BULGARGAZ EAD

ANNUAL MANAGEMENT REPORT
DECLARATION ON CORPORATE GOVERNANCE
ANNUAL FINANCIAL STATEMENTS
INDEPENDENT AUDITORS' REPORT

31 DECEMBER 2021

This version of financial statements as at 31 December 2021 of Bulgargaz EAD is free translation from Bulgarian to English language. These financial statements have been prepared and audited as of 18 May 2022.

CONTENTS

This Activity Report of Bulgargaz EAD for 2021 presents commentary and analysis of the financial statements and other relevant information regarding the financial position and results of operations of the Company covering the period from 01 January 2021 to 31 December 2021.

The report has been prepared in accordance with the requirements of Art. 39 of the Accounting Act, Art. 187e, Art. 247, paragraphs (1), (2) and (3) of the Commercial Act, and Art. 100 (n). paragraph (7), item (2) of the POSA.

I. GENERAL INFORMATION ABOUT THE COMPANY

Bulgargaz EAD is a sole owner joint stock company, registered in accordance with the Commercial Act with registered office and address of management in the Republic of Bulgaria, Sofia region, Sofia Capital Municipality, Serdika district, Sofia 1000, 47 Petar Parchevich Str.

The Company has no registered branches in the country or abroad.

The registered capital is distributed into 231,698,584 registered shares. The capital of the Company is subscribed and paid in by Bulgarian Energy Holding EAD. All shares have a par value of BGN 1. The shares of the Company are ordinary registered non-preferred voting shares. The state owns 100% of the registered capital of Bulgarian Energy Holding EAD.

Bulgargaz EAD main scope of business is the public supply of natural gas, as well as related purchases and sales of natural gas. The Company does not carry out research activities.

Bulgargaz EAD holds a license for public supply of natural gas on the territory of the country issued by the State Energy and Water Regulatory Commission (SEWRC) on 29 November 2006 for a period of 35 years.

Pursuant to Art. 21, paragraph (1), item (1) and in connection with Art. 39, paragraph (1), item (5), second proposal of the Energy Act, with a decision of the Energy and Water Regulatory Commission (EWRC) dated 16 September 2021 / No. L-548-15 Bulgargaz EAD acquired a license for trade in natural gas / No. A0435 for a period of 10 years.

The specific legislation applicable for Company's activity is as follows: Energy Act; Ordinance No. 3 of 2013 on licensing of activities in the energy sector; Ordinance No. 2 of 2013 on the regulation of natural gas prices; Rules for trade in natural gas; Regulation No. 994/2010 of the European Parliament and of the Council concerning measures to safeguard security of gas supply and repealing Directive 2004/64/EC.

Based on the Methodology of EWRC for determining prices for access and transmission of natural gas through the gas transmission networks owned by Bulgartransgaz EAD and in connection with the introduction of an input-output tariff model in implementation of the same methodology as of 01 October 2017, prices for access and transmission on the gas transmission networks are determined in BGN / MWh. Contract for access and transmission of natural gas on the gas transmission networks of Bulgartransgaz EAD is signed between Bulgargaz EAD and Bulgartransgaz EAD as well as a Purchase and Sale Agreement of natural gas for balancing.

1. STRUCTURE OF THE COMPANY

Bulgargaz EAD has a one-tier management system. The governing bodies of the Company are:

- The sole owner of the capital who decides on the issues within the competence of the general meeting;
- Board of Directors.

As of 31 December 2021 the composition of the Board of Directors is:

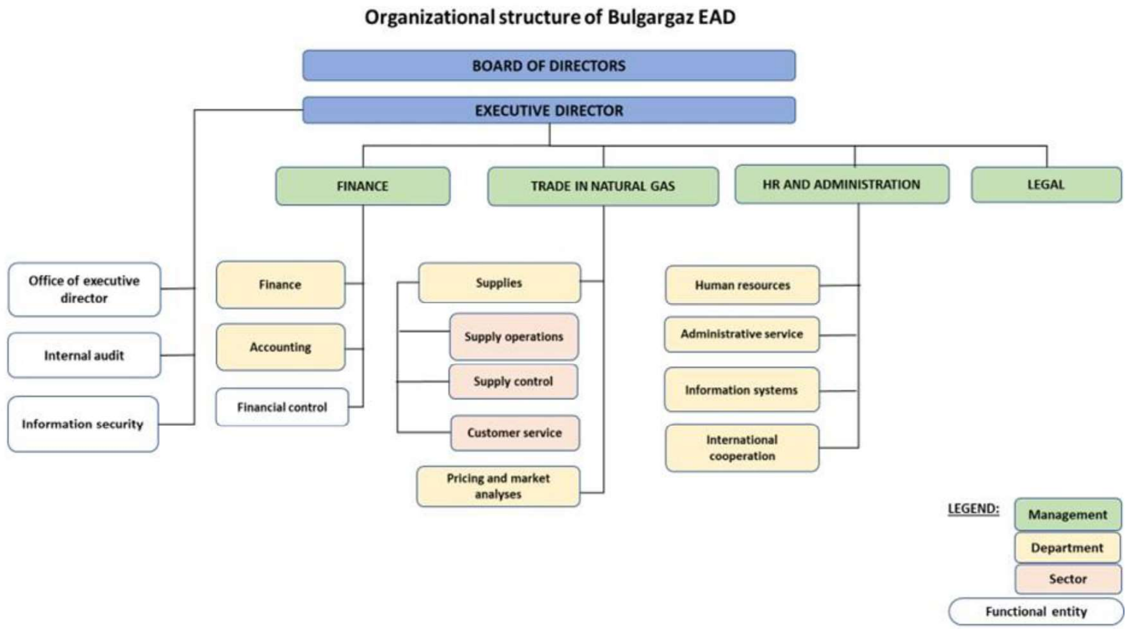
Diana Stoyanova Boneva Chairman and member of the Board of Directors

Nikolay Angelov Pavlov Member of the Board of Directors and Executive Director

Iliyan Kirilov Dukov Member of the Board of Directors

Nikolay Atanasov Donchev Member of the Board of Directors

Svetoslav Tanev Delchev Member of the Board of Directors



2. RESPONSIBILITY OF MANAGEMENT

The management confirms that in the preparation of the financial statements as of 31 December 2021 an adequate accounting policy has been applied and they have been prepared on the going concern principle.

Management is responsible for the proper bookkeeping of accounting records for the proper management of assets and for taking the necessary measures to avoid and detect possible misuse and other irregularities.

3. INFORMATION ON ACQUISITION AND HOLDING OF SHARES OF THE COMPANY BY THE MEMBERS OF THE BOARD OF DIRECTORS

The Company does not possess own shares.

The members of the Board of Directors do not own shares of the Company. They are not provided with privileges or exclusive rights to acquire shares and bonds of the Company.

All shares are owned by Bulgarian Energy Holding EAD.

Information on the participation of the members of the Board of Directors in companies as unlimited partners, the ownership of more than 25 percent of the capital of another company, as well as their participation in the management of other companies or cooperatives such as procurators or board members (in compliance with the requirements of Art. 247, paragraph (2), item (4) of the Commercial Act) is as follows:

Nikolay Angelov Pavlov - Executive Director Member of the Board of Directors since 22 May 2017:

- does not participate as a general partner in business companies;
- does not own more than 25 percent of the capital of business companies;
- does not participate in the management of other cooperative companies as a procurator manager or a member of board.

Diana Stoyanova Boneva - Chairman and member of the Board of Directors since 19 July 2021:

- does not participate as a general partner in business companies;
- does not own more than 25 percent of the capital of business companies;
- does not participate in the management of other cooperative companies as a procurator manager or a member of board.

Iliyan Kirilov Dukov - Member of the Board of Directors since 6 January 2015:

- does not participate as a general partner in business companies;
- owns more than 25 percent of the capital of Yapi Investments OOD, Lift Corp OOD, Nilis OOD, Imocorp EOOD and Inmax EOOD;
- Participates in the management of Nilis OOD, Imocorp EOOD and Inmax EOOD as a manager.

Nikolay Atanasov Donchev - member of the Board of Directors since 19 July 2021:

- does not own more than 25 percent of the capital of business companies;
- does not own more than 25 percent of the capital of business companies;
- does not participate in the management of other cooperative companies as a procurator manager or a member of the board.

Svetoslav Tanev Delchev - member of the Board of Directors since 19 July 2021:

- does not participate as a general partner in business companies;
- owns more than 25 percent of the capital of Travel Academy OOD;
- participates in the management of Travel Academy OOD as a manager.

On 28 January 2022, by decision No. 6-20-22 of Bulgarian Energy Holding EAD, the following new members of the Board of Directors of Bulgargaz EAD were elected:

Ivan Dimitrov Topchiyski - Chairman and member of the Board of Directors

Lyudmil Ventsislavov Yotsov - Member of the Board of Directors and Executive Director

Angela Svetlozarova Slavova - Member of the Board of Directors

Anton Yordanov Adamov - Member of the Board of Directors

Stefan Pandov Voynov - Member of the Board of Directors

These circumstances were entered in the Commercial Register on 03 February 2022.

