



Interim management report  
Independent auditor's report  
Condensed interim financial statements

Natsionalna Elektricheska Kompania EAD  
30 June 2020



Национална електрическа компания ЕАД

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## Interim Management Report of NEK's Activities

This Interim Management Report of NEK provides comments and analyses of financial statements and other important information regarding the Company's financial position and results of its activities, covering the period from 1 January 2020 to 30 June 2020.

It has been prepared in accordance with the requirements of Art. 39 of the Accountancy Act and according to Art. 100n, para. 4, item 2 of the Public Offering of Securities Act, and Art. 33, para. 1, item 2 and para. 3 of Ordinance №2/17.09.2013 on the prospects for public offering and admission to trading on a regulated securities market and for disclosure of information, together with Appendix №9 and additional information under Art. 33, item 7 of the Ordinance, which refers to the persons under § 1e of the Supplementary Provisions of the Public Offering of Securities Act (POSA).

### I. General information about the Company.

Natsionalna Elektricheska Kompania EAD (NEK EAD) is a single-owner joint-stock company registered in the Trade Register at the Registry Agency under Identification Code 000649348.

The Company is an independent legal entity with a seat in Sofia, Oborishte District, 8, Triaditsa Street. Bulgarian Energy Holding EAD is the single owner of the capital of NEK EAD.

*The main activities of the Company include:*

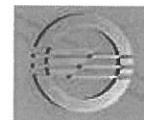
- Electric power generation;
- Centralized purchase and sale of electricity;
- Supply of electricity to customers connected to the transmission network;
- Electricity import and export;
- Construction and maintenance works in the sphere of electricity generation and implementation and promotion of energy efficiency in electricity generation.
- Electricity trade.

*The Company holds licences issued by the State Energy and Water Regulatory Commission, as follows:*

- Electric Power Public Supply Licence No: JI-147-13/17.12.2004 for a period of 35 years, added with the rights and obligations of a special balancing group coordinator;
- Hydro Power (HPP&PSHPP) Generation Licence No. JI-073-01/14.02.2001 for a period of 35 years;
- Electric Power Trading Licence No. 1-230-15/04.06.2007 for a period of 10 years, added with the rights and obligations of a standard balancing group coordinator.
- Licence for Electricity Supply from a Supplier of Last Resort No. JI-408-17/01.07.2013 for a period of 26 years; (Decision No. И1-JI-408/29.01.2014 for amendment/supplement of Licence No. JI-408-17/01.07.2013 issued for the activity "electricity supply from a supplier of last resort" with the rights and obligations of a special balancing group coordinator.)

### II. Operational and financial review of NEK's Activities.

The National Electric Company carries out activities in the sphere of electricity generation by HPPs and PSHPPs, as well as electricity sales in the country, and takes a main place in the regulated market. By its electricity trading licence the Company also concludes deals on the non-regulated market. By its own HPPs and PSHPPs it actively participates in the regulated, non-regulated and balancing markets, as well as in the electric power system regulation and control and it is the biggest renewable energy producer in the country.



It carries out its activities in accordance with the legislation of the electric power sector, regulated by the Energy Act, the Renewable Energy Act, secondary legislative acts and requirements for their application. The Company operates mainly in a regulated environment with its public supply licence, but it also participates in the non-regulated market by its licences for electricity generation and trading. NEK EAD is also a Supplier of Last Resort (SLR). The Company fulfilled its obligations under its licensed activities and its public service obligations in accordance with the requirements of the Energy Act (EA) to provide the necessary electricity quantities to the End Suppliers, as well as to provide electricity to the consumers who had not chosen another supplier.

In the first half of 2020 the economic and social life in the country and in the world was marked by the pandemic of COVID-19, which affected all areas and activities and posed a number of risks as a result of the reduced economic activity. It is still difficult to assess the consequences in a full scale, but in general they are expressed in economic growth slow-down and reduction in the country and around the world, which is negatively reflected in any type of economic activity. NEK EAD operated during the period under review in the conditions of a pandemic, which resulted in reducing of electricity demand by the businesses in the country and a significant decline in the quantities sold by the Company to the Independent Bulgarian Energy Exchange (IBEX) and on the non-regulated market, which are several times less than the price decision of the Energy and Water Regulatory Commission (EWRC). According to that decision, NEK EAD must sell the remainder of mandatory purchased electricity, which has not been sold on the regulated market, at market prices on IBEX and on the non-regulated market, as the difference between the purchase and market price is compensated by proceeds from the Electricity System Security Fund (ESSF). The reduced demand of the business consumers also resulted in violations of the planned work for electricity generation by the producers and the use of their capacities.

With the amendments to the Energy Act and the EWRC's price decision for the regulatory period 2019 - 2020, the activity of NEK EAD has been strongly dependent on the determined price levels and regulatory conditions, as well as dependent on the ESSF compensatory mechanisms in connection with the reimbursement of costs incurred by the Public Supplier for the mandatory purchases of electricity. Since 01.07.2019 NEK's obligations for purchase of electricity have decreased and the Company already buys electricity only from RES power plants and high efficiency cogeneration (HE CHP) plants with installed capacity of less than 1 MW.

As a result of the increased demand of the End Suppliers and in order to ensure continuity of electricity supplies, as well as secure and high quality electricity supply in the territory of the Republic of Bulgaria, the Minister of Energy by an Order imposed on Maritza East 2 TPP an additional public service obligation to provide NEK EAD with additional quantities of electricity above the quota determined by EWRC's Decision No:LI-19/01.07.2019 in the amount of up to 1 981 420 MWh, depending on the needs of the energy system for the period from 29.01.2020 to 30.06.2020.

In accordance with the active regulations and EWRC's decisions, NEK EAD continues to purchase capacity availability and electricity under the long-term contracts with AES Maritza East 1 TPP and ContourGlobal Maritza East 3 TPP. The public service obligations charge is already administered by ESSF, thus the Fund's functions and responsibilities have considerably increased.

NEK EAD reported a positive financial result before taxes for the first half of 2020 in the amount of BGN 50 353 thousand, and compared to the same period of the previous year, the financial result is improved by BGN 18 067 thousand. The Public Supplier has not yet claimed to ESSF emission costs in the amount of BGN 7 809 thousand, since this will be done when NEK officially receives the documents for such costs incurred. At present, these costs are provisional and affect the financial result.

Despite the positive financial result reported for the first half of 2020, the trend of recent years goes on and the Company continues to operate in the conditions of negative net working capital and deteriorated cash flow.





### **Production and Trading**

- **Electricity generation from NEK's HPPs and PSHPPs in the first half of 2020** was considered typical for a dry year, during which the hydro power plants within NEK's structure generated 1 261 106 MWh. Compared to the same period of the previous year, electricity generation decreased by 5.0% /-65 676 MWh/. The Company's Management made efforts during the period under consideration to maximize the efficient use of water resources. The hydro power plants within NEK's structure actively participated in the balancing market and were an important part of the electric power system regulation and control in the country.
- **Electricity public supply and trading**

In the first half of 2020 NEK EAD fulfilled its obligations in accordance with its licensing activities and provided the necessary quantities of electricity to the End Suppliers. In the first half of this year that was happening in the conditions of increased electricity demand of the End Suppliers, but the period was characterized by weak demand on IBEX and on the non-regulated market and NEK EAD sold considerably less electricity quantities, affected by the crisis with Covid-19 and the reduced economic activity of the businesses.

In accordance with the latest changes to the Energy Act and the new price decision of EWRC, NEK EAD will continue to participate on the regulated market as a priority, fulfilling its public service obligations under the Energy Act. The Company continues to guarantee the electric power system security by providing services for balancing and regulation of the Electric Power System (EPS) through its HPP and PSHPP capacities. In parallel, the Company's goal is to increase its market share in the non-regulated electricity market.

NEK EAD is one of the major suppliers of balancing energy in the country. NEK's participation in the balancing market is determined by capacities activation by ESO and the Company cannot influence the amount of balancing services activated.

- **Purchase of electricity**

In the first half of 2020 NEK EAD purchased 7 029 727 MWh of electricity compared to 7 210 967 MWh for the same period of the previous year, or 2.5% less.

In 2020 NEK's purchases of electricity were carried out in accordance with the EWRC's price decision for the period 2019-2020 and the regulations in force. Some changes occurred in NEK's main activities, related to the changes in the main energy legislation concerning the market model in force since 01.07.2019 and the latest amendments to the Energy Act from 21 May 2019. The obligations of the Public Supplier to purchase electricity for the regulated market decreased significantly as a result of the cancellation of NEK's obligation to buy the electricity generated from RES and HE CHP plants with installed capacity of over 1 MW.

**Electricity purchased in the first half of 2020, MWh**

|           | Purchased electricity              | Measure    | Report 2020      | Report 2019      | Variation 2020/2019 | % Growth     |
|-----------|------------------------------------|------------|------------------|------------------|---------------------|--------------|
| <b>1.</b> | <b>Producers with quotas</b>       | <b>MWh</b> | <b>3 146 316</b> | <b>2 444 219</b> | <b>702 097</b>      | <b>28.7</b>  |
|           | Kozloduy NPP                       | MWh        | 1 597 285        | 1 038 609        | 558 676             | 53.8         |
|           | Maritsa East 2 TPP                 | MWh        | 1 549 031        | 1 405 610        | 143 421             | 10.2         |
| <b>2.</b> | <b>Obligations under art. 93a</b>  | <b>MWh</b> | <b>3 799 028</b> | <b>4 596 880</b> | <b>-797 852</b>     | <b>-17.4</b> |
|           | AES 3C Maritsa East 1 TPP          | MWh        | 1 283 201        | 1 548 321        | -265 120            | -17.1        |
|           | ContourGlobal Maritsa East 3 TPP   | MWh        | 2 276 977        | 2 036 454        | 240 523             | 11.8         |
|           | RES- MV                            | MWh        | 235 979          | 948 278          | -712 299            | -75.1        |
|           | HE CHP - MV                        | MWh        | 2 871            | 63 827           | -60 956             | -95.5        |
| <b>3.</b> | <b>Balancing energy</b>            | <b>MWh</b> | <b>8 177</b>     | <b>26 576</b>    | <b>-18 399</b>      | <b>-69.2</b> |
| <b>4.</b> | <b>Non-regulated market</b>        | <b>MWh</b> | <b>76 206</b>    | <b>143 292</b>   | <b>-67 086</b>      | <b>0.0</b>   |
|           | <b>TOTAL PURCHASED ELECTRICITY</b> | <b>MWh</b> | <b>7 029 727</b> | <b>7 210 967</b> | <b>-181 240</b>     | <b>-2.5</b>  |

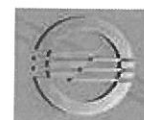
For the first half of the current year a considerable increase is reported in the quantity of electricity purchased from the producers with quotas as a result of the increased demand of the End Suppliers. An increase is reported in the purchases of electricity both from Kozloduy NPP / + 53.8% / and from Maritsa East 2 TPP, where the increase is by 10.2%. The total amount of electricity delivered from the power plants with quotas has increased by 702 097 MWh /28.7% growth / compared to the period January - June 2019.

In connection with the increased demand of the End Suppliers, the Minister of Energy by an Order imposed on Maritsa East 2 TPP an additional public service obligation to provide NEK EAD with additional quantities of electricity above the quota set by EWRC's Decision No: LQ-19/01.07.2019 in the amount of up to 1 981 420 MWh, depending on the needs of the energy system, for the period from 29.01.2020 to 30.06.2020.

The electricity purchases of NEK EAD for the regulated market in the first half of 2020 were carried out in accordance with the obligations set by Article 93a and Article 94 of the Energy Act for mandatory purchase of electricity under long-term contracts, from RES and HE CHP plants below 1 MW. The total amount of electricity purchased by the Company under long-term contracts and at preferential prices for the first six months of this year is equal to 3 799 028 MWh, which is a decrease of 797 852 MWh or 17.4% less.

The base load thermal power plants AES-3C Maritsa East 1 TPP and ContourGlobal Maritsa East 3 TPP with long-term contracts operated with loading in accordance with the quantities approved by the price decision for the regulatory period 2019/2020. The electricity quantities purchased from AES-3C Maritsa East 1 TPP in the first half of the year were equal to 1 283 201 MWh, which is 17.1 % less than in the same period of the previous year. An increase is reported in the purchases from ContourGlobal Maritsa East 3 TPP, as the growth is by 11.8% compared to the first half of 2019. The use of the two power plants in the first half of 2020 was 51.4% for AES-3C Maritsa East 1 TPP and 70.4% for ContourGlobal Maritsa East 3 TPP, while in the same period of 2019 their use was 60.3% and 67.4%, respectively.





The electricity purchased from RES power plants, which is purchased in accordance with the requirements of the Energy Act and the Renewable Energy Act, is 235 979 MWh, which is a decrease by 712 299 MWh compared to the first half of 2019. The decrease in the quantities purchased from RES power plants is due to the new market model in force from 01.07.2019, according to which the RES power plants with capacity of 1 MW and over 1 MW sell their electricity on IBEX (NEK- Public Supplier purchases only the electricity from the RES power plants with capacity below 1 MW). A significant decrease is also reported in the quantities of electricity from HE CHP plants for the same reason - the obligation of such power plants with capacity of 1 and over 1 MW to sell their electricity on IBEX.

The structure of electricity purchased in the first half of 2020 has not changed significantly, as the largest share is the relative share of electricity purchased under Article 93a and Article 94 of the Energy Act, which is 54.0%, and the relative share of producers with quotas is 44.8% of all electricity purchased by the Company.

#### ➤ Sales of electricity

In the first half of 2020 NEK EAD sold 8 190 594 MWh on the regulated and non-regulated markets, which is 3.3% less compared to the same period of the previous year, when the sales were at the level of 8 470 774 MWh.

NEK EAD reports an increase in its sales on the regulated market and a decrease in the quantities of electricity sold on the non-regulated market.

The trend of electricity demand increase on the regulated market continues. The electricity sold to the End Suppliers for the first half of 2020 is at the level of 7 877 877 MWh, which is an increase of 159 080 MWh or 2.1% more. The higher sales to the End Suppliers are due to the following factors:

- lower temperatures in the first three months of this year compared to the same period last year.
- the COVID-19 pandemic, which necessitated the restriction or suspension of many businesses and the transfer of part of their staff to remote work (home office), which resulted in increased household consumption in the second quarter.

#### Variation of sales for the first half of the year:

| Sales of electricity             | MWh              |                  |                       |             |
|----------------------------------|------------------|------------------|-----------------------|-------------|
|                                  | Report 2020      | Report 2019      | Variation 2020 / 2019 | % Growth    |
| 1. End suppliers                 | 7 877 877        | 7 718 797        | 159 080               | 2.1         |
| 2. Balancing energy              | 16 505           | 34 875           | -18 370               | -52.7       |
| 3. SLR - HV and MV               | 20 244           | 80 919           | -60 675               | -75.0       |
| 4. IBEX and non-regulated market | 275 968          | 636 183          | -360 215              | -56.6       |
| <b>TOTAL SALES</b>               | <b>8 190 594</b> | <b>8 470 774</b> | <b>-280 180</b>       | <b>-3.3</b> |

The quantities of electricity sold to the SLR customers at HV and MV marked a significant decrease compared to the same period of the previous year, as the Company sold 20 244 MWh compared to 80 519 MWh of electricity for the same period last year.

NEK EAD participated in IBEX and the non-regulated market with limited quantities of electricity in the current half of the year compared to the previous year, as a result of water resources saving in the dams /mainly in the first quarter/. The Company also purchased from IBEX certain quantities of electricity at free prices to secure its sales. In total for the first half of 2020 NEK EAD sold 275 968 MWh on IBEX and on the non-regulated market



compared to 636 183 MWh of electricity sold in the same period last year, which is a decrease of 56.6%. The sales in this segment are mainly due to NEK's commitment to IBEX in fulfilment of the obligation to the EC. Almost the entire amount of electricity sold by the Company in the first half of 2020 on the free market was sold on IBEX.

The pandemic of COVID-19 also had a very unfavorable effect on the trade at IBEX and the non-regulated market, which resulted in reducing of electricity demand by the businesses in the country and the Region due to the limitation of their production capacity and full suspension of the business of some enterprises in the second quarter. This has resulted in decreasing of electricity demand on the electric power exchanges in the country and the Region, and a significant decline in market prices in the second quarter.

The structure of electricity sold by NEK EAD has not changed, keeping the largest relative share formed by the obligation of the Company under the Energy Act to provide electricity to cover the demand of the End Suppliers, which increased to 96.2%, while in the first half of the previous year it was at the level of 91.1%. The relative share of electricity sold on the non-regulated market was reduced, from 7.5 % in 2019 it decreased to 3.4 % in the first half of the current year.

### III. Financial result, revenue and costs.

In the first half of 2020 NEK EAD carried out its core business in accordance with the changes in the basic energy legislation concerning the market model and the amendments to the Energy Act of 21 May 2019. In this regard, the obligations of the Public Supplier for purchase and sale of electricity for the regulated market decreased significantly, and the influence of the ESSF compensatory mechanisms increased, which is reflected in the revenue structure of the Company's income statement.

#### Revenue

NEK EAD reported a decrease by 9.2% / - BGN 133 182 thousand / of its total revenues for the first half of 2020 compared to the same period of the previous year. For the period January-June of the current year the revenues amount to BGN 1 309 258 thousand compared to BGN 1 442 440 thousand for the first half of the previous year.

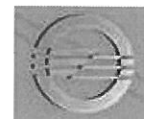
The reported sale revenues for the first half of 2020 amount to BGN 773 483 thousand, which is an increase of 17.0% compared to the reported revenues for the same period last year, when they were at the level of BGN 661 250 thousand. The increase in sale revenues by BGN 112 233 thousand is due to the higher revenues from electricity sold, which increased compared to the first half of 2019.

The reported revenues from electricity sales for the first half of 2020 have increased by BGN 109 834 thousand. Their increase is due to the higher selling price for the End Suppliers in the first half of this year, which was at the level of BGN 89.67/MWh, while in the same period of the previous 2019 it was BGN 71.71/MWh.

The revenues from the End Suppliers for the period January-June of the current year amount to BGN 706 409 thousand, or 27.6% more compared to the first half of 2019. A decrease is reported in the revenues from SLR customers as a result of the significantly lower quantities sold to these clients during the period of 2020 under consideration.

The following comparative table shows the revenues for the first half of 2020 by sources compared to those reported for the same period in 2019:





BGN Thousand

| Revenue                                                                       | Report<br>2020   | Report<br>2019   | Variation<br>2020 / 2019 | %<br>Growth  |
|-------------------------------------------------------------------------------|------------------|------------------|--------------------------|--------------|
| <b>1. Revenue from electricity sales</b>                                      | <b>761 073</b>   | <b>651 239</b>   | <b>109 834</b>           | <b>16.9</b>  |
| <b>1.1. including sales on the domestic market /obligations under the EA/</b> | <b>732 201</b>   | <b>595 655</b>   | <b>136 546</b>           | <b>22.9</b>  |
| End suppliers                                                                 | 706 409          | 553 515          | 152 894                  | 27.6         |
| SLR – HV and MV                                                               | 2 780            | 13 909           | -11 129                  | -80.0        |
| Balancing energy                                                              | 23 012           | 28 231           | -5 219                   | -18.5        |
| <b>1.2. IBEX and non-regulated market</b>                                     | <b>28 872</b>    | <b>55 584</b>    | <b>-26 712</b>           | <b>-48.1</b> |
| <b>2. Revenue from sales of reserve and services</b>                          | <b>9 869</b>     | <b>7 799</b>     | <b>2 070</b>             | <b>26.5</b>  |
| <b>3. Proceeds from ESSF</b>                                                  | <b>491 795</b>   | <b>741 952</b>   | <b>-250 157</b>          | <b>-33.7</b> |
| <b>4. Other proceeds from sales</b>                                           | <b>2 541</b>     | <b>2 212</b>     | <b>-329</b>              | <b>-14.9</b> |
| <b>5. Other proceeds</b>                                                      | <b>3 671</b>     | <b>4 062</b>     | <b>391</b>               | <b>9.6</b>   |
| <b>6. Proceeds from associated companies</b>                                  | <b>40 309</b>    | <b>35 176</b>    | <b>5 133</b>             | <b>14.6</b>  |
| <b>TOTAL REVENUE</b>                                                          | <b>1 309 258</b> | <b>1 442 440</b> | <b>-133 182</b>          | <b>-9.2</b>  |
| <b>including revenue from sales</b>                                           | <b>773 483</b>   | <b>661 250</b>   | <b>112 233</b>           | <b>17.0</b>  |

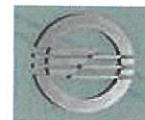
NEK EAD is one of the major suppliers of balancing energy in the country. In the first half of this year the revenues from the Company's participation in the balancing market decreased and amounted to BGN 23 012 thousand compared to BGN 28 231 thousand for the same period of the previous year. Their decrease was due to the smaller balancing capacities with which the Company participated in the balancing market.

During the period under consideration revenues in the amount of BGN 9 869 thousand were achieved from sales of reserve and services provided to the transmission system operator in accordance with the contract concluded between NEK EAD and ESO for maintaining the security of the Electric Power System. Compared to the same period of last year, these revenues were increased by BGN 2070 thousand.

The Company reported a decrease in its revenues from electricity sales on IBEX and on the non-regulated market, as a result of the smaller quantities of electricity sold there in the first half of 2020 compared to the same period of 2019. The reported revenues from IBEX and the non-regulated market amount to BGN 28 872 thousand compared to BGN 55 584 thousand for the first half of 2019, which is a decrease of BGN 26 713 thousand. In the first half of 2020 the achieved average selling price was over BGN 104/MWh, and compared to the same period of last year, it was significantly higher. The Company's participation in the non-regulated market was adversely affected by the COVID-19 pandemic, which resulted in reducing of electricity demand by the businesses in the country and a significant decline in the quantities sold by the Company on IBEX and on the non-regulated market, which are several times less compared to the EWRC's price decision.

NEK's proceeds from ESSF in the first half of 2020 amounted to BGN 491 795 thousand. Compared to the same period of the previous year, a significant decrease in the proceeds from ESSF is reported, which are by BGN 250 157 thousand less. The higher proceeds in the first half of 2019 were due to the reimbursed expenses for emissions and other not covered expenses for the activity of NEK as Public Supplier from previous regulatory periods. In the first half of this year ESSF reimbursed the amounts due to NEK EAD on a regular basis and we were fully compensated in connection with the costs incurred by the Public Supplier in accordance with the EWRC's decision and the provisions of the Energy Act.

An increase is reported in the proceeds from dividends, which increased from BGN 35 176 thousand in the first half of 2019 to BGN 40 309 thousand during the same period this year. A slight decrease is reported in the other proceeds.



