be EUR 110 million and, accordingly, BEH concluded the EUR 110 million loan from the EIB, to be drawn down in 5 tranches. The loan from the EIB has the

benefit of a state guarantee from the Republic of Bulgaria (reflecting the fact that IGB is a project of national importance). The loan from the EIB (and the related state guarantee) has been transferred to the IGB Joint Venture with the same terms as those agreed with BEH. As at 18 January 2021, a total amount of EUR 60 million has been disbursed under the loan from EIB in two tranches of EUR 30 million each. These funds have been transferred to the IGB Joint Venture to finance the implementation of the project. IGB has been included in the EU list for Projects of Common Interest and benefits from a EUR 45 million grant and has also received additional grant funding in the amount of EUR 39 million under the Operational Program Innovation and Competitiveness. The IGB Joint Venture also concluded an EUR 40 million facility agreement with DSK Bank AD to provide additional funding to IGB. Construction of the IGB is ongoing. Due to COVID-19 related restrictions, IGB agreed an amended contract schedule with the engineering, procurement and construction ("**EPC**") contractor and construction of the IGB is now due to be completed in December 2021. Accordingly, the targeted commercial operation date as been moved to the first half of 2022.

The Group is also involved in the development of a gas pipeline connecting Bulgaria to Serbia known as Interconnector Bulgaria-Serbia ("**IBS**") which will connect the national transmission networks of Bulgaria and Serbia and aims to ensure diversification of routes, interconnection and natural gas transmission to Serbia using the new entry points with Turkey and Greece and the significant available capacity of the Bulgarian gas transmission system. In times of crises it could be used for natural gas supply to Bulgaria from Serbia. IBS has been included in the EU list for Projects of Common Interest. IBS is intended to have an annual capacity of 1.8 billion cubic metres. IBS has not yet reached its construction phase. At this stage in its development, who will be the transporters of natural gas through the IBS is unclear. Binding capacity agreements for the transportation of natural gas are expected to be signed after market test procedures have been carried out for the IBS in accordance with EU regulations.

Bulgartransgaz is participating in Balkan Stream (the expansion of the gas transmission network from the Bulgarian-Turkish border (i.e. the Turkish stream pipeline) to the Bulgarian-Serbian border). In 2019, Bulgartransgaz selected Association Consortium Arkad as a contractor under the Public procurement procedure. Association Consortium Arkad is an association of Arkad ABB S.p.A (from Italy) and Arkad Engineering and Construction Company (from Saudi Arabia). Balkan Stream is intended to have an annual capacity of approximately 19.7 billion cubic metres at the entry point at the Bulgaria-Turkey border and approximately 13.7 billion cubic metres at the exit point at the Bulgaria-Serbia border. Bulgartransgaz projected capital expenditure related to Balkan Stream is approximately EUR 1.3 billion, of which the EPC contract represents approximately EUR 1.102 billion and the cost of compressor stations represents approximately EUR 0.2 billion. As at 31 December 2020, the incurred capital expenditure related to this project was EUR 1.2 billion. The project will be financed by a loan of approximately EUR 1.1 billion from the EPC Contractor with a 10 year repayment period and approximately EUR 0.2 billion in equity. In 2020 the first two stages of the project were completed: (i) the construction of the linear part (with a length of 474 km) and (ii) the construction of the "Rosovo" compressor station. As a result the project is partly operational. By the end of 2021, construction of the "Nova Provadia" compressor station is expected to be finalised, at which point the project will become fully operational.

The gas pipeline connecting Bulgaria and Romania ("**IBR**"), in which Bulgartransgaz co-operated with its Romanian counterpart Transgaz S.A. to connect the transmission systems of the two countries, went into commercial operation in November 2016. IBR has a maximum capacity of 1.5 billion cubic metres per year. The construction of a compressor station in Podishor in Romania by Transgaz S.A., to equalize the pressures of the gas transmission networks of the two countries, was completed in 2019.

LNG terminal Alexandroupolis

This project for the development of the Alexandroupolis Independent Natural Gas System is included in the list of Projects of Common Interest of the EU. The infrastructure consists of a floating unit for the reception, storage and regasification of LNG located in the offshore zone of Alexandroupolis, Greece. The Group established Gastrade SA, a project company for the development of the project. The terminal will be connected to the Greek National Natural Gas Transmission System (the "GNNGTS"), through which natural gas will be transported to customers in Greece and abroad. Natural gas can be transported to Bulgaria via the IGB or the existing interconnection point with Greece. The terminal has a 6.1 bcm/y capacity for regasification and supply to the GNNGTS, and a storage capacity of 170,000 m³. The Energy Strategy of the Republic of Bulgaria until 2020 envisages Bulgartransgaz holding 20 per cent. of the share capital of Gastrade SA, as confirmed by a Decision of the Government. The commercial commissioning of the terminal is planned for 2024. As of August 2020, the Group purchased 20 per cent. of the shares in the LNG terminal at Alexandroupolis in the amount of BGN 25.5 million pursuant to an agreement signed with Gastrade S.A.

Balkan Gas Hub

Pursuant to Decision No.847 dated 22 November 2018 of the Council of Ministers and a Decision dated 28 November 2018 of the National Assembly, an amendment and supplement to the Energy Strategy of the Republic of Bulgaria until 2020 for reliable, efficient and cleaner energy sector was adopted.

In order to implement the updated energy strategy in relation to the construction of the Balkan gas hub, Bulgartransgaz registered a subsidiary, Balkan Gas Hub, on 18 January 2019. Balkan Gas Hub operates trading platforms for natural gas markets. In synergy with the physical infrastructure of the gas distribution hub, Balkan Gas Hub provides the prerequisites for the establishment of a Bulgaria-based liquid, physical and trading gas hub in the South Eastern European region.

Bulgarian Energy Trading Platform

Bulgarian Energy Trading Platform AD ("**Bulgarian Energy Trading Platform**") was established on 3 July 2019 with the purpose of creating, developing and managing a regional organised natural gas market in the South Eastern European region. On 25 March 2021, Bulgarian Energy Trading obtained a licence from the EWRC for a 35 year period in relation to the organisation of a natural gas market. The electronic trading platform enables the market members of the Bulgarian Energy Trading Platform to announce, accept, amend and withdraw "buy" and "sale" orders for natural gas and enables them to meet natural gas supply and demand on a market basis. The major differences from the Balkan Gas Hub are that (i) the Balkan Gas Hub involves the implementation of a Gas release programme ("**GRP**"), (ii) participation in the market segment of the Balkan Gas Hub is pursuant to an agreement for the implementation of the GRP and (iii) Bulgargaz has an obligation to sell certain quantities of natural gas under the GRP to the Balkan Gas Hub.

Lignite 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 over 90 per cent. of the lignite coal required for thermal power plant energy production in Bulgaria. The electric power generated within the Maritsa East complex accounted for 29 per cent. of the total electricity power generation in Bulgaria in 2020.

The production area of the coal mine is approximately 240 square kilometres and it has reserves of approximately 1.9 billion tonnes (of which 763 million tonnes are proven reserves and 1,108 million tonnes are expected reserves). The maximum extraction capacity of the mine is 35 million tonnes annually. The total lignite coal extracted by MMI in 2020 amounted to 20.6 million tonnes compared to 26.4 million tonnes in 2019. The decline was due to the decreased demand of thermal power plants. The coal segment's revenue was BGN 461.2 million in 2020 compared to BGN 514.0 million in 2019. The Group holds a leading position in the supply of coal fuel in Bulgaria, with 96 per cent. of the country's coal used in generation in 2018 supplied by the Group.²¹

SHAREHOLDER

The Republic of Bulgaria, through the Minister of Energy, is the sole owner of BEH. BEH has strong operational ties with the Bulgarian state. It operates as a department of the Ministry of Energy and is its instrument for implementing policy in the energy sector. The Bulgarian government is directly involved in the management of the Group which is mandated to manage all important Bulgarian government projects in the energy sector, including the completed collaboration with the World Bank for developing policy recommendations and a road map for energy sector reform and the completed collaboration with the Bulgarian Academy of Sciences for developing analyses to serve as the basis for the national energy strategy. The Bulgarian government has also guaranteed approximately 1.1 per cent. of the Group's debt accumulated as at 31 December 2020 and has provided a state guarantee in respect of the EUR 110 million loan provided by the EIB in respect of the IGB project. The Group was the biggest state-owned company in Bulgaria in terms of assets as at 31 December 2020. BEH is included in the "banned for privatisation" list of companies that may not be subject to privatisation under the PPCA, except with the prior consent of the National Assembly.

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 Public Enterprises Act, the Rules for Application of the Public Enterprises Act 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;
- select and dismiss the certified auditors;
- decide that BEH shall issue bonds;
- appoint and dismiss BEH's directors and determine their remuneration; and
- approve BEH's business plan.

²¹Source: 2018 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/buletinenergy2018-04.06.2019-finish.pdf>

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 Bulgarian government as a customer. As a result, the Bulgarian government does not benefit from any favourable commercial treatment, although the Bulgarian government is also not a major commercial client of the Group.

As of 31 December 2020, the share capital of BEH was BGN 3,462,941,744, divided into 3,462,941,744 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 Minister of Energy in accordance with the Decision of the Council of Ministers. The Bulgarian government has a strong interest in maintaining BEH's balance sheet but under Bulgarian law state owned companies are required to distribute to the Bulgarian state dividends of up to 50 per cent. of the profits disclosed in their consolidated financial statements.

COMPETITION

The Group is the leading electricity generator in Bulgaria and has an approximate 56 per cent. share of the electricity generation market.²² 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 a mixture of nuclear, thermal and hydro generation plants.

Electricity Generation

The Group's NPP 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 Maritsa East 2	(Group owned)	1,620 MW
Contour Global		908 MW
TPP AES Galabovo		670 MW
TPP Brikel		200 MW
TPP Maritsa 3		120 MW

The main competitors for TPP Maritsa East 2 on the regulated market are Contour Global and AES (although Contour Global is 27 per cent. owned by NEK). Both companies are project funded and have long-term PPAs with NEK.

²² Source: ESO 2020 energy balance

Through NEK, the Group owns and operates 30 HPPs and PSPPs in Bulgaria, which together generated 5.9 per cent. of Bulgaria's gross electricity generation in 2020. The overall share of HPPs and PSPPs generation in the country was 8.3 per cent. of Bulgaria's total electricity generation in 2020. NEK is the sole licensed public supplier of electricity.

Natural Gas

The prices at which Bulgargaz sells gas as a public supplier are regulated by EWRC. The selling price is determined on a monthly basis based on the expected cost paid and the expected quantities of natural gas to be purchased by the public supplier for the forthcoming month.

Bulgargaz is the sole licensed public supplier of natural gas in Bulgaria. It purchases natural gas at market prices and as of 1 January 2020 is obliged to sell natural gas at regulated prices in the case of sales to (i) end-suppliers of natural gas and (ii) plants that possess a license for the generation and transmission of heat energy only and otherwise may sell natural gas at free market prices to its customers.

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 and capital intensive 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.

Lignite 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 2020 was BGN 53.8 million, compared to BGN 55.2 million for 2019. Over 50 per cent. of the insurance expense is paid to ZAD Energia in which the Group holds 48 per cent. of the shares.

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, environmental liability 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, 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 this 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 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 does not insure itself against all potential risks and may become subject to higher insurance premiums*".

LITIGATION

The Group is involved in a number of legal proceedings but as of 31 December 2020 only considered it necessary to make any provision in the case of the below EC competition proceedings.

ContourGlobal Maritza East 3 AD

On 4 April 2019, NEK received an Arbitration Notice for initiating arbitration proceedings from ContourGlobal Maritza East 3 AD ("**ContourGlobal**") under Article 21.5 of its PPA with ContourGlobal. The claim relates to the rights of ContourGlobal against NEK in connection with compensation for the expenses of ContourGlobal incurred in its capital investment in the modernisation of TPPGontourGlobal Maritza East 3 in relation to the reduction of sulfur dioxide and nitrogen oxides emissions in accordance with the requirements of the relevant European legislation and the Law of the Purity of Atmospheric Air.

In an agreement dated 7 March 2016 as an addendum to the PPA, the parties agreed that NEK had an obligation to pay the amount of the capital investment of ContourGlobal in such modernisation (calculated by ContourGlobal at approximately EUR 17 million) plus the return of ContourGlobal for its investment in determining the new tariff model approved by the EWRC. NEK requested these costs for recovery from the EWRC but the EWRC considered that there was a lack of both a legal basis and procedure for the approval of such amendments to the tariff model in the PPA. In its Decision II-29/01.07.2020, the EWRC noted that a tariff model had been submitted to the EWRC by ContourGlobal for approval but the administrative proceedings in this regard were ongoing.

On 18 July 2019, NEK submitted a response to the statement for arbitration. The arbitration panel was constituted on 30 March 2020. Claims and written responses are scheduled for 15 to 17 July 2021.

Toplofikatsia Sofia EAD

In 2015, Toplofikatsia Sofia EAD ("**Toplofikatsia Sofia**") brought three claims against NEK for an aggregate amount of approximately BGN 16.5 million. The claims are for outstanding principal, late-payment interest and amounts claimed for unjust enrichment relating to the delivery of electricity.

NEK filed a counterclaim for BGN 13,864 thousand, representing the amount of invoices unpaid by Toplofikatsia Sofia, plus penalty interest, which were incurred during the period from February 2014 to November 2014 in relation to quantities of electrical energy produced by turbine generator No. 9 (TG 9) and which were improperly invoiced to NEK. With reference to the counterclaim, separate proceedings were instituted and NEK's claim was granted by Sofia City Court ("**SCC**"). The above claims of Toplofikatsia Sofia were suspended until the SCC issued a decision under NEK's counterclaim.

Toplofikatsia Sofia challenged the court decision before the Sofia Court of Appeals, and by its decision of January 2019, the Sofia Court of Appeals ("**SCoA**") confirmed the SCC decision. The SCoA decision was appealed by Toplofikatsia Sofia before the Supreme Court of Cassation ("**SCoC**"), but the SCoC did not permit the appeal. It is not anticipated that the outcome of these legal claims will have a material effect on the Group's cash outflows and financial result, since a substantial part of the claims are provided for in the financial statements.

Mechel Carbon AG

Mechel Carbon AG, as secured creditor under a registered pledge over receivables of Toplofikatsia Russe EAD owing by NEK, brought two claims against NEK for an aggregate amount of approximately BGN 27 million and penalty interest. The claims demand payment of the purchase price of electricity delivered by Toplofikatsia Russe EAD and purchased by NEK, which NEK paid to Toplofikatsia Russe EAD as pledgor after the receipt of an enforcement notice pursuant to the Act on Registered Pledges and not to the depository designated by Mechel Carbon AG as pledgee following its initiation of the enforcement of the pledge, including interest and charges. In the first case for the principal amount of BGN 5.1 million and penalty interest, the SCC decision granted the claims made by Mechel Carbon AG. The SCC decision was confirmed by the SCoA but has been challenged by NEK before the SCoC. As a result of the approximately BGN 5 million deposit made by NEK to the account of the SCoC, the enforcement of the decision on appeal was suspended. In the second case, for a principal amount of BGN 21.4 million and penalty interest, the decision of the first instance (Sofia City Court) is awaited, with no specific date set for a decision.