Lyudmil Ventsislavov Yotsov - Executive Director Member of the Board of Directors since 03 February 2022:

- does not participate as a general partner in business companies;
- owns more than 25 percent of the capital of FEB 25 OOD;
- does not participate in the management of other cooperative companies as a procurator manager or a member of board.

Ivan Dimitrov Topchiyski - Chairman and member of the Board of Directors since 03 February 2022:

- does not participate as a general partner in business companies;
- does not own more than 25 percent of the capital of business companies;
- does not participate in the management of other cooperative companies as a procurator manager or a member of board.

Angela Svetlozarova Slavova - member of the Board of Directors since 03 February 2022:

- does not participate as a general partner in business companies;
- owns more than 25 percent of the capital of In Mind OOD;
- does not participate in the management of other cooperative companies as a procurator manager or a member of board.

Anton Yordanov Adamov - Member of the Board of Directors since 03 February 2022:

- does not participate as a general partner in business companies;
- does not own more than 25 percent of the capital of business companies;

- does not participate in the management of other cooperative companies as a procurator manager or a member of board.

Stefan Pandov Voynov - Member of the Board of Directors since 03 February 2022:

- does not participate as a general partner in business companies;
- owns more than 25 percent of the capital of Net Investment OOD, Net Delivery AD, Via Smart Investment EOOD;
- participates in the management of Net Investment OOD as a manager, in Net Delivery AD as a representative and member of the Board of Directors and in Via Smart Investment EOOD as a sole owner of the company's capital.

4. INFORMATION ABOUT THE CONTRACTS UNDER ART. 240B OF THE COMMERCIAL ACT CONCLUDED DURING THE YEAR

As of 31 December 2021, the Board of Directors or other related persons have not concluded contracts under Art. 240B of the Commercial Act on behalf of the Company, which go beyond its usual activities or significantly deviate from market conditions.

II. RESULTS FROM THE ACTIVITY OF THE COMPANY AS OF 31.12.2021

In 2021, Bulgargaz EAD operates in compliance with all regulations. The result of the activity of the Company is profit after taxation in the amount of BGN 63,905 thousand (as of 31 December 2020: profit in the amount of BGN 39,657 thousand).

1. GENERAL FACTORS AFFECTING THE ACTIVITY OF THE COMPANY

The activity of Bulgargaz EAD being public supply of natural gas is regulated by the Energy Act and the statutory regulations.

By Law for amendment and supplement of the Energy Act (LAS of the Energy Act) adopted on 25 September 2019 by the National Assembly and promulgated in State Gazette No. 79 of 2019 it was established an organized stock market for natural gas, and its operation and the role of market participants thereon has been regulated.

As of 01 December 2019, a new obligation is created for Bulgargaz EAD to annually offer for sale on the organized stock market certain quantities of natural gas in accordance with the release program provided for in Art. 176a Energy Act.

By the amendment of Art. 30, paragraph (1), item (7) of the Energy Act (EA) promulgated in State Gazette No. 79 of 2019, the circle of persons to whom Bulgargaz EAD sells natural gas at a regulated price is significantly narrowed. The change entered into force as of 01 January 2020 as Bulgargaz EAD, as a public supplier, sells natural gas at regulated prices only to:

(i) end suppliers of natural gas;

(ii) a person who has been issued a license for the production and transmission of heat.

All other customers directly connected to the gas transmission network are excluded from the regulated market.

Following the amendments in the legislation, Bulgargaz EAD operates as follows:

- on a regulated market - at prices regulated by the EWRC;
- on an organized stock market - at freely negotiated prices;
- under the Natural gas Release Program on the organized stock market - under the terms of the Agreement for implementation of the program, approved by the EWRC;
- outside the organized stock market (on the domestic and international markets) - at freely negotiated prices.

Pursuant to the Rules for Trade in Natural Gas, Bulgargaz EAD binds the terms of delivery under contracts with its customers to the terms of its long-term contracts.

2. PERFORMANCE OF QUANTITATIVE INDICATORS

2.1. Purchased and sold quantities of natural gas

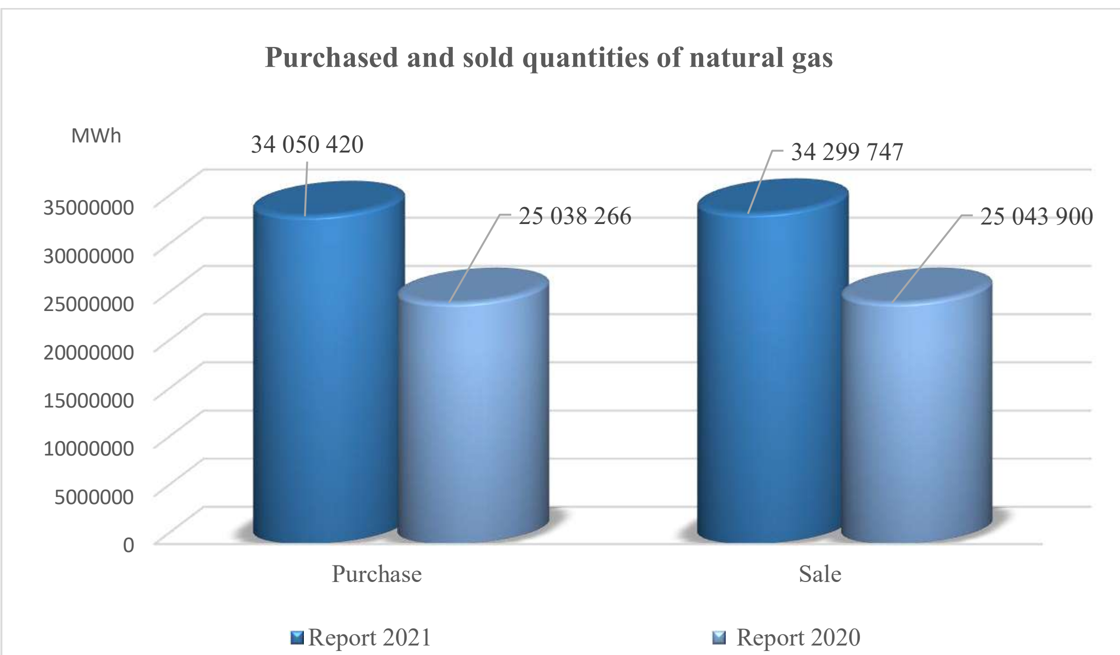
The main deliveries of natural gas guaranteeing the consumption of the Company's customers are provided through a long-term contract with OOO Gazprom Export.

As a result of negotiations and agreements signed on 29 December 2020, the deliveries of gas from Azerbaijan under the contract of 2013 started on 31 December 2020. According to the signed agreements, Bulgargaz EAD receives these deliveries at a temporary delivery point in Greece and transports them through the Greek gas transmission network to the Bulgarian border.

The purchased and sold quantities of natural gas as of 31 December 2021 compared to 31.12.2020 are presented in Table No. 1:

Table No. 1 *MWh*

Type of delivery	Unit	Report 2021	Report 2020	Change in quantities	Change in (%)
Purchase	MWh	34 050 420	25 038 266	9 012 154	35,99%
Sale	MWh	34 299 747	25 043 900	9 255 847	36,96%



During the reporting period, a total of 34,050,420 MWh of gas was purchased (2020: 25,038,266 MWh), which is an increase of 9,012,154 MWh or 35.99%.

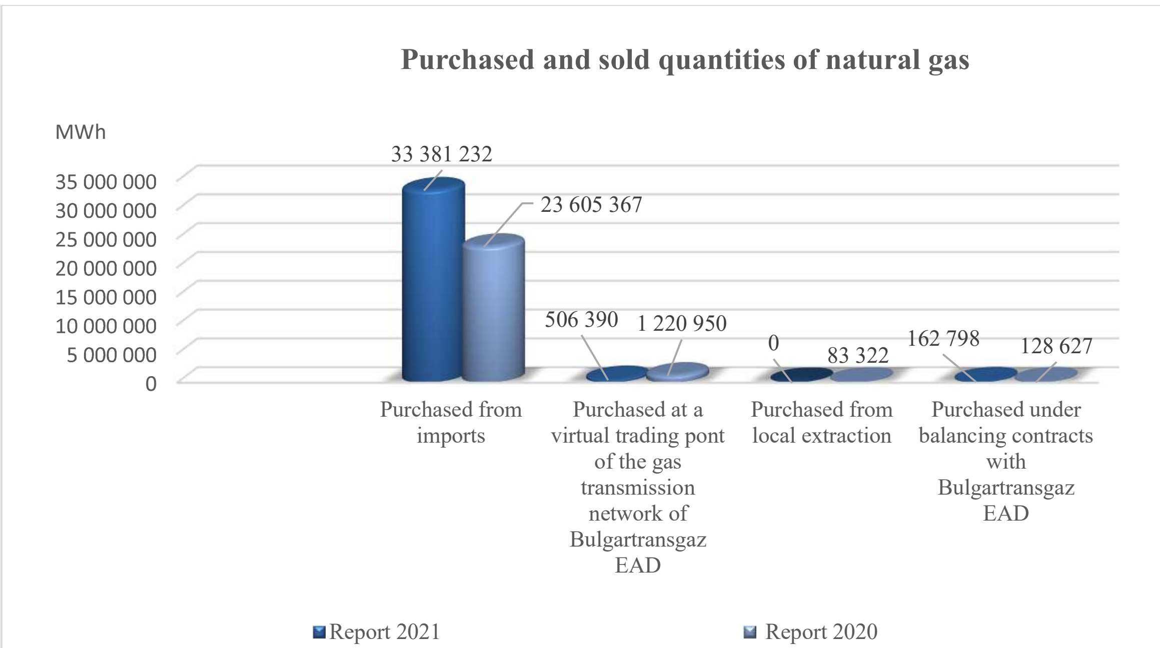
The sold quantities of gas are 34 299 747 MWh, compared to 25 043 900 MWh for 2020, which is an increase of 9 255 847 MWh or 36.96%. The increase in sales is mainly due to higher consumption of customers in the sectors of Energy, Distribution Companies, Release Program and Organized Stock Market.