The structure of revenues is changing, as revenues from electricity sales increased from 45.1% in the period January-June 2019 to 58.2% in the first half of 2020. The proceeds from ESSF decreased from 51.4% to 37.6% in the first half of 2020.

### Costs

In the first half of 2020 NEK EAD reported total expenses in the amount of BGN 1 258 905 thousand compared to BGN 1 410 154 thousand for the same period of 2019. The Company reports reducing of its costs by BGN 151 249 thousand, or a decrease of 10.7%. The decrease in costs is largely due to the decrease in the costs for purchased electricity, which for the first half of 2020 amounted to BGN 1 089 191 thousand, while in the first half of the previous year they amounted to BGN 1 205 194 thousand.

#### Variation of costs for the first half of 2020 compared to the same period of the previous year:

BGN thousand

| Costs                                     | Report<br>2020   | Report<br>2019   | Variation<br>2020 / 2019 | % Growth     |
|-------------------------------------------|------------------|------------------|--------------------------|--------------|
| 1. Operating costs                        | 1 191 188        | 1 344 752        | -153 564                 | -11.4        |
| including costs for purchased electricity | 1 089 191        | 1 205 194        | -116 003                 | -9.6         |
| Relative share,%                          | 86.5             | 85.5             |                          |              |
| 2. Financial costs                        | 67 717           | 65 402           | 2 315                    | 3.5          |
| <b>TOTAL COSTS</b>                        | <b>1 258 905</b> | <b>1 410 154</b> | <b>-151 249</b>          | <b>-10.7</b> |

The reported decrease in the costs for purchased electricity for the first half of the current year compared to the same period of last year amounts to BGN 116 003 thousand and is due to the following factors:

- Smaller quantities of purchased electricity compared to the first half of last year.
- Cancellation of the obligations of NEK-Public Supplier to purchase electricity from RES and HE CHP producers with installed capacity of 1 MW and over 1 MW, which with the amendments to the Energy Act and the price decision for the regulatory period 2019-2020 sell their electricity on IBEX, in force from 01.07.2019. As a result of the change in the market model, the Company reports reducing of the costs for purchased electricity from RES and HE CHP producers by BGN 232 million, compared to the period January - June 2019.

As a result of the amendments to the Energy Act and the market model in the first half of this year, a better structure of purchased electricity has been reported compared to the same period of 2019. The average price of the electricity purchased by the Company is about BGN 155/MWh compared to BGN 167/MWh last year.

The relative share of the costs for purchased electricity remains the largest of all costs incurred by the Company - 86.5%.

Apart from the costs for purchased electricity, a decrease is reported in the expenses for materials and in the other costs, which are equal to BGN 3 220 thousand, compared to BGN 8 062 thousand for the first half of 2019.

A minimal growth is reported in the costs for external services and staff, as well as in the financial costs, which have increased by BGN 2 315 thousand /+3.5%/ reaching up to BGN 67 717 thousand for the first half of this year.

The recent years, due to lack of funds, all costs of the Company have been greatly reduced and limited, being restricted to spending of funds ensuring the minimum for the core business.





## Financial Result

NEK EAD reported a positive financial result before taxes for the first half of 2020 in the amount of BGN 50 353 thousand. Compared to the same period of the previous year, the financial result has improved by BGN 18 067 thousand.

With the latest amendments to the Energy Act and the EWRC's price decision for the regulatory period 2019 - 2020, the activity of NEK EAD has been highly dependent on the determined price levels and regulatory conditions, as well as on the ESSF compensatory mechanisms in connection with the reimbursement of costs incurred by the Public Supplier.

The change in the financial result before taxes for the first half of 2020 compared to the same period of the previous year is shown in the following table:

BGN thousand

|    | Revenue and costs             | Report<br>2020 | Report<br>2019 | Variation<br>2020 / 2019 | %<br>Growth |
|----|-------------------------------|----------------|----------------|--------------------------|-------------|
| 1. | Total costs                   | 1 258 905      | 1 410 154      | -151 249                 | -10.7       |
| 2. | Total revenue                 | 1 309 258      | 1 442 440      | -133 182                 | -9.2        |
| 3. | Financial result before taxes | 50 353         | 32 286         | 18 067                   |             |

The financial result for the first half of 2020 was favourably influenced by the following factors:

- Increase in revenues from electricity sold by NEK-Public Supplier to the End Suppliers, which compensated for the decrease in revenues from IBEX and the non-regulated market.
- Growth of proceeds from dividends.
- Reduction of the expenses for provisions in the first half of 2020 compared to the same period of the previous year.
- Better structure of purchased electricity in the first half of this year compared to the same period in 2019.

In the first half of 2020 the financial result of NEK EAD was directly dependent on the proceeds from ESSF. During the current year ESSF in due time reimbursed to NEK EAD the amounts due to NEK in connection with the costs incurred by the Public Supplier in accordance with the EWRC's decision and the provisions of the Energy Act. As at 30.06.2020 all amounts due to the Public Supplier were reimbursed to it. The Public Supplier has not claimed to ESSF only the expenses for emissions in the amount of BGN 7 809 thousand, and this will be done when NEK officially receives the relevant cost-justifying documents. At present, these costs are provisional and affect the financial result.

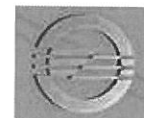
In the first half of 2020 the Company continued to operate in the conditions of negative net working capital and deteriorated cash flow. As at 30.06.2020 the negative net working capital amounted to - BGN 997 341 thousand, and compared to 31.12.2019, a slight deterioration is reported / - BGN 989 239 thousand /.

## Analysis of the Financial Ratios as at 30.06.2020.

The analysis of NEK's financial ratios is prepared on the basis of the interim financial report of NEK EAD as at 30.06.2019.

The financial result of NEK EAD for the first half of 2020 before taxes is a profit of BGN 50 353 thousand, while the result as at 30.06.2019 was a profit of BGN 32 286 thousand.





### Profitability ratios

The profitability for the period January - June 2020 according to the interim financial report is a positive value, as it can be seen from the table below. The ratios are fully influenced by the positive financial result, which before tax expenses is a profit of BGN 50 353 thousand.

A key factor is **the sales profitability ratio**, which reflects the ratio of the financial result to the net sales revenue. The ratio shows that for every 1 BGN income a profit of BGN 0.0651 is achieved, compared to the profit of BGN 0.0488 achieved in the same period of 2019.

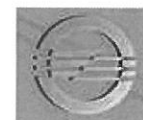
**The equity profitability ratio** shows an increase from 0.0263 as at 30.06.2019 to 0.0405 as at 30.06.2020, as the increase is due to the higher reported profit for 2020. This ratio provides information on the effectiveness of using equity, i.e. the funds invested by the owner and how profitable it is to invest funds from potential investors.

**Liabilities profitability ratio:** by the present period the liabilities profitability is 0.0128, and for the compared period of the previous year it was 0.0078.

**Assets capitalization ratio:** as at 30.06.2020 it was 0.0098, compared to 30.06.2019 when the value of that ratio was 0.0060.

### Variation of financial ratios:

| Ratio                             | 30.06.2020 | 30.06.2019 |
|-----------------------------------|------------|------------|
| <b>Profitability Ratios</b>       |            |            |
| Sales profitability ratio         | 0,0651     | 0,0488     |
| Equity profitability ratio        | 0,0405     | 0,0263     |
| Liabilities profitability ratio   | 0,0128     | 0,0078     |
| Assets capitalization ratio       | 0,0098     | 0,0060     |
|                                   |            |            |
| <b>Effectiveness Ratios</b>       |            |            |
| Cost effectiveness ratio          | 1,0400     | 1,0229     |
| Revenue effectiveness ratio       | 0,9615     | 0,9776     |
|                                   |            |            |
| <b>Liquidity Ratios</b>           |            |            |
| Current ratio                     | 0,2202     | 0,3608     |
| Quick ratio                       | 0,2115     | 0,3531     |
| Immediate liquidity ratio         | 0,0666     | 0,0258     |
|                                   |            |            |
| <b>Financial autonomy ratios</b>  |            |            |
| Solvency ratio                    | 0,3186     | 0,2974     |
| Debt ratio                        | 3,1387     | 3,3630     |
| Financial independence ratio      | 0,3197     | 0,3068     |
| Ratio of fixed assets financing   | 3,8843     | 3,9249     |
| Ratio of current assets financing | 0,2267     | 0,4023     |



### Effectiveness ratios

**The cost effectiveness ratio** shows the ratio of the Company's revenue to its expenses. This ratio provides information about the extent to which the Company manages to bind its revenues and expenses with regard to the effectiveness of its core business. As at 30.06.2020 the value of this ratio was 1.04, and as at 30.06.2019 it was 1.0229, i.e. against 1 BGN expense the Company receives revenue of BGN 1.04, while for the respective period of 2019 the revenue was 1.0229.

**The revenue effectiveness ratio** is reciprocal of the cost effectiveness ratio and it was 0.9615 as at 30.06.2020, while as at 30.06.2019 that ratio was 0.9776.

### Liquidity ratios

Liquidity ratios express the ability of the Company to pay its current liabilities with its available current assets, which do not include expenses for future periods. **The current ratio** as at 30.06.2020 was 0.2202, which means that the short-term assets cover about 0.2202 times the short-term liabilities. The value of the ratio is lower than that for the corresponding period last year, when that ratio was 0.3608. The decrease is mainly due to the lower value of current liabilities as at 30.06.2020.

The current ratio dynamics is as follows:

|                      | 30.06.2019 | 30.9.2019 | 31.12.2019 | 31.03.2020 | 30.06.2020 |
|----------------------|------------|-----------|------------|------------|------------|
| <b>Current ratio</b> | 0,361      | 0,27      | 0,258      | 0,205      | 0,220      |

The current ratio continues to be below the levels set by the international banks-lenders of NEK EAD (not to be lower than 1.2 - 1.1).

After eliminating the role of short-term tangible assets, **the quick ratio** is calculated. Its value was 0.2115 as at 30.06.2020, showing a decrease compared to the same period of 2019, when it was 0.3531.

After eliminating the impact of short-term receivables, **the immediate liquidity ratio** is calculated, which as at 30.06.2020 was 0.0666. It is higher than its value for the corresponding period of 2019 (0.0256) mainly due to the higher value of cash and cash equivalents as at 30.06.2020.

### Working capital management

**Working capital** reflects the difference between the Company's current assets and current liabilities. As at 30.06.2020 there was a shortage of working capital in the amount of BGN 997 341 thousand. For comparison, the shortage as at 30.06.2019 amounted to BGN 873 432 thousand.

### Capital structure

As at 30.06.2020 the equity of NEK EAD amounted to BGN 1 243 747 thousand, and as at 30.06.2019 the equity amounted to BGN 1 230 991 thousand. The increase is due to the achieved higher profit for the first half of 2020 compared to the first half of 2019.

### Financial autonomy ratios

**The solvency ratio (financial autonomy)** reflects the ratio of equity to total debt. As at 30.06.2020 it was 0.3186, and as at 30.06.2019 it was 0.2974.



**The debt ratio** is reciprocal of the solvency ratio and shows the ratio of the Company's liabilities to its equity. As at 30.06.2020 it was 3.1387, and as at 30.06.2019 it was 3.3630.

**The financial independence ratio**, which shows the ratio of equity to the sum of equity and long-term liabilities, amounted to 0.3197 as at 30.06.2020. Compared to 30.06.2019, the level of that ratio was 0.3068.

**The ratio of fixed assets financing through equity** as at 30.06.2020 was 3.8843 and for the compared period by 30.06.2019 it was 3.9249.

**The financing of current assets through equity** as at 30.06.2020 was 0.2267, and as at 30.06.2019 it was 0.4023. The almost double reduction of the ratio in 2020 is due to the significantly lower amount of current assets as at 30.06.2020.

#### IV. Risk Management Policies.

The Company's risk management policy has been developed so that to identify and analyze the risks faced by the Company, to set limits for undertaking risks and their control, to monitor risks and to comply with the established limits. These policies are subject to reviews on a regular basis in order to reflect the changes in the market conditions and in the activities. The Company, through its training and management standards and procedures, strives to develop an environment of constructive control where all employees understand their roles and responsibilities.

There is a Risk Management Committee appointed in the Company, with a risk management director and risk management experts in each of the Company's structural units. A Risk Management Strategy has been adopted in NEK EAD with a period of validity 2016-2018, approved on 14.02.2016. The Risk Management Committee, depending on its duties and responsibilities, monitors how the Management ensures compliance with the risk management policies and reviews the adequacy of the management framework with regard to the risks faced by the Company.

The Risk Management Committee of the Company uses the assistance of the Internal Audit Department. The internal audit department performs both planned and extraordinary inspections of the risk management control and procedures, the results of which are reported to the Risk Management Committee. The Company has established risk registers for each structural unit, which are updated on a regular basis, however at least once a year.

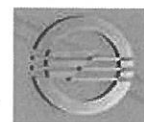
The Company is exposed to various risks, including regulatory/price risks, arising from EWRC's decisions for approval of price limits for the electricity on the domestic market, as well as liquidity, market, credit, interest rate and currency risks.

##### ***Price/Regulatory Risk***

The price/regulatory risk for the Company is related to the activity "public supply of electricity". The active price/regulatory framework, according to the administrative acts adopted by EWRC, has a significant impact on the financial position of the Company.

The price of electricity to the End Suppliers is determined by EWRC, which are applied for a price/regulatory period from 01.07 of the current year until 30.06 next year. The prices approved by the Commission, together with the quantities sold, directly determine the revenues from the Company's activity. The Price Decision C-19 of 01.07.2019 was in force for the price period 2019-2020. The risk posed with its acceptance is related to the underestimated sales to the End Suppliers / 12 979 765 MWh /, which was objected by NEK in the opinion upon its acceptance. This was confirmed and led to directing of additional quantities of electricity to the regulated market, which according to the EWRC's Decisions had been envisaged for IBEX and the non-regulated market.





### ***Liquidity Risk***

A liquidity risk occurs when the Company is not able to fulfil its obligations when they become due. The Company applies such an approach as to ensure the necessary liquidity resource for meeting its liabilities under normal or crisis conditions without incurring any unacceptable losses.

Since the Company's activities are related to regular supplies and regular payments by customers, the liquidity risk control is carried out mainly in two directions:

- Careful planning of all outgoing cash flows based on monthly forecasts;
- Terms of customers' payments that are made within one month - payment schedules are agreed, as well as penalties in case of overdue payments.

Most of the Company's activities are regulated, therefore the EWRC's decisions and the price framework defined by the Regulator lead to certain liquidity risks expressed in impossibility of the Company to pay its liabilities to electricity suppliers and incurring of investment and maintenance costs, compared to the revenues gained from the electricity at regulated prices.

### ***Market Risk***

A market risk is that risk when changes in market prices, foreign exchange rates, interest rates or equity instruments affect the Company's income from financial instruments or its investments are affected. The purpose of market risk management is to manage and control exposures to market risks with acceptable parameters and return optimization.

In regular intervals the Company makes analyzes of the macroeconomic environment in the country and a deep analysis of the specific macro indicators that are presented to the Board of Directors. Most of the core business is regulated and the Management of the Company cannot influence the prices that are determined by EWRC.

### ***Credit Risk***

The Company's credit risk consists of a risk of financial losses in a situation where a client or a party in a financial instrument fails to fulfil its contractual obligations. The credit risk arises from receivables from customers and investments in financial instruments.

#### ***Receivables from Clients***

Exposures to credit risks result from the individual features of every customer and are also influenced by the features of the industry or the country.

Policies and procedures are set up and applied in the Company in order to minimize the risks of non-payments by customers. An assessment of each client's creditworthiness is made and his exposure is monitored on a current basis. For deals involving considerable risks, providing of a security in the form of a cash deposit or a bank guarantee is required. For the current period the Company's exposure to credit risks is mainly from the receivables from customers and from the proceeds from the Electricity System Security Fund.

### ***Interest Risk***

The Company is exposed to the risk of changes in market interest rates, mainly with regard to its short-term and long-term financial liabilities with floating interest rates.

### ***Currency Risk***

The prevailing currency exposure of the Company is denominated in Euro (EUR). Due to the fact that the exchange rate of the Bulgarian Lev (BGN) is fixed to the Euro exchange rate in Bulgaria (1,95583 BGN =



1 EUR), the Company is not exposed to any significant currency risks for these currency positions.

## V. Analysis of market prospects.

NEK EAD plays a key role in the operation of the electricity market and the electricity system in Bulgaria. The Company will continue to participate in the electricity market in the country and the Region, selling electricity at both regulated and non-regulated prices and providing services by its own HPPs and PSHPPs. NEK EAD is one of the main suppliers of balancing energy in the country. The Company's participation in the balancing market is determined by capacities activation by ESO and the Company cannot influence the amount of activated balancing services.

NEK EAD operates in accordance with the EWRC's price decision for the current regulatory period 2019-2020 and is highly dependent on the set price levels and regulatory conditions in it. NEK EAD will continue to participate in the regulated market as a priority, fulfilling its public service obligations under the Energy Act.

NEK EAD is one of the main suppliers of balancing energy in the country. The revenues from the Company's participation in the balancing market for the first half of 2020 decreased due to the decrease in the quantities of balancing energy sold. NEK's participation in the balancing market is determined by the activation of capacities by ESO and the Company cannot influence the amount of activated balancing services.

In the first half of 2020 the economic and social life in the country and the world was marked by the COVID-19 pandemic, which affected all areas and activities and created a number of risks as a result of the reduced economic activity in general. NEK EAD operated during the period under review in the conditions of a pandemic, which resulted in reducing of electricity demand by the businesses in the country and a significant decline in the quantities sold by the Company on IBEX and on the non-regulated market, which are several times less than the EWRC's price decision. The reduction of consumption by the business consumers also led to violations of the planned work for electricity generation by the producers.

Plans are envisaged from 01.10.2020 for expanding the scope of the non-regulated market and shrinking of the regulated market as a result of the small business consumers at LV going to the non-regulated electricity market. The price decision valid for the regulatory period 2020-2021 envisages for the electricity quantities that are to be sold by NEK-Public Supplier on the regulated market to decrease significantly in comparison to the previous ones, as the Company is expected to supply 11 690 122 MWh of electricity to the End Suppliers for the regulatory period.

## VI. Expectations and prospects of future development.

With the amendments to the Energy Act of 2019 the conditions under which the electricity market players in the country, including NEK, carry out their activities, have significantly changed. All deals on the non-regulated market are carried out through the IBEX platforms. The goal is to achieve maximum transparency in electricity trading. Since 01.07.2019 the RES and HE CHP producers with capacities of 1 MW and over 1 MW have been selling their energy on IBEX.

These prerequisites also determine the change in some of the future activities of the Company. It has already successfully adapted to non-regulated market trading only through IBEX. We also provide offers through long-term contracts, day ahead and intraday market platforms. With the opportunities for realization of various products from the HPPs and the TPPs with long-term contracts, we are a major player and preferred partner. In the future, this activity will continue and will further develop with new products that we will probably offer on the market.

NEK will continue to be dependent on ESSF, claiming to it reimbursement of costs in accordance with the new EWRC's decisions. Now they also concern proceeds that the Fund collects from the public service obligations charge.





With the reduction of liabilities to the regulated market, the Company will more and more actively participate in the non-regulated market, which will provide fairer revenues, less and less dependent on the EWRC's decisions. NEK will also continue to be a major supplier of balancing energy, thus ensuring the proper functioning of the Electric Power System.

➤ **Analysis of the investments made, capital, operational and maintenance activities of NEK EAD performed as at 30.06.2019.**

**Investment Programme**

The investment programme of NEK EAD for the first half of 2020 was carried out in the conditions of limited monetary resources and for the purposes of implementation in the following main areas:

- rehabilitation, reconstruction and new construction of hydro power and hydraulic facilities;
- other activities, including: need to store the equipment delivered for the Belene NPP Project, costs for maintenance of operating systems, server software and application software for the needs of the Company, purchase of licences, maintenance and development of the technical infrastructure, maintenance of social sites, other activities related to ensuring the normal operation of the Company.

The sources for financing of NEK's investment programme are, as follows:

- Company own funds obtained from depreciation deductions for the fixed assets of the Company and the rate of return on fixed assets;
- Kozloduy International Decommissioning Support Fund (KIDSF).

In the first half of 2020 the Company incurred expenses for investment activities in the amount of BGN 11 964 thousand, as BGN 8 164 thousand of them were Company own funds and BGN 3 800 thousand attracted funds.

The implementation of NEK's investment programme is usually at a low level for this period of the year and is 13.8% of the programme planned for 2020. Compared to the same period of the previous year, an increase in the expenses for investment activity by BGN 7 053 thousand is reported. /+143.6%/.

**Repair & Maintenance Programme**

NEK EAD is carrying out a Repair & Maintenance Programme for 2020 in the amount of BGN 9 484 thousand, own funds of the Company. The implementation of the programme for the first half of 2020 is 11.9% of the planned funds, or BGN 1 127 thousand. Compared to the same period of the previous year, an increase in repair & maintenance costs by BGN 115 thousand is reported. /+11.4%/.

Activities from the Repair & Maintenance Programme are performed to ensure trouble-free operation of the facilities in the hydro power plants and the dams and their adjacent hydro-mechanical and hydraulic facilities, as well as auxiliary activities accompanying the operation process.

## **VII. Conclusion.**

- In the first half of 2020 the Company operated under the established price and regulatory conditions and the current basic energy legislation. NEK EAD fulfilled its obligations under its licensed activities, as well as its public service obligations, in accordance with the requirements of the Energy Act to provide





the required quantities of electricity to the End Suppliers and the consumers connected to the electricity transmission network or the distribution network, who had not chosen another supplier.

- The economic and social life was marked by the COVID-19 pandemic, the consequences of which are still difficult to be fully assessed, but are generally expressed in slowing down and decreasing of the economic growth in the country and worldwide, as this is negatively reflected in every type of economic activity. NEK EAD operated during the period under review in the conditions of a pandemic, which led to reducing of electricity demand by the businesses in the country and a significant decline in the quantities sold by the Company on IBEX and on the non-regulated market, which are several times less than the EWRC's price decision, as well as there was an impact on the price levels of the energy offered on the non-regulated market.
- As a result of the economical use of water resources in the dams and the reduced opportunities for sales on IBEX and on the non-regulated market, the electricity generated by the hydro power plants within the structure of NEK EAD in the first half of 2020 was 5.0% less than in the previous year.
- Plans are envisaged from 01.10.2020 for expanding the scope of the non-regulated market and shrinking of the regulated market as a result of the small business consumers at low voltage going to the non-regulated electricity market. The current price decision for the regulatory period 2020-2021 envisages for the electricity quantities that are to be sold by NEK- Public Supplier on the regulated market to decrease significantly, compared to the previous ones, and the Company is expected to supply 11 690 122 MWh of electricity to the End Suppliers
- Despite the reported positive financial result for the first half of 2020, no significant improvement of the Company's financial position has been achieved. NEK EAD continues to face difficulties in paying its liabilities to suppliers and contractors, as well as with regard to its loans liabilities to BEH EAD. The Company continues the trend of operating in the conditions of negative net working capital and deteriorated cash flow.