EC competition proceedings

Electricity market

On 12 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 (EC) No. 1/2003. In response to the Commission's concerns, and as part of these commitments, 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 on 10 December 2015 pursuant to Art.9 of Regulation (EC) No 1/2003 accepting the commitments proposed by BEH and effectively terminating the proceedings against BEH. The EC approved a monitoring trustee, Advolis, to control the day-to-day management of IBEX.

The EC stipulated that IBEX must be divested from the Group and the initial deadline for this was 14 June 2016. However, due to a variety of developments the deadline was extended and BEH divested IBEX to the Bulgarian Stock Exchange AD in February 2018, in accordance with Decision C(2018) 572 of the European Commission dated 26 January 2018.

At the end of January 2021, Advolis submitted a final report to the European Commission, stating that the commitments under the case had been fulfilled by BEH and its subsidiaries. The European Commission has adopted the final report of Advolis and has discharged Advolis from its duties as a monitoring trustee under the case.

Gas market

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

On 23 March 2015, the EC issued a statement of objections against BEH, Bulgargaz, and Bulgartransgaz setting out preliminary conclusions that the companies had abused their dominant position, in breach of Article 102 of the Treaty on the Functioning of the European Union. The relevant behaviours ceased in 2015 so the statement of objections is related to past activity of BEH, Bulgargaz and Bulgartransgaz and not to any current activity.

On 24 November 2017, the National Assembly took a decision which prevents BEH, Bulgargaz and Bulgartransgaz from admitting the alleged infringement and from admitting any liability for it. It also obliges BEH, Bulgargaz and Bulgartransgaz to take all procedural measures to defend the interests of the Republic of Bulgaria and of themselves, including to contest the eventual decision under Article 7 of Regulation 1/2003. Pursuant to the above decision of the National Assembly, if the EC issues a decision under Article 7 of Regulation 1/2003, it will be appealed in the Court of Justice of the European Union, although BEH would be obliged to pay any fine imposed in the interim, even if it appeals this decision.

On 17 December 2018, the European Commission imposed a fine on BEH, Bulgargaz and Bulgartransgaz of EUR 77,068,000 for hindering access of competitors to key gas infrastructure in Bulgaria in violation of EU antitrust rules. On 4 July 2019, the Bulgarian State, through the Ministry of Foreign Affairs, filed a petition to intervene in

the case in support of BEH and its subsidiaries. On 1 March 2019, BEH, Bulgargaz and Bulgartransgaz brought before the General Court of the European Union action for annulment of the Commission decision of 17 December 2018 imposed on BEH and its gas subsidiaries as the commencement of Case T-136/19. BEH and its gas subsidiaries do not accept the Commission's findings that they have abused a dominant position in the Bulgarian gas market.

The Commission made Requests for Information ("**RFIs**") to the BEH group and several third parties between 2010 and 2018 in relation to the gas markets in Bulgaria and Overgas Inc.AD ("**Overgas**"), a local gas company, was one of the companies that replied to the RFIs. According to the Statute of the Court of the European Union, any natural or legal person, which can establish an interest in the result of a case submitted to the Court can submit an application to intervene, which shall be limited to supporting the form of order sought by one of the parties. On 28 June 2019, the General Court of the European Union, taking into account the legal interest of Overgas accepted Overgas' application to enter Case T-136/19 in support of the European Commission. The Bulgarian State, through the Ministry of Foreign Affairs ("**MFA**"), filed a petition to intervene in the Case T-136/19 in support of BEH and its subsidiaries. On 26 August 2019, in accordance with the written procedure of Case T-136/19, the European Commission presented before the General Court its Defence in response to the complaint lodged by BEH, Bulgargaz and Bulgartransgaz in respect of the fine imposed on 17 December 2018. On 29 November 2019, BEH, Bulgargaz and Bulgartransgaz filed an Opposition against the European Commission Defence.

On 20 February 2020, the Republic of Bulgaria filed through the MFA the official position of the Republic of Bulgaria on Case T-136/19, submitted by the Ministry of Energy and the Ministry Foreign Affairs, whereby the State intervened in support of BEH, Bulgargaz and Bulgartransgaz against the European Commission, before the General Court of the European Union.

On 20 February 2020, within the terms specified by the General Court of the European Union, Overgas filed its position under Case T-136/19, and on 19 June 2020, BEH, Bulgargaz and Bulgartransgaz filed their findings against Overgas Inc. AD's position on the case before the General Court of the EU.

The filing of the above written opinions by the parties to the case represented the end of the written part of the proceedings.

It should be borne in mind that if the General Court decides to start the oral phase of the proceedings, the chairman will set a date for the oral hearing, most likely in 2021.

For the Earth – Access to Justice's appeal of derogations from desulphurisation and mercury limits granted in respect of TPP Maritsa East 2

Within the scope of the conditions of IPPC Permit No. 50/2005, a derogation was granted with DECISION No. 50-H0-I0-A5/2018 signed by the Executive Director of the EEA on 21.12.2018. At present, DECISION No. 50-H0-I0-A5/2018 is being appealed by the Association "For the Earth - Access to Justice", having its registered office in Sofia. With Adjudication No.252 dated 17.06.2019, enacted under Administrative Case No.225/2019 according to the inventory of Stara Zagora Administrative Court, it was allowed preliminary execution of the DECISION No. 50-H0-I0-A5/2018 dated 21.12.2018, appealed before the Administrative Court, for updating IPPC Permit No. 50/2005 of TPP MARITSA EAST 2 EAD, village of Kovachevo. The Adjudication entered into force on June 22, 2019.

In Decision No. 358/28.08.2020, ruled under Administrative Case No. 225/2019 on the list of the Administrative Court - Stara Zagora, the appeal was rejected as without foundation. The decision was appealed to the Supreme Administrative Court by "For the Earth – Access to Justice" and as a result Administrative Case No. 239/2021 in

the Supreme Administrative Court was initiated. The Supreme Administrative Court, under Administrative Case No. 239/2021 ruled in favour of the Association "For the Earth – Access to Justice" and a referral to the Court of Justice of the European Union was ordered, pursuant to Article 267, first paragraph, letter "b" of the Treaty on the Functioning of the European Union. As the same subject matter in relation to the position under art. 631, para 1 of the Code of Civil Procedure in connection with art. 144 of the Administrative Procedural Code are the same in the proceedings of Administrative Case No. 239/2021, these proceedings have been suspended until the ruling of the Court of Justice of the European Union in response to this referral has been announced.

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 and Bulgargaz also have single tier management systems with their own Boards of Directors. ESO and Bulgartransgaz each has a two-tier management system, consisting of 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. Such appointments must be made on the basis of a competitive recruitment process and election procedure, in accordance with the provisions of the Public Enterprises Act. The Board of Directors comprises five 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
Diyan Dimitrov	Chairman of the Board of Directors
Valentin Nikolov	Member of the Board of Directors and Executive Director
Ivan Andreev	Member of the Board of Directors
Stelian Koev	Member of the Board of Directors
Alexander Tzarnorechki	Member of the Board of Directors

The current term of appointment expires on 31 May 2026, provided that Mr. Tzarnorechki's appointment is temporary pending the finalisation of the procedure for the election of an independent member, as compared to the other members who are appointed by the State (which is being conducted by the Public Enterprises and Control Agency). 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 their duties to BEH and their private interests and/or other duties.

Diyan Dimitrov, Chairman of the Board – Mr. Dimitrov has been working in the energy sector for over 7 years. He was engaged in the management of TPP Maritsa East 2 for the period from 2014 to 2021 and he was Deputy Director of the Administrative, Tax and Financial Control Directorate of TPP Maritsa East 2 during that time.

Mr. Dimitrov graduated from the University of National and World Economy in Sofia, where he obtained an MA in Business Administration. He specialised in Business Communications at the same university. Since 2007, he has been a member of the Management board of a non-profit organisation "Project preparation and Management" association. Fluent in English.

Valentin Nikolov, Executive Director (BEH CEO) – Mr. Nikolov has extensive experience in the energy sector and in management of the Group. Prior to becoming CEO of BEH he was Chairman of the Parliamentary Energy commission. Before that he was a member of the Management board of NPP Kozloduy, NPP Kozloduy New-buildings, NEK and BEH. He also was a Deputy minister of Economy, energy and tourism.

Mr. Nikolov graduated from Technical university in Sofia, where he obtained a MA in mechanical engineering and internal combustion engines. He also has a MA in Financial Management from Dimitar A. Tsenov Academy of Economics in Svishtov. He specialised in Political Management at the Summer University in Strasbourg and at the New Bulgarian University. Fluent in English and Russian.

Ivan Andreev, Member of the Board – Mr. Andreev has professional experience of over 30 years in the energy sector. His experience started in NPP Kozloduy. He has been working in Units V and VI, after that he moved to the operational unit, where he reached the position of Deputy CEO of the company. He became the head of the Control and Analysis Department. In the period from 2010 to 2014, Andreev was Director of Development and Modernization and in 2016 he became a CEO of the company.

Mr. Andreev is graduated from Polytechnical Institute in Orenburg in technology of mechanical engineering and Metal Machine tools. He has a MA in industrial management from Dimitar A. Tsenov Academy of Economics in Svishtov. Fluent in English and Russian.

Stelian Koev, Member of the Board - Mr. Koev has a professional experience in Maritsa East Mines of over than 17 years, where he is in a position of CFO.

Mr. Koev is graduated from Dimitar A. Tsenov Academy of Economics in Svishtov and has a MA in Financial control. Since 2013 Mr. Koev has been CFO of Maritsa East mines.

Employees

The table below sets out certain information on the Group's employees as at 31 December in each of 2020 and 2019.

	31 December 2020	31 December 2019	% change 2020/2019
Number of staff	20,386	21,085	-3.32%
Labour productivity - revenue/ number of personnel (BGN'000)	274.49	319.8	-14.17%

Employee relations in NPP Kozloduy, TPP Maritsa East 2, NEK, ESO, Bulgartransgaz and MMI are governed by collective labour agreements. Over 86 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.

In 2019, the EU overhauled its energy policy framework in order to enable the transition towards cleaner energy and to deliver on the EU's commitments under the Paris Agreement (the global agreement on climate change adopted by 196 parties, including the EU and its Member States, on 12 December 2015) for reducing greenhouse gas emissions. This involved the adoption of the "Clean energy for all Europeans package", which consisted of 8 new laws aimed at making the EU's electricity market more interconnected, flexible and consumer-centred, ensuring the security of electricity supply in crisis situations and overhauling the role and functioning of the Agency for the Cooperation of Electricity Regulators.

On 11 December 2019, in response to the challenges relating to climate change, the EC presented The European Green Deal. The European Green Deal contains policy initiatives aimed at achieving climate neutrality in 2050 (where there are no net emissions of greenhouse gases) and decoupling economic growth from resource use. As part of this initiative, the EC proposed in September 2020 to raise the 2030 greenhouse gas emission reduction target, including emissions and removals, to at least 55 per cent. compared to 1990 (replacing the previous target of 40 per cent.). In order to fulfil this commitment, the EU has set the following key targets for 2030:

- at least 40 per cent. cuts in greenhouse gas emissions (from 1990 levels);
- at least 32 per cent. share for renewable energy;
- at least 32.5 per cent. improvement in energy efficiency; and
- at least 15 per cent. level of electricity interconnection between Member States.

The EGD also requires Bulgaria to take urgent and comprehensive actions for the overall reform of the energy sector, the main challenge being the transformation of generation facilities. The National Energy and Climate Plan sets out the following strategic goals and priorities in the area of energy and climate:

- coal-fired power plants to be among the main baseload capacities in the Bulgarian electric power industry until 2030;

- achieving at least 15 per cent. interconnection in the energy sector;
- full liberalisation of the energy power market to be achieved by the end of 2024; and
- 27 per cent. share of renewable energy in the total electricity generation mix by 2030.

Implementation of the European legislative framework in Bulgaria

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

- 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") under EWRC decision No. C-4 dated 22 June 2015. The decision was approved in line with the opinion of the EC dated 22 April 2015. ESO was certified as an ITO under EWRC decision No. C-5 dated 30 July 2015. The decision was approved in line with the opinion of the EC 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 cooperation with regulatory authorities from other EU countries, were extended.
- New measures aimed at 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 switch suppliers easily.

The European Green Deal requires Bulgaria to take urgent and comprehensive actions for the overall reform of the energy sector, the main challenge being the transformation of generation facilities. Given Bulgaria's high dependence on coal production, in order to reform the energy sector, there should be capacity mechanisms in place by 2030. Capacity mechanisms are measures (many of which involve State aid) taken to ensure that electricity supply can match demand in the medium and long term, and are designed to support investment to fill the expected capacity gap and ensure security of supply (see "*Implementation Plan and Capacity Mechanism*" below). Bulgaria will also need to implement significant investment projects in order to achieve low-emission production from existing coal capacities and to develop alternative energy generation facilities (i.e. facilities for electricity generation from gas and hydrogen resources).

In this regard, several important documents have been developed that reflect the state's strategy for implementing measures to achieve a carbon-neutral economy, as summarised below:

Implementation Plan and Capacity Mechanism

The measure is expected to help ensure the necessary level of resource adequacy, both in the medium term, by supporting existing capacity, and in the long term, by stimulating investment in low-emission production. Current

legislation considers capacity mechanisms as a temporary measure, which should be preceded by clear commitments to address identified market imperfections. To this end, as part of the State aid procedure, Member States are required under Regulation 2019/943 to develop and publish an implementation plan with a timetable for the adoption of measures to eliminate identified regulatory distortions or market failures. Accordingly, the Bulgarian state (through the Ministry of Energy) published on 8 February 2021 an implementation plan, which includes the following: an analysis of the electricity market in Bulgaria; the identification of regulatory and market distortions; and an analysis of the necessary market reforms.

The reforms envisaged in the implementation plan, as part of the process of notification and implementation of the capacity mechanism, include:

- termination of the long-term contracts for purchase of electricity with TPP "AES 3C-Maritsa East 1 EOOD and ContourGlobal, which is expected to have a positive impact on the Group as NEK will no longer be obliged to purchase such electricity on a mandatory basis and at preferential prices;
- liberalisation of the wholesale electricity market, according to the set deadline of 30 June 2021;
- liberalisation of the retail electricity market by 31 December 2024; and
- bringing the activity of the balancing market in line with the European requirements regarding the pricing of the services provided.

One of the goals of the amendments to the Energy Act in 2020 was the continuation of the liberalisation of the wholesale electricity market and its increased liquidity. Following these amendments, all producers, with the exception of sites with a total installed electrical capacity of less than 500 kW, should offer the electricity they produce at freely negotiated prices. This will provide additional quantities of electricity in order to achieve a stable and predictable market.

With the legislative amendments, end suppliers will no longer purchase electricity at preferential prices from producers of highly efficient combined heat and power production or from renewable energy sources with installed capacity of 500kW and over. These producers will instead switch to the free market from 1 July 2021 and conclude a "premium contract" with the SESF, without providing for a transitional period during which the public supplier will continue to purchase the energy they produce at preferential prices.

An important step in the process of full liberalisation is the elimination of the regulated market segment and the introduction of household consumers to the free market. The electricity market in Bulgaria is partially liberalised, with the regulated share being 40 per cent. of total electricity consumption. In line with the EC's Third Liberalisation Package, Bulgaria has taken steps towards full liberalisation of the electricity market. It is envisaged that the retail market will be liberalized by 31 December 2024, and for this purpose it is necessary to take steps to identify energy-poor consumers and develop adequate mechanisms to support them.