2.2 Purchased quantities of natural gas

The purchased quantities of natural gas for 2021 and for 2020 are shown in Table No. 2.

Table No. 2 *MWh*

Purchase of natural gas	Report 2021	Report 2020	Change in quantities	Change in (%)
TOTAL for the period	**34 050 420**	**25 038 266**	**9 012 154**	**35,99%**
Purchased from imports	33 381 232	23 605 367	9 775 865	41,41%
Purchased at a virtual trading pont of the gas transmission network of Bulgartransgaz EAD	506 390	1 220 950	(714 560)	(58,52%)
Purchased from local extraction	-	83 322	(83 322)	(100%)
Purchased under balancing contracts with Bulgartransgaz EAD	162 798	128 627	34 171	26,57%



To meet the natural gas needs of its customers in 2021, Bulgargaz EAD purchased 34,050,420,420 MWh of natural gas (2020: 25,038,266 MWh). The purchased quantities of natural gas from imports as of 31 December 2021 amount to 33,381,232 MWh, which is 98.03% of the total purchase, as well as the purchased quantities at virtual trading point 506,390 MWh and the purchased natural gas from Bulgartransgaz EAD under balancing contracts in the amount of 162,798 MWh.

2.3 Extraction and injection of natural gas

To ensure the security and continuity of natural gas supplies to its customers, Bulgargaz EAD uses the capacity of the underground gas storage in the village of Chiren (Chiren UGS), owned by Bulgartransgaz EAD.

The extracted and pumped quantities of natural gas in the Chiren UGS in 2021 and 2020 are presented in Table No. 3.

Table No. 3 *MWh*

Extraction and injection	Repot 2021	Report 2020	Change in MWh	Change in %
Quantities available at the beginning of the period	**2 322 800**	**2 329 714**	**(6 914)**	**(0,30%)**
Extraction	3 247 567	2 510 047	737 520	29,38%
Injection	2 996 868	2 501 067	495 801	19,82%
Difference in the recalculation of quantities from extraction and injection in Chiren UGS	480	(2 066)	2 546	(123,23%)
Quantities available at the end of the period	**2 071 621**	**2 322 800**	**(251 179)**	**(10,81%)**

The extracted quantities of natural gas in 2021 are 3 247 567 MWh, which is 737 520 MWh or 29.38% more than in 2020 (2020: 2 510 047 MWh). The injected quantities of natural gas as of 31 December 2021 are 495 801 MWh more, compared to 2020, when they were 2 501 067 MWh.

The company has at its disposal 2,071,621 MWh of gas in the Chiren UGS as of 31 December 2021 (as of 31 December 2020: 2,322,800 MWh).

III. SALE OF NATURAL GAS

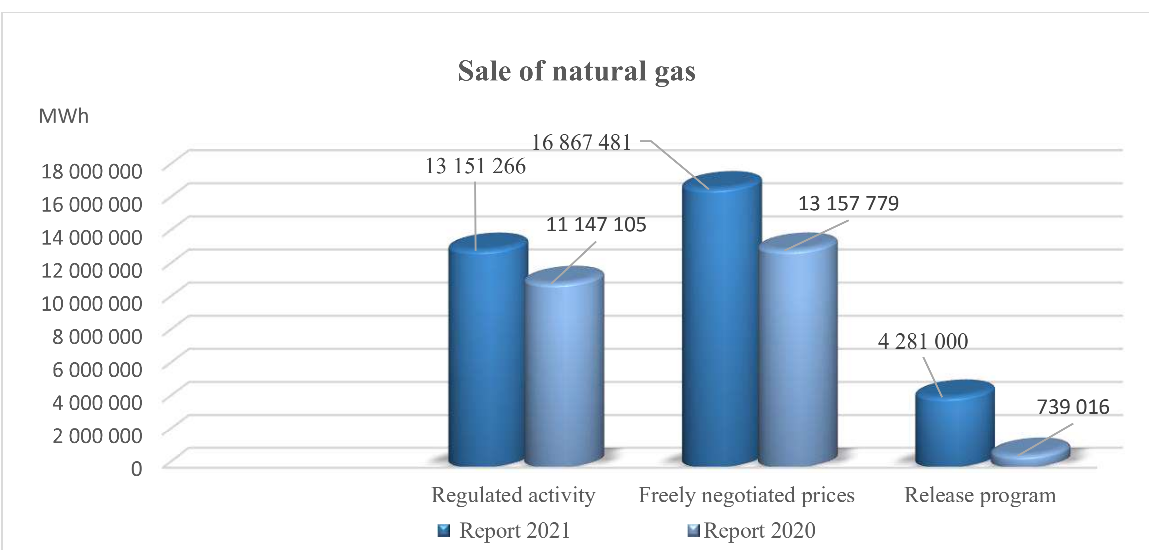
1. Sales

Bulgargaz EAD ensures reliable supply of natural gas to its customers in the country in accordance with the contractual requirements. As of 31 December 2021, 34,299,747 MWh of natural gas were sold, which is an increase of 9,255,847 MWh or 36.96%, compared to the quantities sold in 2020 - 25,043,900 MWh.

Natural gas sales for the reporting period are presented in Table No. 4:

Table No. 4 *MWh*

Sales	Report 2021	Report 2020	Change in quantities	Change in (%)
Regulated activity	13 151 266	11 147 105	2 004 161	17,98%
Freely negotiated prices	16 867 481	13 157 779	3 709 702	28,19%
Release program	4 281 000	739 016	3 541 984	479,28%
Total	**34 299 747**	**25 043 900**	**9 255 847**	**36,96%**



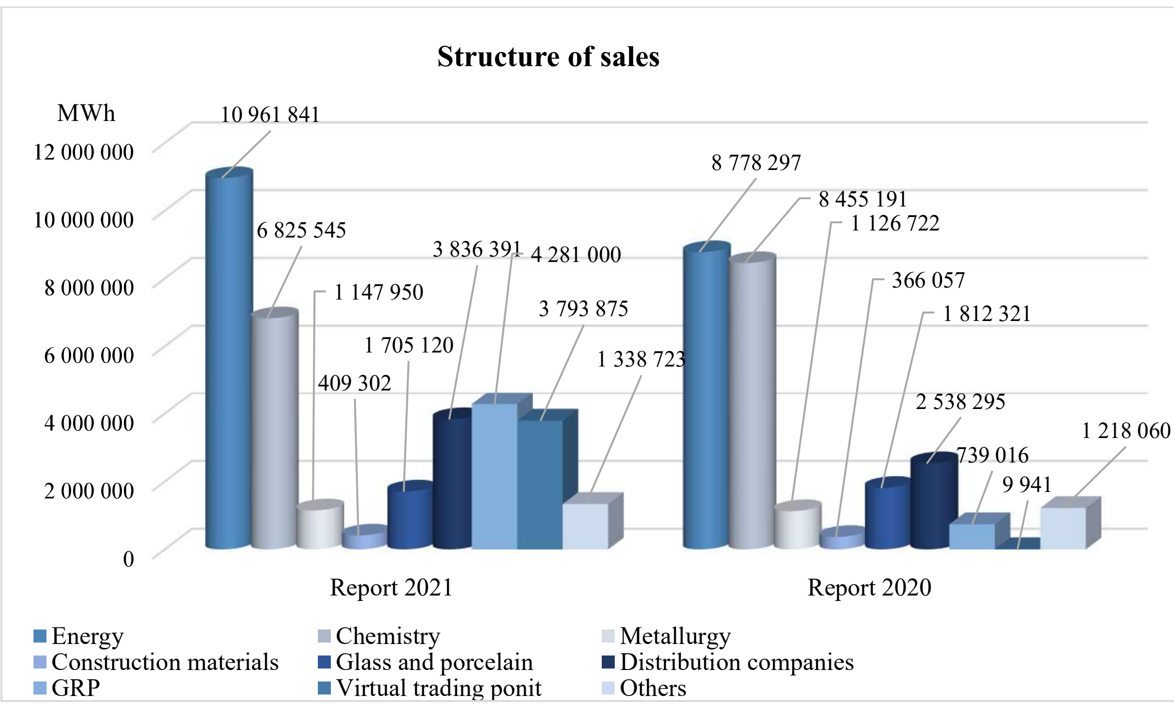
2. Structure of sales

The quantities of natural gas sold to the Company's customers by main industry sectors for 2021 and 2020 are presented in Table No. 5.