## VIII. Events after the Report's date.

On 9 July 2020 the Commercial Register published a second partial account for allocation of available amounts among the creditors of Corporate Commercial Bank AD (in bankruptcy). The amount allocated in favour of NEK EAD amounts to BGN 1 300 thousand.

## IX. Additional information under Article 33, paragraph 7 of Ordinance № 2 of the Financial Supervision Commission.

*1. Information on changes in the accounting policy during the reported period, the reasons for their implementation and how they affect the financial result and the equity of NEK EAD.*

During the period 01.01.2020 -30.06.2020 no changes were made in the accounting policy of the Company.

*2. Information on changes in a group of enterprises, within the meaning of the Accountancy Act, if NEK EAD participates in such a group.*

NEK EAD is part of the Group of Bulgarian Energy Holding EAD.



The Company has investments in the following associated and jointly controlled enterprises:

|                                                      |          | 30 June 2020 |                  | 31 December 2019 |                  |
|------------------------------------------------------|----------|--------------|------------------|------------------|------------------|
|                                                      | Country  | Share        | Investment Value | Share            | Investment Value |
|                                                      |          |              | BGN ‘000         |                  | BGN ‘000         |
| Associated companies and joint ventures              |          |              |                  |                  |                  |
| ContourGlobal Maritsa East 3 AD                      | Bulgaria | 27%          | 55,289           | 27%              | 55,289           |
| ContourGlobal Operations Bulgaria AD                 | Bulgaria | 27%          | 14               | 27%              | 14               |
| Insurance Joint-Stock Company Energia                | Bulgaria | 42%          | 1,512            | 42%              | 1,512            |
| Pension Insurance Company Allianz Bulgaria           | Bulgaria | 34%          | 1,020            | 34%              | 1,020            |
| HEC Gorna Arda AD                                    | Bulgaria | 24%          | -                | 24%              | -                |
| Trans-Balkan Electric Power Trading C.A. – NECO S.A. | Greece   | 50%          | 59               | 50%              | 59               |
|                                                      |          |              | 57,894           |                  | 57,894           |

3. Information on the results of organizational changes within the Company, such as transformation, sale of companies from a group of enterprises within the meaning of the Accountancy Act, in-kind contributions by the Company, rental of property, long-term investments, cessation of activity.

No organizational changes were made.

4. Information on pending court, administrative or arbitration proceedings concerning liabilities or receivables amounting to at least 10 percent of the issuer's equity; if the total value of the liabilities or receivables of the Company under all initiated proceedings exceeds 10 percent of its equity, information for each proceeding shall be submitted separately.

The following significant lawsuits have been filed against the Company:

#### *Sofia District Heating EAD*

Sofia District Heating EAD has filed five lawsuits with a total principal amount of approximately BGN 26 million. With these claims on a contractual and non-contractual basis it claims principal amounts, interest for delay, as well as amounts for unjust enrichment for supplied electricity and compensation for the use of facilities.

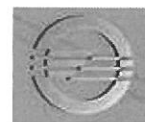
NEK EAD has filed a counterclaim in the amount of BGN 13 864 thousand and interest for delay on invoices issued in the period February 2014 - November 2014 for the quantities of electricity produced by Turbine-Generator № 9 (TG 9), which is illegally invoiced to NEK EAD. On the basis of the counterclaim a separate proceeding was instituted – commercial case № 5152/2016 at the Sofia City Court, respectively a decision was announced, according to which the claims / for principal and interest for delay / of NEK EAD were respected. The decision was appealed by Sofia District Heating EAD before the Sofia Court of Appeal, and with a decision of January 2019 the Court upheld the decision of the Sofia City Court. The decision of the Sofia Court of Appeal was appealed by Sofia District Heating EAD before the Supreme Court of Cassation, it but was not allowed to appeal.

The outcome of these lawsuits is not expected to have a significant effect on the cash outflows and the financial result, since a great part of the claims is included in the financial statements.

#### *Energy Financial Group AD (EFG)*

Energy Financial Group AD (EFG) has filed three lawsuits with a total principal amount of approximately BGN





5 290 thousand and interest for delay with claims for payment of transferred receivables from WorleyParson's Nuclear Services EAD to EFG under invoices for consulting services.

In one of the cases the claims / principal of BGN 59 thousand / were rejected at first instance. The decision was appealed by EFG and the Sofia Court of Appeal rejected the decision of the Sofia City Court and upheld the claims, however that decision has been appealed by NEK EAD before the Supreme Court of Cassation.

In the second case, with a claim value of BGN 3 063 thousand, as BGN 2 347 thousand of them representing the principal and BGN 716 thousand – the interest for delay, the claims were upheld by a decision of the Sofia City Court of 13.03.2020. NEK EAD has filed an appeal against that decision before the Sofia Court of Appeal.

In the third case, with a claim value of BGN 3 765 thousand, as BGN 2 884 thousand of them representing the principal and BGN 881 thousand – the interest for delay, the claims were rejected as groundless by a decision of the Sofia City Court. The decision of the Sofia City Court was upheld by a decision of the Sofia Court of Appeal, the latter decision being appealed by EFG before the Supreme Court of Cassation.

#### *ContourGlobal Maritsa East 3 AD*

In June 2019 NEK EAD received a Notice of Arbitration for the commencement of arbitration proceedings by ContourGlobal Maritsa East 3 AD. The claim is for the purpose of exercising the rights of ContourGlobal Maritsa East 3 AD against NEK EAD in connection with reimbursement of the costs incurred for modernization of ContourGlobal Maritsa East 3 TPP in accordance with the requirements of the European legislation and the law on clean air for reducing emissions of nitrogen oxides and sulphur dioxide.

The amounts of the claims in the Arbitration Notice are as follows:

- EUR 12 000 000, representing the outstanding principal with VAT under an invoice issued on 21.12.2017.
- EUR 648 874.12, representing the contractual interest for principal delay considered 01.01.2018 to 04.06.2019 (the date of the Arbitration Notice handing over).
- contractual interest for delay from the date of the Arbitration Notice handing over until the final repayment of the obligation.
- all production costs.

#### *Mechel Carbon AG*

Mechel Carbon AG has filed two lawsuits with a total principal amount of approximately BGN 26 544 thousand and interest for delay. The claims are for payment of principal amounts for electricity supplied by District Heating Ruse EAD, paid by NEK EAD to District Heating Ruse EAD as pledgor instead of paying to the pledge creditor-depository appointed by Mechel Carbon AG, after receiving a notice for commencement of execution by Mechel Carbon AG under the Special Pledges Act, together with interest and expenses.

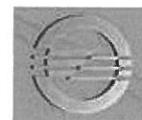
In the first case - for a principal of BGN 5 144 760.14 and interest for delay, a decision was issued by the Sofia City Court, by which the claims of Mechel Carbon AG were upheld. The decision of the Sofia City Court was upheld by the Sofia Court of Appeal, the latter decision being appealed by NEK EAD before the Supreme Court of Cassation.

Given the security paid by NEK EAD to the account of the Supreme Court of Cassation, the execution of the appellate decision has been suspended.

In the second case - for a principal of BGN 21 400 000 and interest for delay, the proceedings before the first instance are at an initial stage.

As at 30 June 2020 there were also other legal claims filed against the Company on different legal grounds: for balancing energy, for delayed payments, for offset amounts and equalization payments. These claims are either





pending or on appeal. Due to this circumstance, with the exception of the amounts accrued for late and overdue payments, the Management of the Company has decided not to accrue additional provisions on lawsuits.

*5. Information on the loans granted by the Company or its subsidiary, providing guarantees or assuming obligations in total to one person or its subsidiary, including related parties, indicating the nature of the relationship between NEK EAD and the person, the amount of the outstanding principal, interest rate, repayment term, amount of assumed obligation, conditions and term.*

The Company has not entered into any contracts as a lender.

For the period under review the Company has provided guarantees and promissory notes, as follows:

*Guarantees*

The balance of the issued bank guarantees ordered by NEK EAD in favour of other companies / third parties / as at 30 June 2020 is in the amount of BGN 325 thousand, including to related parties from the BEH Group – to ESO EAD in the amount of BGN 200 thousand and to other related parties - Bulgarian Independent Energy Exchange (IBEX) in the amount of BGN 125 thousand (as at 31.12.2019 it amounted to BGN 225 thousand, including to related parties- to ESO EAD in the amount of BGN 100 thousand and to IBEX in the amount of BGN 125 thousand).

*Promissory Notes*

As at 30 June 2020 NEK EAD had issued promissory notes under investment projects in favour of banks providing loans under the contracts for construction of these projects and other projects in the total amount of BGN 183 025 thousand, including to related parties – to ContourGlobal Maritsa East 3 in the amount of BGN 100 376 thousand, to ESO EAD in the amount of BGN 220 thousand and to IBEX in the amount of BGN 137 thousand (as of 31.12.2019 NEK EAD had issued promissory notes under investment projects in favour of banks providing loans under the contracts for construction of these projects and other projects in the total amount of BGN 190 855 thousand, including to related parties- to Contour Global Maritsa East 3 in the amount of BGN 108 316 thousand, to ESO EAD in the amount of BGN 110 thousand and to IBEX in the amount of BGN 137 thousand).

*6. Information on major deals concluded with related parties within the meaning of the applicable accounting standards:*

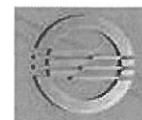
The deals with related parties concern purchase and sale of electricity and services related to electricity and are carried out at regulated prices determined by a Decision of EWRC, with the exception of sales on the stock exchange market with IBEX EAD. All other sales and purchases from related parties are made under market conditions.

The outstanding balances by the end of the period under review are unsecured, interest-free (excluding loans) and are settled in cash, unless otherwise announced.

No guarantees have been received for the receivables from related parties.

Natsionalna Elektricheska Kompania EAD has not entered into any deals with related parties that are outside its ordinary business.

Information on the deals concluded between NEK EAD and related parties:

*Sales to related parties**Sales to related parties*

| Company                                                       | Deals/grounds                            | 30 June<br>2020<br>BGN'000 | 30 June<br>2019<br>BGN'000 |
|---------------------------------------------------------------|------------------------------------------|----------------------------|----------------------------|
| <i>Companies under joint control (BEH Group)</i>              |                                          |                            |                            |
| <b>ESO EAD</b>                                                | Balancing energy                         | 21,454                     | 20,526                     |
|                                                               | Revenue from electricity trading         | 3,655                      | -                          |
|                                                               | Reserve and additional services          | 9,869                      | 7,798                      |
|                                                               | Other sales                              | 2                          | 7                          |
|                                                               |                                          | <b>34,980</b>              | <b>28,331</b>              |
| <b>Kozloduy NPP EAD</b>                                       | Sale of long-term assets and other sales | 1,607                      | 16                         |
|                                                               |                                          | <b>1,607</b>               | <b>16</b>                  |
| <b>Maritsa East Mines EAD</b>                                 | Sale of long-term assets                 |                            | 28                         |
|                                                               | Other sales                              | 2                          | 5                          |
|                                                               |                                          | <b>2</b>                   | <b>33</b>                  |
| <b>Martisa East 2 TPP EAD</b>                                 | Water supply                             | 798                        | 359                        |
|                                                               |                                          | <b>798</b>                 | <b>359</b>                 |
| <i>Associated companies and companies under joint control</i> |                                          |                            |                            |
| <b>ContourGlobal Maritsa East 3 AD</b>                        | Liquidated damages                       | 115                        | 1,175                      |
|                                                               | Management fee                           | 33                         | 32                         |
|                                                               | Water supply                             | 163                        | 163                        |
|                                                               | Dividend                                 | 31,050                     | 24,840                     |
|                                                               |                                          | <b>31,361</b>              | <b>26,210</b>              |
| <b>ContourGlobal Operations Bulgaria AD</b>                   | Management fee                           | 33                         | 32                         |
|                                                               | Dividend                                 | 1,396                      | 1,323                      |
|                                                               |                                          | <b>1,429</b>               | <b>1,355</b>               |
| <b>Pension Insurance Company Allianz</b>                      | Dividend                                 | <b>5,569</b>               | <b>5,031</b>               |
| <b>Insurance joint-stock company Energia</b>                  | Insurance compensations                  | 7                          | 95                         |
|                                                               | Dividend                                 | 2,294                      | 3,982                      |
|                                                               |                                          | <b>2,301</b>               | <b>4,077</b>               |
| <i>Other related parties</i>                                  |                                          |                            |                            |
| <i>Under the joint control of the Bulgarian State</i>         |                                          |                            |                            |
| <b>IBEX EAD</b>                                               | Electrical energy                        | 25,157                     | 40,889                     |
|                                                               |                                          | <b>25,157</b>              | <b>40,889</b>              |
| <b>Bulgarian State Railways EAD</b>                           | Electrical energy and imbalance          |                            | 9,346                      |
|                                                               |                                          | <b>103,204</b>             | <b>115,647</b>             |

*Purchases from related parties*

| Company                                          | Deals/grounds                               | 30 June<br>2020<br>BGN'000 | 30 June 2019<br>BGN'000 |
|--------------------------------------------------|---------------------------------------------|----------------------------|-------------------------|
| <i>Single owner</i>                              |                                             |                            |                         |
| <b>BEH EAD</b>                                   | Interest on loans                           | 63,929                     | 60,320                  |
|                                                  | Deliveries for warehouses                   | 5                          |                         |
|                                                  | Services                                    | 32                         | 47                      |
|                                                  | Amortization of financial costs under loans | 2,871                      | 2,700                   |
|                                                  |                                             | <b>66,837</b>              | <b>63,067</b>           |
| <i>Companies under joint control (BEH Group)</i> |                                             |                            |                         |



|                                                               |                                        |                |                |
|---------------------------------------------------------------|----------------------------------------|----------------|----------------|
| <b>ESO EAD</b>                                                | Transmission                           | 44             | 37             |
|                                                               | Access to the grid                     | 2,675          | 6              |
|                                                               | Balancing energy                       | 1,303          | 6,325          |
|                                                               | Other services                         | -              | 5              |
|                                                               |                                        | <b>4,022</b>   | <b>6,373</b>   |
| <b>Kozloduy NPP EAD</b>                                       | Electrical energy + available capacity | 87,760         | 56,085         |
|                                                               | Interest under agreements              | 32             | 856            |
|                                                               | Other                                  | 1              | -              |
|                                                               |                                        | <b>87,793</b>  | <b>56,941</b>  |
| <b>Martisa East Mines EAD</b>                                 | El. Energy, Dams & Cascades Enterprise | <b>2</b>       | <b>2</b>       |
| <b>Maritsa East 2 TPP EAD</b>                                 | Electrical energy                      | 209,584        | 108,218        |
|                                                               | Telephone calls                        | 1              | 1              |
|                                                               | El. Energy, Dams & Cascades Enterprise | 3              | 2              |
|                                                               |                                        | <b>209,588</b> | <b>108,221</b> |
| <i>Associated companies and companies under joint control</i> |                                        | -              | -              |
| <b>ContourGlobal Maritsa East 3</b>                           | Available capacity                     | 136,140        | 125,474        |
|                                                               | Electrical energy                      | 99,516         | 199,549        |
|                                                               | Additional services                    | 2,943          | 2,244          |
|                                                               | Forced outage penalties                | 198            | -              |
|                                                               | 5% contribution to ESSF                | 17,811         | 16,235         |
|                                                               | Emissions                              | 128,123        | 2,060          |
|                                                               |                                        | <b>384,731</b> | <b>345,562</b> |
| <b>Pension Insurance Company Allianz</b>                      | Additional pension insurance           | <b>499</b>     | <b>503</b>     |
| <b>Insurance joint-stock company Energia</b>                  | Service                                | <b>8,940</b>   | <b>9,864</b>   |
| <i>Other related parties</i>                                  |                                        |                |                |
| Under the joint control of the Bulgarian state                |                                        |                |                |
| <b>IBEX EAD</b>                                               | power exchange market charges          | 60             | 279            |
|                                                               | Electrical energy                      | 1,793          | 12,546         |
|                                                               | Other                                  | 30             | 30             |
|                                                               |                                        | <b>1,883</b>   | <b>12,855</b>  |
| <b>Other</b>                                                  |                                        | <b>13</b>      | <b>14</b>      |
|                                                               |                                        | <b>764,308</b> | <b>603,402</b> |

## X. Information under Annex № 9 of Ordinance № 2 of the Financial Supervisory Commission.

### 1. Change of the persons exercising control on the Company.

During the period 01.01.-30.06.2020 there was no change in the persons exercising control on the Company.

### 2. Initiation of insolvency proceedings for the Company or its subsidiary and all significant stages related to the proceedings.

During the period 01.01.-30.06.2020 no insolvency proceedings were initiated.





*3. Conclusion or execution of significant deals.*

During the period 01.01.-30.06.2020 no significant deals were concluded.

*4. Decisions on conclusion, termination and cancelation of any joint venture contracts.*

During the period 01.01.-30.06.2020 no joint venture contracts were concluded, terminated or cancelled.

*5. Change of the Company's auditors and reasons for the change.*

During the period 01.01.-30.06.2020 there was no change of the Company's auditor.

*6. Initiation or termination of any court or arbitration cases concerning liabilities or receivables of the Company or its subsidiary, with a claim value of at least 10 percent of the Company's equity.*

The court and arbitration cases are disclosed in item 4 of the Additional Information under Art. 33 para. 7 of Ordinance №2 of the Financial Supervisory Commission in the Interim Management Report.

*7. Shares purchase, sale or establishing of pledges in commercial companies by NEK EAD or its subsidiary.*

During the period from 01.01.2020 to 30.06.2020 no purchases or sales of shares were made and no pledges of shares were established.

This Interim Management Report was prepared on 29.07.2020 and was approved by the Board of Directors of Natsionalna Elektricheska Kompania EAD on 31.07.2020.

IVAN YONCHEV  
Executive Director  
Natsionalna Elektricheska Kompania EAD



**INDEPENDENT AUDITOR'S REPORT  
TO THE SOLE SHAREHOLDER OF  
NATSIONALNA ELEKTRICHESKA KOMPANIA EAD**

**Report on the Audit of the Interim Condensed Financial Statements**

**Qualified Opinion**

We have audited the interim condensed financial statements of NATSIONALNA ELEKTRICHESKA KOMPANIA EAD (the Company), which comprise the interim condensed statement of financial position as at 30 June 2020, and the interim condensed statement of profit or loss and other comprehensive income, interim condensed statement of changes in equity and interim condensed statement of cash flows for the period then ended, and selected explanatory notes and information to the interim condensed financial statements.

In our opinion, except for the possible effects of the matters from 1 to 3, described in the "Basis for Qualified Opinion" section of our report the accompanying interim condensed financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2020, and its financial performance and its cash flows for the period then ended in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union (EU).

**Basis for Qualified Opinion**

1. The Company has concluded an agreement for the construction of a nuclear power plant, disclosed in Note 6 *Property, plant and equipment* of the interim condensed financial statements. The Government of the Republic of Bulgaria decided to discontinue the construction of the nuclear power plant and pursuant to a Decision, dated 27 February 2013, the 41<sup>st</sup> National Assembly upheld this decision. In implementation of the decision of the National Assembly of June 7, 2018, the Government of the Republic of Bulgaria annulled the decision from 2012 to terminate the construction of the Belene Nuclear Power Plant in order to hold negotiations with potential investors and manufacturers of equipment.

As at 30 June 2020, the disclosed in Note 6 *Property, plant and equipment* from the financial statement include property, plant and equipment, related to nuclear power plant Belene with total carrying amount of BGN 2,373,622 thousand (31 December 2019: BGN 2,349,474 thousand), out of which BGN 2,298,484 thousand are assets under construction (31 December 2019: BGN 2,273,205 thousand). In accordance with its accounting policy, the Company has agreed to capitalize all costs directly attributable to the project, such as assets of property and plant and equipment under construction, until a final decision on the future of the project.

Pursuant to the resolutions of the National Assembly of June 7, 2018 and of the Council of Ministers of June 29, 2018, National Electric Company EAD issued an invitation for selection of strategic investor for the construction of Belene NPP. The invitation also gives the opportunity to declare interest in acquiring minority interest in the future project of the company, as well as / or to purchase electricity from the future power plant. As of the date of the interim condensed financial report, the Ministry of Energy has received confirmation letters for submission of binding offers with five



companies. Due to the current pandemic situation, the deadline for preparing binding offers has been postponed.

The Company is not able to reliably estimate the recognized assets related to the project and accordingly, in the financial statements as of June 30, 2020 no impairment loss was recognized, as well as provisions for possible future liabilities of the Company related to the construction of the Belene nuclear power plant. We were unable to obtain sufficient and appropriate audit evidence regarding the recoverable amount of the Company's assets listed above and the completeness of the recognized liabilities associated with this project, respectively, we were unable to determine whether any adjustments were required to these amounts and their effect on the financial statements as of June 30, 2020.

2. As disclosed in Note 6 *Property, plant and equipment* of the interim condensed financial statements, for assets under construction with carrying amount of BGN 38,022 thousand as at 30 June 2020 (31 December 2019: BGN 37,994 thousand) whose implementation has been discontinued by the Company 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 to the amount of these assets are necessary and their possible impairment as at 30 June 2020.

3. As disclosed in Note 13, *Trade and other liabilities to related parties*, of the interim condensed financial statements as of June 30, 2020, the Company has not recognized an obligation in relation to a commitment to a counterparty, according to the Agreement of 7 March 2016 to reimburse expenses in capital investment amounting to BGN 23,470 thousand. Due to the lack of a mechanism according to the effective at the date of preparation of the financial statements regulation on reimbursement of these expenses to NEK EAD, the Company has not recognized this liability at the reporting date. In 2019, the counterparty initiated arbitration proceedings against NEK EAD 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.

As a result, we were unable to obtain sufficient and appropriate audit evidence about the completeness of the recognized liabilities in the financial statements and related receivables as of June 30, 2020.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Interim Condensed Financial Statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements of the Independent Financial Audit Act (IFAA) applicable to our audit of the interim condensed financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.