Integrated National Energy and Climate Plan of the Republic of Bulgaria 2021 -2030

Pursuant to the EU Regulations regarding the governance of the Energy Union and climate action, in February 2020 Bulgaria adopted the National Energy and Climate Plan, which sets out the following strategic goals and priorities in the area of energy and climate:

- *Decarbonisation:* the national target for the share of energy from renewable sources in gross final energy consumption by 2030 has been raised from 25 per cent. to 27.09 per cent.;

- *Energy efficiency*: Bulgaria plans to achieve a decrease in the consumption of primary energy by 27.89 per cent. and a decrease by 31.67 per cent. in final energy consumption as compared to the PRIMES 2007 scenario;
- *Energy security*: the diversification of sources and routes for natural gas supply;
- *Internal energy market*: fully liberalising the energy market and integrating it into the regional and wider EU market; and
- *Research, innovation and competitiveness*: scientific progress in the area of innovative energy technologies, including clean power generation.

Coal Regions in Transition initiative

The "Initiative for coal regions in transition" assists EU countries and coal regions tackling challenges related to the transition to a low-carbon economy. At the beginning of 2020, the National Assembly adopted a position to join this initiative.

Draft plan for recovery and sustainability of the Republic of Bulgaria

The National Recovery and Sustainability Plan for Bulgaria was prepared in the context of the European Commission's Plan to Recover Europe from the Coronavirus Pandemic announced in late May 2020, known as the "EU New Generation".

The Bulgarian National Recovery and Sustainability Plan was sent to the European Commission for final consideration by the deadline or 30 April 2021, as required by the draft Regulation on the Mechanism for Recovery and Sustainability.

The main instrument for financing the European Commission's Plan to Recover Europe from the Coronavirus Pandemic is the Mechanism for Recovery and Sustainability, which is accessed by EU Member States through National Recovery and Sustainability Plans. The distribution of these funds in the amount of BGN 12.368 million for the years 2021-2026 and their utilisation is planned to start from the beginning of this period, with about 12 per cent. of these funds to be utilised in the first three years. After that, a rapid increase in transfers is expected, with such transfers to reach their maximum volume in 2026.

The National Recovery and Sustainability Plan Objectives include the following:

- the share of energy from renewable sources in gross final energy consumption to be 24 per cent. by 2024;
- a cumulative reduction of energy intensity in the economy of 10 per cent. for the period 2021-2024; and
- a cumulative reduction of carbon intensity in the economy of 10 per cent. for the period 2021-2024.

Indicative cost estimates for the realisation of these objectives amount to a total BGN 3 604.3 million, of which BGN 3 377 million at the expense of the Mechanism for Recovery and Sustainability and BGN 227.3 million of national co-financing.

The main investments, which directly affect the activity of the independent transmission operations of the Group are the following:

1. Digital transformation and development of ESO information systems and real-time systems in the conditions of a low-carbon economy

The aim of this project is to complete modernisation of the activities for planning, management and maintenance of the electricity transmission network of the country through the introduction of modern digital means and methods to ensure the necessary maneuverability, security, reliability and fast action in the management of the power system in low carbon production, increasing penetration of renewable sources and distributed generation, and increasing the flexibility of operational management and the monitoring of the electricity system.

2. Design, construction and commissioning of infrastructure for transmission of hydrogen and low-carbon gaseous fuels for power plants and other consumers in coal regions in the Republic of Bulgaria

This project aims to create an opportunity for the phasing out of coal-based electricity generation and the gradual replacement of the fuel base in thermal power plants in the country's coal regions through the use of alternative environmentally friendly energy sources such as hydrogen. This will lead to the reduction and subsequent elimination of greenhouse gas emissions resulting from the production of electricity from solid fuels in these regions. By creating an infrastructure suitable for hydrogen transmission, the implementation of the project will create conditions for large-scale reform of the energy sector in the country, resulting in the gradual decarbonisation of energy and the economy. This project includes the provision of a new supply gas pipeline infrastructure suitable for the transmission of hydrogen and low-carbon gaseous fuels, to supply, TPP Maritza East - 2, ContourGlobal, AES - 3C Maritsa Iztok 1 and other consumers in the Maritsa East coal complex (gas pipelines with a total length of about 125 km), as well as TPP Bobov Dol and other consumers in the region (gas pipelines with a total length of about 50 km).

It is envisaged that the infrastructure will be connected to the existing gas transmission network of Bulgartransgas EAD, as the gas pipeline in the Maritsa East coal complex will also be connected to IGB.

This project will allow the introduction of innovative technologies and will contribute to the reduction of both greenhouse gas emissions and to reduce air pollution with fine dust particles and harmful substances in the regions concerned. The project corresponds to the vision of the Roadmap for Hydrogen in Europe, according to which the implementation of the transition to a decarbonised energy system requires large-scale use of hydrogen.

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 Bulgarian Energy Act, which regulates electricity generation, electricity and gas imports, exports 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 Bulgarian Energy Act is currently compliant with the requirements of European legislation.

In addition, a significant part of 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

EWRC, which is the national regulatory authority for energy, was established by the Bulgarian 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;
- the adoption of secondary legislation;
- the approval of general terms of contracts in the energy sector;
- control over issued licences;
- the regulation of prices, including preferential prices;
- approval of forecast and market prices;
- determination and approval of feed-in premiums;
- the adoption and supervision of rules for trade and technical rules for networks in the energy sector;
- the adoption, and control over the implementation of, price-setting methodologies; and
- the investigation of infringements and supervision over compliance by energy undertakings with Regulation No 1227/ 2011/ EU on wholesale market integrity and transparency (the "**REMIT Regulation**").

Electricity prices

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

- The prices of the electricity generators within quotas set by EWRC aimed at securing supplies to protected consumers and households.
- The premiums of the electricity generators from RES and cogeneration – see "*Amendments to the legal and regulatory framework*" below).
- The prices of the public supplier (NEK) for electricity sold to end suppliers within the quotas set by EWRC.
- The prices of end suppliers of electricity sold to household consumers.
- The prices for transmission of electricity by transmission and distribution grids.
- The prices for connection to the transmission and distribution grids.
- The prices for access to the transmission and distribution grids.
- The prices for certain services related to licensed activities.

- The prices or price components for compensation for public service obligations (i.e. renewable energy) and stranded costs.
- The annual marginal price for concluding transactions on the balancing energy market.

The prices for transmission through and access to the transmission network are regulated under the "capital return rate" method whereby EWRC approves the prices and annual revenue requirements of the energy company for a regulatory period of 12 months starting on 1 July of the current year. For the current regulatory period from 1 July 2020 to 30 June 2021, EWRC has approved prices for transmission and access of 10.30 BGN/MWh (compared to 9.83 BGN/MWh for the previous regulatory period).

Costs for purchasing electricity and availability from producers with long-term PPAs, renewable energy sources and highly efficient cogeneration of heat and power and annual quotas for production from local fuel sources, as well as eventual stranded costs (collectively, the "**Costs**"), are classified as expenditures resulting from 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, which until 30 June 2018, was paid by consumers and grid operators directly to NEK. Since 1 July 2018, the OBS fee has been collected by the Security of Electricity Fund ("**SESF**") and transferred on to NEK and other beneficiaries.

The SESF was created pursuant to the Bulgarian Energy Act in order to ensure sufficient funds for the full compensation of NEK (as the public supplier). SESF is a separate legal entity under the governance of the Ministry of Energy, whose management board consists of representatives of various ministries (the Ministry of Energy, the Ministry of Finance and the Ministry of Environment and Water). SESF collects funds from: (i) instalments (i.e. contributions) of 5 per cent. of the revenues from sales of electricity from electricity producers; (ii) instalments of 5 per cent. of the revenues from sales of electricity of electricity traders for quantities imported; (iii) revenues from the sale of carbon dioxide quotas generated by the Bulgarian government from auctioning allowances to emit greenhouse gases; (iv) interest income, including for late payment of amounts due; (v) donations; and (vi) revenues from statistical transfers of energy from RES.

With respect to sourcing, NEK acts as a public provider and bears the obligation to purchase electricity from RES and highly efficient cogeneration plants with installed capacity of up to 500 kW, under long-term PPAs, and annual quotas for production from local fuel sources from power plants connected to the transmission grid. SESF determines and pays premiums to such producers in order to compensate them for the difference between the preferential price and the estimated market price determined by the EWRC.

As a result of regulatory and legislative amendments implemented during the period 2015 to 2019, no new tariff deficit has been accumulated in NEK. Furthermore, SESF proceeds from carbon dioxide trade are higher than forecast. Accordingly, in the new regulatory period 2020/2021, EWRC has determined that additional compensation amounting to BGN 128 million will be transferred from SESF to NEK in respect of costs incurred in previous regulatory periods.

Electricity balancing market

In 2014, EWRC amended the Electricity Market Rules by introducing a new market model and paving the way for the establishment of an organised power exchange in Bulgaria, as well as providing the necessary conditions to ensure the proper functioning of a balancing market.

The electricity balancing market in Bulgaria was launched on 1 June 2014 and includes all commercial participants in the electricity supply chain including generation, transmission, distribution and end customers. ESO administers the electricity balancing market.

Pursuant to the Bulgarian Energy Act, EWRC sets an annual marginal price for concluding transactions on the electricity balancing market. As of 1 January 2021, EWRC has determined a marginal price for transactions of the electricity balancing market as follows:

- the marginal price for transactions on the electricity balancing market for "upward" regulation is capped at the day ahead market price plus BGN 100; where the day ahead market price is equal to the hourly price on the day ahead market on IBEX (the price for upward regulation is then capped by the regulator to the sum of the market price for the specific hour achieved at on the day ahead market platform + BGN/MWh 100); and
- the marginal price for transactions on the electricity balancing market for "downward" regulation is floored at 0.00 BGN/MWh.

The above-mentioned marginal prices are not applicable for balancing energy transactions under bilateral agreements with the energy systems of neighbouring countries and the regional balancing market.

NEK plays a central role in the electricity balancing market as the coordinator of six balancing groups (one standard balancing group and five special balancing groups including the last resort supply, producer, virtual balancing group and RES and cogeneration) and as owner and operator of the biggest pumped-storage hydro power plant in South-eastern Europe (PSPP Chaira). NEK operates most of the balancing capacity in Bulgaria.

Amendments to the legal and regulatory framework

Pursuant to the amendments to the Bulgarian Energy Act adopted in July 2019, the gradual integration of RES producers and highly efficient cogeneration plants on the free market continued, with plants that have a total installed capacity of 1 MW and above being required to sell energy on the electricity exchange. The commitment of the public supplier to buy the electricity produced by such plants was removed. Pursuant to the amendments to the Bulgarian Energy Act adopted in 2020, plants that have a total installed capacity of 500 kW and above are now required to sell energy on the electricity exchange.

In 2020, the ongoing reform in the energy sector continued with a view to fully liberalising the wholesale market and integrating the national market into the common European energy market. The full liberalisation of the wholesale electricity market shall take place by 1 July 2021. With the legislative changes in the Bulgarian Energy Act in force from 26 June 2020, all non-retail (commercial low voltage) consumers from 1 October 2020 exited the regulated market. EWRC approved the regulated prices for those customers only for the period 1 July 2020 to 30 September 2020. The amendments were in line with the requirements of Directive (EU) 2019/944 of the European Parliament and of the Council of 5 June 2019 on common rules for the internal electricity market.

The latest amendments to the Bulgarian Energy Act, which entered into force on 2 February 2021, provide for two objectives. The first objective is to eliminate the transactions for the purchase of cold reserve to ensure the security of the electricity system. This objective will be achieved through the conclusion of competitive bidding transactions for the availability of additional services, namely participation in primary frequency regulation, automatic secondary regulation and manual secondary regulation of frequency and exchange capacity in accordance with the provisions of Regulation (EC) 2017/1485 of 2 August 2017. According to that Regulation, each transmission system operator shall manage its control area with sufficient reserves to increase and decrease the active capacity so as to be able to deal with imbalances in its control area caused by the mismatch between supply and demand and emergencies. This legislative change brings national law in line with the Regulation, explicitly stipulating that the operator provides the necessary reserves by concluding contracts for additional services on a market basis - following a tender.

The difference between the new approach and the previous rules for purchasing cold reserve is that the availability necessary for the security of the electricity system is provided by active generation capacity according to the Regulation (EU) 2017/1485 of 02 August 2017. This further ensures the balance, security and flexibility of the

electricity system in normal and emergency modes, while introducing additional incentives for the participation of producers in the free electricity market.

The abolition of cold reserve availability purchase transactions is another step towards the introduction of a capacity provision mechanism. The adopted change aims to settle market relations in the transition period before the full liberalisation of the wholesale electricity market and creating a predictable environment for all market participants. Full liberalisation of the wholesale electricity market and the introduction of a capacity provision mechanism allows all producers to take part in a competitive procedure, which in turn increases the liquidity of the free electricity market. The introduction of a capacity mechanism also created predictability for the operation of power plants for extended periods of time.

Another objective of the 2021 amendments to the Bulgarian Energy Act is to continue the liberalisation of the wholesale electricity market and to increase its liquidity. In 2018 and 2019, significant progress was made with the introduction of premium compensation contracts in the transition of producers from transactions for the purchase of electricity at preferential prices to the supply of produced energy on the free market. The amendments ensure that from 1 July 2021, final suppliers will not purchase electricity at preferential prices from producers of highly efficient combined heat and power production and from renewable energy sources with installed capacity of 500kW and over. The above-mentioned producers were required to have concluded with SESF a contract for compensation with a premium by 30 June 2021, as the contract between SESF and the producers from renewable energy sources will be for the quantities of electricity produced by them up to the amount of their determined net specific electricity generation, on the basis of which their preferential price has been determined. The agreements entered into force on 1 July 2021.

The premium will be determined annually by the EWRC as the difference between the preferential price and the estimated market price set by the EWRC. For producers from renewable sources, it is envisaged that the premium will be provided for the term of the long-term purchase contract, and the amount of electricity that will be compensated is the determined net specific generation for the respective preferential price.

Gas prices

In accordance with the Bulgarian 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 entities which have an issued license for production and transmission of thermal energy.
- the total revenues for access and transmission;
- the price of 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 networks (gas transmission or gas distribution). For customers connected to the distribution networks a price for the supply of natural gas by an end supplier is also included.

In 2020 Bulgargaz and Gazprom signed the Addendum, which introduced a new pricing formula for the supply of natural gas to Bulgaria. The new pricing formula factors in an oil component, hub indexation, and a refund to Bulgargaz of overpaid amounts for the period from 5 August 2019 to 29 February 2020 (see "*Business Description – Natural Gas Market*").

The price of natural gas at the gas transmission system entry point is calculated (and proposed for approval) on a monthly 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) if 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.

The prices for access and transmission to the gas transmission network are calculated on the basis of a methodology for access and transmission approved by EWRC. The methodology rests on the "entry-exit" model with different price zones, in compliance with transparent pricing principles. The transparent pricing principles include price application in a non-discriminatory manner to users of the respective networks, taking into account the need for the integrity of the networks, the reflection of actual costs required for the provision of natural gas transmission services and the inclusion of economically justified returns on existing assets and new investments. Price formation is based on the "revenue cap" approach, where the regulatory period can be two and five years (it is currently set for 5 years from 2020 to 2025). After a regulatory review, the EWRC approves the revenue cap for the first year of the regulatory period and for the remaining years of the regulatory period the revenue cap is updated automatically as per the methodology.

