

The revision of the outlook was driven by the recent revision of the outlook on Bulgaria's Long-Term Foreign- and Local-Currency Issuer Default Ratings IDR to positive from stable. Fitch Ratings revised the outlook on Bulgarian Energy Holding's (BEH) IDRs to positive from stable and affirmed them at BB. The statement from the agency said that BEH's IDR reflects its Standalone Credit Profile (SCP) of b+, which is notched up twice for strong links with its sole owner, the Bulgarian state, to arrive at the BB IDR.

However, the current support score for BEH of 17.5, calculated under Fitch's Government-Related Entities Rating Criteria, would allow for a three-notch uplift to its SCP if not constrained by a cap defined as the sovereign rating minus three notches. Therefore, if Bulgaria were upgraded to BBB+, the cap for BEH's ratings would increase to BB+ from BB and BEH's ratings would be upgraded to an IDR of BB+ and senior unsecured of BB, assuming other factors unchanged. This possibility is reflected in the Positive Outlook on BEH's IDR.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Upgrade of Bulgaria's ratings;
- Further tangible government support to BEH, such as additional state guarantees materially increasing the share of state-guaranteed debt, or cash injections, which would more tightly link BEH's credit profile with Bulgaria's stronger credit profile;
- Stronger SCP due to funds from operations (FFO) net leverage falling below 4x on a sustained basis, lower regulatory and political risk, higher earnings predictability, and better corporate governance.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Negative action on Bulgaria's rating;
- Weaker links with the Bulgarian state;
- Weaker SCP, e.g. due to FFO net leverage exceeding 6x on a sustained basis, escalation of regulatory and political risk, or insufficient liquidity.