### **Material Uncertainty Related to Going Concern**

We draw attention to Note 2 *Basis for preparation of financial statements* where the Company has disclosed that for the period ended at 30 June 2020, NEK EAD recognized net profit for the period amounting to BGN 52,084 thousand. The accumulated loss from previous years amounts to BGN 1,289,062 thousand and the current liabilities exceed the current assets by BGN 997,341 thousand. The current liabilities include current payables to the sole shareholder including overdue payables. For the period ending at 30 June 2020 the Company's financial performance does not meet the requirements of the creditor banks that have provided long-term loans to NEK EAD to maintain certain financial indicators for debt service and the ratio of current assets to current liabilities due to their deteriorated financial results and financial condition. The Company has breached liquidity for the reporting and the previous periods, is experiencing difficulties in repayment of obligations on loans to BEH EAD, as a significant part of them are overdue. These circumstances indicate material uncertainty that could raise significant doubt about Company ability to continue as a going concern without the sole shareholder support and other sources of financing. The sole shareholder has engagement to support NEK EAD in accordance with the Energy Law requirements and European legislation with main purpose: to achieve stable financial and business model of development in conditions of changing regulation framework and rules, for electricity trading which set out relationships on balancing market.

Our opinion is not modified in respect of this matter.

### **Emphasis of matter**

1. As of 30 June 2020 the Company utilizes property and equipment (Note 6 *Property, plant and equipment*) with a carrying amount of BGN 877,724 thousand, 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 presented amounts of *Property, plant and equipment* (Note 6), where land and buildings are included with carrying amounts of BGN 16,963 thousand as at 30 June 2020 and for which the Company does not have unconditional ownership rights and which are in pending procedure of issuing of titles of ownership.

Our opinion is not modified in respect of these matters.

### **Key audit matters**

Key audit matters are those issues that, in our professional judgment, have been of the highest importance in auditing the interim condensed financial statements for the current period. These matters are addressed as part of our audit of the interim condensed financial statements as a whole and the formation of our opinion on it, and we do not provide a separate opinion on these matters.

With the exception of the matters described in the Qualifying Basis section and the Significant Uncertainty related to the going concern assumption above, we have decided that there are no other key audit matters to communicate in our audit report.

**Information Other than the Interim Condensed Financial Statements and Auditor's Report Thereon**

Management is responsible for the other information. The other information, which we have obtained prior the date of our auditor's report, comprises the interim management report, prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the interim condensed financial statements and our auditor's report thereon.

Our opinion on the interim condensed financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

In connection with our audit of the interim condensed financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the interim condensed financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

As described in the "Basis for Qualified Opinion" section above, we were unable to obtain sufficient and appropriate audit evidence about the valuation of assets and liabilities, related to project NPP Belene, the valuation of other assets under construction with carrying amount of BGN 38,022 thousand, the completeness of the recognized liabilities and receivables related to expenses in capital investment amounting to BGN 23,470 thousand (matters from 1 to 3). Accordingly, we were unable to conclude whether or not the other information is materially misstated with regard to financial indexes and respective disclosures referring to these matters.

**Responsibilities of Management and Those Charged with Governance for the Interim Condensed Financial Statements**

Management is responsible for the preparation and fair presentation of the interim condensed financial statements in accordance with IAS 34 *Interim Financial Reporting*, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of interim condensed financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the interim condensed financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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



### **Auditor's Responsibilities for the Audit of the Interim Condensed Financial Statements**

Our objectives are to obtain reasonable assurance about whether the interim condensed financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these interim condensed financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the interim condensed financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the interim condensed financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the interim condensed financial statements, including the disclosures, and whether the interim condensed financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the interim condensed financial statements of the



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

## **Report on Other Legal and Regulatory Requirements**

### ***Additional Matters to be Reported under the Accountancy Act***

In addition to our responsibilities and reporting in accordance with ISAs, described above in the "Information Other than the Interim Condensed Financial Statements and Auditor's Report Thereon" section, in relation to the interim management report, we have also performed the procedures added to those required under ISAs in accordance with "Guidelines about new and expanded auditor's reports and communications from the auditor's side" of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming opinions about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act, applicable in Bulgaria.

*Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act*

Based on the procedures performed, our opinion is that:

- a) The information included in the interim management report referring to the period for which the interim condensed financial statements have been prepared is consistent with those interim condensed financial statements, on which we have expressed a qualified opinion in "Report on the Audit of the Interim Condensed Financial Statements" section above.
- b) The interim management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100(n), paragraph 4 (2) of the Public Offering of Securities Act.

**Audit firm**

**HLB BULGARIA OOD**

**Veronika Revalska**

**Manager**

**Registered auditor, responsible for the audit**



**06 August 2020**



## Condensed interim financial statements

|                                                             | Notes | 30 June 2020     | 31 December 2019 |
|-------------------------------------------------------------|-------|------------------|------------------|
|                                                             |       | BGN '000         | BGN '000         |
| <b>ASSETS</b>                                               |       |                  |                  |
| <b>Non-current assets</b>                                   |       |                  |                  |
| Property, plant and equipment                               | 6     | 4,822,702        | 4,813,919        |
| Intangible assets                                           | 5     | 1,729            | 1,846            |
| Investments in associates and joint ventures                | 7     | 57,894           | 57,894           |
| <b>Total non-current assets</b>                             |       | <b>4,882,325</b> | <b>4,873,659</b> |
| <b>Current assets</b>                                       |       |                  |                  |
| Inventories                                                 |       | 11,026           | 10,107           |
| Trade and other receivables                                 | 8     | 80,652           | 131,048          |
| Receivables from the Electricity System Security (ESS) Fund | 8     | 83,501           | 124,862          |
| Receivables from related parties                            | 9     | 11,120           | 31,636           |
| Advances and prepaid services                               |       | 10,068           | 18,826           |
| Cash                                                        |       | 85,205           | 28,032           |
| <b>Total current assets</b>                                 |       | <b>281,572</b>   | <b>344,511</b>   |
| <b>TOTAL ASSETS</b>                                         |       | <b>5,163,897</b> | <b>5,218,170</b> |

Date of preparation: 29 July 2020

These condensed interim financial statements were authorised for issue by the Board of Directors on 31 July 2020

Prepared by:  
Tatyana Dimitrova

Audit firm  
HLB Bulgaria OOD

Executive director:  
Ivan Yonchev



The notes on pages 7 to 34 are an integral part of these condensed interim financial statements.





## Condensed interim financial statements (continued)

|                                                                                   | Notes | 30 June 2020     | 31 December 2019 |
|-----------------------------------------------------------------------------------|-------|------------------|------------------|
|                                                                                   |       | BGN '000         | BGN '000         |
| <b>Equity and liabilities</b>                                                     |       |                  |                  |
| <b>Equity</b>                                                                     |       |                  |                  |
| Share capital                                                                     | 10    | 1,063,766        | 1,063,766        |
| Revaluation reserve of non-financial assets                                       |       | 1,358,468        | 1,358,776        |
| Reserve related to revaluation of defined benefit plans                           |       | (5,000)          | (5,081)          |
| Other reserves                                                                    |       | 63,491           | 63,491           |
| Accumulated loss / retained earnings                                              |       | (1,289,062)      | (1,288,110)      |
| Financial result of the current period                                            |       | 52,084           | (1,260)          |
| <b>Total equity</b>                                                               |       | <b>1,243,747</b> | <b>1,191,582</b> |
| <b>Liabilities</b>                                                                |       |                  |                  |
| <b>Non-current liabilities</b>                                                    |       |                  |                  |
| Liabilities under bank loans                                                      | 11    | 8,515            | 12,737           |
| Deferred financing                                                                |       | 22,830           | 17,449           |
| Retirement benefit liabilities                                                    |       | 11,933           | 11,782           |
| Provisions                                                                        |       | 103              | 103              |
| Long-term liabilities to related parties                                          | 13    | 1,499,771        | 1,577,484        |
| Other non-current liabilities                                                     |       | 398              | 276              |
| Liability to the Ministry of Energy under provided repayable financial assistance | 13    | 973,525          | 947,124          |
| Deferred tax liabilities                                                          |       | 124,162          | 125,884          |
| <b>Total non-current liabilities</b>                                              |       | <b>2,641,237</b> | <b>2,692,839</b> |
| <b>Current liabilities</b>                                                        |       |                  |                  |
| Liabilities under bank loans                                                      | 11    | 12,393           | 16,317           |
| Trade payables                                                                    | 12    | 131,555          | 173,192          |
| Liabilities to related parties                                                    | 13    | 1,101,165        | 1,094,328        |
| Liabilities on received advances and other prepayments                            |       | -                | 15               |
| Deferred financing                                                                |       | 684              | 725              |
| Retirement benefit liabilities                                                    |       | 1,317            | 1,512            |
| Provisions                                                                        |       | 7,923            | 3,260            |
| Other liabilities                                                                 |       | 23,876           | 44,400           |
| <b>Total current liabilities</b>                                                  |       | <b>1,278,913</b> | <b>1,333,749</b> |
| <b>Total liabilities</b>                                                          |       | <b>3,920,150</b> | <b>4,026,588</b> |
| <b>Total equity and liabilities</b>                                               |       | <b>5,163,897</b> | <b>5,218,170</b> |

Date of preparation: 29 July 2020

These condensed interim financial statements were authorised for issue by the Board of Directors on 31 July 2020

Prepared by:  
Tatyana Dimitrova

Executive director:  
Ivan Yonchev



The notes on pages 7 to 34 are an integral part of these condensed interim financial statements.





## Condensed interim statement of profit or loss and other comprehensive income

|                                                                      | Notes | for 6 months as at<br>30 June 2020<br>BGN '000 | for 6 months as at<br>30 June 2019<br>BGN '000 |
|----------------------------------------------------------------------|-------|------------------------------------------------|------------------------------------------------|
| Sales revenue                                                        | 14    | 773,483                                        | 661,250                                        |
| Revenue from the ESS Fund                                            |       | 491,795                                        | 741,952                                        |
| Other operating income/ revenue                                      | 15    | 3,671                                          | 4,062                                          |
|                                                                      |       | <b>1,268,949</b>                               | <b>1,407,264</b>                               |
| Electricity costs                                                    | 16    | (1,089,191)                                    | (1,205,193)                                    |
| Cost of materials                                                    | 17    | (2,616)                                        | (3,044)                                        |
| Hired services expenses                                              | 18    | (20,956)                                       | (19,934)                                       |
| Employee benefits expenses                                           |       | (42,358)                                       | (41,875)                                       |
| Depreciation expenses                                                | 5,6   | (28,278)                                       | (28,443)                                       |
| Reversed/accrued impairment of receivables from sales                |       | 475                                            | (1,280)                                        |
| Costs and recovery provisions                                        |       | (5,066)                                        | (37,292)                                       |
| Other revenue / corrective costs                                     |       | 22                                             | 371                                            |
| Other expenses                                                       | 19    | (3,220)                                        | (8,062)                                        |
| <b>Operating profit/ (loss)</b>                                      |       | <b>77,761</b>                                  | <b>62,512</b>                                  |
| Financial expenses                                                   |       | (67,717)                                       | (65,402)                                       |
| Dividend income from associates and joint ventures                   |       | 40,309                                         | 35,176                                         |
| <b>Profit/ (loss) before tax</b>                                     |       | <b>50,353</b>                                  | <b>32,286</b>                                  |
| Income tax revenues                                                  |       | 1,731                                          | 5,177                                          |
| <b>Net profit/ (loss) for the year</b>                               |       | <b>52,084</b>                                  | <b>37,463</b>                                  |
| <b>Other comprehensive income/ (loss)</b>                            |       |                                                |                                                |
| <b>Components not reclassified to profit or loss:</b>                |       |                                                |                                                |
| Revaluation of liabilities on defined benefit plans                  |       | 90                                             | (1,227)                                        |
| Income tax relating to components not reclassified to profit or loss |       | (9)                                            | 122                                            |
| <b>Other comprehensive income/ (loss) for the year, net of tax</b>   |       | <b>81</b>                                      | <b>(1,105)</b>                                 |
| <b>Total comprehensive income/ (loss) for the year</b>               |       | <b>52,165</b>                                  | <b>36,358</b>                                  |

Date of preparation: 29 July 2020

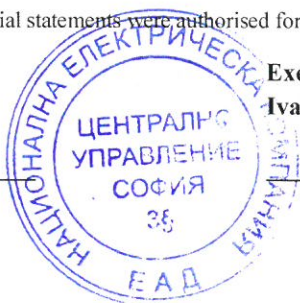
These condensed interim financial statements were authorised for issue by the Board of Directors on 31 July 2020

Prepared by:  
Tatyana Dimitrova

Executive director:  
Ivan Yonchev

Audit firm

HCB Bulgaria OOD



The notes on pages 7 to 34 are an integral part of these condensed interim financial statements.



## Condensed interim statement of changes in equity

|                                                                  | Share capital | Revaluation reserve of non-financial assets | Reserve of revaluations on defined benefit plans | Other reserves | Accumulated loss | Total equity |
|------------------------------------------------------------------|---------------|---------------------------------------------|--------------------------------------------------|----------------|------------------|--------------|
|                                                                  | BGN '000      | BGN '000                                    | BGN '000                                         | BGN '000       | BGN '000         | '000 BGN     |
| <b>Balance as at 1 January 2020</b>                              | 1,063,766     | 1,358,776                                   | (5,081)                                          | 63,491         | (1,289,370)      | 1,191,582    |
| Profit for the year                                              | -             | -                                           | -                                                | -              | 52,084           | 52,084       |
| Other comprehensive income                                       | -             | -                                           | 81                                               | -              | -                | 81           |
| <b>Total comprehensive income for the year</b>                   | -             | -                                           | 81                                               | -              | 52,084           | 52,165       |
| Revaluation reserve of property, plant and equipment written off | -             | (308)                                       | -                                                | -              | 308              | -            |
| <b>Balance as at 30 June 2020</b>                                | 1,063,766     | 1,358,468                                   | (5,000)                                          | 63,491         | (1,236,978)      | 1,243,747    |

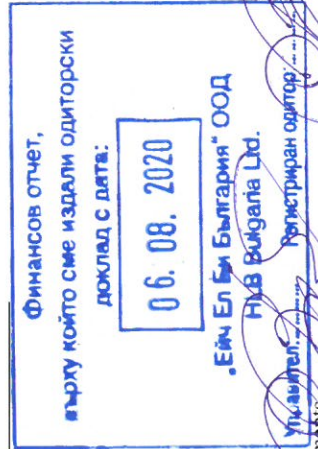
Date of preparation: 29 July 2020

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Prepared by:  
Tatyana Dimitrova

Executive director:  
Ivan Yonchev

Audit firm



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## Condensed interim statement of changes in equity (continued)

|                                                                  | Share capital | Revaluation reserve of non-financial assets | Reserve of revaluations on defined benefit plans | Other reserves | Accumulated loss | Total equity |
|------------------------------------------------------------------|---------------|---------------------------------------------|--------------------------------------------------|----------------|------------------|--------------|
|                                                                  | BGN '000      | BGN '000                                    | BGN '000                                         | BGN '000       | BGN '000         | BGN '000     |
| <b>Balance as at 1 January 2019</b>                              | 1,063,766     | 1,360,553                                   | (3,290)                                          | 63,491         | (1,289,887)      | 1,194,633    |
| Financial result for the period                                  | -             | -                                           | -                                                | -              | 37,463           | 37,463       |
| Other comprehensive income                                       | -             | -                                           | (1,105)                                          | -              | -                | (1,105)      |
| <b>Total comprehensive income for the year</b>                   | -             | -                                           | (1,105)                                          | -              | 37,463           | 36,358       |
| Revaluation reserve of property, plant and equipment written off | -             | (45)                                        | -                                                | -              | 45               | -            |
| <b>Balance as at 30 June 2019</b>                                | 1,063,766     | 1,360,508                                   | (4,395)                                          | 63,491         | (1,252,379)      | 1,230,991    |

Date of preparation: 29 July 2020

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Prepared by:

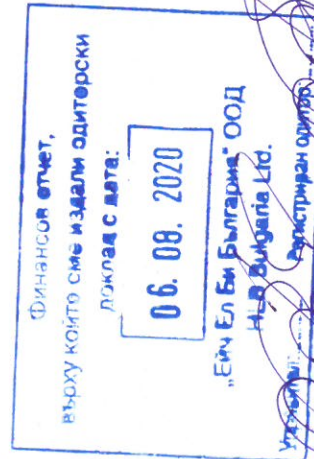
Tatyana Dimitrova

Audit firm



Executive director:

Ivan Yonchev



The notes on pages 7 to 34 are an integral part of these condensed interim financial statements.





## Condensed interim statement of cash flows

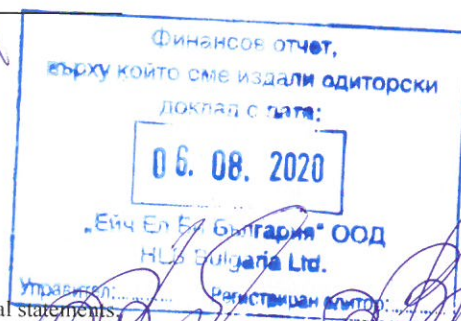
|                                                                                                | Notes | for 6 months as at<br>30 June 2020<br>BGN '000 | for 6 months as at<br>30 June 2019<br>BGN '000 |
|------------------------------------------------------------------------------------------------|-------|------------------------------------------------|------------------------------------------------|
| <b>Cash flows from operating activities</b>                                                    |       |                                                |                                                |
| <i>Proceeds from sales, including:</i>                                                         |       | 1,495,142                                      | 1,241,094                                      |
| <b>Proceeds from sales of electricity, including:</b>                                          |       | <b>960,373</b>                                 | <b>668,246</b>                                 |
| Electricity clients – electricity distribution companies                                       |       | 863,449                                        | 536,648                                        |
| Electricity clients – electricity sales to clients in the non-regulated market and from export |       | 46,453                                         | 83,359                                         |
| Other clients                                                                                  |       | 50,471                                         | 48,239                                         |
| <b>Proceeds from other sales</b>                                                               |       | <b>1,573</b>                                   | <b>3,827</b>                                   |
| <b>Proceeds from the Security of Electricity System Fund</b>                                   |       | <b>533,196</b>                                 | <b>569,021</b>                                 |
| <i>Cash payments to suppliers and employees, including:</i>                                    |       | (1,444,840)                                    | (1,274,929)                                    |
| Cash payments to suppliers of electricity                                                      |       | (1,393,222)                                    | (1,227,464)                                    |
| Cash payments to other suppliers                                                               |       | (11,593)                                       | (13,839)                                       |
| Cash payments to employees                                                                     |       | (40,025)                                       | (33,626)                                       |
| <i>Cash from operating activities</i>                                                          |       | <b>50,302</b>                                  | <b>(33,835)</b>                                |
| Interest received                                                                              |       |                                                | 2                                              |
| Net amount from changes in exchange rates                                                      |       | (1)                                            | -                                              |
| Payments of charges, commissions, etc.                                                         |       | (11)                                           | (10)                                           |
| <i>Net amount of other payments, including:</i>                                                |       | 37,456                                         | 64,744                                         |
| Reimbursed taxes and social security contributions                                             |       | 61,937                                         | 87,296                                         |
| Other payments from operating activities                                                       |       | (24,481)                                       | (22,552)                                       |
| <i>Net cash flows from operating activities</i>                                                |       | <b>87,746</b>                                  | <b>30,901</b>                                  |
| <b>Cash flows from investing activities</b>                                                    |       |                                                |                                                |
| Acquisition of property, plant and equipment                                                   |       | (10,129)                                       | (5,544)                                        |
| Proceeds from sales of property, plant and equipment                                           |       |                                                | 655                                            |
| Dividends received                                                                             |       | 7,863                                          | 5,031                                          |
| <i>Net cash flows from investing activities</i>                                                |       | <b>(2,266)</b>                                 | <b>142</b>                                     |
| <b>Cash flows from financing activities</b>                                                    |       |                                                |                                                |
| Repayment of loan commitments                                                                  |       | (8,337)                                        | (8,337)                                        |
| Interest paid                                                                                  |       | (672)                                          | (1,252)                                        |
| Repayment of liabilities to BEH EAD                                                            |       | (19,227)                                       | (19,227)                                       |
| <i>Net cash flows from financing activities</i>                                                |       | <b>(28,236)</b>                                | <b>(28,816)</b>                                |
| <i>Net increase in cash</i>                                                                    |       | <b>57,244</b>                                  | <b>2,227</b>                                   |
| <b>Cash and cash equivalents at beginning of year, gross</b>                                   |       | <b>28,032</b>                                  | <b>33,093</b>                                  |
| <b>Cash and cash equivalents at the end of the period, gross</b>                               |       | <b>85,276</b>                                  | <b>35,320</b>                                  |
| Effect of expected credit losses                                                               |       | (71)                                           | (48)                                           |
| <b>Cash and cash equivalents at the end of the period, net</b>                                 |       | <b>85,205</b>                                  | <b>35,272</b>                                  |

Date of preparation: 29 July 2020

These condensed interim financial statements were authorised for issue by the Board of Directors on 31 July 2020

Prepared by:  
Tatyana Dimitrova

Executive director:  
Ivan Yonchev



The notes on pages 7 to 34 are an integral part of these condensed interim financial statements.



## Notes to the Condensed Interim Financial Statements

### 1. Reporting entity

Natsionalna Elektricheska Kompania EAD (NEK EAD, the Company) is a company domiciled in Bulgaria, having its registered address at 5, Veslets Street, Sofia, and incorporated as a sole-owner joint-stock company, 100% owned by the State. Until 17 September 2008, the rights of the sole owner of the capital were exercised by the Minister of Economy and Energy. On 18 September 2008, Bulgarian Energy Holding EAD (BEH) was incorporated and the investment of the State in NEK EAD was transferred as in-kind contribution into its capital. Since then NEK EAD has been a subsidiary of Bulgarian Energy Holding EAD which is the Company's sole owner of the capital. The sole owner of BEH EAD is the Bulgarian State through the Minister of Energy.

The managing bodies of NEK EAD are the sole owner of the capital and a three-member Board of Directors.

The Company is represented by Ivan Yonchev as Executive Director.

The main activities of the Company include:

- Production of electricity;
- Centralized purchase and sale of electricity;
- Supply of electricity to customers connected to the transmission network;
- Import and export of electricity;
- Construction and maintenance of power generation facilities;
- Investment activities;
- Implementation and promotion of energy efficiency in the generation of electricity.

### 2. Basis of preparation

These condensed interim financial statements for the six months ended 30 June 2020 have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all the information required for a complete set of IFRS financial statements and are to be read in conjunction with the Company's annual financial statements as at and for the year ended 31 December 2019, prepared in compliance with the International Financial Reporting Standards (IFRS), developed and published by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU).