A special regulatory account mechanism was introduced and approved by EWRC on 19 September 2016 in accordance with the EU practice of transmission operators' price regulation. The implementation of this mechanism is also in accordance with the requirements of the Framework Guidelines on rules regarding harmonised transmission tariff structures for gas adopted by Decision No 01/2013 of 29 November 2013 by the Agency for the Cooperation of Energy Regulators, as well the network code on harmonised transmission tariff structures for gas. The regulatory account records the difference between the revenue a transmission system operator is entitled to receive on the basis of the applied regulatory regime and the revenue actually received during the same period, thus aiming to minimise the differences between the allowed revenue requirements and the actual revenue for the same period.

Natural gas market

In relation to natural gas traded on the organised gas exchange market (see also "*Business Description - Business - Natural Gas – Bulgargaz*"), quantities traded on the organised gas exchange market will be sold:

- to cover domestic consumption in Bulgaria;
- in the neighbouring markets of Greece, Turkey, Romania, North Macedonia and Serbia;
- between hubs as follows: via Serbia, Hungary and Austria to central Europe; via Romania and Hungary to central Europe; via Romania and Moldova to Ukraine (a reverse of the trans-Balkan gas pipeline; amongst others;
- through swaps and spread products, including options and futures.

As of 1 December 2019, public gas supplier Bulgargaz EAD has been obliged to annually offer certain quantities of natural gas for sale on the organised natural gas exchange, pursuant to the natural gas release programme regulated by the Energy Act. The following conditions must be met at the time of release:

- Bulgargaz must conduct up to two tenders for release in order to ensure security of supply for the country, with these quantities intended to reach final suppliers or customers connected to the Bulgarian gas transmission network. The released quantities must be purchased directly, or through a natural gas trader;
- No persons related to Bulgargaz may participate in these tenders;
- Bulgargaz must conduct subsequent tenders for any quantities of gas released but not purchased at the initial tenders, increasing the offered price. These quantities may be intended for customers within the country and/or abroad;
- Bulgargaz has the right to dispose of any quantities not purchased after the subsequent tenders;
- The initial price of the tenders must comply with the provisions of the Energy Act and include all expenses of Bulgargaz related to the provision of natural gas to the VTP.

The provisions introduced by the Law for amending and supplementing the Energy Act, adopted on 8 October 2019 by the National Assembly (the "**LASEA 2019**") narrowed the categories of persons to whom Bulgargaz sells natural gas at a regulated price to only natural gas end suppliers and persons holding a licence for production and transmission of thermal energy. All other customers directly connected to the gas transmission network will be transferred from the regulated market to the organised gas exchange free market.

Prior to the LASEA 2019 coming into force, Bulgargaz as public supplier concluded several contracts for the supply of natural gas from 2020 at regulated prices to customers connected to the gas transmission network who neither are end suppliers nor hold a licence for the production and transmission of thermal energy (the "**Contracts**"). According to Bulgarian law, laws, including their amendments and supplements, have no retroactive effect and thus the lack of explicit provisions in the LASEA 2019 addressing the Contracts means they retain their effect and are not subject to the restrictions on sales imposed by the LASEA 2019.

In order to ensure equality between customers, in the past Bulgargaz has applied a unified approach in setting prices for the supply of natural gas on the regulated market and the prices under Contracts with other clients, however following the LASEA 2019 entering into force, the future prices will be freely negotiated on the organised trading exchange.

To ensure a smooth transition and to protect the interests of both parties, Bulgargaz proposed to its customers that the sales prices under the Contracts be set in accordance with the provisions of Ordinance No.2 of 19 March 2013 on regulation of natural gas prices in order to prevent too great a disparity between the price under the Contracts and the prices available on the free market as a result of the changes implemented by LASEA 2019.

On 24 April 2020, the National Assembly adopted a law supplementing the Energy Act in connection with the refund of funds from Bulgargaz to its customers for the period 5 August 2019 to 31 March 2020 (the "**LASEA 2020**").

As a result of the adoption of LASEA 2020, the EWRC adopted decisions to retrospectively determine the natural gas prices customers should have paid for each month from the period 5 August 2019 to 31 March 2020. The approved selling prices were in accordance with the new pricing according to the supplement signed with the supplier.

Bulgargaz calculated the reimbursement amounts due to the customers under natural gas supply contracts as the difference between the amounts paid for the quantities delivered at the prices approved by decisions of the EWRC until the entry into force of the LASEA 2020 and the amounts paid for the quantities delivered at the prices approved by relevant new decisions of the EWRC. The reimbursements amounted to BGN 202 million.

Reimbursement agreements have been entered into with the relevant customers and the relevant amounts reimbursed to such customers.

This event is defined as non-adjusting, within the meaning of IAS 10 "Events after the end of the reporting period", and the effect on revenue is recognised in the current period. Subject to the principle of comparability in the current period, a reduction / adjustment of the cost of the natural gas supplied was reflected.

The LASEA 2020 includes the following provisions:

- In connection with the reimbursement of customers of Bulgargaz under contracts for the supply of natural gas, the EWRC should determine the price of natural gas for each month within the period between 5 August 2019 and 31 March 2020. These new prices had to take into account the new pricing formula pursuant to the addendum to the Natural Gas Supply Agreement between Bulgargaz and OOO Gazprom Export signed on 2 March 2020 (see "*Business Description - Business - Natural Gas – Bulgargaz*");
- Within 20 days of the relevant decisions issued by the EWRC, Bulgargaz EAD shall calculate the relevant reimbursement amounts as the difference between the prices approved by the EWRC prior to LASEA 2020 entering into force and the new prices determined by the EWRC under the LASEA 2020 and sign new agreements with the relevant customers for their reimbursement;
- Bulgargaz EAD shall reimburse the agreed amounts within 14 days from the signing of these agreements.

Gas balancing market

In March 2016, Bulgartransgaz published draft gas market balancing rules (the "**Rules**") and a draft daily imbalance charge calculation methodology (the "**Methodology**"). The Rules were approved by EWRC on 13 December 2016. They guarantee that network users will be responsible for the balancing of their portfolios in order to minimise the need for the operator to undertake balancing activities.

The Methodology was also approved on 13 December 2016 and determines how to calculate the amount of daily imbalances and positive and negative price imbalances. This ensures the formation of non-discriminatory charges for imbalances and the creation of incentives for the transmission system users to efficiently balance their portfolios.

Both the Rules and the Methodology came into force on 1 January 2017 and constitute important steps in the introduction of a gas balancing market in Bulgaria.

Lignite Coal Prices

The price of coal is set by the Minister of Energy. This principally impacts MMI which sells lignite 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*").

Greenhouse effect

EU leaders endorsed a binding EU target for a net domestic reduction of overall greenhouse gas emissions from its 27 Member States by 55 per cent. by 2030 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. The EU-ETS has undergone several revisions to maintain the system's alignment with the overarching EU climate policy objectives, and is now into its fourth trading phase (2021-2030).

The legislative framework of the EU-ETS for phase 4 was revised in 2018 to ensure emissions reductions in support of the EU's 2030 emissions reduction target and as part of the EU's contribution to the Paris Agreement.

This revision focused on:

- strengthening the EU ETS as an investment driver by increasing the pace of annual cap reduction to 2.2 per cent. as of 2021, and reinforcing the Market Stability Reserve (the mechanism established by the EU to reduce the surplus of emission allowances in the carbon market and to improve the EU ETS's resilience to future shocks);
- continuing the free allocation of allowances as a safeguard for the international competitiveness of industrial sectors at risk of carbon leakage, while ensuring that the rules for determining free allocation are focused and reflect technological progress;
- helping industry and the power sector meet the innovation and investment challenges of the low-carbon transition via dedicated funding mechanisms, the Innovation Fund and Modernisation Fund.

The 2018 revision built on the reform of the ETS framework for phase 3 (2013-2020), which had changed the system considerably compared to the previous phases (2005-2007 and 2008-2012).

Since the start of the third phase of the EU-ETS (which ran 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, ten new Member States, of which Bulgaria was one, were allowed a temporary exemption from the full auctioning rule and permitted to allocate a limited number of emissions allowances to power plants for free until 2019.

In relation to the fourth phase of the EU-ETS, all Member States had submitted, by 30 September 2019, the necessary data for calculating the level of allocation to be granted to each installation and for updating the benchmark values to be applied in the period 2021-2025. The EC expects to adopt a decision on the national allocation tables for the free allocation of emission allowances during 2021. The distribution of free allowances in 2021 will take place after this Decision is adopted. On 29 June 2021 the European Commission adopted the Decision instructing the Central Administrator of the European Union Transaction Log to enter the national allocation tables of the Member States into the European Union Transaction Log. Based on this Decision, Member States will follow their respective national procedures for the issuance of free allowances.

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 aimed at reducing the NOx emissions. TPP Maritsa East 2 is in compliance with the current regulatory limits. TPP Maritsa East 2 is in the process of implementing a project to replace fuel oil with natural gas (methane) as the igniting fuel as well as the reconstruction of the fuel-feed installation system with the aim of reducing NOx emissions to below 200 milligrams per cubic metre. The project is financed under the National Plan for Investments.

In respect of the emissions limits set out in the BAT Document, that are expected to come into force in 2021, TPP Maritsa East 2 requires various upgrades to its equipment in order to meet the new limits including upgrading the existing FGD plants. TPP Maritsa East 2 submitted a request in February 2018 to the Bulgarian Executive Agency for the Environment for derogations from the desulphurisation limit for SO2 emissions and the mercury limit. Indefinite derogations (and a new complex permit, which set out the new limits that TPP Maritsa East 2 must observe) were obtained. The expected cost in order to modernize the existing facilities to reach the emission levels as set out in the new complex permit is BGN 12.6 million. See "*Risk Factors — New European Union environmental regulation may increase the Group's capital expenditure and have a negative effect on its financial performance.*".

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 SO2, 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 waste 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 storage of radioactive and conventional waste. The continuous radiation monitoring in the three kilometre zone is performed by the plant's Automated Information System which is integrated with 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 NPP strictly follows all safety standards concerning radioactive waste and SNF management. SNF is stored in special spent fuel pools and in wet and dry spent fuel storage facilities. There is a division operating on the NPP site for the treatment, conditioning, and storage of low- and medium-level radioactive waste. The construction of an interim SNF storage facility at the NPP, financed by the KIDSF, was completed in 2012 and the operating license was granted in 2016. Under Bulgaria's National Nuclear Fuel Management Strategy, adopted by the Bulgarian Council of Ministers in 2004 and updated in 2015, NPP Kozloduy also has a legal obligation to incur costs for the transportation, processing and storage of SNF. This includes covering the annual transportation and associated costs for at least 50 tonnes of SNF per year, provided certain favourable financial and economic conditions are met, from the decommissioned units on the NPP site, based on existing transportation, storage and processing contracts. NPP Kozloduy recognises provisions for the storage and transportation of SNF based on management's best estimate of the costs of such services that will be incurred in the next reporting period.

As of 31 December 2020, the Group fulfilled its obligation to transport, process and store spent nuclear fuel in accordance with the National Nuclear Fuel Management Strategy.

In 2018, NPP Kozloduy and FSUE PO Mayak (a Russian entity), in coordination with the Euratom Supply Agency, signed a contract for the transportation, temporary technological storage and processing in Russia of SNF for the period 2019 to 2023. This contract was supplemented in 2019 in respect of the transportation, temporary technological storage and processing of 96 cartridges of spent nuclear fuel from the water-water energetic reactor with 1000 MW installed capacity installed in NPP Kozloduy ("**WWER-1000**") during the period 2019 to 2020.

In view of the long-term nature of the preparatory activities for the removal of spent fuel, including organizational and technical activities, preparation of the necessary documentation, obtaining certificates and permits, a new transport scheme for the transport of spent fuel from WWER-1000 has been developed. The first transport under this scheme took place in December 2020. The costs for its implementation are financed by provisions charged in previous years in respect of the 2018 targeted funds for spent fuel management, including for the activities for transportation, technological storage and processing of spent fuel.

In order to fulfil the obligations under the Bulgarian government's "Strategy for RAW and SNF Management until 2030" for the transportation of at least 50 tons of heavy metal per year of SNF and to obtain the required funding for this, a provision for SNF management in the amount of BGN 39,860 thousand was accrued in the current costs for 2020. The calculations are based on the best estimate of the costs of one transport of spent fuel from WWER-1000 (96 cartridges), necessary to cover the current liability as of 31 December 2020.

In relation to the two functioning units, NPP Kozloduy is required to pay annually an amount equal to 10.5 per cent. of its revenue from electricity sold, which amounted to BGN 131.86 million in 2020 and BGN 137.8 million in 2019, to decommissioning and radioactive waste funds. These are state-owned funds, under the governance of the Ministry of Energy. The level of contributions is the subject of regular assessments by the Ministry of Energy.

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 2020 was BGN 102.9 million. The provisioning methodology assumes that mining activity will continue until 2043, which is when MMI's licence expires.

Carbon Intensity

The Group's carbon intensity data for the years 2018 to 2020 is displayed in the table below:

	2018	2019	2020
Overall carbon intensity (tCO₂/GWh)	337	309	188

This data shows a rapid decline over the last three years, as well as a current alignment with a well below 2 degrees Celsius climate benchmark. Although BEH has exposure to high carbon lignite generation, this is offset to a large extent by its exposure to carbon free nuclear and hydro generation.

BEH is seeking to limit its carbon intensive electricity generation and strictly control the generation volume of its thermal power plant while increasing generation from the RES and nuclear power plants in its portfolio.

BEH's policy in this regard is aligned with the "decarbonisation strategy" of Bulgaria, which is part of the National Energy and Climate Plan. This envisages the national target for the share of energy from renewable sources in gross final energy consumption by 2030 to be raised from 25 per cent. to 27.09 per cent.

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 lignite coal mining and which hold a leading position in the electricity and gas markets 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. The revenue of 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 lignite coal. In 2020, the Group generated 22.8 terawatt hours of electricity (gross) and had an installed capacity of 6.3 GW. In the same year, the Group's NPP, its lignite-fired power plant and its hydro power plants generated 40.7 per cent., 9.3 per cent. and 5.9 per cent., respectively, of the total power generated in Bulgaria, giving it a total market share of 55.9 per cent. in the Bulgarian electricity generation market in 2020²³.

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 2020 and 2019 as discussed below under "*Principal factors affecting results of operations — Regulated prices*". In 2019 and 2020, 74 per cent. and 76 per cent., respectively, of the Group's total revenue was derived from sales at regulated prices as compared to 26 per cent. and 24 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. The Group has also been affected by the COVID-19 pandemic (see "*Risk Factors - Risks related to the Group's business in general - Pandemics such as the COVID-19 pandemic may have a material adverse effect on the Group's business results of operations or financial condition*"). According to the Spring 2021 Economic Forecast for Bulgaria published by the European Commission in May 2021²⁴, Bulgarian GDP grew by 3.7 per cent. in 2019 and declined by 4.2 per cent. in 2020. The Spring 2021 Economic Forecast for Bulgaria forecasts that the GDP of Bulgaria will grow by 3.5 per cent. in 2021 and 4.7 per cent. in 2022 (conditional on the absorption profile of Recovery and Resilience Facility funds adopted by the government of Bulgaria on 28 April 2021). According to the Bulgarian National Statistical Institute (the "NSI")²⁵, GDP fell by 1.8 per cent. in the first quarter of 2021 as compared to the first quarter of 2020, though increased by 2.5 per cent. as compared to the fourth quarter of 2020 (according to seasonally adjusted data).