Table No. 5 *MWh*

Industry sector	Report 2021	Report 2020	Change in quantities	Change in (%)
Energy	10 961 841	8 778 297	2 183 544	24,87%
Chemistry	6 825 545	8 455 191	(1 629 646)	(19,27%)
Metallurgy	1 147 950	1 126 722	21 228	1,88%
Construction materials	409 302	366 057	43 245	11,81%
Glass and porcelain	1 705 120	1 812 321	(107 201)	(5,92%)
Distribution companies	3 836 391	2 538 295	1 298 096	51,14%
GRP	4 281 000	739 016	3 541 984	479,28%
Virtual trading ponit	3 793 875	9 941	3 783 934	38 063,92%
Others	1 338 723	1 218 060	120 663	9,91%
Общо	**34 299 747**	**25 043 900**	**9 255 847**	**36,96%**

As of 31 December 2021, the sales, compared to those as of 31 December 2020, increased by 9 255 847 MWh or by 36.96%. This is a result of the increased consumption of customers mainly from the Energy, Distribution Companies, Virtual trading point and GRP sectors, while there is a decrease in consumption in the Chemistry and Glass and Porcelain sectors.



The data presented in Table No. 5 shown in the graph above show the following trend in the structure of natural gas consumption:

- ✓ The main consumers of natural gas remain the enterprises in the field of energy and chemistry;
- ✓ increase in the total sales of natural gas as of 31 December 2021 compared to the previous period as of 31 December 2020 due to increased consumption of customers. Significant increase in sales achieves at VTP and GRP.

IV. RISK FACTORS

The main risk factors in the activity of the Company are: the sale of natural gas at a regulated price lower than the purchase price; trade and other receivables and payables; currency risk.

The following types of risks exist in carrying out the Company's activities:

1. Regulatory / Price Risk

The specificity of the activity of Bulgargaz EAD stems from the fact that the Company is a public supplier of natural gas. The Company buys natural gas at market prices by selling part of the purchased quantities at regulated prices. The discrepancy between the purchase and sale price exposes the Company into a risk in fulfilling its functional obligations. In case of approval of regulated prices lower than the delivery prices, the sales revenues would not be sufficient to cover the actual costs for the purchase of natural gas and the Company would have difficulties in paying its obligations to suppliers.

2. Currency Risk

Currency risk is associated with changes in foreign exchange rates that result in a gain or loss on the revaluation of foreign currency assets.

The main risk for Bulgargaz EAD stems from the need to buy natural gas in US dollars and sell it in BGN. Thus, the Company is exposed to the risk of changes in the exchange rate. The approved marginal price set by the EWRC for each regulatory period is determined at a fixed exchange rate of the US dollar against Bulgarian lev, averaged for 45 days prior to the month of submission of the application for approval of the EWRC selling price for the next price period. Also, the Company is exposed to the risk of realizing a loss from the revaluation of its foreign exchange exposures due to the dynamic movement of the US dollar exchange rate.

3. Credit Risk

The credit risk for the Company arises from receivables from customers and the risk of financial loss in cases where the customer does not fulfill its contractual obligations to pay for the gas suppled. The main clients of the Company are the district heating companies, which have problems with the collection of their receivables from customers and experience serious difficulties in repaying their liabilities due to maturity. The Company carries out current monitoring and analysis of its receivables, monitors the behavior of its customers and reports in detail the activities of its major debtors. Additional rescheduling agreements are concluded with some of the clients who have difficulties in repaying their current liabilities after providing financial security. As a last resort, the supply of natural gas has been suspended and the receivables of Bulgargaz EAD were collected through the court.

4. Liquidity Risk

Liquidity risk arises when the Company is unable to meet its current obligations and financial commitments. They are reflected in the short-term liabilities of the Company, namely liabilities for transfer and storage, liabilities to the state in the form of taxes and excise duties, liabilities under trade loans and regular payments related to operating activities. Short-term liabilities require precise planning of cash flows based on monthly forecasts.

V. STRATEGIC AND MARKET OBJECTIVES

The development of the Company is related to the realization of the strategic and market goals.

The main strategic goals of Bulgargaz EAD are related to the responsibilities and obligations for continuity and security of supply. Ensuring the supply of natural gas is of key importance for the energy security of the Republic of Bulgaria. To achieve these goals, Bulgargaz EAD makes every effort to provide alternative sources and routes for natural gas supply. This is related to maintaining constant financial stability and increasing the economic efficiency of the company's activities in the conditions of market uncertainty in the country and high intercompany indebtedness.

The market goals of Bulgargaz EAD are related to entering other gas markets.

The financial goals of Bulgargaz EAD are related to ensuring the financial stability of the Company. With regard to the regulated market, the legislation regulates the method of pricing of Bulgargaz EAD for sales on the regulated market. The realization of "excess profit" would be considered a violation of the Ordinance on the regulation of natural gas prices, which sets an upper limit of the component for the activity "public supply" up to 2.5%

per year. With regard to the free market, after 01 January 2020, in order to ensure equality between the Company's customers, Bulgargaz EAD proposed a unified approach to the formation of prices at which it supplies natural gas to the regulated market and respectively prices under contracts, which were initially concluded under the conditions of regulated prices, and after the entry into force of the Law on amendment and supplement of the Energy Act they should be executed at freely negotiated prices. In order to ensure a smooth transition and to protect the interests of both parties as much as possible, Bulgargaz EAD proposed to its customers that the formation of sales prices under contracts be carried out in accordance with the provisions of the Ordinance on the prices of natural gas. The approach applied by Bulgargaz EAD guarantees the objective and transparent formation of the gas price. After this transitional period, Bulgargaz EAD should apply a free market pricing mechanism, taking into account market requirements and in accordance with the terms of its long-term contracts.

The natural gas market in Bulgaria is relatively small, and so far the trade in natural gas is developing mainly in the direction of imports to Bulgaria. Imports are fully liberalized, while exports are technically limited and practically symbolic. It is also essential to improve the functioning of the regulated market as well as the gas exchange (trading platform Gas Hub Balkan EAD) in order to ensure the predictability of the supply and execution of natural gas transactions to be secured and guaranteed. The decisions require a combination of actions of Bulgargaz EAD, the independent regulator and the state.

VI. FINANCIAL AND ECONOMIC POSITION

The financial and economic position of Bulgargaz EAD has been reviewed and analyzed on the basis of prepared financial and accounting statements, namely the statement of financial position, the statement of profit or loss and other comprehensive income and the cash flow statement of the Company as of 31 December 2021, compared to the same period in 2020.

The provision accrued as of 31 December 2021 under case COMP/B1/AT.39849-BEH Gas amounts to BGN 52,346 thousand, representing 1/3 of the total amount of the imposed financial sanction to BEH EAD, Bulgartransgaz EAD and Bulgargaz EAD. The forecast is for a positive outcome from the appeal and reimbursement of the provisional expenditure in 2023.

Bulgargaz EAD has initiated an international arbitration case No. 78/2019 of the International Commercial Arbitration Court at the Romanian Chamber of Commerce and Industry against the National Gas Transmission Company Transgaz S.A. Romania.

The subject of the case is the amount of natural gas remaining in the Romanian gas pipeline Transit 1 after the termination of the long-term Transit Agreement No. 10726 of 19 October 2005 between Bulgargaz and Transgaz SA Romania.

The statement of claim is worth USD 923,000.

As of 31 December 2021, the Company has utilized and outstanding overdraft in the amount of BGN 2,603 thousand, under a contract with a banking institution. The loan matures on 23 December 2022 and market interest rate. The loan is not secured.

The total amount of the overdrafts is BGN 110,000 thousand. The loans are unsecured and mature in the period October 2022 - December 2022.

During the reporting period, the Company transferred its receivables from Toplofikatsiya Sofia EAD to Bulgarian Energy Holding EAD in the total amount of BGN 206,327 thousand according to a cession agreement. The price was paid by the assignee to the assignor as of 31 December 2021.

VII. MAIN FINANCIAL INDICATORS

The main financial and economic results of the Company's activities for 2021 and 2020 are presented as follows:

BGN tousand

Indicators	31.12.2021	31.12.2020	Change	Change (%)
Total operating revenue	2 135 224	698 762	1 436 462	205,57%
Total operating expenses	(2 051 022)	(651 634)	(1 399 388)	214,75%
EBITDA	**84 719**	**47 625**	**37 094**	**77,89%**
EBIT	**84 202**	**47 128**	**37 074**	**78,67%**
EBT	**81 069**	**44 151**	**36 918**	**83,62%**

Indicators	31.12.2021	31.12.2020	Change	Change (%)
Fixed tangible assets	314	130	**184**	**141,54%**
Total assets	601 033	363 198	237 835	65,48%
Current assets	599 001	349 372	249 629	71,45%
Current liabilities	219 653	32 214	187 439	581,86%
Cash and cash equivalents	**211**	**171 857**	**(171 646)**	**(99,88%)**
Working capital	**379 348**	**317 158**	**62 190**	**19,61%**
Equity	**328 913**	**279 295**	**49 618**	**17,77%**
Share capital	231 698	231 698	0	0,00%
Reserves	14 757	7 360	7 397	100,50%
Retained earnings / (uncovered loss)	18 553	580	17 973	3098,79%
Profit / loss for the current period	63 905	39 657	24 248	61,14%
Number of staff	**51**	**51**	**0**	**(0,00%)**