These Condensed Interim Financial Statements are presented in Bulgarian Lev (BGN), which is the Company's functional currency. Unless otherwise stated, all amounts (including 2019 comparative information) have been rounded to the nearest thousand (BGN '000).

The condensed interim financial statements are prepared on a going concern basis.

As of the date of preparation of these condensed interim financial statements, the management applied its judgment on the basis of information available about the foreseeable future in determining the ability of the Company to continue as a going concern. As a result of the assessment, the Board of Directors judges that the Company has sufficient resources to carry out its operations in the near future, and continues to prepare its condensed interim financial statements on a going concern basis.

The Company reported a profit before tax of BGN 50,353 thousand and net profit of BGN 52,084 thousand for the period ended 30 June 2020 (6 months of 2019: BGN 32,286 thousand as profit before tax and BGN 37,463 thousand as net profit for the period, respectively).

For the current 6-month period, the Company reported an operating profit of BGN 77,761 thousand and positive cash flows from operating activities of BGN 87,746 thousand. Accumulated losses (uncovered loss) from prior periods amounted to BGN 1,289,062 thousand and current liabilities exceed current assets by BGN 997,341 thousand (at 31 December 2019: BGN 989,238 thousand). As at 30 June 2020, the current liabilities to the sole owner of the capital amounted to BGN 1,045,678 thousand, including arrears of BGN 866,400 thousand.





For the period ended 30 June 2019, owing to its deteriorating financial performance and position, the Company's financial indicators have been failing to satisfy the financial covenants, *i.e.* debt service coverage and liquidity ratio, as agreed with its long-term lenders

The above circumstances reveal a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern without support from the owner and other financing sources. The sole owner of the capital is committed to supporting NEK EAD in accordance with the requirements of the Energy Act and the European legislation with the objective of setting up a sustainable financial and business growth model in a changing regulatory environment and market rules governing the relations on the balancing market.

The management judges that with the financial support provided by the sole owner, the Company will be able to continue its operations and settle its obligations in the ordinary course of business, without disposing of assets or making any material change in its operating activities.

### 3. Accounting policies

The Company has not made amendments to its accounting policies by adopting all new and/or revised IFRS effective in respect of the current reporting period, beginning on 1 January 2020, since over the period there have not been assets or operations affected by changes and amendments in IFRS. As at the date of approval for issue of these condensed interim financial statements, the amendments and improvements made to the effective standards are described in Note 3.1.

#### 3.1. New standards, amendments and interpretations to existing IFRS which have become effective as from 1 January 2020

In preparing these condensed interim financial statements, the Company applies the same accounting policies as in its most recent annual financial statements as at 31 December 2019, with the exception of applying the following new standards, amendments and interpretations to IFRS which are mandatory for the period beginning on 1 January 2020.

- Changes in the Conceptual Financial Reporting Framework - (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IFRS 3 Business Combinations (issued 22 October 2018), effective for annual periods beginning on or after 1 January 2020.
- Amendments to IAS 1 and IAS 8: Definition of Material (issued 31 October 2018), effective for annual periods beginning on or after 1 January 2020.
- Amended standards – amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments and IFRS 7 Financial Instruments: Disclosures - Interest Rate Benchmark Reform (issued 26 September 2019), effective for annual periods beginning on or after 1 January 2020.

#### 3.2. Standards and interpretations issued by IASB that have not yet come into effect and are not applied by the Company as of an earlier date

As at the date of approval for issue of these condensed interim financial statements, the following new standards, amendments and interpretations to existing Standards were published, but are not yet effective or adopted by the EU for annual periods beginning on 1 January 2020, and have not been adopted by the Company as of an earlier date. They are not expected to have a material effect on financial statements of the Company. The management expects all standards and amendments will be implemented in the Company's accounting policy in the first period beginning after their adoption date.

These changes concern the following standards:

- IFRS 17 Insurance Contracts (issued 18 May 2017) (effective for annual periods beginning on or after 1 January 2021).
- Amendments to IAS 1 Presentation of Financial Statements – current and non-current classification of liabilities (issued 23 January 2020), effective for annual periods beginning on or after 1 January 2022.





### **3.3. Changes in judgements, estimates and assumptions**

In preparing these condensed interim financial statements, the management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense.

Actual results may differ from these estimates, and only in rare cases they can tally with the estimated results.

The significant judgements made by the management in applying the Company's accounting policies and the major sources of estimation uncertainty were the same as those described in the Company's annual financial statements for the year ended 31 December 2019.

For the presentation of these condensed interim financial statements, the Company recognised and measured the expected credit loss on debt instruments measured at amortized cost, the Company did not conduct a test for impairment of property, plant and equipment, of trade and other receivables, write-down of inventories to net realisable value.

### **3.4. Management of the risk from the use of financial instruments**

The Company has exposure to the following risks from its use of financial instruments: market risk; credit risk; and liquidity risk.

The condensed interim financial statements do not include complete information on the risk management and disclosures required to be set out under the annual financial statements and are to be read in conjunction with the Company's annual financial statements as at 31 December 2019. No changes occurred in respect of the risk management policy resulting from the use of financial instruments over the period.

## **4. Significant events and transactions**

Changes in the regulatory framework and legislation until 30 June 2020

On 21 May 2019 certain provisions of the Energy Act were reamended affecting the operation of NEK EAD that took effect on 1 July 2019. These are the following:

NEK remains to be a single buyer only in relation to RES and HECHP producers at preferential prices and operating installed capacities of less than 1 MW, longterm power purchase agreements with AES Maritsa East 1 TPP and ContourGlobal Maritsa East 3 TPP, and producers with a percentage of availability determined by the EWRC for the regulated market;

RES and HECHP producers operating installed capacities of 1 MW and above under the preferential pricing mechanism shall, as from 1 July 2019, sell their electricity on the non-regulated market, and for any price differences, they will apply for compensation to the ESS Fund. For the RES producers, a standstill period until 30 September 2019 is provided. Until then, parties to the relevant contracts remain to be the end suppliers and the Public Provider, and for any price differences, NEK EAD applies for compensation to the ESS Fund;

As from 1 July 2018, the Electricity System Security Fund (ESS Fund) has become an administrator of the public service obligation price support mechanism.

The ESS Fund will have an essential role in the operation of the electricity system of the country by compensating costs incurred by RES and HECHP producers, NEK EAD and beneficiaries under the Ordinance No E-ПД-04-06/28.09.2016 on reduction of the burden related to RES costs. To this effect the Fund will generate revenue from sales of carbon emissions by the state, collection of a 5% fee from electricity producers and on imports, from ESO EAD and Bulgartransgas, and from the public service obligation price. For the normal functioning of the Fund, traders and producers need to provide bank guarantees or deposits;

The Energy and Water Regulatory Commission has the right to collect further data that will enable effective monitoring and compliance investigations in respect of the obligations under the REMIT regulation.

As from 1 July 2019, for its hydro generation NEK EAD will pay an access fee to ESO EAD.

The transition to the free market of the two entities with longterm PPAs (AES Maritsa East 1 TPP and ContourGlobal Maritsa East 3 TPP) depends on the outcome of the legal proceedings with the European Commission, so they will be treated separately. So far the Government of Bulgaria has announced publicly its support and desire to push forward the process.



## 5. Intangible assets

Intangible assets include licenses, software and other right of use assets. Intangible assets are measured at acquisition cost, less all accumulated amortization and accumulated impairment losses. The carrying amounts for the reporting periods are as follows:

| For 6 months as at 30 June 2020   | Licenses | Software | Others   | Total    |
|-----------------------------------|----------|----------|----------|----------|
|                                   | BGN '000 | BGN '000 | BGN '000 | BGN '000 |
| <b>Book value</b>                 |          |          |          |          |
| Book value as at 1 January 2020   | 2,723    | 17,886   | 15,067   | 35,676   |
| Acquired                          |          | 27       |          | 27       |
| Book value as at 30 June 2020     | 2,723    | 17,913   | 15,067   | 35,703   |
| <b>Depreciation</b>               |          |          |          |          |
| Depreciation as at 1 January 2020 | 2,580    | 17,829   | 13,421   | 33,830   |
| Accrued                           | 36       | 20       | 88       | 144      |
| Depreciation as at 30 June 2020   | 2,616    | 17,849   | 13,509   | 33,974   |
| <b>Carrying value</b>             |          |          |          |          |
| As at 30 June 2020                | 107      | 64       | 1,558    | 1,729    |

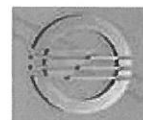
| For the year as at 31 December 2019 | Licenses | Software | Others   | Total    |
|-------------------------------------|----------|----------|----------|----------|
|                                     | BGN '000 | BGN '000 | BGN '000 | BGN '000 |
| <b>Book value</b>                   |          |          |          |          |
| Book value as at 1 January 2019     | 3,611    | 19,866   | 15,038   | 38,515   |
| Acquired                            | 26       | -        | 29       | 55       |
| Written off                         | (914)    | (1,980)  | -        | (2,894)  |
| Book value as at 31 December 2019   | 2,723    | 17,886   | 15,067   | 35,676   |
| <b>Depreciation</b>                 |          |          |          |          |
| Depreciation as at 1 January 2019   | 3,426    | 19,697   | 13,248   | 36,371   |
| Accrued                             | 68       | 112      | 173      | 353      |
| Written off                         | (914)    | (1,980)  | -        | (2,894)  |
| Depreciation as at 31 December 2019 | 2,580    | 17,829   | 13,421   | 33,830   |
| <b>Carrying value</b>               |          |          |          |          |
| As at 31 December 2019              | 143      | 57       | 1,646    | 1,846    |

## 6. Property, plant and equipment

The property, plant and equipment of the Company include land and buildings, plant and equipment, motor vehicles and other assets, assets under construction.

Property, plant and equipment, measured under the revaluation model, are subsequently carried at revalued amount, except for motor vehicles, automobiles, fixtures and fittings and other assets carried at acquisition cost reduced by depreciation costs and accumulated impairment losses.

The carrying amount is analysed as follows:



| For 6 months as at 30 June 2020             | Land and buildings | Plant and equipment | Vehicles | Others   | Assets under construction | Total     |
|---------------------------------------------|--------------------|---------------------|----------|----------|---------------------------|-----------|
|                                             | BGN '000           | BGN '000            | BGN '000 | BGN '000 | BGN '000                  | BGN '000  |
| <b>Book value:</b>                          |                    |                     |          |          |                           |           |
| As at 1 January 2020                        | 184,147            | 2,419,054           | 7,963    | 11,360   | 2,364,064                 | 4,986,588 |
| Acquired                                    |                    |                     |          |          | 38,068                    | 38,068    |
| Transfers by group and in intangible assets | 20                 | 494                 | 16       | 46       | (603)                     | (27)      |
| Written-off                                 |                    |                     |          | (35)     | (1,124)                   | (1,159)   |
| As at 30 June 2020                          | 184,167            | 2,419,548           | 7,979    | 11,371   | 2,400,405                 | 5,023,470 |
| <b>Depreciation:</b>                        |                    |                     |          |          |                           |           |
| As at 1 January 2020                        | 5,051              | 150,727             | 6,302    | 10,589   | -                         | 172,669   |
| Depreciation accrued for the period         | 1,660              | 26,105              | 283      | 86       |                           | 28,134    |
| Depreciation written off                    |                    |                     |          | (35)     |                           | (35)      |
| As at 30 June 2020                          | 6,711              | 176,832             | 6,585    | 10,640   | -                         | 200,768   |
| <b>Carrying value:</b>                      |                    |                     |          |          |                           |           |
| As at 30 June 2020                          | 177,456            | 2,242,716           | 1,394    | 731      | 2,400,405                 | 4,822,702 |

| For the year as at 31 December 2019         | Land and buildings | Plant and equipment | Vehicles | Others   | Assets under construction | Total     |
|---------------------------------------------|--------------------|---------------------|----------|----------|---------------------------|-----------|
|                                             | BGN '000           | BGN '000            | BGN '000 | BGN '000 | BGN '000                  | BGN '000  |
| <b>Book value:</b>                          |                    |                     |          |          |                           |           |
| As at 1 January 2019                        | 183,847            | 2,417,261           | 7,246    | 11,392   | 2,306,325                 | 4,926,071 |
| Acquired                                    |                    |                     |          |          | 62,589                    | 62,589    |
| Transfers by group and in intangible assets | 310                | 3,387               | 981      | 117      | (4,850)                   | (55)      |
| Written-off                                 | (16)               | (1,594)             | (264)    | (149)    |                           | (2,023)   |
| Depreciation written off in revaluation     | 6                  |                     |          |          |                           | 6         |
| As at 31 December 2019                      | 184,147            | 2,419,054           | 7,963    | 11,360   | 2,364,064                 | 4,986,588 |
| <b>Depreciation:</b>                        |                    |                     |          |          |                           |           |
| As at 1 January 2019                        | 1,740              | 99,909              | 5,946    | 10,562   | -                         | 118,157   |
| Depreciation accrued for the period         | 3,312              | 52,411              | 620      | 175      |                           | 56,518    |
| Depreciation written off                    | (1)                | (1,593)             | (264)    | (148)    |                           | (2,006)   |
| As at 31 December 2019                      | 5,051              | 150,727             | 6,302    | 10,589   | -                         | 172,669   |
| <b>Carrying value:</b>                      |                    |                     |          |          |                           |           |
| As at 31 December 2019                      | 179,096            | 2,268,327           | 1,661    | 771      | 2,364,064                 | 4,813,919 |

Pursuant to the accounting policy, property, plant and equipment are revalued every three years or in shorter intervals. Pursuant to the requirements of IAS 16, IAS 36 and IFRS 13, and the Bulgarian revaluation standards, fair value measurements were made as at 31 December 2018. The revaluation was based on their fair values and carried out by external certified valuers. Impairment testing was carried out in accordance with IAS 36.

For the revaluation, a combination of the three broad approaches is used to measure the fair value of the separate categories of property, plant and equipment, based on the economic principles of equilibrium of prices, expected benefits or replacement.

- Market approach – the indicative value of the asset subject to evaluation is established in comparison to identical or similar assets for which there is observable information about prices.





-Income approach – the indicative value is established by converting future cash flows to a single capital value, i.e. the economic benefit that the asset will generate during its service life and this economic benefit is capitalized.

-Cost approach – the indicative value is established based on the economic principle that a buyer would not pay for an asset a higher price than the acquisition cost of an asset of equivalent usefulness, whether through purchase or construction at the measurement date.

-Cost approach – the indicative value is established based on the economic principle that a buyer would not pay for an asset a higher price than the acquisition cost of an asset of equivalent usefulness, whether through purchase or construction at the measurement date.

Pursuant to the accounting policy, for the fair value measurement, a maximum 5 % threshold of materiality is applied in respect of the difference between the carrying amount and the fair value. For material is considered to be a difference below 5%, if the cumulative effect is material for the purposes of preparing the financial statements.

At 30 June 2020, the revalued amounts refer to revaluation reserves before tax in the amount of BGN 1,509,409 thousand (31 December 2019: BGN 1,509,752 thousand), not subject to distribution to the owners of the company.

#### *Assets under construction*

Assets under construction comprise the following investment costs.

Assets under construction comprise mainly expenses incurred in relation to the construction of Belene NPP, Gorna Arda hydropower cascade, Yadenitsa hydropower scheme and some other projects.

| Site               | 30 June 2020     | 31 December 2019 |
|--------------------|------------------|------------------|
|                    | BGN '000         | BGN '000         |
| Belene NPP project | 2,298,484        | 2,273,205        |
| Yadenitsa project  | 42,629           | 42,482           |
| Gorna Arda Cascade | 24,513           | 24,513           |
| Mesta Cascade      | 7,118            | 7,118            |
| Other sites        | 27,661           | 16,746           |
| <b>Total</b>       | <b>2,400,405</b> | <b>2,364,064</b> |

Assets under construction comprise mainly project-related costs amounting to BGN 38,022 thousand. Because of the deteriorating financial position of NEK EAD, in recent years, its management does not plan to provide financing for them (i.e. for Gorna Arda hydropower cascade, Mesta project and some other smaller projects) and they are not budgeted in the CAPEX plan for the next 5-year period.

#### *Belene Nuclear Power Project*

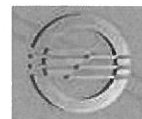
Construction works under the Belene nuclear power project started in 1981, and in 1991, the financing of the project ceased.

In May 2004, the Government of the Republic of Bulgaria took a decision to restart the construction of the second nuclear power plant Belene and on 7 April 2005, pursuant to the provisions of Art. 45 of the Act on the Safe Use of Nuclear Energy, issued a final decision to implement the Belene nuclear power project

On 30 October 2006, NEK EAD awarded the EPC contract to Atomstroyexport with variant A92 for the construction of 2x1000 MW pressurized water reactor units at the Belene site.

On 29 November 2006 in Sofia, Atomstroyexport JSC and NEK EAD signed an Agreement for the construction of Belene NPP.

On 29 March 2012, the Government of the Republic of Bulgaria made a decision to terminate the project for construction of a nuclear power facility at the Belene site. Pursuant to its decision of 27 February 2013, the 41<sup>st</sup> National Assembly supported the Government's decision not to continue further with the project for construction of a new nuclear power plant at the Belene site and strongly recommended its final termination.



On 14 June 2016, the Arbitral Tribunal to the International Chamber of Commerce, Paris, issued its award whereunder NEK EAD was ordered to pay to ASE the amount of BGN 1,176,661 thousand (EUR 601,617 thousand).

On 7 June 2018, the National Assembly decided to resume the efforts to seek possibilities of delivering the Belene Nuclear Power Project jointly with a strategic investor, on a market-based approach and without government guarantees, by separating all Belene-related assets and liabilities into a project company.

The Council of Ministers annulled Decision No. 250 of 2012 revoking Decision No. 259/2005 on the termination of the development of a nuclear power plant at the Belene site and the recognition of Belene NPP site as nationally significant project, and CoM Decision No. 260/2005 on the construction of a nuclear power plant at the Belene site.

In pursuance of a Decision of the National Assembly of the Republic of Bulgaria of 7 June 2018 and a Decision of the Council of Ministers of the Republic of Bulgaria of 29 June 2018, Natsionalna Elektricheska Kompania EAD issued an invitation for strategic investors in the Belene NPP project. The invitation provides for the option of expressing interest in acquiring a minority shareholding in the future project company and/or entering into an offtake agreement. The purpose of the Invitation is solely to provide certain information to parties which wish to express their interest to participate in the procedure

By the closing date, thirteen candidates submitted their applications.

Pursuant to the procedure for selection of a strategic investor for the implementation of the Belene NPP project, the Ministry of Energy issued letters to the five shortlisted companies to confirm submission of binding offers and further participation in the procedure.

By the closing date, 31 January 2020, letters of confirmation for submission of binding offers were received from all five companies.

The indicative date for the submission of binding offers, originally 31 May 2020, will, due to the current pandemic situation in the country, start to run from the date when physical access to the Data Room at NEK EAD is provided to the candidates.

An Information Memorandum was provided to all shortlisted potential candidates. These are the China National Nuclear Corporation (CNNC), Atomenergoprom AD, part of Rosatom, Korea Hydro & Nuclear Power Corporation, Framatom SAS (France), and General Electric (USA).

The Memorandum contains baseline information about the project, information concerning the legal and regulatory framework in the country, including an overview of the market situation in the region. Its disclosure to the candidates occurred following their signing of a confidentiality agreement in April. It is binding upon both the invited parties and their respective advisors, consultants, lenders, agents and others.

In view of the continued Corona Virus related measures taken in many countries, the IM was provided online. The intention of the Bulgarian party is to create optimum conditions for the candidates to prepare their binding offers under the state of emergency.

As at 30 June 2020, the amount of Belene-related project costs included in the balance of assets under construction was BGN 2,298,484 thousand. (31.12.2019: BGN 2,273,205 thousand), additional Belene-related land, plant and equipment have a carrying amount of BGN 75,138 thousand (31.12.2019: BGN 76,269 thousand).

For the period at 30 June 2020, the change in the project cost capitalization for customs duties and other fees related to the delivered equipment, storage costs, and capitalized interest was BGN 25,279 thousand

At 30 June 2020, the Company cannot make a reliable assessment of the recoverable amount of costs carried in the cost of property, plant and equipment under construction due to the specific character of the project and the lack of clarity with regard to the future implementation of the project that is not wholly within the control of the management of the Company.

Based on the aforesaid, NEK's management considers that as at 30 June 2020, a significant uncertainty exists as to the future implementation of the project, i.e. the recoverable amount of its assets.



As at 30 June 2020, the property, plant and equipment of the Company include assets with a carrying amount of BGN 877,724 thousand (31 December 2019: BGN 892,867 thousand), which are declared public state property according to the Water Act. Pursuant to that Act, legal entities with 100 % State participation or legal entities with combined State and municipal participation, wherein the majority stake belongs to the State or commercial entities the capital of which is owned by other entities with state participation, should manage separately such kind of assets. NEK EAD, through its business unit Dams and Cascades, operates and maintains its multipurpose and significant dams as prescribed under & 31 of T&FP to AASWA (SG issue 58/2015). Pursuant to that Act, the O&M duties in respect of these sites and facilities are to be performed by a "Dam Operator", which duty was not imposed on the Company by the relevant authority as of date of these Financial Statements. As at the date of these Financial Statements, no regulatory changes occurred with regard to the future ownership and operation of these assets.

Until deciding on future changes in the above-mentioned water management systems, NEK EAD will operate them and will generate income accordingly.

#### *Assets with disputed ownership*

As at 30 June 2020, assets (land and buildings) with a carrying amount of BGN 16,963 thousand (31.12.2019: BGN 17,097 thousand) are under procedure for issuing of deeds for state ownership.

#### *Collateral on loans*

Land and buildings of Studen Kladenets HPP, Ivaylovgrad HPP and Kardjali HPP (Dolna Arda Cascade) with a carrying amount of BGN 16,500 thousand (2019: BGN 16,752 thousand) have been pledged as collateral on the export and commercial loans from ING Bank N.V. – the Netherlands. All present and future assets, including plant and equipment, part of Dolna Arda Cascade, have been pledged in favour of ING Bank N.V. Promissory notes were issued in favour of the Bank.

To secure the commercial loan contracts signed with Bank Austria Creditanstalt, assets of Tsankov Kamak HPP, with a carrying amount of BGN 98,147 thousand (2019: BGN 99,189 thousand) have been pledged. All present and future equipment acquired by NEK EAD for the construction and operation of the hydro power plant, diversion channel, penstock, water catchment facility, lower watercourse and the other equipment belonging to Tsankov Kamak HPP, have been pledged in favour of the lending banks to the project. Going concern pledge on Tsankov Kamak HPP has been created, a promissory note was issued in favour of the Bank.