²³ Source: ESO 2020 energy balance

²⁴ Source: https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-performance-country/bulgaria/economic-forecast-bulgaria_en

²⁵ https://www.nsi.bg/sites/default/files/files/pressreleases/FlashEstGDP2021q1_en_OZZXJFV.pdf

The following tables show the revenue and EBITDA figures for each of BEH's reporting segments, before adjustments for intra-group eliminations:

Revenue (thousands BGN)	Electricity	Natural gas	Coal	Administrative activities
2020	4,872,704	1,195,418	461,754	173,004
2019	5,426,219	1,762,690	513,964	358,366

EBITDA (thousands BGN)	Electricity	Natural gas	Coal	Administrative activities
2020	616,527	272,400	61,017	-58,401
2019	718,434	251,046	93,721	579,245

PRINCIPAL FACTORS AFFECTING RESULTS OF OPERATIONS

Regulated prices

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

The Group's businesses which are subject to regulated tariffs and/or regulated revenue caps include:

- 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 and households;
- the relevant parts of its nuclear, thermal power and hydro power generation businesses which are required to sell a quota of their generation output, as determined by EWRC, at regulated prices;
- its electricity transmission business which is regulated in terms of transmission through, and access to, the transmission grid;
- its gas transmission and storage businesses, as well as the public supply of gas activity; and
- its electricity balancing market activity which is regulated in terms of the cap and floor prices for balancing energy set by EWRC.

The quantity of electricity sold at regulated prices, including for the electricity balancing market, constituted 70 per cent. of the Group's total electricity sold in 2020 (comprising 10 per cent. for NPP Kozloduy, 11 per cent. for TPP 2 and 49 per cent. for NEK).

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

- the regulated price of the electricity produced by NPP Kozloduy for the regulatory period from 1 July 2020 to 30 June 2021 was set by EWRC at BGN/MWh 54.77, an increase of 1.6 per cent. compared to the previous

regulatory period where the price was BGN/MWh 53.90 and an increase of 1.5 per cent as compared to the regulatory period from 1 July 2018 to 30 June 2019, when the price was BGN/MWh 54.00;

- the regulated price of the electricity produced by TPP Maritsa East 2 for the regulatory period from 1 July 2020 to 30 June 2021 was set by EWRC at BGN/MWh 135.95, an increase of 0.5 per cent. compared to the previous regulatory period where the price was BGN/MWh 135.30 and an increase of 76.6 per cent. as compared to the regulatory period from 1 July 2018 to 30 June 2019, when the price was BGN/MWh 76.99;
- the regulated price of the electricity produced by NEK's HPPs for the regulatory period from 1 July 2020 to 30 June 2021 was set by EWRC at BGN/MWh 85.01, an increase of 20.8 per cent. compared to the previous regulatory period when the price was BGN/MWh 70.40 and an increase of 21.4 per cent. compared to the regulatory period from 1 July 2018 to 30 June 2019, where the price was BGN/MWh 70.05;
- the regulated price for electricity supplied by NEK as the public supplier of electricity for the regulatory period from 1 July 2020 to 30 June 2021 was set by EWRC at BGN/MWh 92.93, an increase of 3.6 per cent. compared to the previous regulatory period where the price was BGN/MWh 89.67 and an increase of 29.6 per cent. as compared to the regulatory period from 1 July 2018 to 30 June 2019, where the price was BGN/MWh 71.71;
- as of 1 July 2018, the OBS fee is collected by the SESF (with the revenue from the OBS fee then being used to pay the premiums that are due to NEK for the amount representing the difference between the preferential price NEK must pay and the market price, as determined by EWRC; see "*Regulation, Environment and Health and Safety — Regulation — Amendments to the legal and regulatory framework*" below for further information). For the regulatory period from 1 July 2020 to 30 June 2021, the OBS fee was set by EWRC at BGN/MWh 21.47, an increase of 9.7 per cent. compared to the prior regulatory period where the OBS fee was BGN/MWh 19.57 and a decrease of 41.6 per cent. compared to the regulatory period from 1 July 2018 to 30 June 2019, where the price was BGN/MWh 36.75;
- the electricity transmission charge of ESO for the regulatory period from 1 July 2020 to 30 June 2021 was set by EWRC at BGN/MWh 10.30, an increase of 4.8 per cent. as compared to the previous regulatory period where the price was BGN/MWh 9.83 and an increase of 21.9 per cent. as compared to the regulatory period from 1 July 2018 to 30 June 2019, when the price was BGN/MWh 8.45. The access fee to the transmission grid due by end consumers was increased from BGN/MWh 0.41 to BGN/MWh 0.45 or by 9.8 per cent. for the regulatory period, beginning on 1 July 2020 as compared to the previous one;
- in 2020, Bulgargaz and Gazprom Export signed the Addendum in respect of the contract for the supply of natural gas to Bulgaria, which includes: (i) a new pricing formula for setting the supply price under the contract, which assigns a 30 per cent. weighting to oil derivatives and a 70 per cent. weighting to "the month-ahead" futures price for the Dutch gas hub "TTF" (which is considered the most-liquid on the European gas market and, therefore, is used as a reference for determining market price levels for natural gas), and (ii) the refund to Bulgargaz of overpaid amounts for the period from 5 August 2019 to 29 February 2020. The Addendum came into force as of 1 March 2020, as a result of which the average delivery price in 2020 was 41 per cent. lower than the average delivery price in 2019.
- Bulgargaz sells natural gas to end suppliers and entities which have an issued license for production and transmission of thermal energy (regulated customers) at regulated sale prices approved by the EWRC. According to the Ordinance No 2 on Natural Gas Price Regulation, the regulated sale price at which Bulgargaz sells natural gas as a public supplier to the regulated consumers is determined on a monthly basis based on the following price components: (i) the price of natural gas at the entry point of the gas transmission

network, calculated as weighted average cost of supply; (ii) the price for public supply; (iii) a surcharge for compensation of any costs which were not covered in the previous regulatory period; (iv) a transmission price. The approved prices from the beginning of 2021 are as follows: 26.93 BGN/MWh (Excise and VAT excluded) for January; 30.39 BGN/MWh (Excise and VAT excluded) for February; 28.64 BGN/MWh (Excise and VAT excluded) for March; 33.19 BGN/MWh (Excise and VAT excluded) for April; 37.71 BGN/MWh (Excise and VAT excluded) for May and 45.27 BGN/MWh (Excise and VAT excluded) for June; and

- a regulated revenue cap for Bulgartransgaz for the first year of the current 5-year regulatory period (1 October 2020 to 30 September 2025) was approved by EWRC.

Financial impact of regulatory and legislative changes

In 2015, BEH entered into an agreement with the World Bank aimed at a comprehensive review of the financial condition of the Bulgarian energy sector and identifying steps to move towards full liberalisation of the Bulgarian electricity market. The World Bank compiled a financial model that made an independent assessment of the tariff deficit generated by NEK. Historically, the Group's results of operations have been negatively affected by NEK's tariff deficit which reached BGN 1.9 billion in aggregate as at 31 December 2015, according to the assessment of the World Bank. The combination of legal obligations imposed on NEK to purchase electricity from RES and HE CHP at preferential prices together with contractual obligations under long-term PPAs meant that NEK's regulated revenue did not cover its costs. In its latest application for price determination for the regulatory period from 1 July 2021 to 30 June 2022, which has been submitted to the EWRC, NEK requested a compensation from the EWRC for a tariff deficit of BGN 2.3 billion generated during the period 2013 to 2020.

In November 2016, the World Bank produced a final report concluding its review (the **Final Report**). The Final Report stated that significant progress had been made in reducing NEK's tariff deficit and identified the repayment of the accumulated debt arrears (which had been funded by intragroup loans provided by BEH to NEK in order to cover NEK's costs during the period 2013 to 2015 when NEK's revenue was not sufficient to cover the costs for the electricity that NEK was legally obliged to purchase) as one of the key challenges for the future. One of the first key actions in this direction will be for the Bulgarian Government and the EWRC to assess the accumulated medium- and long-term tariff deficit in NEK. The Final Report recommended that the EWRC define a clear methodology for estimating the tariff deficit accumulated by NEK, taking into account deficits accumulated from 2013 until now, as well as possible small surpluses due to deferred payments (e.g. reimbursement of the OBS fee for some electricity consumers) during the regulatory periods from 1 July 2018 to 30 June 2019 and from 1 July 2019 to 30 June 2020.

Based on the results of the EWRC's assessment, the Bulgarian Government will need to determine how to finance the tariff deficit. The options recommended in the Final Report included a decision to increase the OBS fee and to refinance the current debt with a state guarantee, which would lead to longer repayment terms and lower financing costs. To prevent the accumulation of further deficit, the Final Report provided that the Bulgarian Government may also consider including an automatic deficit-binding clause accrued on an annual basis.

The Bulgarian government passed a package of legislative and regulatory measures in 2015 and 2016 to prevent any further increase of the tariff deficit and this significantly improved the Group's financial position and results of operations. As a result of these legislative and regulatory measures and amendments to some of NEK's PPAs, NEK's cost of electricity purchased decreased by BGN 1,162 million on a cumulative basis between 2014 (before the introduction of the regulatory measures) and 2020. The accumulation of the tariff deficit has ceased and in 2020 NEK's EBITDA amounted to BGN 196 million, an increase of BGN 698 million compared to a reported loss of BGN -502 million in 2014.

Since the publication of the Final Report the implementation of the proposed legislative and regulatory measures increased the Group's regulated revenue streams between 2015 and 2020 as follows:

- since 1 July 2018, the SESF has started collecting the OBS fee directly from participants on the free market;
- NEK's revenue (including, as of 1 July 2018, the OBS fee) received from SESF in 2020 amounted to BGN 980 million. In 2015, the amount of revenue received by NEK in respect of the OBS fee (which in 2015 was paid by consumers and grid operators directly to NEK) and the amount of revenue received by NEK from SESF were BGN 446 million and BGN 183 million, respectively, which together amounted to BGN 629 million; and
- the OBS fee for the regulatory period from 1 July 2020 to 30 June 2021 was 23.6 per cent. higher than the fee charged before July 2015 and, from July 2015, is paid not just on the quantities of electricity traded on the free market but also by the transmission system operator and the distribution operators on the quantity of electricity they purchase for covering their technological losses on the grids.

The implementation of these legislative and regulatory measures also reduced the Group's costs for the electricity it purchases. NEK was previously obliged to purchase the total quantity of electricity produced from generators benefiting from individual preferential prices for highly efficient combined heat and power generation, regardless of whether their generation met the criteria for highly efficient or not. Following legislative amendments, as of 1 July 2019 NEK is obliged to purchase electricity at preferential prices only from generators benefiting from individual preferential prices for highly efficient combined heat and power generation with an installed capacity of less than 500 kW. Reflecting this, the volume purchased by NEK from such producers for the regulatory period, from 1 July 2019 to 30 June 2020 was 391 GWh as compared to 7,760 GWh being purchased in the regulatory period from 1 July 2014 to 30 June 2015 (a decrease of 95 per cent.).

In addition, NEK's cost for purchased availability under the two PPAs was reduced following amendments to the two PPAs in April 2016. The availability price for Contour Global was reduced by 14 per cent. and the availability price for AES was reduced by 15 per cent. which resulted in a saving for NEK of BGN 84 million in the 12 month period immediately after to the amendments compared to the 12-month period immediately prior to them.

The legislative and regulatory measures implemented to reduce the tariff deficit are a direct consequence of BEH's positioning as a strategically important state asset benefiting from the support of the state. Both the Bulgarian government and EWRC 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.

SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Group have been prepared in accordance with IFRS as issued by the IASB and adopted by the EU. For a discussion of the accounting policies applied by the Group generally see Note 4 to the 2019 and 2020 Financial Statements, respectively.

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing the Group's financial statements, management is required to make certain estimates, judgements 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 judgement. 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, its provisions for litigation and its liability for employee retirement benefits are its most critical accounting judgements. Further details on these accounting judgements can be found in Note 4.29 to the 2020 and 2019 Financial Statements, respectively.

QUALIFICATIONS AND EMPHASES OF MATTER

There are a number of qualifications and emphases of matter in the audit opinions relating to the 2019 and 2020 Financial Statements. For further information, see "*Presentation of Financial and Other Information—Qualifications and Emphases of Matter in the 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 the years ended 31 December 2020 and 31 December 2019

Revenue

The table below shows the breakdown of the Group's total revenue from sales for each of the years ended 31 December 2020 and 2019.

Revenue from Sales	Year ended 31 December 2020	Year ended 31 December 2019
	<i>Thousands of BGN</i>	<i>Thousands of BGN</i>
Revenue from sales of electricity	2,637,658	2,943,096
Revenue from sales of natural gas	780,810	1,383,428
Revenue from sales of lignite coal	267,509	285,420
Revenue from other sales, including:	776,376	705,960
<i>Related with sales of electricity</i>	<i>440,905</i>	<i>440,375</i>
Revenues associated with the transmission through the electricity grid	365,250	362,434
Revenue generated from access fees	57,749	58,584
Revenue generated from reactive electricity	15,895	12,363
Revenue generated from connection fees	2,011	6,689

Revenues from power system management	-	305
<i>Related with sales of natural gas</i>	<i>297,150</i>	<i>235,932</i>
Revenue generated from transmission of natural gas	26,207	13,152
Revenue from natural gas transit	268,462	221,509
Revenue from natural gas storage	2,481	698
Free of charge gas	-	573
<i>Revenue from "water supply" services</i>	<i>4,073</i>	<i>3,818</i>
<i>Revenue from sales of thermal power</i>	<i>2,161</i>	<i>1,933</i>
<i>Revenue from transportation services</i>	<i>5,823</i>	<i>5,952</i>
<i>Revenue from rendered telecommunication services</i>	<i>3,028</i>	<i>2,664</i>
<i>Revenue from other services</i>	<i>23,236</i>	<i>15,286</i>
	4,462,353	5,318,024
Other operating income	1,133,502	1,423,956
<i>Revenue from the SESF</i>	<i>980,431</i>	<i>1,310,588</i>
	5,595,855	6,741,980

The Group's total revenue for the year ended 31 December 2020 was BGN 5.6 billion, a decrease of BGN 1.1 billion, or 17 per cent., compared to the Group's total revenue of BGN 6.7 billion for the year ended 31 December 2019. The percentage of the Group's revenue in 2020 from regulated or long-term contractual activities was approximately 68 per cent., while 32 per cent. came from non-regulated activities. The revenue from sales comprised 79.7 per cent. of the Group's revenue in the year ended 31 December 2020 and 78.9 per cent. in the year ended 31 December 2019. Other operating income decreased by BGN 290 million or 20.4 per cent from BGN 1.42 billion in the year ended 31 December 2019 to BGN 1.13 billion in the year ended 31 December 2020. This decrease was primarily driven by the lower revenues from sales of electricity and sales of natural gas, as well as lower revenues from the SESF. The lower revenues received by NEK from SESF in 2020 were due to a decrease in the cost for recovery from RES and HE CHP due to the fact that in 2020 NEK purchased quantities of electricity from such power plants only with installed capacity below 1 MW (prior to 1 July 2019 NEK purchased electricity from RES and HE CHP with capacity below 4 MW).