VIII. STATEMEN OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

BGN thousand

STATEMENT OF COMPREHENSIVE INCOME	As of 31.12.2021		As of 31.12.2020		Change	
	BGN tousand	% from the total	BGN tousand	% from the total	BGN tousand	%
Income	**2 135 224**	**100,00%**	**698 762**	**100,00%**	**1 436 462**	**205,57%**
Revenues from sales of natural gas	**2 123 087**	**99,43%**	**683 451**	**97,81%**	**1 439 636**	**210,64%**
Adjustment from change in selling price		0,00%	(166 167)	(23,78%)	166 167	(100,00%)
Regulated activity	786 275	36,82%	397 475	56,88%	388 800	97,82%
Unregulated activity freely negotiated prices	1 066 500	49,95%	420 691	60,21%	645 809	153,51%
Organized stock market - release program	232 720	10,90%	22 279	3,19%	210 441	944,57%
Related parties - BTG sale of natural gas for balancing	20 433	0,96%	4 491	0,64%	15 942	354,98%
Other penalties - sanctions for quantity	17 159	0,80%	4 682	0,67%	12 477	266,49%
Other revenues	**12 137**	**0,57%**	**15 311**	**2,19%**	**(3 174)**	**(20,73%)**
- penalties for overdue receivables / payables	11 665	0,55%	15 305	2,19%	**(3 640)**	**(23,78%)**
- other revenues	472	0,02%	6	0,00%	466	7 766,67%
Exepnses by economic elements	**(2 050 505)**	**100,00%**	**(651 137)**	**100,00%**	**(1 399 368)**	**214,91%**
Cost of natural gas sold	**(2 027 072)**	**98,86%**	**(644 430)**	**98,97%**	**(1 382 642)**	**214,55%**
Adjustment from change in delivery price		0,00%	137 243	(21,08%)	(137 243)	(100,00%)

STATEMENT OF COMPREHENSIVE INCOME	As of 31.12.2021		As of 31.12.2020		Change	
	BGN tousand	**% from the total**	**BGN tousand**	**% from the total**	**BGN tousand**	**%**
Regulated activity	(792 768)	38,66%	(363 418)	55,81%	(429 350)	118,14%
Unregulated activity freely negotiated prices	(982 796)	47,93%	(391 457)	60,12%	(591 339)	151,06%
Organized stock market - release program	(236 096)	11,52%	(22 164)	3,41%	(213 932)	965,22%
Related parties - BTG cost of natural gas for balancing	(15 412)	0,75%	(4 634)	0,71%	(10 778)	232,59%
Recovered / (accrued) impairment	**(6 077)**	**0,29%**	**3 992**	**(0,61%)**	(10 069)	(252,23%)
Recovered (accrued) impairment of receivables net	(4 094)	0,20%	4 457	(0,68%)	(8 551)	(191,86%)
Recovered (accrued) impairment of cash balance	155	(0,01%)	(155)	0,02%	310	(200,00%)
Recovered (accrued) impairment of natural gas	(2 138)	0,10%	(310)	0,05%	(1 828)	589.68%
Recognized (accrued) expenses for provisions	**(754)**	**0,04%**	**(756)**	**0,12%**	**2**	**(0,26%)**
Costs of materials	**(123)**	**0,01%**	**(75)**	**0,01%**	**48**	**(64,00%)**
- basic materials	(47)	0,01%	(15)	0,00%	32	(213,33%)
- fuels and lubricants	(16)	0,00%	(19)	0,00%	3	(15,79%)
- stationery and consumables	(22)	0,00%	(17)	0,00%	5	(29,41%)
- sanitary materials	(8)	0,00%	(9)	0,00%	1	(11,11%)
- promotional materials	(16)	0,00%	(10)	0,00%	(6)	60,00%
- other materials	(14)	0,00%	(5)	0,00%	(9)	180,00%
Exepnses for external services	**(11 875)**	**0,58%**	**(6 749)**	**1,04%**	**(5 126)**	**75,95%**
- costs for storage of natural gas	(8 748)	0,43%	(4 010)	0,62%	(4 738)	118,15%
- costs of management contracts	(62)	0,00%	(95)	0,02%	33	(34,74%)
- license fees	(163)	0,01%	(732)	0,11%	569	(77,73%)
- fees for Gas Hub Balkan	(389)	0,02%	(28)	0,01%	(361)	1289,29%
- insurance	(108)	0,01%	(109)	0,02%	1	(0,92%)
- rents	(1)	0,00%	(1)	0,00%	-	0,00%
- court fees and costs	(1 096)	0,05%	(594)	0,09%	(502)	84,51%
- consulting services	(404)	0,02%	(683)	0,10%	279	(40,85%)
- communications	(179)	0,01%	(142)	0,02%	(37)	26,06%
- remuneration of the audit committee	(104)	0,01%	(97)	0,02%	(7)	7,22%
- building maintenance	(2)	0,00%	(1)	0,00%	(1)	100,00%
- utilities	(30)	0,00%	(27)	0,01%	(3)	11,11%
- subscription service fees	(15)	0,00%	(14)	0,00%	(1)	7,14%
- repair and technical maintenance	(13)	0,00%	(24)	0,00%	11	(45,83%)
- parking spaces and other costs for motor vehicles	(20)	0,00%	(17)	0,00%	(3)	17,65%
- visa services	-	0,00%	(1)	0,00%	1	(100,00%)
- translation services	(22)	0,00%	(20)	0,00%	(2)	10,00%
- security	(84)	0,00%	(70)	0,01%	(14)	20,00%
- occupational medicine	(5)	0,00%	(1)	0,00%	(4)	400,00%
- fees - EWRC for price approval	(17)	0,00%	(21)	0,00%	4	(19,05%)
- other services	(413)	0,02%	(62)	0,01%	(351)	566,13%
Remuneration and social security expenses	**(3 493)**	**0,17%**	**(3 026)**	**0,46%**	**(467)**	**15,43%**
- remuneration costs	(2 966)	0,14%	(2 580)	0,40%	(386)	14,96%
- costs of paid leave	(92)	0,01%	(86)	0,01%	(6)	6,98%
- employment service costs (retirement)	(17)	0,00%	(13)	0,00%	(4)	30,77%
- social security costs	(418)	0,02%	(347)	0,05%	(71)	20,46%
Other expenses	**(1 111)**	**0,05%**	**(93)**	**0,01%**	**(1 018)**	**1 094,62%**
- penalties for late payments	(999)	0,05%	29	(0,01%)	(1 028)	(3 544,83%)
- business trips and entertainment expenses	(16)	0,00%	(36)	0,01%	20	(55,56%)
- training	(2)	0,00%	(1)	0,00%	(1)	100,00%
- one-off taxes	(10)	0,00%	(34)	0,01%	24	(70,59%)
- membership in the organization	(5)	0,00%	(7)	0,00%	2	(28,57%)
- donations	(50)	0,00%	(24)	0,00%	(26)	108,33%
- others	(29)	0,00%	(20)	0,00%	(9)	45,00%
Profit before interest depreciation taxes	**84 719**		**47 625**		**37 094**	**77,89%**
Depreciation charges	(517)		(497)		(20)	4,02%
Profit / (loss) from operating activities	**84 202**		**47 128**		**37 074**	**78,67%**

STATEMENT OF COMPREHENSIVE INCOME	As of 31.12.2021		As of 31.12.2020		Change	
	BGN tousand	% from the total	BGN tousand	% from the total	BGN tousand	%
Financial income / (expenses)-net	**(3 133)**		**(2 977)**		**(156)**	**(5,24%)**
Financial income	**419**	**100,00%**	**1 127**	**100,00%**	**(708)**	**(62,82%)**
- interest income on long-term receivables	419	100,00%	1 127	100,00%	(708)	(62,82%)
Financial costs	**(1 648)**	**100,00%**	**(1 126)**	**100,00%**	**(522)**	**46,36%**
Interest expenses on overdrafts due to banks	(23)	1,40%	(24)	2,13%	1	(4,17%)
Interest expenses on tax liabilities	(17)	1,03%	(20)	1,78%	3	(15,00%)
- interest expenses under rent contracts	(12)	0,73%	(9)	0,80%	(3)	33,33%
- costs for bank guarantees	(521)	31,61%	(513)	45,56%	(8)	1,56%
- bank fees and charges	(1 075)	65,23%	(560)	49,73%	(515)	91,96%
Other financial revenues / expenses - currency differences	**(1 904)**	**100,00%**	**(2 978)**	**100,00%**	**1 074**	**(36,06%)**
Foreign exchange rate gain / loss	(1 904)	100,00%	(2 978)	100,00%	1 074	(36,06%)
Profit / (loss) before tax	**81 069**		**44 151**		**36 918**	**83,62%**
Income / (expenses) for income taxes	**(17 164)**		**(4 494)**		**(12 670)**	**281,93%**
Net profit / (loss) for the period	**63 905**		**39 657**		**24 248**	**61,14%**

1. Revenues

The Company has realized revenues in the amount of BGN 2,135,224 thousand for 2021 (in 2020 BGN 698,762 thousand). The increase is of BGN 1,436,462 thousand or 205.57%. The net result from the sale of natural gas for 2021 amounts to BGN 96,015 thousand (in 2020 it was BGN 39,021 thousand), which makes an increase of BGN 56,994 thousand.