## 7. Investments in associates and joint ventures

|                                                     | State    | 30 June 2020 |                    | 31 December 2019 |                    |
|-----------------------------------------------------|----------|--------------|--------------------|------------------|--------------------|
|                                                     |          | Share        | Investment<br>cost | Share            | Investment<br>cost |
|                                                     |          |              |                    |                  |                    |
|                                                     |          |              |                    |                  |                    |
| <i>Associates and joint ventures</i>                |          |              |                    |                  |                    |
| ContourGlobal Maritsa East 3 AD                     | Bulgaria | 27%          | 55,289             | 27%              | 55,289             |
| Contour Operations Bulgaria AD                      | Bulgaria | 27%          | 14                 | 27%              | 14                 |
| ZAD Energy                                          | Bulgaria | 42%          | 1,512              | 42%              | 1,512              |
| POD Allianz Bulgaria AD                             | Bulgaria | 34%          | 1,020              | 34%              | 1,020              |
| HEC Gorna Arda AD                                   | Bulgaria | 24%          | -                  | 24%              | -                  |
| Transbalkan Electric Power Trading S.A. – NECO S.A. | Greece   | 50%          | 59                 | 50%              | 59                 |
|                                                     |          |              | 57,894             |                  | 57,894             |





*Dividend income from associates and joint ventures*

|                                      | 30 June 2020  | 30 June 2019  |
|--------------------------------------|---------------|---------------|
|                                      | '000 BGN      | '000 BGN      |
| ContourGlobal Maritsa East 3 AD      | 31,050        | 24,840        |
| ZAD Energy                           | 2,294         | 3,982         |
| POD Allianz Bulgaria AD              | 5,569         | 5,031         |
| ContourGlobal Operations Bulgaria AD | 1,396         | 1,323         |
|                                      | <b>40,309</b> | <b>35,176</b> |

**8. Trade and other receivables**

|                                                                      | 30 June 2020  | 31 December 2019 |
|----------------------------------------------------------------------|---------------|------------------|
|                                                                      | BGN '000      | BGN '000         |
| <b>Non-current</b>                                                   |               |                  |
| Trade and other receivables, gross amount                            | 194,740       | 194,740          |
| Accumulated impairment of trade receivables                          | (194,740)     | (194,740)        |
| <b>Trade and other receivables, net amount – non-current part</b>    | <b>-</b>      | <b>-</b>         |
| <b>Current</b>                                                       |               |                  |
| Gross receivables from electricity customers                         | 108,835       | 162,662          |
| Impairment of receivables from customers for electricity             | (45,233)      | (45,517)         |
| <b>Receivables from customers for electricity, net of impairment</b> | <b>63,602</b> | <b>117,145</b>   |
| Gross receivables from customers, other sales                        | 1,297         | 557              |
| Impairment of receivables from customers, other sales                | (416)         | (78)             |
| <b>Net receivables from customers, other sales</b>                   | <b>881</b>    | <b>479</b>       |
| Court and awarded receivables, book value                            | 38,510        | 33,961           |
| Impairment of court and awarded receivables                          | (32,998)      | (32,894)         |
| <b>Court and awarded receivables, net of impairment</b>              | <b>5,512</b>  | <b>1,067</b>     |
| Other receivables, gross                                             | 13,567        | 13,608           |
| Impairment of other receivables                                      | (13,322)      | (13,322)         |
| <b>Other receivables, net of impairment</b>                          | <b>245</b>    | <b>286</b>       |
| <b>Financial assets</b>                                              | <b>70,240</b> | <b>118,977</b>   |
| <b>Taxes to refund, including:</b>                                   | <b>10,412</b> | <b>12,071</b>    |
| VAT to refund and customs duties                                     | 10,412        | 12,071           |
| <b>Trade and other receivables – current part</b>                    | <b>80,652</b> | <b>131,048</b>   |

Trade receivables are not interest bearing and settled usually from 1 to 30 days.

At 30 June 2020, trade and other receivables of the Company were reviewed for indications of impairment for expected credit losses in accordance with the accepted accounting policy and the requirements of IFRS 9.

The movement in the allowance for impairment for expected credit losses in respect of receivables from customers is presented below:



**Movements in the impairment of trade and other receivables**

|                                           | 30 June 2020     | 31 December 2019 |
|-------------------------------------------|------------------|------------------|
|                                           | BGN '000         | BGN '000         |
| <b>Debt instruments at amortised cost</b> |                  |                  |
| Balance on 1 January                      | (286,551)        | (285,924)        |
| Accrued for the period                    | (2,096)          | (5,643)          |
| Reintegrated                              | 1,938            | 5,571            |
| Written off                               | -                | (555)            |
| <b>Balance at the end of the period</b>   | <b>(286,709)</b> | <b>(286,551)</b> |

**Receivables from the ESS Fund**

|                                                                                                                                                                                               | 30 June 2020  | 31 December 2019 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|------------------|
|                                                                                                                                                                                               | BGN '000      | BGN '000         |
| Receivables on 1 January                                                                                                                                                                      | 124,862       | 157,730          |
| Recognised revenue to offset the costs of the public provider                                                                                                                                 | 491,795       | 1,308,267        |
| Recognised amounts to repay to beneficiaries in connection with Ordinance No. E-RD-04-06 of 28 September 2016 to reduce the burden associated with the cost of energy from renewable sources. | 40            | 137              |
| Cash received                                                                                                                                                                                 | (533,196)     | (1,341,272)      |
| <b>Receivables at the end of the period</b>                                                                                                                                                   | <b>83,501</b> | <b>124,862</b>   |

**9. Trade and other receivables from related parties**

|                                                                          | 30 June 2020  | 31 December 2019 |
|--------------------------------------------------------------------------|---------------|------------------|
|                                                                          | BGN '000      | BGN '000         |
| <i>Companies under common control (Group BEH EAD)</i>                    |               |                  |
| Elektroenergien sistemen operator EAD                                    | 5,755         | 13,650           |
| NPP Kozloduy EAD                                                         | 5,433         | 13,331           |
| TPP Maritsa East 2 EAD                                                   | 3             | -                |
| TPP Maritsa East 2 EAD                                                   | 319           | 319              |
| <i>Associates and joint ventures</i>                                     |               |                  |
| ContourGlobal Maritsa East 3 AD                                          | 46            | 160              |
| ContourGlobal Operations Bulgaria AD                                     | 39            | 154              |
| ContourGlobal Operations Bulgaria AD                                     | 7             | 6                |
| <i>Other related parties under common control of the Bulgarian State</i> |               |                  |
| IBEX EAD                                                                 | 5,319         | 17,826           |
| IBEX EAD                                                                 | 5,319         | 17,826           |
| <b>Total net amount of receivables from related parties</b>              | <b>11,120</b> | <b>31,636</b>    |

**10. Share capital**

|                                              | 30 June 2020     | 31 December 2019 |
|----------------------------------------------|------------------|------------------|
|                                              | BGN '000         | BGN '000         |
| Ordinary shares with par value of 1 BGN each | 1,063,766        | 1,063,766        |
|                                              | <b>1,063,766</b> | <b>1,063,766</b> |

The movements in share capital are set out below:

|                        | Number of ordinary shares | Registered and issued capital |
|------------------------|---------------------------|-------------------------------|
|                        | '000                      | BGN '000                      |
| On 1 January 2019      | 1,063,766                 | 1,063,766                     |
| On 31 December 2019    | 1,063,766                 | 1,063,766                     |
| <b>On 30 June 2020</b> | <b>1,063,766</b>          | <b>1,063,766</b>              |



As of 30 June 2020, the authorised capital of the Company amounts to BGN 1,063,766,192 (2019: BGN 1,063,766,192), split into 1,063,766,192 registered shares (2019: 1,063,766,192) with a par value of BGN 1 each. The sole owner of the share capital is Bulgarian Energy Holding EAD. The sole owner of the capital of Bulgarian Energy Holding EAD is the State and the Minister of Energy exercises the rights of the sole owner.

#### 11. Bank loans

Bank loans include the following financial liabilities carried at amortised cost:

| <i>Long-term liabilities</i>                       | 30 June 2020      | 31 December 2019  |
|----------------------------------------------------|-------------------|-------------------|
|                                                    | BGN '000          | BGN '000          |
| (1) EIB                                            | 8,515             | 12,737            |
|                                                    | <b>8,515</b>      | <b>12,737</b>     |
| <br><i>Current liabilities</i>                     |                   |                   |
|                                                    | 30 June 2020      | 31 December 2019  |
|                                                    | BGN '000          | BGN '000          |
| (1) EIB                                            | 8,480             | 8,489             |
| (2) ING Bank N.V., Amsterdam                       | 3,913             | 7,828             |
|                                                    | <b>12,393</b>     | <b>16,317</b>     |
| <br><b>Total disbursed loans at amortised cost</b> | <br><b>20,908</b> | <br><b>29,054</b> |

As of 30 June 2020, no overdue liabilities on borrowings are reported. The contract terms and conditions as disclosed in the annual financial statements for the period ended 31 December 2019 remained unchanged. For more information on financial collateral arrangements, see Note 6.

|                  | Currency | 30 June 2020  |                | 31 December 2019 |                |
|------------------|----------|---------------|----------------|------------------|----------------|
|                  |          | Nominal value | Carrying value | Nominal value    | Carrying value |
|                  |          | BGN '000      | BGN '000       | BGN '000         | BGN '000       |
| Bank credits     | EUR      | 21,074        | 20,856         | 29,411           | 28,975         |
| Accrued interest | EUR      | 52            | 52             | 79               | 79             |
|                  |          | <b>21,126</b> | <b>20,908</b>  | <b>29,490</b>    | <b>29,054</b>  |

#### 10.1 Reconciliation of opening and closing balances in the Consised Interim Statement of Financial Position regarding liabilities arising out of financing activities

| Change in liabilities from:                       | Liabilities arising out of financing activities |                                  |                                  | Total liabilities from financing activities: |
|---------------------------------------------------|-------------------------------------------------|----------------------------------|----------------------------------|----------------------------------------------|
|                                                   | Bank loans                                      | Commercial loans related parties | Loan from the Ministry of Energy |                                              |
| On 1 January 2020                                 | 29,054                                          | 2,497,859                        | 947,124                          | 3,474,037                                    |
| Cash flows from financing activity – net          | (9,009)                                         | (19,227)                         | -                                | (28,236)                                     |
| Payments                                          | (9,009)                                         | (19,227)                         |                                  |                                              |
| Changes of a non-monetary nature - dematerialised | 863                                             | 66,801                           | 26,401                           | 94,065                                       |
| Accrued interest (increases)                      | 645                                             | 63,930                           |                                  | 64,575                                       |
| Amortisation of borrowing costs                   | 218                                             | 2,871                            | 26,401                           | 29,490                                       |
| On 30 June 2020                                   | <b>20,908</b>                                   | <b>2,545,433</b>                 | <b>973,525</b>                   | <b>3,539,866</b>                             |





## 12. Trade liabilities

|                                                                    | 30 June 2020   | 31 December 2019 |
|--------------------------------------------------------------------|----------------|------------------|
|                                                                    | BGN '000       | BGN '000         |
| Electricity suppliers                                              | 117,355        | 156,977          |
| Suppliers of property, plant and equipment, materials and services | 14,200         | 16,215           |
|                                                                    | <b>131,555</b> | <b>173,192</b>   |

The current trade liabilities are not interest bearing and are usually settled within a 10 to 30 days' period.

## 13. Trade and other liabilities to related parties

|                                                                                         | 30 June 2020     | 31 December 2019 |
|-----------------------------------------------------------------------------------------|------------------|------------------|
|                                                                                         | BGN '000         | BGN '000         |
| <b>Non-current liabilities</b>                                                          |                  |                  |
| <i>Sole owner</i>                                                                       |                  |                  |
| BEH EAD                                                                                 | 1,499,771        | 1,577,484        |
|                                                                                         | <b>1,499,771</b> | <b>1,577,484</b> |
| <b>Current liabilities</b>                                                              |                  |                  |
| <i>Sole owner</i>                                                                       |                  |                  |
| BEH EAD                                                                                 | 1,045,678        | 920,403          |
| <i>Companies under common control (Group BEH EAD)</i>                                   |                  |                  |
| NPP Kozloduy EAD                                                                        | 8,329            | 52,367           |
| Energien Sistemen Operator EAD                                                          | 933              | 1,030            |
| TPP Maritsa East 2 EAD                                                                  | 28,875           | 47,115           |
| HPP Kozloduy EAD                                                                        | 28               | 28               |
| <i>Associates</i>                                                                       |                  |                  |
| ContourGlobal Maritsa East 3 AD                                                         | 14,094           | 59,165           |
| ZAD Energy                                                                              | 3,131            | 11,721           |
| POD Allianz Bulgaria AD                                                                 | 83               | 83               |
| <i>Liabilities to other related parties under common control of the Bulgarian State</i> |                  |                  |
| IBEX EAD                                                                                | 10               | 2,411            |
| Water Supply and Sewerage Pleven EOOD                                                   | 1                | 1                |
| Bulgarian Post EAD                                                                      | 3                | 4                |
|                                                                                         | <b>1,101,165</b> | <b>1,094,328</b> |
|                                                                                         | <b>2,600,936</b> | <b>2,671,812</b> |

Pursuant to the Amendment agreement of 2016 in relation the PPA between NEK EAD and ContourGlobal Maritsa East 3 AD (the power plant) and the Notice of arbitration of 4 June 2019, NEK EAD undertakes to recover the investment made to make the power plant compliant with the environmental requirements of EU and national law by reducing the emissions of SO<sub>2</sub> and NO<sub>x</sub>. It is agreed that NEK EAD will recover the investment in installments – initial payment of EUR 10 million (excl. VAT) to be paid by 31.12.2017, and the remaining amount of the total investment will be paid in four installments every six months, and the first installment of the four payments is due no later than 30.06.2018. Pursuant to the agreement reached with NEK EAD, the amount payable by the Public Provider under the PPA Amendment agreement is to cover the investment costs and a percentage of return. These costs are to be reflected in the new (adjusted) tariff model subject to approval by the EWRC.

As at 30 June 2020, the decision of the EWRC in respect of the new tariff model for the power plant is still pending. NEK EAD again reported these costs for recovery in its price application to the EWRC for the regulatory period starting



of 1 July 2020. The opinion of the EWRC is as follows:

„...By letter ref. No. E-13-14-3 dated 01.03.2018, a tariff model is submitted for approval by the Commission. . For the present moment, the administrative proceedings are still outstanding pending an explicit ruling. It should be further noted that the PPA amendment agreement of 7 March.2016 lacks a recovery mechanism for NEK EAD to be compensated for the investments made by ContourGlobal Maritsa East 3 AD in the SO<sub>2</sub> and NO<sub>x</sub> Upgrade, including a rate of return corresponding to the manner and time for payment of the total amount of the investment.“

In this context, as of 30 June 2020, NEK EAD is in disagreement over its liabilities of BGN 23,470 thousand (incl. VAT) to ContourGlobal Maritsa East 3 AD, including the first installment due at 31 December 2017.

At 30 June 2020, there is no evidence to suggest how and in what amount the costs made for the upgrade will be recovered by the public provider.

By its Notice of arbitration of 4 June 2019 ContourGlobal Maritsa East 3 AD claimed payment of the following amounts:

- EUR 12 000 000 as payment of the first installment based on an invoice of 21 December 2017;
- EUR 648 874,12 as contractual interest for delay reckoned from 1 January 2018 until 4 June 2019 (date of the NoA);
- contractual interest for delay from the date of service of the NoA until full repayment of the obligation;
- all court fees and expenses.

Payment claims under the next 4 will probably be made conditional on the outcome of the arbitration proceedings, including the return on the investment that is still not determined by the EWRC.

#### Debt obligation to the Ministry of Energy under the granted reimbursable financial aid

| Long-term liabilities to ME | Nominal value | Carrying value |
|-----------------------------|---------------|----------------|
|                             | BGN '000      | BGN '000       |
| 31 December 2019            | 1,176,661     | 947,124        |
| 30 June 2020                | 1,176,661     | 973,525        |

#### 14. Revenue from contracts with customers

Sales revenue:

|                                                                              | for 6 months as at<br>30 June 2020 | for 6 months as at<br>30 June 2019 |
|------------------------------------------------------------------------------|------------------------------------|------------------------------------|
|                                                                              | BGN '000                           | BGN '000                           |
| <i>Revenue from sales of electricity</i>                                     |                                    |                                    |
| Sales to end suppliers and electricity distribution companies                | 706,409                            | 553,515                            |
| Revenue from sales in the non-regulated market and from exports              | 28,872                             | 55,584                             |
| Sales of balancing electricity                                               | 22,204                             | 22,842                             |
| Sales by a supplier of last resort to medium and high voltage customers      | 2,780                              | 13,909                             |
| Revenue electricity art. 73 para 1 item 1 of Electricity Trading Rules       | 808                                | 5,423                              |
| Revenue from add-on to the transmission price for green energy and sunk cost | -                                  | (28)                               |
| Revenue from high-efficiency cogeneration                                    | -                                  | (30)                               |
|                                                                              | <b>761,073</b>                     | <b>651,215</b>                     |
| <i>Revenue from other sales</i>                                              |                                    |                                    |
| Revenue from sales of reserve and system services                            | 9,869                              | 7,798                              |
| Revenue from water supply service                                            | 2,523                              | 2,213                              |
| Revenue from service – coordinator of a special balancing group              | 18                                 | 24                                 |
|                                                                              | <b>12,410</b>                      | <b>10,035</b>                      |
| <b>Total sales revenue</b>                                                   | <b>773,483</b>                     | <b>661,250</b>                     |



Other revenue includes operations that are incidental to the Company's core business and represents revenue or income that is recognized under other standards.

|                                                              | for 6 months as at<br>30 June 2020 | for 6 months as at<br>30 June 2019 |
|--------------------------------------------------------------|------------------------------------|------------------------------------|
|                                                              | BGN '000                           | BGN '000                           |
| <b>Other revenue from contracts with clients, including</b>  |                                    |                                    |
| <i>Revenue from sale of current assets</i>                   | 130                                | 1                                  |
| <i>Revenue from sale of goods and current assets</i>         | 382                                | 634                                |
| <i>Revenue from sales of services of holiday houses</i>      | 224                                | 406                                |
| <i>Revenue from sale of fees and services</i>                | 175                                | 168                                |
|                                                              | <b>911</b>                         | <b>1,209</b>                       |
| <b>Other revenue/ income, including</b>                      |                                    |                                    |
| <i>Revenue from penalties for late payments by customers</i> | 462                                | 789                                |
| <i>Revenue from financing</i>                                | 273                                | 286                                |
| <i>Revenue from penalties under contracts</i>                | 1,359                              | 1,506                              |
| <i>Revenue from insurance compensations</i>                  | 7                                  | 96                                 |
| <i>Rental income</i>                                         | 60                                 | 44                                 |
| <i>Income from surplus assets</i>                            | 6                                  | 6                                  |
| <i>Net profit from sale of property, plant and equipment</i> | 481                                | 50                                 |
| <i>Other revenue</i>                                         | 112                                | 76                                 |
|                                                              | <b>2,760</b>                       | <b>2,853</b>                       |
|                                                              | <b>3,671</b>                       | <b>4,062</b>                       |

#### Revenue from Energy System Security Fund (ESS Fund)

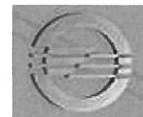
Pursuant to the amendments to the Energy Act, SG issue 56/2015, an Energy System Security Fund has been established that is a legal person seated in Sofia. The provisions governing the operation of the Fund are set out under Art.36b through Art.36g of the Energy Act.

The Fund is intended, among others, to administer the funds used to cover the costs incurred by the Public Provider, as arising out of its obligation to take off the electricity from transmission grid-connected producers, under long-term power and availability purchase agreements, and electricity generated from renewable energy sources, by highly efficient combine heat and power producers and the quantity of electrical energy produced by producers on local primary sources (of fuel), up to 15 % of the whole primary energy needed for the generation of electrical energy.

Other type of costs of the Public Provider that can be compensated by the Fund are such that are approved by the EWRC, including costs incurred in prior regulatory periods. Payments to the Public Provider to cover its costs with Fund money are made on a monthly basis.

For the price regulatory period 1 July 2018 until 30 June 2019, the costs of the public provider that are compensated by the Fund, pursuant to EWRC decision No. II-11 of 1 July 2018, are estimated at the total amount of BGN 1,258,346 thousand, and include a compensation for costs of the public provider under the 2012 Methodology on green energy for the period 01.07.2012-31.07.2013, BGN 79,530 thousand, compensation granted to the public provider in relation to the Ordinance on reduction of the burden related to RES costs – BGN 4,491 thousand, compensation granted to the public provider for the payment due under Art. 36e of the EA by producers with existing long-term PPAs – BGN 54,542 thousand, Fund financing to reduce the public service obligation price in the component intended to compensate for the difference between the anticipated market price and the preferential prices under the PPAs – BGN 548,317 thousand, RES – BGN 556,679 thousand (incl. up to 4 MW installed capacity – BGN 380 649 thousand, and above 4 MW – BGN





176,030 thousand) and HECHPP up to 4 MW installed capacity BGN 14 787 thousand, or BGN 1,119,783 thousand in total.

For the price regulatory period 1 July 2019 until 30 June 2020, the costs of the public provider that are compensated by the Fund, pursuant to EWRC decision No. II-19 of 1 July 2019, include compensation granted to the public provider for the payment due under Art. 36e of the EA by producers with existing long-term PPAs – BGN 74,685 thousand, compensation granted to the public provider for the grid access charge due by producers with long-term PPAs – BGN 17,157 thousand, and a percentage of the public service obligation price in the component intended to compensate the public provider for the difference between the total price and the anticipated market price (set by the EWRC for each type of production) - BGN 917,206 thousand (incl. under PPAs – BGN 701,657 thousand, RES – BGN 148,765 thousand (incl. between 1 and 4 MW of installed capacity – BGN 65,468 thousand), HECHP – BGN 1,578 thousand and Maritsa East 2 TPP – BGN 65,217 thousand). Pursuant to Decision II-12 of 1 April 2020 with reference to Order E-ПД-16-39 of 29 January 2020 by the Minister of Energy imposing additional public service obligations on ME2 TPP consisting in providing additional quantities of electricity to NEK EAD to supply the demand on the regulated market, the EWRC recognizes additional compensation of up to BGN 97,030 thousand to the public provided. Pursuant to decision II 29 of 1 July 2020, r., these additional costs are determined at BGN 59,973 thousand.