In connection with the state of emergency and subsequent emergency epidemic situation in the country as a result of the COVID-19 pandemic, the Government of the Republic of Bulgaria took a number measures to preserve employment, including the provision of funds to employers from almost all sectors of the economy in the amount of 60 per cent. of the insurance income of their employees for a certain period of time. The Group, through the subsidiary Mini Maritsa East EAD, has received approval for the payment of compensation for maintaining employment as follows:

- under Art. 1, para. 1 of the Council of Ministers No. 151 / 03.07.2020 for the months of July, August and September 2020;

- under Council of Ministers Decree no. 151 / 03.07.2020 amended with CMD №278 / 2020 for the months of October, November and December 2020.

For 2020, the recognised revenues of the Group under these measures amounted to BGN 56,216 thousand.

In 2020, the Group recognised this approved grant as financial income in its consolidated statement of profit or loss.

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, electricity distribution companies in Bulgaria and large industrial clients and exported to foreign customers. The Group's revenue from sales of electricity during the year ended 31 December 2020 was BGN 2.6 billion compared to BGN 2.9 billion for the year ended 31 December 2019, a decrease of BGN 305.4 million, or 10.4 per cent. This decrease principally reflected a significant decrease in generation by the TPP Maritsa East 2 in 2020 compared to 2019 due to lower electricity demand as a result of the COVID-19 pandemic and a rise in carbon prices which led to restrictions on the production and sales of TPP Maritsa East 2, and a decrease in exports in 2020 compared to 2019. Furthermore, in 2020 deliveries of electricity by TPP Maritsa East 2 to the free market were negligible as a result of (i) the high prices of carbon allowances leading to higher production costs per MWh of electricity produced, in response to which TPP Maritsa East 2 decreased its electricity output in an attempt to mitigate its productions costs; and (ii) lower electricity demand due to the COVID-19 pandemic.

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 94.3 per cent. of the natural gas sold is purchased by the Group under long-term take or pay supply agreements with Gazprom Export, with the balance being extracted from UGS Chiren or purchased from a local supplier. The Group's revenue from sales of natural gas during the year ended 31 December 2020 amounted to BGN 0.8 billion compared to BGN 1.4 billion for the year ended 31 December 2019, a decrease of BGN 602.6 million, or 43.6 per cent. This decrease reflects the combined effect of lower average selling prices agreed pursuant to the Addendum and lower realised volumes in 2020 compared to 2019. In 2020, the quantities of natural gas sold were 25,044 GWh, a decrease of 14.3 per cent. compared to 2019 when 29,230 GWh was sold. The decrease was mainly influenced by a lower consumption in 2020 compared to 2019 due to the COVID-19 pandemic.

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, North Macedonia and Turkey. In the case of electricity, these fees comprise a basic tariff which is regulated. In the case of natural gas, as of 1 August 2017 Bulgartransgaz's access and transmission tariffs have been set by the EWRC according to the new methodology for determining prices for access and transmission of natural gas through the gas transmission network based on the entry-exit system. An entry-exit system is a gas network access model which allows network users to book capacity rights independently at entry and exit points, thereby creating gas transport through zones, freely using any entry and exit point of the system as opposed to being obliged to use specific contracted paths within the transmission system. The independence of entry and exit capacities is further supported by a virtual trading point where network users who have booked entry or exit capacity can sell or buy gas, as the case may be. The new methodology for determining prices for access and transmission of natural gas

through the gas transmission network based on the entry-exit system is based on a model for price setting by entry points/zones and exit points/zones and applies the "revenue cap" regulatory method (see "*Regulation, Environment and Health and Safety – Regulation – Gas prices*"). The "revenue cap" approach envisages a regulatory period of two to five years (it is currently set for 5 years for the period 2020 to 2025). After a regulatory review, the EWRC approves the revenue cap for the first year of the regulatory period and for the remaining years of the regulatory period the revenue cap is updated automatically as per the methodology.

The Group's revenue from electricity transmission and gas transmission and transit fees was BGN 660 million in the year ended 31 December 2020 compared to BGN 597 million in the year ended 31 December 2019, an increase of BGN 63 million, or 10.5 per cent. Despite the significant drop of quantities of natural gas transited to neighboring countries in 2020 compared to 2019 (in particular Turkey following the commencement of the commercial operation of the Turkish stream pipeline), a year-on-year growth of revenues from natural gas transit was reported in 2020 due to the payments for reserved capacity at the gas system delivery points, after the TSO offered out transmission capacity allocations to applicants through an "Open Season" procedure (see "*Business Description – Business – Bulgartransgaz*") for a project for development and expansion of the gas transmission infrastructure to all neighbouring market areas (the Balkan Stream).

Electricity access fees

End consumers must pay the Group a fee to access the electricity transmission system. These fees comprise a basic tariff which is regulated and remunerates the Group for the management and administration of the electricity system. The access fee is payable by all end consumers connected to the electricity grid. The amount payable by each consumer is based on the amount of consumed electricity. The Group's revenue from access fees was BGN 58 million in the year ended 31 December 2020 compared to BGN 59 million in the year ended 31 December 2019, a slight decrease of BGN 0.8 million or 1.4 per cent. This decrease principally reflected the combined net effect of slightly higher average access fees set by EWRC being offset by lower volumes of electricity transmitted in 2020 compared to 2019 due to lower electricity consumption in Bulgaria and lower exported volumes.

Sales of lignite coal

The Group's revenue from the sale of lignite coal is derived from the lignite coal produced at its Maritsa mine and sold to customers in Bulgaria. The Group's revenue from sales of lignite coal during the year ended 31 December 2020 amounted to BGN 268 million compared to BGN 286 million for the year ended 31 December 2019, a decrease of BGN 18 million, or 6.3 per cent. This decrease principally reflected a decrease in the demand from TPPs for and production of lignite coal in 2020 compared to 2019 due to the high prices of carbon allowances and the outbreak of COVID-19 pandemic (which resulted in reduced electricity demand).

Costs

The table below shows the breakdown of the Group's costs for each of the years ended 31 December 2019 and 31 December 2020:

Costs	Year ended 31	Year ended 31
	December 2020	December 2019
	<i>Thousands of BGN</i>	<i>Thousands of BGN</i>
Cost of natural gas, electricity and other current assets sold	(2,439,580)	(3,369,402)

Change in finished goods and work in progress	24,210	52,264
Cost of acquisition of property, plant and equipment in a commercial manner	44,272	37,711
Cost of materials	(294,793)	(336,803)
Hired services expenses	(288,233)	(290,736)
Depreciation cost	(629,109)	(600,274)
Employee benefits expense	(956,118)	(946,235)
(Expenses for)/Reintegration of impairment	(30,378)	12,358
Cost of greenhouse gas emissions and provisions	(393,988)	(452,664)
Other operating costs	(363,207)	(393,487)
Total Costs	(5,326,924)	(6,287,268)

The Group's costs principally comprise the cost of natural gas, electricity and other current assets sold, employee benefits, depreciation cost, cost of greenhouse gas emissions and provisions, cost of materials, hired services expenses and other operating costs (including, in particular, contributions to the funds for retirements of nuclear facilities and radioactive waste and fines, penalties and charges).

The Group's total costs were BGN 5.3 billion in the year ended 31 December 2020 compared to BGN 6.3 billion in the year ended 31 December 2019, a decrease of BGN 960 million, or 15.3 per cent. This decrease principally resulted from decreases in the cost of natural gas, electricity and other current assets sold, cost of materials, greenhouse gas emissions and provisions, hired services expenses and other operating costs.

The Group's cost of natural gas, electricity and other current assets sold was BGN 2.4 billion in the year ended 31 December 2020 compared to BGN 3.4 billion in the year ended 31 December 2019, a decrease of BGN 930 million or 27.6 per cent. This principally reflected:

- a decrease of BGN 452 million, or 20.7 per cent., in the cost of electricity purchased in 2020 compared to 2019 due to lower volumes of mandatory purchased electricity by NEK. 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;
- a decrease of BGN 475 million, or 40.3 per cent., in the cost of natural gas in 2020 compared to 2019. The Group's cost of natural gas principally comprises the price it pays to Gazprom Export for imported gas. The decrease is a result of the new pricing mechanism agreed pursuant to the Addendum (see "*Principal Factors affected Results of Operations – Regulated prices*") and a decrease of natural gas consumption of companies in the energy, chemistry and glass sectors, as well as natural gas distribution companies; and
- a decrease of BGN 3 million in the cost of other current assets sold, or 64.6 per cent., in 2020 compared to 2019.

There was a BGN 42 million, or 12.4 per cent., decrease in the Group's cost of materials for the year ended 31 December 2020 compared to the year ended 31 December 2019. The lower costs for materials are mainly a result of the decrease in electricity costs in 2020 compared to 2019, due to the lower electricity consumption of the Group.

There was an increase of BGN 10 million, or 1.0 per cent., in the Group's employee benefits expense for the year ended 31 December 2020 compared to the year ended 31 December 2019 due to the increase in the average wage of the Group's employees. In the year ended 31 December 2020, there was also a decrease in the expenses for hired services of BGN 2.5 million or 0.9 per cent. compared to the year ended 31 December 2019, principally resulting from lower expenses for transportation services and concession and licence fees in 2020 compared to 2019 because of the decreased demand for electricity, natural gas and coal.

The cost of greenhouse gas emissions and provisions decreased by BGN 58.7 million, or 13.0 per cent., in the year ended 31 December 2020 compared to the year ended 31 December 2019. The decrease is mainly a result of a decrease in the average CO2 emissions price in the first half of 2020 due to the outbreak of the COVID-19 pandemic and lower emission allowances needed as a result of the decrease in generation by TPP Maritsa East 2 in 2020 as compared to 2019.

There was an increase in the expenses for impairment for the year ended 31 December 2020 compared to the year ended 31 December 2019 of BGN 43 million. This increase mainly reflected the reported impairment loss of trade receivables in 2020 compared to 2019 when a reversal of impairment was recognised.

Operating profit/loss

Reflecting the above factors, the Group's operating result for the year ended 31 December 2020 was a profit of BGN 269 million compared to a profit of BGN 455 million for the year ended 31 December 2019.

Share of profit from equity accounted investments

Details of the proportion of the profit from equity accounted investments are set out in Note 5 to the 2020 Financial Statements. The Group's share of the profit from equity accounted investments was BGN 40 million in the year ended 31 December 2020 and BGN 41 million in the year ended 31 December 2019.

Net finance costs

The table below shows the breakdown of the Group's financial income and financial costs for each of the years ended 31 December 2020 and 2019:

Financial Income	Year ended 31 December 2020	Year ended 31 December 2019
	<i>Thousands of BGN</i>	<i>Thousands of BGN</i>
Interest income on receivables from Toplofikatsia Sofia EAD	21,128	19,136
Interest income on bank deposits	358	6,544
Interest income on bank current accounts	115	-
Other interest income on financial instruments, carried at amortised cost	8,547	4,307
<i>Total interest income on financial instruments that are not carried at fair value in profit or loss</i>	<i>30,148</i>	<i>29,987</i>
Income from dividends and liquidation share	42	55
Other	8	1,476

	30,198	31,518
	Year ended 31 December 2020	Year ended 31 December 2019
	<i>Thousands of BGN</i>	<i>Thousands of BGN</i>
Financial costs		
Interest expense on loans measured at amortised cost	(104,134)	(104,642)
Interest expense on trade payables at amortised cost	-	(1,131)
Interest expenses on financial leasing	(46)	(159)
<i>Total Interest expense on financial instruments that are not carried at fair value through profit or loss</i>	<i>(104,180)</i>	<i>(105,932)</i>
Interest expense on retirement benefits	(1,825)	(2,299)
Interest expense on tax, fees and government receivables	(20)	(305)
Exchange rate differences, net	(42,736)	2,156
Bank charges	(1,937)	(1,147)
Other financial expenses	(50)	9
	(150,748)	(107,518)

The Group's financial costs principally comprise interest expense on its borrowings, the major part of which in both 2020 and 2019 was the cost of interest on the 2016 Bonds and the 2018 Bonds. The Group's net finance costs were BGN 121 million in 2020 and BGN 76 million in 2019, an increase of BGN 45 million or 58.6 per cent. compared to 2019. This was mainly a result of the increase in financial cost in 2020 driven by the significant negative BGN/USD exchange rate differences in that period.

Profit/loss before taxes

The Group's profit before taxes for the year ended 31 December 2020 was BGN 188.7 million, a decrease of BGN 230.5 million, or 55.0 per cent., compared to the profit of BGN 419.2 million in the year ended 31 December 2019.

Income tax

The Group's income tax expense for the year ended 31 December 2020 was BGN 31.5 million compared to BGN 19.8 million for the year ended 31 December 2019. Bulgaria had a statutory tax rate of 10 per cent. in each of the 2020 and 2019. The Group's tax charge in each period represents the effect of that rate applied to its taxable profit and the impact of deferred tax income in each period.

(Loss)/profit for the year

Reflecting the above factors, the Group generated a profit of BGN 157 million in the year ended 31 December 2020 compared to a profit of BGN 399 million in the year ended 31 December 2019.

BGN '000 (except where otherwise indicated)	Year ended 31 December 2020	Year ended 31 December 2019	Change 2020/2019	
Total revenue	5,595,855	6,741,980	(1,146,125)	(16.9%)
Total expenses	(5,326,924)	(6,287,268)	(960,344)	(15.3%)

EBITDA	898,040	1,054,986	(156,946)	(14.9%)
EBIT	268,931	454,712	(185,781)	(40.9%)
EBT	188,705	419,238	(230,533)	(55.0%)
EBITDA margin	16.05%	15.65%		2.56%

Total comprehensive income for the year, net of tax

In the year ended 31 December 2020, the Group's total comprehensive income for the year, net of tax, was BGN 50 million compared to BGN 365 million in the year ended 31 December 2019. Other comprehensive income for the year ended 31 December 2020 comprises mainly losses from the revaluation of properties, plants and equipment. Other comprehensive income for the year ended 31 December 2019 comprises mainly losses from the revaluation of liabilities on defined benefit plans.

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 from 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 2020 and 2019:

Cash flows	Year ended 31 December 2020	Year ended 31 December 2019
	<i>Thousands of BGN</i>	<i>Thousands of BGN</i>
Net cash flows from operating activities	917,418	1,042,054
Net cash flows from investing activities	(1,547,430)	(1,516,459)
Net cash flows from financing activities	650,080	322,802
Net change in cash and cash equivalents	20,068	(151,603)
Cash and cash equivalents as of 1 January	1,188,620	1,340,223
Gross amount of cash and cash equivalents at the end of the year	1,208,688	1,188,620
<i>Effect of impairment on expected credit losses</i>	<i>(3,506)</i>	<i>(3,612)</i>
Cash and cash equivalents as of 31 December	1,205,182	1,185,008

The Group's net cash inflows from operating activities in the year ended 31 December 2020 were BGN 917 million compared to a net cash inflow of BGN 1.0 billion in the year ended 31 December 2019. The Group's operating cash flows principally represent its revenue from sales and from the SESF less its payments to suppliers and personnel, interest payments related to its financial obligations and tax payments.