2. Expenses

Expenses by economic elements include: cost of natural gas sold, impairment losses, costs of materials, costs of external services, depreciation charges, staff costs, social security and allowance costs, provision expenses and others. In 2021, they amount to BGN 2,050,505 thousand (2020: BGN 651,137 thousand), which makes an increase of BGN 1,399,368 thousand or 214.91%.

The largest relative share of the total expenditures is the cost of natural gas sold for 2021 in the amount of BGN 2,027,072 thousand (2020: BGN 644,430 thousand).

In 2021, an impairment charge of BGN 6,077 thousand was accrued (2020: BGN 3,992 thousand recovered).

Expenditures for external services in 2021 amount to BGN 11,875 thousand (2020: BGN 6,749 thousand), which is an increase of BGN 5,126 thousand or 75.95%. This is due to the increase in the cost of natural gas storage.

Other expenses for 2021 amount to BGN 1,111 thousand (2020: BGN 93 thousand), which is an increase of BGN 1,018 thousand or 1,094.62% compared to the previous reporting period. The increase is due to accrued penalties for late payments.

The result of operating activities is a profit of BGN 84,202 thousand for 2021 (2020: profit BGN 47,128 thousand), which is an increase of BGN 37,074 thousand or 78.67%.

After recording the financial income and expenses for 2021, the financial result before taxation is a profit of BGN 81,069 thousand (2020: profit of BGN 44,151 thousand), which is an increase of BGN 36,918 thousand or 83,62%.

IX. STATEMENT OF FINANCIAL POSITION

As of 31 December 2021, the assets of the Company amount to BGN 601,033 thousand (31 December 2020: BGN 363,198 thousand). The changes in the structure of assets for both periods are shown in the following table:

BGN thousand

Assets	As of 31.12.2021		As of 31.12.2020		Change	
	BGN thousand	% from the total	BGN thousand	% from the total	BGN thousand	%
Non-current assets						
Machinery and equipment	314	15,45%	130	0,94%	184	141,54%
Intangible assets	281	13,83%	190	1,37%	91	47,89%
Deferred tax assets	1 437	70,72%	13 506	97,69%	(12 069)	(89,36%)
Total amount of non-current assets	**2 032**	**100,00%**	**13 826**	**100,00%**	**(11 794)**	**(85,30%)**
Current assets						
Inventories	**123 031**	**20,54%**	**49 178**	**14,08%**	**73 853**	**150,17%**
- natural gas	123 015	20,54%	49 158	14,07%	73 857	150,24%
- materials	16	0,00%	20	0,01%	(4)	(20,00%)
Trade and other receivables	**475 759**	**79,42%**	**128 337**	**36,73%**	**347 422**	**270,71%**
-trade receivables from the sale of natural gas	162 699	27,16%	62 396	17,86%	100 303	160,75%
- court and awarded receivables	785	0,13%	9 987	2,86%	(9 202)	(92,14%)
- prepaid advances for natural gas supply	277 177	46,27%	35 639	10,20%	241 538	677,74%
- prepaid advances for delivery of fixed assets	1	0,00%	1	0,00%	-	0,00%
- receivables from VAT and other taxes	1 190	0,20%	1 136	0,32%	54	4,75%
- receivables from related parties (natural gas, deposits and guarantees)	27 583	4,60%	14 128	4,04%	13 455	95,24%
- other receivables	6 324	1,06%	5 050	1,45%	1 274	25,23%
Cash and cash equivalents	**211**	**0,04%**	**171 857**	**49,19%**	**(171 646)**	**(99,88%)**
Total current assets	**599 001**	**100,00%**	**349 372**	**100,00%**	**249 629**	**71,45%**
Total assets	**601 033**		**363 198**		**237 835**	**65,48%**

1.Non-current assets

The non-current assets as of 31 December 2021 amounted to BGN 2,032 thousand (31 December 2020: BGN 13,826 thousand), which is a decrease of BGN 11,794 thousand or 85.30%. Non-current assets during the reporting period are formed by non-current tangible and intangible assets in the amount of BGN 595 thousand and deferred tax assets for BGN 1,437 thousand.

2.Current assets

The current assets of the Company as of 31 December 2021 amounted to BGN 599,001 thousand (31 December 2020: BGN 349,372 thousand), which is an increase of BGN 249,629 thousand or 71.45% as a result of an increase in receivables for natural gas, prepaid advances for the supply of natural gas and receivables from related parties (guarantees and deposits).

Inventories as of 31 December 2021 amounted to BGN 123,031 thousand (31 December 2020: BGN 49,178 thousand), which is an increase of BGN 73,853 thousand or 150.17%.

Trade and other receivables as of 31 December 2021 amounted to BGN 475,759 thousand (31 December 2020: BGN 128,337 thousand), which is an increase of BGN 347,422 thousand or 270.71%.

Prepaid advance for the supply of natural gas as of 31 December 2021 amounted to BGN 277,177 thousand (31 December 2020: BGN 35,639 thousand), which is an increase of BGN 241,538 thousand or 677.74%.

Receivables from clients under rescheduling of overdue liabilities agreements concluded against provided financial security in favor of Bulgargaz EAD.

The cash of the Company on current accounts and cash at the end of the reporting period amounted to BGN 211 thousand (31 December 2020: BGN 171,857 thousand), which is a decrease of BGN 171,646 thousand.

3. Changes in the structure of capital and liabilities

BGN thousand

Equity and liabilities	As of 31.12.2021		As of 31.12.2020		Change	
	BGN thousand	% from the total	BGN thousand	% from the total	BGN thousand	%
Equity						
Share capital	231 698	70,44%	231 698	82,96%	-	0,00%
Reserves	**14 757**	**4,49%**	**7 360**	**2,64%**	**7 397**	**100,50%**
including Statutory reserves	14 776	4,49%	7 366	2,64%	7 410	100,60%

Equity and liabilities	As of 31.12.2021		As of 31.12.2020		Change	
	BGN thousand	% from the total	BGN thousand	% from the total	BGN thousand	%
Other reserves	(19)	(0,00%)	(6)	0,00%	(13)	(216,67%)
Retained earnings / (Accumulated loss)	18 553	5,64%	580	0,20%	17 973	3098,79%
Profit / loss current period	63 905	19,43%	39 657	14,20%	24 248	61,14%
Total equity	**328 913**	**100%**	**279 295**	**100%**	**49 618**	**17,77%**
Liabilities						
Non-current liabilities						
Lease obligation	-	0,00%	2	0,00%	(2)	(100,00%)
Provisions	52 346	99,77%	51 592	99,81%	754	1,46%
Liabilities for retirement benefits	121	0,23%	95	0,19%	26	27,37%
Total amount of non-current liabilities	**52 467**	**100%**	**51 689**	**100%**	**778**	**1,51%**
Current liabilities						
Debt	**2 603**	**1,18%**	**-**	**0,00%**	**2 603**	**-**
- liabilities on bank loans overdraft	2 603	1,18%	-	0,00%	2 603	-
Trade and other payables	**215 144**	**97,95%**	**31 331**	**97,26%**	**183 813**	**586,68%**
- trade payables	89 060	40,55%	8 104	25,16%	80 956	998,96%
- liabilities to related parties	5 149	2,34%	2 952	9,16%	2 197	74,42%
- advances received from customers for the sale of natural gas	32 213	14,67%	53	0,42%	32 160	60 679,25%
- VAT payable	86 991	39,60%	18 644	57,88%	68 347	366,59%
- Excise duty payable	1 185	0,54%	1 131	3,51%	54	4,77%
- obligations to staff	127	0,06%	133	0,41%	(6)	(4,51%)
- obligations to insurance companies	76	0,03%	81	0,25%	(5)	(6,17%)
- other obligations	343	0,16%	233	0,47%	110	47,21%
Lease obligation-rent contract	**253**	**0,12%**	**69**	**0,21%**	**184**	**266,67%**
Income tax liability	**1 593**	**0,72%**	**723**	**2,25%**	**870**	**120,33%**
Liabilities for retirement benefits	**60**	**0,03%**	**91**	**0,28%**	**(31)**	**(34,07%)**
Total current liabilities	**219 653**	**100,00%**	**32 214**	**100,00%**	**187 439**	**581.86%**
Total liabilities	**272 120**		**83 903**		**188 217**	**224,33%**
Total equity and liabilities	**601 033**		**363 198**		**237 835**	**65,48%**

3.1. Capital structure

The registered share capital as of 31 December 2021 amounted to BGN 231,698 thousand, as there is no change compared to the previous reporting period.

As of 31 December 2021, the retained earnings amounted to BGN 18,553 thousand (accumulated profit of BGN 580 thousand on 31 December 2020). The change as of 31.12.2021 is BGN 17,973 thousand.

3.2. Non-current liabilities

The non-current liabilities of the Company as of 31 December 2021 amounted to BGN 52,467 thousand (31 December 2020: BGN 51,689 thousand), which is an increase of BGN 778 thousand or 1.51% compared to the previous period. Non-current liabilities are formed from accrued provision for legal liability related to Case COMP/B1/AT.39849 - BEH gas liabilities for retirement benefits and lease obligation - non-current part.