Pursuant to Decision No. II-19 of 1 July 2019, based on the accumulated surplus in the ESS Fund the EWRC recognizes compensation to the public provider for costs incurred in prior periods: for the payment due under Art. 36e of the EA by producers with existing long-term PPAs over the period of 2018-2019, including balance payment costs in case of free allocation movements under NIP – BGN 13,461 thousand, compensation granted to the public provider for higher average prices under the PPAs with ME1 and ME3 over the period 2018-2019, including balance payment costs in case of free allocation movements under NIP – BGN 276,134 thousand, compensation granted to the public provider with reference to Order No. E-ПД-16-193 of 9 April 2019 by the Minister of Energy imposing additional public service obligations on ME2 TPP consisting in providing additional quantities of electricity of 600 000 MWh – BGN 33,576 thousand. Compensation granted to the public provider with reference to Order No. E-ПД-16-412 of 14 June 2019 by the Minister of Energy imposing additional public service obligations on ME2 TPP consisting in providing additional quantities of electricity of 80 000 MWh – BGN 4,477 thousand, compensation recognized to the public provider for costs resulting from EWRC decisions approving preferential prices for the energy from HECHP for prior regulatory periods, in complying with effective judgments – BGN 12,037 thousand, compensation recognized to the public provider for the energy from RES with an installed capacity of below 4 MW over the period 2018-2019 – BGN 16,802 thousand.

By their nature, the Fund-provided financing represents grants extended by the state that fall within the scope of IAS 20 „Accounting for Government Grant and Disclose of Government Assistance“. Fund grants/Government grants are recognised in profit or loss on a systematic basis (monthly) over the periods in which the entity recognises expenses for the related costs which the grants are intended to compensate until using up the Fund budget. In applying for compensation, in the case when the company's costs exceed the approved level in the EWRC decision for the respective regulatory period, even though eligible for reimbursement, the excess amount is to be recognised as financing income following receipt of cash. This is so, because of the spending of the Fund budget that makes impossible to determine the time of their reimbursement.

For the period 1 January 2019 until 30 June 2019, revenue is recognized to NEK EAD to compensate for the costs of the public provide in the amount of BGN 741,952 thousand, and for the same period of 2020, the granted compensation is for BGN 491,795 thousand (incl. BGN 13,143 thousand recognized under EWRC Decision II 29 of 1 July 2020 relating to EWRC decisions made in the previous regulatory period, approving preferential prices for the CHP electricity for past regulatory periods, in complying with effective judgments).



#### 16. Costs for electrical energy

|                                                                        | for 6 months as at<br>30 June 2020 | for 6 months as at<br>30 June 2019 |
|------------------------------------------------------------------------|------------------------------------|------------------------------------|
|                                                                        | BGN '000                           | BGN '000                           |
| Electrical energy from TPPs                                            | 922,479                            | 810,605                            |
| Electrical energy from Kozloduy NPP                                    | 87,760                             | 56,085                             |
| Electrical energy from renewable sources, medium and high voltage      | 73,698                             | 295,096                            |
| Electrical energy from cogeneration plants, medium and high voltage    | 818                                | 17,051                             |
| Electrical energy from industrial plants                               | -                                  | 5,751                              |
| Electrical energy for balancing market                                 | 1,318                              | 6,555                              |
| Electrical energy art. 73, para 1, item 1 of Electricity Trading Rules | 1,325                              | 3,358                              |
| Other electricity suppliers                                            | 1,793                              | 10,692                             |
|                                                                        | <b>1,089,191</b>                   | <b>1,205,193</b>                   |

#### 17. Cost of materials

|                                                                                                   | for 6 months as at<br>30 June 2020 | for 6 months as at<br>30 June 2019 |
|---------------------------------------------------------------------------------------------------|------------------------------------|------------------------------------|
|                                                                                                   | BGN '000                           | BGN '000                           |
| Electricity costs                                                                                 | 704                                | 768                                |
| Liquid fuel costs                                                                                 | 424                                | 594                                |
| Food costs                                                                                        | 188                                | 284                                |
| Costs for materials for acquisition of plant and equipment by using local resources and materials | 31                                 | 368                                |
| Workwear costs                                                                                    | 402                                | 135                                |
| Costs of spare parts                                                                              | 359                                | 194                                |
| Lubricant costs                                                                                   | 45                                 | 31                                 |
| Costs for tools and equipment                                                                     | 52                                 | 99                                 |
| Costs for other materials                                                                         | 411                                | 571                                |
|                                                                                                   | <b>2,616</b>                       | <b>3,044</b>                       |

#### 18. Hired services expenses

|                                                       | for 6 months as at<br>30 June 2020 | for 6 months as at<br>30 June 2019 |
|-------------------------------------------------------|------------------------------------|------------------------------------|
|                                                       | BGN '000                           | BGN '000                           |
| Insurance costs                                       | 8,940                              | 9,875                              |
| Security costs                                        | 5,125                              | 4,795                              |
| Expenses for taxes and fees                           | 1,777                              | 2,232                              |
| Costs for system services                             | 2,720                              | 43                                 |
| Costs for repair of plant and equipment by assignment | 829                                | 512                                |
| Water supply service costs                            | 607                                | 607                                |
| Costs for management services – BEH EAD               | 32                                 | 47                                 |
| Expenses for fees and services EE exchange market     | 90                                 | 300                                |
| Costs for fees in civil proceedings in court          | 17                                 | -                                  |
| Expenditure on other external services                | 819                                | 1,523                              |
|                                                       | <b>20,956</b>                      | <b>19,934</b>                      |



|                                   | for 6 months as at<br>30 June 2020 | for 6 months as at<br>30 June 2019 |
|-----------------------------------|------------------------------------|------------------------------------|
|                                   | BGN '000                           | BGN '000                           |
| Costs of fines and penalties      | 1,062                              | 873                                |
| Expenses for local taxes and fees | 654                                | 618                                |
| Cost taxes expenses               | 324                                | 344                                |
| Business travel expenses          | 121                                | 255                                |
| Training and qualification costs  | 19                                 | 42                                 |
| Expenses for donations            | 51                                 | -                                  |
| Others                            | 989                                | 5,930                              |
|                                   | <b>3,220</b>                       | <b>8,062</b>                       |

## 20. Income tax income/(expense)

Tax expense is recognised based on management's best estimate of the corporate tax charged at 10% p.a. for 2020 multiplied by the pre-tax income of the interim reporting period as at 30 June 2020 (the rate for the 6 months ended 30 June 2019 is 10%).

## 21. Dividends

For the periods ended 30 June 2020 and 30 December 2019, the Company did not distribute any dividends.

## 22. Related party transactions

Related parties to the Company are the sole owner, key managerial personnel, entities under common control, and others as listed below.

### *Ultimate owner*

The ultimate owner of the Company is the Bulgarian State through the Minister of Energy.

### *Sole owner*

The sole owner of the Company is Bulgarian Energy Holding EAD.

### *Entities under common control with the Company (undertakings within a group)*

Kozloduy NPP EAD, Maritsa East 2 TPP EAD, Maritsa East Mines EAD, Bulgargaz EAD, Bulgartransgaz EAD, Electricity System Operator EAD (ESO EAD), Bulgartel EAD, Kozloduy NPP-New Capacity EAD, Kozloduy HPP EAD, Interpriborserviz OOD, Maritsa East 2 (9 & 10) TPP EAD, PFC Beroe Stara Zagora EAD, Bulgartel Skopje DOOEL, Balkan Gas Hub EAD.

### *Associates and jointly controlled entities*

As at 30 June 2020, the associates of NEK EAD are ZAD Energy, ContourGlobal Maritsa East 3 AD, ContourGlobal Operations Bulgaria AD, POD Alianz Bulgaria AD and Gorna Arda HEC AD.

### *Joint ventures*

As at 30 June 2020, NEK EAD holds 50% of the capital in Transbalkan Electric Power Trading S.A. – NECO S.A.

### *Other related parties under common control of the Bulgarian State*

Other related parties to NEK EAD that are under common control of the Bulgarian State are IBEX EAD, VMZ EAD, NRIC Electricity Distribution EAD, Water Supply & Sewerage, Bulgarian Posts EAD.

### *Key management personnel*

The key management personnel of the Company includes the members of the Board of Directors and the executive director responsible for the planning, day-to-day management and control of the activities of the company.

### *Board of Directors:*

Hristo Velichkov Georgiev, Chairman

Momchil Vanov, Board Member

Ivan Yonchev, Board Member and Executive Director





*Sales to related parties*

*Sales to related parties*

| Company                                               | transactions/grounds                 | 30 June 2020<br>BGN '000 | 30 June 2019<br>BGN '000 |
|-------------------------------------------------------|--------------------------------------|--------------------------|--------------------------|
| <i>Companies under common control (Group BEH EAD)</i> |                                      |                          |                          |
| <b>ESO EAD</b>                                        | balancing energy                     | 21,454                   | 20,526                   |
|                                                       | revenue from electricity trade       | 3,655                    | -                        |
|                                                       | reserve and ancillary services       | 9,869                    | 7,798                    |
|                                                       | Other sales                          | 2                        | 7                        |
|                                                       |                                      | <b>34,980</b>            | <b>28,331</b>            |
| <b>NPP Kozloduy EAD</b>                               | Sale of fixed assets and other sales | 1,607                    | 16                       |
|                                                       |                                      | <b>1,607</b>             | <b>16</b>                |
| <b>Mini Maritsa Iztok EAD</b>                         | Sale of fixed assets                 | -                        | 28                       |
|                                                       | Other sales                          | 2                        | 5                        |
|                                                       |                                      | <b>2</b>                 | <b>33</b>                |
| <b>TPP Maritsa East - 2 EAD</b>                       | water supply                         | 798                      | 359                      |
|                                                       |                                      | <b>798</b>               | <b>359</b>               |
| <i>Associates and jointly controlled enterprises</i>  |                                      |                          |                          |
| ContourGlobal Maritsa East 3 AD                       | penalties                            | 115                      | 1,175                    |
|                                                       | management fee                       | 33                       | 32                       |
|                                                       | water supply                         | 163                      | 163                      |
|                                                       | dividend                             | 31,050                   | 24,840                   |
|                                                       |                                      | <b>31,361</b>            | <b>26,210</b>            |
| <b>ContourGlobal Operations Bulgaria AD</b>           | management fee                       | 33                       | 32                       |
|                                                       | dividend                             | 1,396                    | 1,323                    |
|                                                       |                                      | <b>1,429</b>             | <b>1,355</b>             |
| <b>POD Allianz</b>                                    | dividend                             | <b>5,569</b>             | <b>5,031</b>             |
| <b>ZAD Energy</b>                                     | insurance compensations              | 7                        | 95                       |
|                                                       | dividend                             | 2,294                    | 3,982                    |
|                                                       |                                      | <b>2,301</b>             | <b>4,077</b>             |
| <i>Other related parties</i>                          |                                      |                          |                          |
| Under common control of the Bulgarian State           |                                      |                          |                          |
| <b>Independent Bulgarian Energy Exchange EAD</b>      | electric energy                      | 25,157                   | 40,889                   |
|                                                       |                                      | <b>25,157</b>            | <b>40,889</b>            |
| <b>BDZ EAD</b>                                        | electric energy and imbalance        | -                        | 9,346                    |
|                                                       |                                      | <b>103,204</b>           | <b>115,647</b>           |



*Purchases from related parties*

| Company                                                      | transactions/grounds          | 30 June 2020<br>BGN '000 | 30 June 2019<br>BGN '000 |
|--------------------------------------------------------------|-------------------------------|--------------------------|--------------------------|
| <b><i>Sole owner</i></b>                                     |                               |                          |                          |
| <b>BEH EAD</b>                                               | Interest loans                | 63,929                   | 60,320                   |
|                                                              | warehouse delivery            | 5                        |                          |
|                                                              | services                      | 32                       | 47                       |
|                                                              | amortisation financial        |                          |                          |
|                                                              | expenses on loans             | 2,871                    | 2,700                    |
|                                                              |                               | <b>66,837</b>            | <b>63,067</b>            |
| <b><i>Companies under common control (Group BEH EAD)</i></b> |                               |                          |                          |
| <b>ESO EAD</b>                                               | transmission                  | 44                       | 37                       |
|                                                              | access                        | 2,675                    | 6                        |
|                                                              | Balancing energy              | 1,303                    | 6,325                    |
|                                                              | Other services                | -                        | 5                        |
|                                                              |                               | <b>4,022</b>             | <b>6,373</b>             |
| <b>NPP Kozloduy EAD</b>                                      | el. energy+available capacity | 87,760                   | 56,085                   |
|                                                              | interest on agreement         | 32                       | 856                      |
|                                                              | others                        | 1                        | -                        |
|                                                              |                               | <b>87,793</b>            | <b>56,941</b>            |
| <b>Mini Maritsa Iztok EAD</b>                                | el. energy D&C                | <b>2</b>                 | <b>2</b>                 |
| <b>TPP Maritsa East - 2 EAD</b>                              | el. energy                    | 209,584                  | 108,218                  |
|                                                              | phone calls                   | 1                        | 1                        |
|                                                              | el. energy D&C                | 3                        | 2                        |
|                                                              |                               | <b>209,588</b>           | <b>108,221</b>           |
| <b><i>Associates and jointly controlled enterprises</i></b>  |                               |                          |                          |
| <b>ContourGlobal Maritsa East 3</b>                          | available capacity            | 136,140                  | 125,474                  |
|                                                              | el. energy                    | 99,516                   | 199,549                  |
|                                                              | ancillary services            | 2,943                    | 2,244                    |
|                                                              | penalty forced outage         | 198                      | -                        |
|                                                              | 5% contribution to ESS        |                          |                          |
|                                                              | Fund                          | 17,811                   | 16,235                   |
|                                                              | emissions                     | 128,123                  | 2,060                    |
|                                                              |                               | <b>384,731</b>           | <b>345,562</b>           |
| <b>POD Allianz</b>                                           | voluntary pension insurance   | <b>499</b>               | <b>503</b>               |
| <b>ZAD Energy</b>                                            | service                       | <b>8,940</b>             | <b>9,864</b>             |
| <b><i>Other related parties</i></b>                          |                               |                          |                          |
| Under common control of the Bulgarian State                  |                               |                          |                          |
| <b>IBEEExchange EAD</b>                                      | exchange market charges       | 60                       | 279                      |
|                                                              | el. energy                    | 1,793                    | 12,546                   |
|                                                              | others                        | 30                       | 30                       |
|                                                              |                               | <b>1,883</b>             | <b>12,855</b>            |
| <b>Others</b>                                                |                               | <b>13</b>                | <b>14</b>                |
|                                                              |                               | <b>764,308</b>           | <b>603,402</b>           |

Outstanding balances with related parties are disclosed in Note 9 Trade and other receivables from related parties and Note 13 Trade and other payables to related parties.



## 22.1. Liabilities to Bulgarian Energy Holding EAD

The debt obligations are as follows:

| 30 June 2020                        |                  |                  |                |                  |
|-------------------------------------|------------------|------------------|----------------|------------------|
| Liabilities to BEH EAD              | Nominal value    | Carrying value   | Interest due   | Total            |
|                                     | BGN '000         | BGN '000         | BGN '000       | BGN '000         |
| (1) Long-term loan                  | 1,003,777        | 1,003,777        | 161,740        | 1,165,517        |
| (2) Long-term loan                  | 1,047,685        | 1,040,503        | 246,481        | 1,286,984        |
| (3) Interest rescheduling agreement | 92,932           | 92,932           | -              | 92,932           |
| (4) Trade payables                  | 16               | 16               | -              | 16               |
|                                     | <b>2,144,410</b> | <b>2,137,228</b> | <b>408,221</b> | <b>2,545,449</b> |

|                                                                         | Maturity   | 30 June 2020     | 31 December 2019 |
|-------------------------------------------------------------------------|------------|------------------|------------------|
|                                                                         |            | BGN '000         | BGN '000         |
| <i>Long-term liabilities</i>                                            |            |                  |                  |
| (1) Loan from BEH EAD                                                   | 31.03.2024 | 398,777          | 466,148          |
| (2) Loan from BEH EAD                                                   | 28.07.2021 | 1,046,517        | 1,037,632        |
| (3) Interest rescheduling agreement                                     | 30.11.2022 | 54,477           | 73,704           |
|                                                                         |            | <b>1,499,771</b> | <b>1,577,484</b> |
| <i>Current liabilities and current portion of long-term liabilities</i> |            |                  |                  |
| (1) Long-term loan                                                      | 31.03.2024 | 766,740          | 664,644          |
| (2) Long-term loan                                                      | 28.07.2021 | 240,467          | 217,277          |
| (3) Interest rescheduling agreement                                     | 30.11.2022 | 38,455           | 38,454           |
| (4) Trade payables                                                      |            | 16               | 28               |
|                                                                         |            | <b>1,045,678</b> | <b>920,403</b>   |

## 22.2. Borrowings

(1) On 21 August 2014, a credit agreement was signed to consolidate the debt of NEK EAD to BEH EAD and the assignment agreement of 1 April 2014 for the receivables from Kozloduy NPP EAD, in the total amount of BGN 1,209,148 thousand. The term of the new credit is 10 years, a grace period of four months and annual interest rate of 4.49%. As at 30 June 20, the balance outstanding under the credit is BGN 1,165,517 thousand, including overdue principal payment BGN 471,751 thousand and overdue interest payment BGN 157,902 thousand.

(2) On 25 April 2016, a loan agreement was signed between Bulgarian Energy Holding EAD and Natsionalna Elektricheska Kompania EAD for the special purpose of repaying the debt of NEK EAD to AES-3C Maritsa East 1 EOOD and ContourGlobal Maritsa East 3 AD that was a condition precedent to the effectiveness of the amendment agreements to the PPAs with the two power plants. The amount of the loan is EUR 521,625 thousand (BGN 1,020,210 thousand). The loan term is twelve months, at an interest rate of 6.65% p.a. The contract contains a provision for renegotiation of the terms and conditions in case of successful placement of bonds. On 30 December 2016, the terms and conditions of the special purpose loan to NEK EAD dated 25 April 2016 were amended as follows:



As at 30 June 2020, the outstanding amount is BGN 1,286,984 thousand, including the amount of deferred financial costs – BGN 7,182 thousand. The overdue payment under the loan represents interest in the amount BGN 236,746 thousand.



### 22.3. Rescheduling agreements

(3) On 22 January 2018, a rescheduling agreement in relation to the interest in arrears due by Natsionalna Elektricheska Kompania EAD to BEH EAD was signed; maturity date: 30 November 2022. The rescheduled interest will be paid in 60 equal monthly installments, as from 31 December 2017. At 30 June 2020, the amount of the debt obligation is BGN 92,932 thousand.

### 22.4. Transactions with key management personnel

The key management personnel of the Company includes the members of the Board of Directors. Key management personnel compensation comprises the following expenses:

|                                                                                                        | 30 June 2020<br>BGN '000 | 30 June 2019<br>BGN '000 |
|--------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| Remunerations of the Board of Directors                                                                | 90                       | 83                       |
| Social costs and social security contributions on the remunerations of the Board of Directors' members | 30                       | 29                       |
|                                                                                                        | <u>120</u>               | <u>112</u>               |

### Non-cash transactions with related parties

For the period 1 January to 30 June 2020, the non-cash transactions with related parties are as follow:

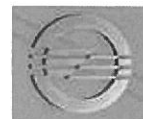
| Companies                                                   | Transaction type                          | Amount<br>BGN '000 |
|-------------------------------------------------------------|-------------------------------------------|--------------------|
| NEK EAD – Contour Global ME 3 –<br>Contour Global Operation | set-off of equivalent claims and payables | 1,435              |
| NEK EAD – ESO EAD - TPP Maritsa 3 EAD                       | set-off of equivalent claims and payables | 1,991              |
| NEK EAD – Contour Global ME 3                               | set-off of equivalent claims and payables | 31,514             |
| NEK EAD – NPP Kozloduy EAD                                  | set-off of equivalent claims and payables | 1,927              |
|                                                             |                                           | 36,867             |

## 23. Commitments and contingent liabilities

### Capital commitments

#### Belene nuclear power project

In connection with the Belene NPP project, on 29 November 2006, the Company signed an agreement for the construction of Belene nuclear power plant with Atomstroyexport JSC as project contractor, and on 31 January 2005 with WorleyParsons as project Architect Engineer.



On 29 March 2012, the Government of the Republic of Bulgaria made a decision to terminate the project for construction of a nuclear power facility at the Belene site. Pursuant to its decision of 27 February 2013, the 41st National Assembly supported the Government's decision not to continue further with the project for construction of a new nuclear power plant at the Belene site and strongly recommended its final termination. Pursuant to a decision of the Board of Directors of BEH EAD dated 3 October 2013, it was established that the contract with WorleyParsons should be considered cancelled by operation of law due to impossibility of performance resulting from the termination of the project in 2012.

On 7 June 2018, the National Assembly decided to resume the efforts to seek possibilities of delivering the Belene Nuclear Project jointly with a strategic investor, on a market-based approach and without government guarantees, by separating all Belene-related assets and liabilities into a project company.

The Council of Ministers annulled Decision No. 250 of 2012 revoking Decision No. 259/2005 on the termination of the development of a nuclear power plant at the Belene site and the recognition of Belene NPP site as nationally significant project, and CoM Decision No. 260/2005 on the construction of a nuclear power plant at the Belene site.

In pursuance of a Decision of the National Assembly of the Republic of Bulgaria of 7 June 2018 and Decision No. 447/29 June 2018 of the Council of Ministers of the Republic of Bulgaria, Natsionalna Elektricheska Kompania EAD issued an invitation for strategic investors in the Belene NPP project. The invitation provides for the option of expressing interest in acquiring a minority shareholding in the future project company and/or entering into an offtake agreement. The purpose of the Invitation is solely to provide certain information to parties which wish to express their interest to participate in the procedure.

By the closing date, thirteen candidates submitted their applications.

Pursuant to the procedure for selection of a strategic investor for the implementation of the Belene NPP project, the Ministry of Energy issued letters to the five shortlisted companies to confirm submission of binding offers and further participation in the procedure.

By the closing date, 31 January 2020, letters of confirmation for submission of binding offers were received from all five companies.

The indicative date for the submission of binding offers, originally 31 May 2020, will, due to the current pandemic situation in the country, start to run from the date when physical access to the Data Room at NEK EAD is provided to the candidates. An Information Memorandum was provided to all shortlisted potential candidates. These are the China National Nuclear Corporation (CNNC), Atomenergoprom AD, part of Rosatom, Korea Hydro & Nuclear Power Corporation, Framatome SAS (France), and General Electric (USA). The Memorandum contains baseline information about the project, information concerning the legal and regulatory framework in the country, including an overview of the market situation in the region. Its disclosure to the candidates occurred following their signing of a confidentiality agreement in April. It is binding upon both the invited parties and their respective advisors, consultants, lenders, agents and others.