Net cash outflows from investing activities in the year ended 31 December 2020 were BGN 1.55 billion compared to BGN 1.52 billion in the year ended 31 December 2019. In each period 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 flows from financing activities in the year ended 31 December 2020 were BGN 650 million compared to BGN 323 million in the year ended 31 December 2019. 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. The Group's net cash inflow from financing activities in 2020 included the proceeds from bank loans in the amount of EUR 954 million, partially offset by a repayment of loans in the amount of BGN 301 million. No dividends were paid to the state budget in 2020.

Capital expenditure

The Group's cash outflows related to capital expenditure amounted to BGN 1.60 billion in the year ended 31 December 2020 and BGN 1.07 billion in the year ended 31 December 2019. This expenditure was principally incurred in relation to the execution of the main investment projects in the Group including the expansion of natural gas transmission infrastructure and modernisation and reconstruction of electricity transmission networks. Capital expenditure for 2021 is expected to be approximately BGN 1,135 million, after which it is expected to average approximately BGN 680 million per year for the 2022-2025 period, comprising on average approximately BGN 130 million in discretionary capital expenditure and approximately BGN 550 million of minimum 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. See "*Risk Factors — The Group's capital expenditure programme is subject to various risks and uncertainties*".

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

Electricity

- Rehabilitation and expansion of the electricity transmission network (which is part of the EU Projects of Common Interest programme ("PCI"))
- Yadenitsa HPP Project (PCI)
- Gorna Arda HPP Project

Gas

- The IGB project (PCI)
- Balkan Stream
- Rehabilitation, modernization and expansion of the natural gas transmission network (PCI)
- Capacity expansion of Chiren underground gas storage facility (PCI)
- The IBS project (PCI)

Lignite Coal Mining

- 5-year overburden removal program to ensure long-term sustainability of the Maritsa mine

The Group expects to finance its capital expenditure primarily through grants, external funding and 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 be used for the IGB project, for which BEH has agreed a loan for EUR 110 million with the EIB (which benefits from a state guarantee from the Republic of Bulgaria) (see "*Business Description – Business – Natural Gas – Gas pipeline projects*") and for expansion of the national transmission infrastructure of Bulgartransgaz where external funding of BGN 795 million has been raised from loans from investment banks (see "*Financial Review – Liquidity and Capital Resources – Borrowings – Loans*") . Under the EU's Third Energy Liberalisation Package, transmission network operators must finance and execute their capital expenditure programmes independently.

Capital commitments

As of the end of 2020, the Group's significant capital commitments are related to:

- nuclear fuel acquisition commitments of BGN 246 million;
- concluded contracts under the Public Procurement Act, according to which contractual obligations for 2021 in the amount of BGN 635 million arise;
- the requirements of the various European directives and on-going national requirements, as well as in connection with the implementation of the projects included in the National Investment Plan for the period 2013 - 2020, as a result of which the Group is obliged to build and put into operation sustainable assets and has made capital commitments in the amount of BGN 111 million for such assets; and
- the acquisition of property, plant and equipment in the amount of BGN 24 million.

Borrowings

Approximately 69 per cent. of the Group's borrowings as at 31 December 2020 were in the form of tradable bonds issued by BEH as parent company, while the remainder of the Group's debt was in the form of bilateral loans from national and international banks borrowed through subsidiaries. The loan facilities include bonds, investment loans, overdraft facilities 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;
- 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 2020, the Group's outstanding bonds, loans and finance leases together totalled BGN 3.3 billion. The table below shows each of these loans and the amount outstanding as at 31 December in each of 2020 and 2019. Note that the table does not include the loan from the Bulgarian government to NEK in respect of the arbitration award for the Belene Project (EUR 601,617,133, BGN 1,176,660,837) as it is classified as a trade payable to related parties.

	Borrower/ Issuer	Lender	Interest rate	Maturity	As at year ended 31 December 2020 <i>Thousands of BGN</i>	As at year ended 31 December 2019 <i>Thousands of BGN</i>
(1) 2016 Bonds	BEH EAD		4,875%	2021	1,094,468	1,089,393
(2) 2018 Bonds	BEH EAD		3,500%	2025	1,190,460	1,189,657
(3) EIB	BEH EAD	EIB	6m interest rate 0.259%,	2045	58,731	-
(4) Investment non- bank loan from EURATOM	NPP Kozloduy EAD	EURATOM	EURIBOR + 0.079% to 0.13%	2021	11,170	33,712
(5) Investment loan EUR	NEK EAD	ING Bank	0,0475%	2020	-	7,828
(6) Investment loan EUR	NEK EAD	EIB	from 4.341% to 4.844%	2022	12,761	21,226
(7) Investment loan	Mini Maritsa East EAD	DSK Bank	BIR+1,89%	2024	13,360	17,170
(8) Investment loan	Mini Maritsa East EAD	DSK Bank	BIR+1,89%	2024	3,637	4,675
(9) Investment loan	Mini Maritsa East EAD	DSK Bank	BIR+1,69%	2022	4,000	6,000
(10) Investment loan	Mini Maritsa East EAD	DSK Bank	BIR+1,69%	2022	4,000	6,000
(11) Investment loan	Mini Maritsa East EAD	DSK Bank	BIR+1,59%	2022	4,000	6,000
(12) Overdraft	Bulgargaz EAD	Four commercial banks	from 0.99% to 2.95%	2020	-	52,386
(13) Investment loan EUR/ UniCredit Bulbank	Bulgartransgaz EAD	UniCredit Bulbank	EURIBOR+1,65 %	2026	195,583	-
(14) Investment loan EUR/ Raiffeisen Bulgaria	Bulgartransgaz EAD	Raiffeisenbank Bulgaria	EURIBOR+1,75 %	2026	97,792	-
(15) Investment loan EUR/ DSK Bank	Bulgartransgaz EAD	DSK Bank	EURIBOR+2,20 %	2026	97,792	-
(16) Investment loan EUR /International Bank for Economic Co- Operation	Bulgartransgaz EAD	International Bank for Economic Co- Operation	EURIBOR+2,50 %	2026	78,233	-
(17) Investment loan EUR/ Eurobank Bulgaria	Bulgartransgaz EAD	Eurobank Bulgaria AD	EURIBOR+2,25 %	2026	64,542	-
(18) Investment loan EUR/ ING Bank.	Bulgartransgaz EAD	ING Bank	BIR+2,10%	2025	41,440	-
(19) Investment loan EUR/ Bulgarian Development Bank	Bulgartransgaz EAD	Bulgarian Development Bank	EURIBOR +2,75%	2026	121,261	-
(20) Investment loan EUR/ International	Bulgartransgaz EAD	International Investment Bank	EURIBOR +2,75%	2026	97,792	-

Investment Bank						
(21) Working capital loan /UBB	Bulgartransgaz EAD	United Bulgarian Bank	EURIBOR+1,30 %	2021	19,087	-
(22) Working capital loan /UniCredit Bulbank	Bulgartransgaz EAD	UniCredit Bulbank	BIR+0,85%	2021	66,576	-
(23) Share purchase loan /Citi Bank Europa	Bulgartransgaz EAD	Citi Bank	BIR+1,35%	2021	41,249	-
(24) Investment loan	Bulgartransgaz EAD	Investment banks	from 0.15% to 0.50%	2020	-	391,191
(25) Finance lease, BGN					1,953	1,772
					3,319,887	2,827,010

Certain of the Group's debt contains financial covenants, including debt coverage ratios, EBITDA to financial borrowings ratios and current assets to current liabilities ratios.

In addition, certain of the loans are:

- guaranteed by the Bulgarian government (2.5 per cent. of the total loans as at 31 December 2020); and/or
- secured by mortgages and/or pledges of other assets (5.7 per cent. of the total loans as at 31 December 2020).

For a full description of each of these loans, see Note 29 to the 2020 Financial Statements. As at 31 December 2020, the Group, via its subsidiaries, had unutilised short term loans totalling BGN 18 million. These loans included two unsecured overdraft facilities of BGN 10 million and BGN 8 million of MMI.

Maturity profile

The table below shows the profile of the Group's outstanding bonds, loans and finance leases at 31 December 2020 (totalling BGN 3.3 billion) and at 31 December 2019 (totalling to BGN 2.8 billion).

	31 December 2020	31 December 2019
	<i>Thousands of BGN</i>	<i>Thousands of BGN</i>
Non-current portion		
Bond issues	1,169,530	2,236,270
Bank loans (i.e. credits)	875,540	41,722
Credit, obtained from EURATOM	-	10,879
Finance lease	1,219	1,217
	2,046,289	2,290,088
Current portion		
Bank loans (i.e. credits)	146,296	418,368
Credit, obtained from EURATOM	11,170	22,833
Bank overdrafts	-	52,386
Bond issues	1,115,398	42,780
Finance lease	734	555

1,273,598	536,922
3,319,887	2,827,010

ANALYSIS OF CERTAIN BALANCE SHEET ITEMS

Assets

The Group's most significant assets are its property, plant and equipment, its trade and other receivables and cash and short-term deposits, which together comprised 93 per cent. and 92 per cent. of its assets at 31 December 2020 and 31 December 2019, respectively.

	As at 31 December 2020	As at 31 December 2019
	<i>Thousands of BGN</i>	<i>Thousands of BGN</i>
Total assets	20,422,671	18,703,247
Property, plant and equipment	16,310,862	14,258,572
Trade and other receivables, incl.:	1,136,757	1,222,398
<i>long term receivables</i>	382,374	460,962
<i>short-term receivables</i>	754,383	761,436
Cash and short-term deposits	1,446,179	1,683,907

The Group's property, plant and equipment principally comprise its power generation plants, its electricity and gas transmission and gas transit and storage infrastructure, its coal mining facilities and related equipment, which are further described under "*Business Description*". According to the Group's accounting policy, property, plant and equipment are revalued every three years or in shorter periods if there is an indication that their carrying amount is significantly different from their fair value. The last revaluation of property, plant and equipment was performed as at 31 December 2018 and the next revaluation is to take place by the end of 2021. As at 31 December 2020 and 2019, the Group performed a review to detect indications of revaluation or impairment by classes of property, plant and equipment. No indications of significant changes were identified when compared with the prior period with respect to the market and economic environment in which the Group operates. The carrying amount of property, plant and equipment is not judged by the Group to exceed its recoverable amount.

The table below shows details of the Group's trade receivables, net of accrued impairments at 31 December in each of 2020 and 2019.

Trade receivables	As at 31 December 2020	As at 31 December 2019
	<i>Thousands of BGN</i>	<i>Thousands of BGN</i>
Non-current portion		
Trade receivables, net	381,916	460,461
Advanced payments made to suppliers	8	-

Prepaid services	450	501
	<u>382,374</u>	<u>460,962</u>
Current portion		
Trade receivables, net	402,854	475,343
Litigations and claims, net	21,404	9,376
Receivables from Security of the Electricity System Fund, net	93,043	124,862
Other receivables, net	34,933	18,905
Advances to suppliers	49,942	81,046
Prepaid services	30,253	33,686
Recoverable taxes	121,954	18,218
	<u>754,383</u>	<u>761,436</u>
Total trade and other receivables	<u>1,136,757</u>	<u>1,222,398</u>

The principal contributor to the non-current outstanding trade receivables is Toplofikatsia Sofia EAD, which owed the Group outstanding trade receivables, net of impairment, of BGN 380.6 million as at 31 December 2020. These receivables are in respect of natural gas supplied. In December 2015, an agreement was reached for the rescheduling of BGN 500 million over a 20-year period, with a five-year grace period. The interest on the principal is 3.25 per cent. In 2018 a new agreement was reached for the rescheduling of an additional BGN 99.2 million. In 2019 a further agreement was reached for the rescheduling of this amount over a 6-year period, with a one-year grace period. As at 31 December 2020, the total amount of the non-current impairment incurred by the Group in relation to Toplofikatsia Sofia EAD was BGN 132.9 million.

The table below shows an ageing analysis in respect of the Group's trade and other receivables as at 31 December in each of 2020 and 2019.

31 December 2020	Expected credit loss (%)	Trade receivables, gross	Expected credit loss	Trade receivables, net
	%	BGN thousand	BGN thousand	BGN thousand
Undue	28%	779,932	(218,303)	561,629
Financing agreement	0%	5,278	-	5,278
0-30 days	3%	88,040	(2,797)	85,243
31-60 days	0%	86	-	86
61-90 days	36%	4,187	(1,525)	2,662
Over 90 days	65%	368,678	(238,806)	129,872
	37%	1,246,201	(461,431)	784,770

31 December 2019	Expected credit loss (%) %	Trade receivables, gross <i>BGN thousand</i>	Expected credit loss <i>BGN thousand</i>	Trade receivables, net <i>BGN thousand</i>
	8%	169,500	(12,756)	156,744
Undue				
Financing agreement	0%	20,367	-	20,367
0-30 days	2%	187,199	(4,249)	182,950
31-60 days	9%	39,546	(3,705)	35,841
61-90 days	9%	18,872	(1,750)	17,122
Over 90 days	43%	925,183	(402,403)	522,780
		1,360,667	(424,863)	935,804

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 BGN 6,270,697 thousand or 72.1 per cent. of its total liabilities at 31 December 2020 compared to BGN 4,635,450 thousand or 66.0 per cent. at 31 December 2019 and BGN 4,406,122 thousand or 69.5 per cent. at 31 December 2018. The increase as at 31 December 2020 in the total of borrowings and trade and other payables was mainly due to an increase in non-current borrowings and trade and other payables of Bulgartransgaz of BGN 1,838,947 thousand, which are related to Bulgartransgaz's involvement in certain gas pipeline projects (see "*Business Description – Business – Natural Gas – Gas pipeline projects*").

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

As at 31 December 2020, the largest part of the Group's trade and other payables are comprised of the non-current trade payables of Bulgartransgaz to Association Consortium Arkad in relation to Balkan Stream. The Group's current trade and other payables are principally comprised of short-term trade payables incurred in the ordinary course of its business. The Group's long-term related party payables principally comprise the outstanding amount of the financial assistance from the Ministry of Energy to NEK in connection with the arbitration award in respect of the Belene Project (EUR 601,617,133, BGN 1,176,660,837).

Equity

The table below shows the Group's equity as at 31 December in each of 2020 and 2019:

Equity	As at 31 December 2020	As at 31 December 2019
	<i>Thousands of BGN</i>	<i>Thousands of BGN</i>
Share capital	3,462,942	3,462,942
Other reserves	2,626,924	2,575,271
Reserve from revaluation to fair value	1,667	2,016
Revaluation reserve of non-financial assets	6,972,027	7,078,115

Reserve from translation of foreign operations	(9)	(5)
Reserve from remeasurement of defined benefit plans	(180,228)	(168,849)
Hedge reserve	(1,710)	(3,270)
(Accumulated loss)/Retained earnings	(1,153,418)	(1,268,047)
Equity, attributable to the shareholder of the parent entity	11,728,195	11,678,173
Non-controlling participation	(98)	(45)
Total Equity	11,728,097	11,678,128

The Group's share capital is divided into 3,462,941,744 fully paid ordinary shares with a par value of BGN 1 each as of 31 December 2020. All of the Group's share capital is held by the Minister of Energy on behalf of the Republic of Bulgaria. On 8 August 2017, pursuant to a Protocol of the Minister of Energy, an increase of the capital of the Group was registered in the Commercial Registry after issuing 112,142,370 new ordinary registered shares by utilising retained earnings from 2016. The previous increase of the share capital of the Group with retained earnings from 2015 was registered on 8 July 2016 after issuing 97,446,330 new ordinary registered shares. On 29 June 2018, the sole owner decided to increase BEH's share capital by utilising retained earnings from 2017 amounting to BGN 65,184,917, by issuing 65,184,917 new ordinary registered shares. The capital increase was entered in the Commercial Register on 31 August 2018.