3.3. Current liabilities

As of 31 December 2021, the current liabilities of the Company amounted to BGN 219,653 thousand (31 December 2020: BGN 32,214 thousand), which is an increase of BGN 187,439 thousand.

As of 31 December 2021, the Company had liabilities on utilized bank overdrafts in the amount of BGN 2,603 thousand.

As of 31 December 2021, trade and other liabilities increased by BGN 183,813 thousand or 586.68% compared to 31 December 2020.

As of 31 December 2021, trade liabilities increased by BGN 80,956 thousand or 998.96% compared to the same period in 2020.

As of 31 December 2021, the liabilities to related parties were by BGN 2,197 thousand or by 74.42% more compared to the result as of 31.12.2020.

The current VAT liability to the NRA amounted to BGN 86,991 thousand (31 December 2020: BGN 18,644 thousand), which is an increase of BGN 68,347 thousand or 366.59%.

An increase was observed in trade liabilities for advances received from customers by BGN 32,160,000.

X. STATEMENT OF CASH FLOWS

The table shows data on changes in cash flows as of 31 December 2021, compared to 31 December 2020:

BGN thousand

	As of 31.12.2021	As of 31.12.2020	Change	
	BGN thousand	BGN thousand	BGN thousand	%
Net cash flows from operating activities	(158 984)	231 028	(390 012)	(168,82%)
Net cash flows from investing activities	(351)	(212)	(139)	65,57%
Net cash flows from financing activities	(13 474)	(53 467)	39 993	74,80%
Net change in cash and cash equivalents during the period	**(172 809)**	**177 349**	**(350 158)**	**(197,44%)**
Cash and cash equivalents at the beginning of the period	**171 857**	**80**	**171 777**	**214 721,25%**
Currency exchange differences of cash and cash equivalents	**1 008**	**(5 417)**	**6 425**	**(118,61%)**
Impairment of cash under IFRS	**155**	**(155)**	**310**	**(200,00%)**
Cash and cash equivalents at the end of the period	**211**	**171 857**	**(171 646)**	**(99,88%)**

The net cash flow from operating activities of the Company in 2021 was negative in the amount of BGN 158,984 thousand (2020: positive in the amount of BGN 231,028 thousand) - there is a decrease of BGN 390,012 thousand or 168, 82%. It is formed by the difference between the proceeds from customers and the amounts paid for sold natural gas, taxes paid other than income tax and other expenses.

Net cash flows from investing activities were negative in the amount of BGN 351 thousand, which is an increase of BGN 139 thousand compared to 2020.

Net cash flows from financing activities were negative in the amount of BGN 13,474 thousand (as of 31 December 2020: negative in the amount of BGN 53,467 thousand).

XI. POST-REPORTING PERIOD EVENTS

There have not occurred any adjusting events between the date of the financial statements and the date of its approval. Significant non-adjusting events are as follows:

1/ By Decisions of the EWRC, the price at which the public supplier sells natural gas to the end suppliers of natural gas and to the persons to whom a license for production and transmission of heat energy has been approved, amounting to BGN 133.41 /MWh (excluding excise duty and VAT) for January 2022, and subsequently – in the amount of BGN 142.59 /MWh (excluding excise duty and VAT) for April 2022.

2/ On 28 January 2022, by decision No. 6-20-22 of Bulgarian Energy Holding EAD the following new members of the Board of Directors of Bulgargaz EAD were elected:

Ivan Topchiyski	Chairman and member of the Board of Directors of Bulgargaz EAD
Lyudmil Yotsov	Member of the Board of Directors and Executive Director of Bulgargaz EAD
Angela Slavova	Member of the Board of Directors
Anton Adamov	Member of the Board of Directors
Stefan Voynov	Member of the Board of Directors

These circumstances were entered into the Commercial Register on 03 February 2022.

3/ In order to mitigate the economic consequences of the sudden instability of energy market prices, the Council of Ministers developed and adopted by its Decision No. 31 of 25 January 2022 a Program for compensation of household customers of natural gas and district heating companies using mainly natural gas fuel, with a fixed amount of compensation per MWh. The program aims to protect and support businesses and consumers in general to deal with the effects of fluctuations in natural gas prices. It has a compensatory effect and complements other temporary measures taken at national level to increase transparency and improve the functioning of the energy market, as well as to strengthen regulatory control. Initially, the program covered a period of compensation from 1 December 2021 to 31 January 2022 inclusive, but subsequently the period was extended until the end of the heating season, i.e. by 30 April 2022. The adoption of the program aims to maintain the competitiveness of the industry and overcome the additional inflationary pressures caused by high prices of natural gas. In this way the amount due for payment by household customers will be reduced. The compensatory measure is in line with the Communication from the European Commission dated 13 October 2021 "Tackling rising energy prices: a set of instruments for action and support" regarding the energy prices. No possible negative effects of the compensation are expected on the competition in the electricity market and electricity trade.

According to the Program, the amount of compensation is calculated as 50% of the difference between the price of the public supplier as approved by the EWRC for the respective month and the estimated price of natural gas for the first quarter or, respectively, the second quarter of 2022.

For the purposes of program implementation a contract has been concluded between Bulgargaz EAD, in its capacity of Supplier and the Ministry of Energy. The performance of the compensation program has been applied by the Company by reducing the amount due for payment for natural gas supplies from clients through the relevant tax documents as issued in March, 2022 (invoices, debit and/or credit notes).

4/ On 21 February 2022, by decree of the President of the Russian Federation (RF), the Donetsk People's Republic and the Luhansk People's Republic were recognized as independent states. On 24 February 2022, the Ministry of Defense of the Russian Federation announced a "special military operation" on the territory of the Republic of Ukraine. The hostilities received widespread international condemnation, and many countries imposed sanctions on assets and operations owned by the Russian state and certain individuals. The invasion initiated a refugee crisis among Ukrainian citizens. Due to Russia's invasion to Ukraine and the complicated situation, the United States and the European Union imposed a package of sanctions on the Russian Federation in response to the unprecedented military attack. The measures aim to impose economic and political burdens, namely individual sanctions, economic, diplomatic measures, restrictions on the media, etc. Economic sanctions include restricting the access of some Russian banks and companies to primary and secondary capital markets in the EU, a ban on the export of dual-use goods, restricting Russia's access to certain sensitive technologies and services, excluding certain banks from the international SWIFT system, etc. The Russian ruble (RUB) began to depreciate in the days after 24 February 2022 and from 95.71 rubles per Euro reached 117.20 rubles per Euro on 01 March 2022 according to the exchange rate of the European Central Bank. Since that date, the bank stopped publishing the RUB / EUR reference rate.

The economic consequences of the military conflict in Ukraine cannot be accurately quantified, but they are already indicating extremely serious effects on the overall global economy. Energy and raw material prices have risen significantly, further exacerbating inflationary pressures from supply chain disruptions and the recovery from the Covid-19 pandemic. Price shocks are expected to have an impact on a global scale. If the conflict continues to be unresolved and continues for a longer period of time, the economic damage will be significant and is expected to affect all sectors of the economy, both Bulgaria and the EU. The IMF noted that sanctions against Russia are affecting the global economy and financial markets, and will have significant side effects in other countries. The Russian counterparty of the Company and its servicing banks are not included in the EU sanctions lists against Russia and do not pose a direct threat to the receipt and payment of goods and services under the terms of the current agreement.

Fuel and natural gas prices have skyrocketed following the sanctions imposed to the Russian Federation, and traders are preparing for disruptions in supplies from Russia and Ukraine, through which Russian gas passes. There are also concerns that removing large Russian banks from the SWIFT payment system could make it more difficult to buy Russian gas and oil. This is creating tensions for many in Europe, which receives more than 1/3 of its natural gas and 1/4 of its oil from Russia.

Russia's invasion risks ruining the global economic recovery after the pandemic, complicating the situation for politicians expected to control inflation, which is now the highest since decades in countries such as the United States and Germany. Gas markets in Europe are very dynamic and in recent days the price of raw materials has been rising against the background of Russia's demand for payment in rubles.

This event is expected to have a significant, direct effect on the activities of Bulgargaz EAD as the main supplier of natural gas to the Company so far is the Russian company Gazprom Export. The main risk at the date of adoption of these financial statements is related to ensuring the continuity and security of natural gas supplies. Despite the existence of a valid, effective gas supply contract with a term until 31 December 2022 and strict compliance with the terms of the contract by Bulgargaz EAD, the supplier Gazprom Export OOO sent a letter of notification that the supply of natural gas will be suspended as of 27 April 2022.

The Bulgarian party has fully fulfilled its obligations and has made all payments required under the contract for the supply of natural gas with Gazprom Export OOO, in a timely manner, strictly and in accordance with its clauses. After an analysis by the management of the Company and the Bulgarian Energy Holding, it was found that the new two-stage payment procedure proposed by Russia is not in accordance with the existing contract until the end of 2022 and poses significant risks for Bulgaria, including to make payments without receiving any gas supplies from the Russian party. The proposed mechanism implies real risks for the Bulgarian party from unilateral and uncontrolled suspension of supplies without providing the appropriate opportunity to seek liability from the Russian supplier. The new method of payment is set as a process that includes control over the financial assets of Bulgargaz EAD, intended for payment of supplies under the contract, to be controlled by a financial institution related to Gazprom Export, and not by an independent third party. In order to limit the consequences of the actions of Gazprom Export, Bulgargaz EAD has taken all necessary actions, not contrary to Bulgarian legislation, to ensure the integrity of the country's gas transmission system and continuity of supply to Bulgarian domestic and industrial consumers.

