



**The Financial Mines –
Murky banking interests in the Bulgarian coal industry drain public funds, destroy thousands
of human lives and heavily contaminate the environment**

Media briefing, January 2018

The in-depth investigation, conducted over the course of several months by Greenpeace Bulgaria, raises concerns about Bulgaria's enigmatic energy tycoon Hristo Kovachki. The investigation sheds light on the banking and public interests that lie behind the economic activities fronted by Mr. Kovachki.

"The Financial Mines" focuses on 19 of over 150 companies that make up Mr. Kovachki's energy empire. "Kovachi's coal network" includes three power plants, eight district heating plants and eight mines. "The Financial Mines" shows the rampant social and economic problems arising from the work of these businesses, while pointing to the banking institutions that funded their financial transactions. These are mainly Bulgarian banks such as First Investment Bank (FIB), [highlighted explicitly by the European Commission](#) because of the poor quality of its corporate loans.

Analysis of the companies' financial activities shows that their focus is on selling electricity and "absorbing" any possible energy state subsidies.

Here are some common governing principles shared by the companies in the economic network. In a more specific and synthesized form, they are set out in the report "The Financial mines":

- This "Coal Empire" is highly indebted, with an accumulated loss of close to EUR 200 million as well as delayed payments of taxes, salaries and social contributions nearing EUR 113 million. However, the authorities are turning a blind eye to the issue.
- Some of the biggest air polluters in Europe enjoy huge price subsidies for their "efficient energy". In Bulgaria, solar plants and wind farms receive 15 to 30 percent less for electricity production than these coal burning facilities.
- The coal miners have to accept monthly wages of EUR 300, rarely EUR 400. The miners are often left without pay for months on end and their desperate protests are blatantly suppressed.
- In the last ten years 23 people have died and 17 have been left disabled while working under the unhealthy and dangerous conditions of the Bulgarian coal extraction industry.
- The origins of this "Coal Empire" lie in a controversial privatization process. Bulgarian coal assets had been laundered in offshore zones (Seychelles, British Virgin Islands, etc.) and then "resold" to shell companies based in the UK and Cyprus.
- This murky network evokes fears that its huge pending losses would be socialized in the future.

Financial Indicators

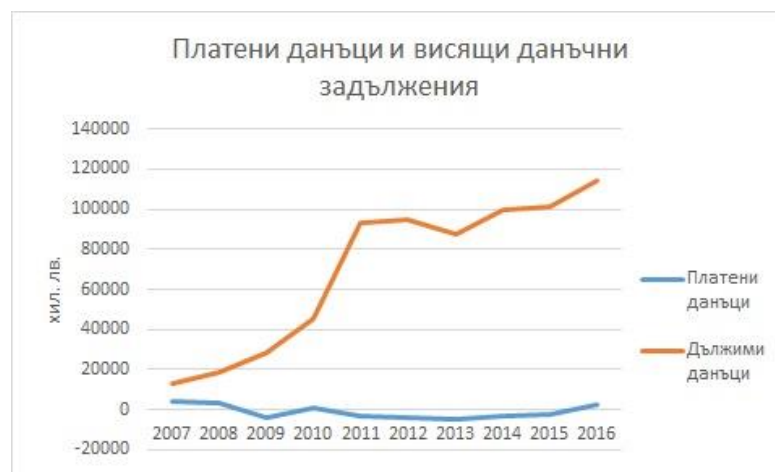
For the period of 2007 – 2016, the companies in question had declared combined net revenues of EUR 3.7 billion. According to the financial accounts, these are losing businesses – as of 2016, the group had already piled up an **accounting loss of EUR 184 million**.



Financial losses of 19 companies (2007-2016), in thousands BGN

In addition, there are:

- Outstanding tax liabilities worth of more than EUR 58 million.** This fact goes hand in hand with “tax neutrality”: the group is predominantly working at a loss, and since the Bulgarian companies are eligible to deducting losses from future profits, the total tax bill turns out to be a negative sum. In other words, corporate taxes constitute revenues and not expenses for this structure – taken as a whole, EUR 5 million for a period of ten years.



Paid taxes and outstanding tax liabilities, in thousands BGN

- **Outstanding liabilities towards employees and the social security system amounting to EUR 55 million.**
- As of the end of 2016, total liabilities amounted to EUR 573.8 million. **Thus, in the last ten years the liabilities of this group increased by over 40 percent.**
- During the examined period, the long-term assets of this group depreciated by 28 percent. This speaks of worn out production facilities and systematically neglected investments. Most striking is the situation with the **long-term assets of the coal mines – they dropped by almost 80 percent** to merely EUR 11 million. The installation of Sulphur and nitrogen filters increased the asset value of the TPPs, but for the most part the power plants remain obsolete.
- Taken as a whole, the assets of this group incase – only due to rising accounts receivable. **The outstanding accounts receivable stay at EUR 275 million as of 2016.** For such a closely integrated and secretive business structure it is doubtful whether its current assets correspond to real business operations. Some of the companies’ auditors raise this question in their accompanying reports – a rarity for the loose Bulgarian accountancy regime.



Accounts receivable and long-term assets, in thousands BGN

- The structure uses external services providers, with EUR 430 million combined costs for ten years. This is equal to three quarters of all employment costs for the same period. On the other hand, the **financial expenses** (interest pay offs, rolling loans, financial leasing, etc.) **surpass EUR 500 million in a ten-year period.** That is to say, this business structure drains its own companies by

transferring operations and financial flows away.

- Since these companies are supposedly “losing money” and “drowning in debt”, the employees have no ground in negotiating better remuneration or improved labor conditions. Institutions spare their efforts to collect due taxes or social contributions in order not to fail the company and thus provoke mass unemployment. Environmental protection is also compromised.



Net sales revenue, 19 companies (2007-2016), in thousands BGN

An “Empire” without future

As is clear from the financial analysis, the amount of unpaid salaries and social security contributions for the entire group amounted to EUR 55.7 million at the end of 2016, and only for TPP “Brikel” EAD the liabilities to the staff reached EUR 9 million. In the media indicate that in the last years the salaries of the employees in coal mining have been seriously reduced and now they vary between EUR 300 and EUR 400 a month for shift work, with fewer than EUR 400.

Occupational accidents are not uncommon. For the last ten years, 23 Bulgarians have died in Bulgarian coal mining and 17 have been disabled. Coal mines offer extremely harmful and hazardous working conditions.

The overall conclusion of the analysis shows that the companies of the “Kovachki” group are currently barely alive. At the end of the life cycle of a dirty business, thousands of people are forced to suffer inhumane working conditions, miserly pay, and systematic humiliation **just because state authorities prioritize specific financial interests to regional development needs.**

[Summary of “The Financial Mines” report](#)



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