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 28.4 to the 2020 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.

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. The amount of the dividend is determined annually by the Minister of Energy in accordance with the Decision of the Council of Ministers.

The Bulgarian government has a strong interest in maintaining the Group's balance sheet. In 2016 and 2018, BEH distributed dividends of BGN 15 million and BGN 29.7 million, respectively to the State budget. Dividends payable to the sole owner of the capital are determined annually by the State Budget Act. For 2020 and 2019 the Issuer had no obligation to distribute dividends.

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. The Group's related party transactions include the financial assistance that NEK received from the Ministry of Energy in connection with the arbitration award in respect of the Belene Project. Details of the Group's related party transactions in the year ended 31 December 2020 are set out in Note 35 to the 2020 Financial Statements and further details of the Group's related party transactions in the year ended 31 December 2019 are set out in Note 35 to the 2019 Financial Statements.

CONTINGENT LIABILITIES

The Group's contingent liabilities as at 31 December 2020 are disclosed in Note 40 to the 2020 Financial Statements and its contingent liabilities for the year ended 31 December 2019 are disclosed in Note 40 to and the 2019 Financial Statements. The Group's principal contingent liabilities as at 31 December 2020 comprise two proceedings which have been initiated by the European Commission against Bulgarian Energy Holding EAD and its subsidiaries for the possible abuse of a dominant position – Case AT.39767 - BEH Electricity and Case AT.39849 - BEH Gas.

DISCLOSURES ABOUT RISK

The Group's financial risk management policies are set out in Note 37 to the 2020 Financial Statements. The Group believes 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 37.1 to the 2020 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 37.2 to the 2020 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 and U.S. dollars. 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. A sensitivity analysis in relation to the Group's U.S. dollar exposure is set out in Note 37.3 to the 2020 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, particularly its banks and insurers. In order to meet the requirements of IFRS 9 (which

replaced IAS 39 as of 1 January 2018), the Group has implemented an accounting procedure for the calculation and recognition of impairment due to expected credit losses rather than incurred losses of its cash at banks, based on in-depth analysis taking into account the credit rating of its counterparties. As at 31 December 2020, the Group's Cash and Cash equivalents in the 2020 Financial Statements are presented net of the calculated impairment.

SANCTIONS

The United Nations, 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 Ukraine, including Crimea, that started in 2014 and remains unresolved. Due to the ongoing conflict between Russia and Ukraine, the EU, the U.S. and other members of the G7 bloc of developed nations (including Canada and Japan) have introduced a variety of sanctions and restrictive measures against certain Russian persons and Russian businesses. Such sanctions and measures have subsequently been extended. One form these sanctions have taken was to designate certain persons as the targets of sanctions, with the practical consequences that U.S. persons cannot do business with targets of U.S. sanctions while EU persons cannot provide funds or other economic resources to targets of EU sanctions. Another form these sanctions have taken, with reportedly greater consequences for the Russian economy, is so-called 'sectoral' sanctions affecting several of Russia's leading oil and gas companies, banking institutions and defence companies. The current sanctions regime is a result of multiple extensions by the U.S. and EU in the term and scope of sanctions.

Nearly all of the gas purchased by Bulgargaz is imported from Russia under long-term take-or-pay contracts with Gazprom Export and Gazprom Export has a long-term binding contract for capacity reservations on entry and exit points of the Bulgarian gas transit network, signed with Bulgartransgaz, following the "Open Season" procedure, in accordance with the pan-European legal framework. Furthermore, in November 2010 BEH and Gazprom incorporated the South Stream JV, in which they each hold 50 per cent. of the shares, in order to develop the Bulgarian section of the South Stream gas pipeline. The project was cancelled in 2014 and pursuant to an agreement dated 27 December 2019 an overall settlement for the dissolution of the project has been reached. On 11 May 2020, a reduction of the capital of the South Stream JV in the amount of BGN 377,726 thousand was entered in the Commercial Register. Most of BEH's loan to Gazprom EP International BV was repaid with the amount of BGN 188,863 thousand (EUR 96,561 thousand) due to BEH as a result of the capital reduction of the South Stream JV. The balance of the loan in the amount of EUR 1,107 thousand will be repaid by the amount payable to BEH upon liquidation of the South Stream JV. Following completion of such settlement, the parties to the project will no longer have any claims against each other.

No shareholder, individual or entity within the Group has been designated by either the U.S. or the EU as a specific target of sanctions. However, Gazprom appears on the SSI List and the South Stream JV, by virtue of being 50 per cent. owned by Gazprom, is itself a SSI. Directive 4 prohibits certain transactions by U.S. persons and from, through or within the United States that relate to oil production in which SSIs have an interest. Neither the South Stream JV nor the Group are involved in any activity specified in Directive 4. Non-U.S. persons may be subject to secondary US sanctions as a result of their dealings with persons targeted by US sanctions (including Gazprom and the South Stream JV as SSIs). In particular, Section 228 of CAATSA requires the imposition of blocking sanctions (i.e., asset-freezing sanctions) on any non-U.S. person determined by the U.S. President to have knowingly facilitated a "significant transaction" for or on behalf of any person subject to U.S. sanctions with respect to Russia. OFAC has issued guidance advising that dealings with persons who are targeted only by sectoral sanctions and no other sanctions, such as Gazprom and the South Stream JV, would not be considered "significant" for the purposes of Section 228 unless such dealings involve deceptive practices. OFAC has clarified that "deceptive practices" include efforts to conceal the parties' identities and to evade sanctions. The participation of BEH in the South Stream JV does not involve any deceptive practices and therefore the risk of being blocked pursuant to Section 228 of CAATSA is low, however, there is a possibility that the scope of these sanctions could be broadened and that the US President could impose blocking sanctions on the Group.

The CEO of Gazprom, Alexey Miller, was listed on the SDN List in April 2018. U.S. persons are generally prohibited from engaging in transactions with or for the benefit of SDNs, their property, or their interests in property, and any such property or interests in property in the possession or control of U.S. persons or in the United States must be blocked. Transactions by U.S. persons, and from, through, or within the United States, that involve any SDNs, directly or indirectly, are prohibited. While OFAC has issued guidance that U.S. persons are not prohibited from dealing with a company whose CEO is an SDN, OFAC has further advised that such dealings must not involve the provision of funds, goods, or services to the SDN. Furthermore, OFAC has demonstrated a willingness to initiate enforcement actions against U.S. persons who have entered into agreements with companies, who are not themselves SDNs, but that are nevertheless signed by an SDN CEO. Additionally, as discussed above with respect to CAATSA, non-U.S. persons who enter into “significant” transactions with or for the benefit of SDNs risk exposure to sanctions themselves. There is therefore a risk that, in dealing with Gazprom, the Group could be deemed to have entered into a significant transaction with Gazprom’s SDN CEO and could therefore be at risk of being subject to secondary sanctions under CAATSA.

Although neither Gazprom nor Gazprom Export are currently targeted under EU sanctions, there are two entities in the Gazprom group (Gazprombank and Gazpromneft) that are targeted by these sanctions, and there is therefore a heightened risk that the currently non-targeted entities of the Gazprom group, including those the Group deals with, may be caught by a future expansion of EU sanctions.

The Group also relies on the Russian companies Mayak Production Association for the servicing and waste processing of the NPP and TVEL Fuel Company for the supply of nuclear fuel, as well as certain other Russian companies providing equipment for the Group’s NPP; none of these companies are currently the target of any U.S. or EU sanctions.

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 incorporated in the Republic of Bulgaria under the applicable Bulgarian laws 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 residents 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 2014/65/EU) 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, said interest income will be included in the corporate income taxable base of such entity's permanent establishment in Bulgaria 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. 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. 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 30 June 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 is tax exempt in Bulgaria. The interest income derived from the Bonds by a tax resident of another EU Member State or another EEA state, or who is a non-Bulgarian tax resident acting through a fixed base in Bulgaria is tax exempt in Bulgaria provided that the Bonds are traded on a Regulated Market. 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 ("ednolichen targovetz")

An individual who is a Bulgarian tax resident and with regards to the Bonds is acting as sole proprietor ("ednolichen targovetz") 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. Technically, the non-resident shall apply (either directly or through a resident representative) for registration with the NRA, file a declaration under Art. 201 CITA electronically and then pay tax.

The capital gains realised 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. 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 received. In case the capital gains tax is not paid within such deadline an obligation for payment of statutory default interest is triggered. Technically, the non-resident shall apply (either directly or through a resident representative) for registration with the NRA, file a relevant tax declaration and then pay tax.

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 ("ednoliceen targovetz")

An individual who is a Bulgarian tax resident and with regards to the Bonds is acting as sole proprietor ("ednoliceen targovetz") 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 of such reduced rates/exemptions the non-resident Bondholder has to either (i) for interest income exceeding BGN 500,000 per annum - obtain advance approval (clearance) from the Bulgarian revenue authorities, or (ii) for interest income under BGN 500,000 per annum - 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 in order to avoid scrutiny from the Bulgarian tax authorities.

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

Citigroup Global Markets Europe AG and J.P. Morgan AG (the "**Joint Bookrunners**") have, pursuant to a Subscription Agreement dated 20 July 2021 (the "**Subscription Agreement**"), jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe the Bonds at 100 per cent. of their principal amount less fees and commissions. The Issuer has agreed to pay to the Joint Bookrunners fees and certain costs and expenses incurred by the Joint Bookrunners in connection with the issue of the Bonds. The Subscription Agreement entitles the Joint Bookrunners to terminate it in certain circumstances prior to payment being made to the Issuer. The yield of the Bonds is 2.45 per cent. on an annual basis. The yield is calculated as at 22 July 2021 on the basis of the issue price. It is not an indication of future yield.

The Joint Bookrunners and their respective affiliates have engaged in transactions with and performed various investment banking, financial advisory and other services for BEH and its affiliates, 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 Joint Bookrunners 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

An international development institution has agreed to purchase from the Issuer approximately 6 per cent. of the aggregate principal amount of the Bonds. The terms of the investor's investment are not expected to restrict its ability to buy or sell Bonds in the future and, as a result, the investor may buy or sell Bonds in open market transactions at any time following the consummation of the offering of the Bonds.

Selling Restrictions

General

Neither the Issuer nor any Joint Bookrunner has made any representation that any action will be taken in any jurisdiction by the Joint Bookrunners 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 Joint Bookrunner 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 Joint Bookrunner 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. Subject to certain exceptions, Bonds may not be offered or sold within the United States.

The Bonds are being offered and sold outside of the United States in reliance on Regulation S under the Securities Act ("**Regulation S**").

In addition, until 40 days after the commencement of the offering of the Bonds, 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

Prohibition of Sales to UK Retail Investors

Each Joint Bookrunner has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any retail investor in the United Kingdom. For the purposes of this provision the expression "retail investor" means a person who is one (or more) of the following:

- (a) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or
- (b) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

Other regulatory restrictions

Each Joint Bookrunner 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 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.

Prohibition of Sales to EEA Retail Investors

Each Joint Bookrunner has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any retail investor in the European Economic Area. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) or Article 4(1) of MiFID II; or
- (b) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Hong Kong

Each Joint Bookrunner has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "SFO") and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions)

Ordinance (Cap. 32) of Hong Kong (the “C(WUMP)O”) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

Singapore

Each Joint Bookrunner has acknowledged that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Bookrunner has represented, warranted and agreed that it has not offered or sold any Bonds or caused the Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Bonds or cause the Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the “SFA”)) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

GENERAL INFORMATION

- 1 An application has been made to list the Bonds on Euronext Dublin 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. It is expected that listing of the Bonds on the Official List and admission of the Bonds to trading on the regulated market of Euronext Dublin will be granted around 22 July 2021, 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 Euronext Dublin are expected to amount to approximately EUR 7,500.

- 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 14 July 2021 and by the Minister of Energy (exercising the rights of the Bulgarian state as sole shareholder of the Issuer) on 15 July 2021.
- 3 There has been no material adverse change in the prospects of the Issuer since 31 December 2020 and there has been no significant change in the financial position or financial performance of the Group since 31 December 2020.
- 4 Except as disclosed in "*Business Description—Litigation*" on pages 96 to 100 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 have 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 236716457 and an International Securities Identification Number (ISIN) for the Bonds of XS2367164576.
- 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 The Issuer's legal entity identifier is 635400E1RWKJXPSBCV07.
- 8 Other than the contract for financial assistance between the Ministry of Energy and NEK as described in "*Risk Factors - The Ministry of Energy has agreed to provide the Group's subsidiary, Natsionalna Elektricheska Kompania EAD ("NEK") with EUR 602 million of financial assistance following the outcome of the arbitration in connection with the discontinued Belene Project*". Any steps taken by the Ministry of Energy to recover the financial assistance following a failure of NEK to repay it could have a significant material adverse impact on the Group's financial position.", 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 holders in respect of the Bonds.

- 9 This Prospectus contains information taken or derived from Eurostat, the Bulgarian National Bank and the Bulgarian National Statistical Institute (the "**External Data**"). The External Data have 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.
- 10 Electronic 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, <https://bgenh.com/en/page/53/Financial-instruments.html>:
- (a) the Fiscal Agency Agreement (which includes the form of the Global Certificate, the Existing Global Certificate and the Individual Bond Certificate);
 - (b) the Deed of Covenant;
 - (c) the Memorandum and Articles of Association of the Issuer; and
 - (d) the Financial Statements.

This Prospectus will be made available on the website of Euronext Dublin at <https://live.euronext.com/>

The Prospectus will also be published on the website of the Issuer at <https://bgenh.com/en/page/53/Financial-instruments.html>.

- 11 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 audit reports on, the consolidated financial statements of the Issuer for the years ended 31 December 2019 and 31 December 2020. Each of the audit reports contain certain qualifications and emphases of matters as described in "*Presentation of Financial and Other Information*" on pages 5 to 9.
- 12 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) have made the statements contained on page 10 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.
- 13 At the request of the Group, Grant Thornton have conducted a series of procedures in accordance with ISA. 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 for the years ended 31 December 2020 and 31 December 2019 included in this Prospectus and have compared it with the audited consolidated financial statements of the Issuer for the years ended 31 December 2020 and 31 December 2019, respectively, incorporated by reference into this Prospectus. 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 reports on the consolidated financial statements of the Issuer as of and for the years ended 31 December 2020 and 31 December 2019. No significant findings or events came to the attention of Grant Thornton as a result of their review and analysis other than such

qualifications and emphases of matters as are contained in the audit reports on the consolidated financial statements of the Issuer for the years ended 31 December 2019 and 31 December 2020 as described in "*Presentation of Financial and Other Information*" on pages 5 to 9.

ISSUER

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