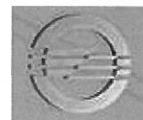
In view of the continued Corona Virus related measures taken in many countries, the IM was provided online. The intention of the Bulgarian party is to create optimum conditions for the candidates to prepare their binding offers under the state of emergency.

The Company has decided to carry all amounts (paid and charged) in relation to the terminated Belene nuclear power project in accordance with the recognition criteria prescribed by IAS 16, while following a consistent policy, as assets of property, plant and equipment under construction until the future of Belene project is finally decided. NEK's management considers that at the present time, a significant uncertainty exists with regard to the possible alternatives for the implementation of the project, respectively the equipment, a significant amount of time is required to agree, negotiate and approve possible variants that is not entirely within the control of the management and makes impossible for it to make a judgement as to possible reclassification of the carried costs under IFRS and their revaluation.

The investment programme of NEK EAD covers mainly rehabilitation works, refurbishment works and new construction of hydropower facilities and comprises the following major capital projects.

#### **Yadenitsa project**

Pursuant to a Decision of 28 September 2011 of the Council of Ministers of the Republic of Bulgaria, with reference to the Application for Derogation made by the Republic of Bulgaria under EC Directive 2003/87/EC, Art. 10c, the project



is included in the National Investment Plan, 2013-2020. By Decision No.707 of 30 August 2012 of the Council of Ministers of the Republic of Bulgaria, the water reservoir Yadenitsa that represents a major component of the Yadenitsa project, was granted the status of a national infrastructure site under the State Property Act and the status of a project of national importance under the Spatial Development Act.

Financing for the Yadenitsa preparation works (authorization procedure for the construction permit) is provided from the EC Connecting Europe Facility.

On 24 April 2015, a grant agreement between NEK EAD and the EC Innovations and Networks Executive Agency was signed.

Within the scope of the agreement, all preparatory work for the construction permit was contracted. At the date of these Financial Statements, NEK EAD has an EIA decision issued, updated detailed design agreed with the competent authorities, positive compliance report in respect of structure, approved detailed zoning plan, financial analysis and risk assessment, technical specifications for civil works to be contracted.

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The amount of expenditure declared is EUR 2,536 thousand. 50% of the claimed costs were reimbursed to NEK EAD. For INEA, the Activity is considered to be completed and no further notification is foreseen.

The advance payment guarantee dated 22 July 2015 issued by BEH EAD for the amount of EUR 963,900 was released in full, as a result of which INEA returned the original guarantee to the issuing institution.

Preparation of the documents required for a construction permit to be issued in accordance with the existing regulatory framework is underway. With the assistance of MAFF, state property deeds are in the process of being issued and an action was brought against the refusal by the East Aegean River Basin Directorate to issue an integrated permit for water extraction and water use from the Yadenitsa river.

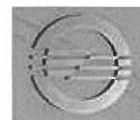
#### **Rehabilitation of Belmeken-Sestrimo-Chaira hydro power scheme and rehabilitation of Vacha -1 HPP 110 kV switchyard and part of HPP systems under joint control**

For the rehabilitation of Belmeken-Sestrimo-Chaira hydro power scheme, on 6 December 2013, a Grant Agreement No. 049 was signed between the European Bank for Reconstruction and Development (EBRD or the Bank) as Administrator of the Kozloduy International Decommissioning Support Fund (KIDSF) and Natsionalna Elektricheska Kompania EAD (NEK). On 28 May 2014, the Grant Agreement No 049A (GA049A) was amended and supplemented due to the split of NEK EAD and the Electricity System Operator EAD.

On 18 May 2018, a contract for rehabilitation of Belmeken PSHP, Sestrimo HPP and Momina Klissura HPP was signed. The total contract value is BGN 39,111,989.03 (EUR 19,997,642.45). The contract is still in its implementation stage. The Contractor provided performance and advance payment bank guarantees, insurance policies, detailed implementation schedule. Construction permits were issued for the three power plants; a detailed design document was submitted and respectively approved by the employer. First stage equipment was tested and delivered. Assembly works are being carried out in the three power plants. 13 March 2020, the Contractor notified officially of an FM event due to the complicated epidemiological situation as a result of the spread of COVID-19 virus. 20 March 2020, NEK issued likewise a formal notice to the Contractor stating that with regard to the state of emergency declared in the country, the company is in an FM situation that may affect the performance under the contract.

On 25 April 2019, a contract for rehabilitation of Chaira PSHP was signed. The contract value is BGN 27,045,541.90 (EUR 13,828,166). The contract is in the stage of implementation. All dismantling works were completed; repair works are carried out on the turbine equipment. The technical design was approved by the employer based on which a construction permit was issued on 10 February 2020, in effect as from 25 February 2020. As a result of failures on Chaira hydro unit 2 and hydro unit 4 occurred respectively in 2018 and 2019, at the request of NEK EAD and following the approval by the Assembly of Donors, the scope of Chaira rehabilitation was extended to cover the works on hydro units 2 and 4 formalized with Grant Agreement No. 049 B of 4 November 2019. Amendment No.1 to the contract was





approved by NEK Board of Directors on 16 April 2020, and on 5 May 2020 by BEH BoD. On 10 June 2020, the parties to the contract signed Amendment 1 and the associated Change Order 1; the new contract value is EUR 17,177,332.60. On 13 March 2020, the Contractor notified officially of an FM event due to the complicated epidemiological situation as a result of the spread of COVID-19 virus. 20 March 2020, NEK issued likewise a formal notice to the Contractor stating that with regard to the state of emergency declared in the country, the company is in an FM situation that may affect the performance under the contract.

On 27 August 2019, a contract for rehabilitation of Vacha -I HPP 110 kV switchyard and part of HPP systems under joint control was signed. The contract value is BGN 9,692,180 (EUR 4,955,557). The contract is under implementation. The contractor provided advance and performance bank guarantees. A technical design document was submitted and respectively approved by the employer. On 23 January 2020, the Contractor submitted the technical design. 11 February 2020, a technical expert meeting made a decision to refer the design document back to the contractor to address the comments made by the technical expert meeting. 20 March 2020, a revised technical design document was submitted to the contractor. On 13 March 2020, the Contractor notified officially of an FM event due to the complicated epidemiological situation as a result of the spread of COVID-19 virus. 20 March 2020, NEK issued likewise a formal notice to the Contractor stating that with regard to the state of emergency declared in the country, the company is in an FM situation that may affect the performance under the contract..

#### **Commitments of NEK EAD in connection with the development of the energy sector**

In connection with the modernisation of units V and VI of Kozloduy NPP EAD, on 29 May 2000, a loan agreement was concluded between Kozloduy NPP, as Borrower, Natsionalna Elektricheska Kompania (NEK) EAD, as Guarantor, and the European Atomic Energy Community (EURATOM), as lender, for the amount of EUR 212.5 million to provide financing for the modernisation program of the units. Pursuant to Art. 15.2 of the agreement, NEK EAD, together with Kozloduy NPP, is responsible as sole principal debtor. On the same date, a Guarantee Agreement was signed between the Republic of Bulgaria as Guarantor and the European Atomic Energy Community as Lender (EURATOM) whereunder the State backed up the repayment of the loan. Both agreements were ratified by an Act of the 38<sup>th</sup> National Assembly of the Republic of Bulgaria dated 29 November 2000. The loan was granted in 8 tranches; the interest rate is variable and calculated on the basis of six-month EURIBOR plus a margin of maximum 0.13% per annum. The interest rate of one of the tranches was fixed at 5.76%. The repayment period is different for each of the tranches. The final repayment date is 10 May 2021. The loan is fully utilized and is being repaid in accordance with the agreements. The outstanding balance of the EURATOM loan, as at 30 June 2020 amounts to BGN 16,869 thousand as principal.

#### **Long-term power purchase commitments**

On 13 June 2001, NEK EAD concluded a long-term contract with Consolidated Continental Commerce Limited, currently, AES-3C Maritsa East 1 EOOD (AES), for the construction and operation of a 670 MW (on a gross basis) replacement power generating facility at the site of Maritsa East 1 TPP fuelled with local coal (lignite). NEK EAD entered into a long-term 15-year power purchase agreement, which gradually became effective as from the commissioning date of the new facility on 2 June 2011 and achievement of the full net capacity of 600 MW by AES Galabovo TPP as of 28 December 2011. On 14 August 2015, an agreement to reduce by 14 % the price for availability was signed and became effective as from 26 April 2016 following repayment of the debt to the power plant.

According to a pledge agreement dated 30 November 2005 and an agreement amending the pledge agreement dated 26 April 2016, NEK EAD has pledged receivables from EVN Bulgaria Power Supply EAD and EnergoPro Sales AD to guarantee future power purchase obligations. The amounts pledged equal the expected maximum total payment for electrical energy for any month in a calendar year.

Pursuant to the long-term power purchase agreement, NEK EAD is obliged to purchase a minimum quantity of 3,156,500 MWh a year (or on a pro rata basis in the event of any incomplete year) and the agreed availability based on a commercial schedule.

On 13 June 2001, NEK EAD entered into a fifteen-year power purchase agreement with Energy Company Maritza-East 3 AD (ContourGlobal Maritsa East 3 AD, currently). The PPA became effective in February 2009 with the completion of the agreed improvement works on the existing facilities of Maritsa East 3 TPP whereby the installed capacity is now 808 MW.



On 7 March 2016, an agreement to reduce by 15 % the price for availability was signed and became effective as from 26 April 2016 following repayment of the debt to the power plant.

In accordance with a pledge agreement of 1 February 2002 and an amendment agreement to the pledge dated 26 April 2016, NEK EAD has pledged its receivables from CEZ Elektro Bulgaria AD, EnergoPro Sales AD to guarantee future power purchase obligations. The sum of the pledged receivables equals 1.25 times the expected maximum total payment for purchased electrical energy for any month in a calendar year.

In pursuance of the PPA, each year, NEK EAD issues promissory notes in favour of ContourGlobal Maritsa East 3 AD. Pursuant to the provisions of the long-term power purchase agreement, NEK EAD is obliged to purchase a minimum quantity of 3,489,000 MWh a year (or on a pro rata basis in the event of any incomplete year) and the base availability.

Pursuant to the requirements of the Renewable Energy Sources Act, NEK EAD, as public provider, until 24 July 2015, had the obligation to purchase the entire quantity of electrical energy produced from renewable or alternative energy sources, except for the quantities generated by hydro power plants the installed capacity of which exceeds 10 MW. Following the amendment introduced in Art. 31(5) of the same act, the Public Provider, respectively end-suppliers, has the obligation to purchase the RES-generated electricity at preferential prices for the quantity of energy that equals the amount of net specific production based on which preferential prices are determined in EWRC's decisions. The quantities of energy above the net specific production are purchased at the spill price of the Balancing Market, or pursuant to Art. 31(12), they can be traded on the free market. The off-take obligation is subject to power purchase agreements. The RES Act as amended on 3 May 2011 provides for a contract term of 20 years - for the electrical energy produced from geothermal and solar sources and biomass, 12 years – for electric energy produced from wind energy, and 15 years – for electrical energy produced by hydropower plants with an installed capacity of up to 10 MW, as well as for electrical energy generated from other types of renewable energy sources. The terms of purchase obligation start to run as of the plant commissioning date, and for projects commissioned after 31 December 2015, the terms shall be respectively reduced by the time from this date until the date of commissioning of the energy facility.

To comply with the provisions of paragraph 68(8) of the Transitional and Final Provisions of the Energy Act (SG issue 38/08.05.2018, effective since 8 May 2018; amended, issue 83/09.10.2018; amended, issue 91/02.11.2018), the contracts of the Company with RES-based power producers of 4 MW and above total installed capacity are considered terminated as from the date of effectiveness of the premium-based compensation agreements with the Electricity System Security Fund.

Pursuant to the provision of § 34. (1) and (8) of the Transitional and Final Provisions of the Act amending and supplementation the Energy Act (SG issue 41 of 2019, in force from 21.05.2019) :

(1) Until 31 August 2019, the producers of electricity from renewable sources with a total installed capacity of 1 MW to 4 MW shall conclude with the Electricity System Security Fund a contract for compensation with a premium for the quantities of electricity produced by them up to the amount of their defined net specific power output, on the basis of which their preferential price has been determined. Contracts shall enter into force not later than 1 October 2019.

(8) From the date of entry into force of the contract under Para. 1, the purchase contract of the respective producer under Para. 1, concluded before the entry into force of this Act, shall be considered terminated and the public supplier, respectively, the end suppliers, shall not buy at a preferential price the electricity produced by this producer.

By that date, all producers concluded contract with the Funds.

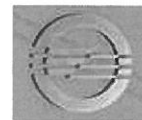
Due to the nature of the operation mode of RES-based facilities and the uncertainty of the total quantity generated, the Company cannot make a reliable estimate of its future payment obligations under the existing PPAs with RES producers.

## **24. Contingent liabilities**

### **Court proceedings and claims against NEK EAD**

#### ***Sofia District Heating***

Sofia District Heating EAD brought five claims for the total amount of about BGN 26 million. The claims, either contract-based or not, are for outstanding principal, late-payment interest, amounts claimed for unjust enrichment from the delivery of electricity, compensation for use of facilities. NEK EAD filed a counterclaim for BGN 13,864 thousand



representing the amount of unpaid invoices, plus penalty interest, issued within the period February 2014 - November 2014 for the quantities of electrical energy produced by turbine generator No. 9 (TG 9) that was improperly invoiced to NEK EAD. With reference to the counterclaim, separate proceedings were instituted, SCC cc No. 5152/2016, as a result of which NEK's claim was granted. The Sofia DH EAD challenged the court decision before the Sofia Court of Appeals, and by its decision of January 2019, the court confirmed the SCC decision. The SCoA decision was appealed by Sofia District Heating EAD before the Supreme Court of Cassation, but was not admitted to further appeal.

It is not anticipated that the outcome of these legal claims will have a material effect on the cash outflows and financial result, since a substantial part of the claims are presented in the financial statements.

#### ***Energy Financing Team AD (EFT)***

Energy Financing Team AD (EFT) brought three claims for the total principal amount of about BGN 5,290 thousand and late-payment interest. The claims are for payment of receivables transferred to EFT by WorleyParsons Nuclear Services JSC under invoices issued for consultancy services.

The claims (BGN 59 thousand as principal amount) in one of the cases were denied by the court of first instance, and EFT appealed against its decision; Sofia court of appeals annulled the SCC decision and granted the EFT's claims; NEK EAD challenged the decision before the Supreme Court of Cassation. In the second case where the claim is for BGN 3,063 thousand, of which BGN 2,347 thousand as principal and BGN 716 thousand as late-payment interest, the SCC decision of 13 March 2020 granted the claims. NEK EAD appealed to the Sofia court of appeals.

In the third case where the claim is for BGN 3,765 thousand, of which BGN 2,884 thousand as principal and BGN 881 thousand as late-payment interest, the SCC decision rejected the claims as unfounded. The SCC decision was confirmed by the SCoA, and the latter is challenged by EFT before the SCoC.

#### ***ContourGlobal Maritsa East 3 AD***

In June 2019, NEK EAD received a Notice of arbitration instituted by ContourGlobal Maritsa East 3 AD. The claim is intended to enforce the rights of ContourGlobal Maritsa East 3 AD against NEK EAD in relation to the request for compensation of the expenses made to make the power plant compliant with the environmental requirements of EU and the Clean Air Act by reducing the emissions of SO<sub>2</sub> and NO<sub>x</sub>.

By its Notice of arbitration ContourGlobal Maritsa East 3 AD claimed payment of the following amounts:

- EUR 12,000,000 as payment of the first installment based on an invoice of 21 December 2017;
- EUR 648,874.12 as contractual interest for delay reckoned from 1 January 2018 until 4 June 2019 (date of the NoA);
- contractual interest for delay from the date of service of the NoA until full repayment of the obligation;
- all court fees and expenses.

#### ***Mechel Carbon AG***

Mechel Carbon AG brought two claims for the total principal amount of about BGN 26,544 thousand and penalty interests. The claims are for payment of principal amounts for delivered electricity from Russe DH EAD and paid by NEK EAD to Russe DH EAD as pledgor and not to the depository designated by Mechel Carbon AG as pledgee after receipt of enforcement notice pursuant to the Act on registered pledges, including interest and charges.

In the first case, for the principal amount of BGN 5,144,760.14 and penalty interest, the SCC decision granted the claims made by Mechel Carbon AG. The SCC decision was confirmed by the SCoA, and the latter was challenged by NEK EAD before the SCoC.

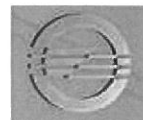
As a result of the deposit made by NEK EAD to the SCoC account, the enforcement of the decision on appeal was suspended.

In the second case, for a principal amount of BGN 21,400,000 and penalty interest, the proceedings in the court of first instance are at an early stage.

#### ***Polimery AD (n)***

Polimery AD (n) brought an action before the SCC against NEK EAD and ESO EAD jointly and severally claiming payment of compensation for unjust enrichment in the amount of BGN 8,307 thousand from the use of their own 110 kV switchgear for the period from December 2011 to June 2017. The proceedings are pending before the SCC.





As at 31 December 2020, other claims were brought against the Company on various legal grounds: for balancing energy, late payments, set-offs and balancing payments. These are either pending or under appeal. In the circumstances, the Management decides not to recognize additional provisions, except for the accrued amounts for late and overdue payments, for legal claims.

#### **Relations with Irrigation Systems EAD**

NEK EAD and Irrigation Systems EAD operate and maintain water reservoirs, dams, hydro engineering and amelioration equipment, in compliance with their obligations to supply water as determined by the Ministry of Environment and Water. NEK EAD, through the Dams and Cascades branch, has provided the service "water supply" to Irrigation Systems EAD and vice versa, Irrigation Systems have provided a service of similar nature to NEK EAD.

Since NEK EAD and Irrigation Systems EAD failed to reach agreement on the supplied quantities of water, and no delivery protocols were signed for the period starting May 2003 until the reporting date, additional liabilities to Irrigation Systems EAD may arise that, at the present moment, cannot be estimated reliably.

#### **Others**

As at the reporting date, Tax Findings Act (Tax Assessment Notice) No. P-29-1200199091-001/15.06.2015 was issued, upon completion of a comprehensive tax audit for the period 1 January 2008 – 31 December 2011, and a Tax Assessment Notice to amend TFA No. II-9002915117240-003-001/14.07.2015 which by Decision No. 1843/04.12.2015 of C&TIP, under the section on the performed tax assessment for a period of assessment, March 2012, is reversed for a principal amount of BGN 389,049.30 and interest of BGN 94,185.55, confirmed for the remaining part for the amount of BGN 5,105,591.09 as principal amount and interest. By court decision, the TFN was partly reversed. The decision was challenged before the Supreme Administrative Court, and the court in its decision:

maintained the decision of ACSC in the part where the claim of NEK was granted and the ACSC confirmed as unfounded the increase in the financial result by BGN 29,902,217.47 in relation to the equipment under the Frame Agreement with ASE and reversed the TFA in that part. On 4 September 2019, an amount of BGN 4,798 thousand representing the corporate tax paid in excess for 2011 and interest was recovered to NEK EAD;

confirmed the decision of ACSC in the part where the appeal by NEK EAD of the TFA of 15 June 2015 concerning the increase in the financial result due to incorrect accounting for of the grid connection fee and the corresponding tax liability under the CITA for 2010 and 2011 and confirmed the TFA in that part;

the decision of the Administrative Court Sofia City, in the part concerning the dispositions obligating NEK EAD to pay, under PITA HIA and SSC, BGN 205,235 as principal amount and interest for tax assessment periods 2008, 2009, 2010 and 2011, was annulled. SAC has referred to case back to the Administrative Court Sofia city for appointing and hearing an expert accountant, including mandatory instructions on the interpretation and application of law.

Decision No. 2769/08.06.2020 of ACSC reversed TFA No. P-29-1200199-001/15.06.2015, amended by TFA No. P-29-0029151117210-003-001/14.07.2015 issued by NRA, in the part where the TFA was confirmed by decision No. 1843/04.12.2015 of the director of the A&PM Directorate - Sofia, imposing on NEK EAD payment obligations under PITA, HIA and SSC amounting to BGN 205,235.66 as principal amount and interest for tax assessment periods 2008, 2009, 2010 and 2011 for the total amount of BGN 126,077.67 and awarded A&PM Directorate – Sofia to pay to NEK EAD the amount of BGN 9,021, representing the court fees and expenses.

The decision is subject to appeal before the Supreme Administrative Court.

#### **Guarantees**

The balance on bank guarantees issued by order of NEK in favour of other entities (third parties), as of 30 June 2020, is BGN 325 thousand, including BGN 200 thousand to related parties within the group of BEH - ESO EAD, and BGN 125 thousand to other related parties, IBEX (at 31 December 2019, BGN 225 thousand to related parties, ESO EAD, BGN 100 thousand and IBEX, BGN 125 thousand).



**Promissory notes**

As at 30 June 2020, NEK EAD discloses promissory notes issued in favour of lending banks to capital construction projects and other projects, for the total amount of BGN 183,025 thousand, including to related parties, ContourGlobal Maritsa East 3, BGN 100,376 thousand, ESO EAD, BGN 220 thousand, IBEX, BGN 137 thousand (as at 31 December 2019, the promissory notes amounted to BGN 190,855 thousand, including to related parties, ContourGlobal Maritsa East 3, BGN 108,316 thousand, ESO EAD, BGN 110 thousand and IBEX, BGN 137 thousand).

**25. Events after the reporting period**

On 9 July 2020, the Commercial Register announced a second partial account for distribution of available amounts among the creditors of Corporate Commercial Bank AD (in bankruptcy), and the amount allocated in favour of NEK EAD is BGN 1,300 thousand.

**26. Disclosure in accordance with legal requirements**

These financial statements were audited by the audit firm HLB Bulgaria OOD, pursuant to an audit engagement contract between Bulgarian Energy Holding EAD and HLB Bulgaria OOD. The Company does not charge sums for the independent financial auditing. The non-consolidated condensed interim financial statements of BEH EAD for the period ended 30 June 2020 contain disclosures of the amounts charged for services provided by certified independent auditor. During the period, the certified auditor did not provide any other services.

**27. Approval of Condensed Interim Financial Statements**

These condensed interim financial statements for the period ended 30 June 2020 (including the comparative information) were approved by the Board of Directors and authorized for issue on 31 July 2020.