The Ministry of Energy, the Bulgarian Energy Holding, Bulgargaz and Bulgartransgaz, with the support of the Bulgarian authorities, have taken steps to make alternative arrangements for the supply of natural gas from alternative sources by using the supply opportunities of the existing transmission infrastructure, and to face the situation occurred. Currently, talks are underway between representatives of the Bulgarian government and the European Commission to form a unified strategy and approach for all affected European countries and to ensure long-term more stable contracts at better prices. A commitment has been made at intergovernmental and pan-European level to provide the necessary volume of natural gas needed to meet local consumption. In this regard, Bulgargaz EAD will continue to play a key role in ensuring the supply of natural gas for end users and district heating companies. Apart from the support provided by BEH EAD and taking into account the importance of the Company as a public supplier of natural gas, the Government of the Republic of Bulgaria considers the activities of Bulgargaz EAD as one of the tools for implementing its policies to prevent disruptions in supply for the consumers in the country. In this regard, the Government and the Ministry of Energy, with the participation and assistance of Bulgargaz EAD, as well as at the EU level, have taken measures to start negotiations for negotiating quantities of natural gas from various sources, including through concluding centralized supply contracts at EU level, thus diversifying suppliers and supply routes on the one hand in order to ensure customers' energy consumption and, on the other hand, ensuring security and continuity of gas supplies.

As an immediate response, Bulgargaz EAD sent a written request to natural gas traders operating on the Bulgarian and regional gas markets to submit quotes that include specific conditions for the supply of natural gas by the end of April and for May 2022. Inquiries regarding the possibility of supplying natural gas in volumes necessary to satisfy the consumption of the Bulgarian consumers after the termination of the supplies under the long-term contract with OOO Gazprom Export were sent to 12 active traders in Bulgaria and neighboring countries, as part of the invited companies informed that they are not able to submit proposals for the specified period. After an analysis of the submitted proposals, seven quotes from three suppliers were ranked according to the criterion "lowest delivery price". The ranking of the quotes was done according to the conditions set by Bulgargaz EAD and until the necessary quantities are provided, in order to fulfill the binding requests submitted by the Bulgarian clients for May 2022 and to guarantee the security and continuity of supplied. In April 2022, Bulgargaz EAD realized transactions for the purchase of quantities on the organized stock market in the country.

At present, no restrictive measures are required for consumption in Bulgaria.

As the situation is extremely dynamic, the Company's management is not able to reliably assess the quantitative impact of the war on the future financial position and the results of its activities in 2022. This in turn could lead to a change in the carrying amounts of the Company's assets, which are identified in the financial statements in making a number of judgments and assumptions by management and reporting the most reliable information available at the date of estimates, as well as to influence the forecasts for future development, the cash flows and results of operations of the Company.

XII. FINANCIAL RATIOS

These are indicators based on the financial statements that aim to provide an overall assessment of the financial position, the profitability and the efficiency in the use of assets to meet operational objectives.

In 2021, the financial ratios show the financial stability of the Company as they are optimal compared to market levels.

1. Liquidity

Liquidity ratios represent the ability of the Company to repay its current liabilities with available current assets.

Indicators	31.12.2021	31.12.2020
Current liquidity ratio	2,73	10,85
Quick liquidity ratio	2,17	9,32
Absolute liquidity ratio	0,00	5,33

The current liquidity ratio as of 31 December 2021 is 2.73, which shows that the available current assets can cover more than 2 times the current liabilities of the Company (as of 31 December 2020: 10.85).

The quick liquidity ratio is 2.17, which shows that the available current assets reduced by inventories can cover more than 2 times the current liabilities of the Company (as of 31 December 2020: 9.32).

The absolute liquidity ratio is 0, which shows that the available funds can cover the current liabilities of the Company less than 1 time (as of 31 December 2020: 5.33). Deteriorated liquidity due to increased receivables / poor collection from district heating companies (mainly Toplofikatsiya Sofia EAD)

Solvency

The indicators of solvency show the degree of financial autonomy of the Company from creditors and its ability to meet payments on all liabilities in the long run.

Indicators	31.12.2021	31.12.2020
Solvency ratio	1,21	3,33
Debt ratio	0,83	0,30

When the financial autonomy ratio is below 1 (one) there is an excess of liabilities to equity. In this case the existing liabilities are not sufficiently secured by the assets of the Company.

When the ratio is above 1 (one) it shows the degree of financial independence from the use of foreign funds. The financial autonomy ratio as of 31 December 2021 is 1.21 (as of 31 December 2020: 3.33).

The debt ratio expresses the degree of dependence of the Company on creditors. When the ratio is greater than 1 (one), the Company's dependence on external sources of funds is greater. This indicator as of 31 December 2021 is 0.83 (as of 31 December 2020: 0.30).

The information as presented and analyzed in the Activity Report of Bulgargaz EAD for 2021 shows that the Company fulfills its license obligations as a public supplier of natural gas on the territory of the Republic of Bulgaria in full compliance with the requirements of the regulations. The activity is directly dependent on the business environment, the regulatory requirements and the financial security of the Company. Regardless of the dynamic market conditions during the period under review, Bulgargaz EAD responded adequately to market challenges while maintaining financial stability and increasing the economic efficiency of its activities.

Date: 27 April 2022

Oksana Yankova
Digitally signed by Oksana Yankova
Date: 2022.06.01 09:38:19 +03'00'

Oksana Yankova

Head of Finance Department

Lyudmil Ventsislavov Yotsov
Digitally signed by Lyudmil Ventsislavov Yotsov
Date: 2022.06.01 10:03:22 +03'00'

Lyudmil Yotsov

Executive Director

ADDITIONAL INFORMATION UNDER SECTION VI A OF APPENDIX NO. 10 OF ORDINANCE NO. 2 OF FSC

1. **INFORMATION GIVEN IN TERMS OF VALUE AND QUANTITY, REGARDING THE MAIN CATEGORIES OF GOODS, PRODUCTS AND/OR SERVICES PROVIDED, INDICATING THEIR SHARE IN THE SALES REVENUES AS A WHOLE AND THE CHANGES THAT HAVE OCCURRED DURING THE REPORTING FINANCIAL YEAR;**

Revenues of Bulgargaz EAD include revenues from the sale of natural gas and other revenues.

During the reporting period, the Company generated revenues from the sale of natural gas in the amount of BGN 2,123,087 thousand. Revenues from sales of natural gas represent 99.43% of the Company's sales for 2021.

The structure of the Company's revenues for 2021 and 2020 and their amendments are presented above in these financial statements in Section VIII. “Profit or loss statement and other comprehensive income”**.**

2. **INFORMATION ON THE REVENUES DISTRIBUTED BY THE DIFFERENT CATEGORIES OF ACTIVITIES, INTERNAL AND EXTERNAL MARKETS, AS WELL AS INFORMATION ON THE SOURCES FOR SUPPLYING MATERIALS NECESSARY FOR THE PRODUCTION OF GOODS OR PROVISION OF SERVICES, REFLECTING THE DEGREE OF DEPENDENCE ON EACH INDIVIDUAL SELLER OR BUYER/CONSUMER, AND IN CASE THE RELATIVE SHARE OF ANY OF THEM EXCEEDS 10 PERCENT OF THE COSTS OR REVENUES FROM SALES, INFORMATION IS PROVIDED FOR EACH PERSON INDIVIDUALLY, FOR ITS SHARE IN THE SALES OR PURCHASES AND ITS RELATIONS WITH THE COMPANY;**

The structure of revenues for 2021, compared to 2020 and their relative share of total revenues are presented above in these financial statements in Section VIII. “Profit or loss statement and other comprehensive income”.

Regarding the revenues from the sale of natural gas, representing 99.43% of the total amount of revenues for 2021, the sales on the territory of Bulgaria amount to BGN 2,123,087 thousand (34,299,747 MWh of natural gas). Revenues from the sale of natural gas from regulated activities amount to BGN 786,275 thousand (13,151,266 MWh of natural gas), from unregulated activity at freely negotiated prices in the amount of BGN 1,066,500 thousand (16,867,481 MWh of natural gas), and under a release program in the amount of BGN 232,720 thousand (4,281,000 MWh of natural gas).

Information on sales of natural gas to clients exceeding 10% of total revenues from sales of natural gas is as follows:

Client	Sale of natural gas		
	Quantity MWh	BGN thousand	% of the total amount sold
Toplofikatsiya Sofia EAD	7 896 338	440 810	23,01%
Neochim AD	3 431 839	183 562	10,00%

The main supplier of the natural gas for the Company is OOO Gazprom Export. For 2021, its share of the total value of natural gas supply is 90.88%. In 2021, there is no other counterparty, the costs of which exceed 10% of the total costs of Bulgargaz EAD.

3. **INFORMATION ON THE TRANSACTIONS CONCLUDED BETWEEN THE COMPANY AND RELATED PARTIES DURING THE REPORTING PERIOD, PROPOSALS FOR CONCLUDING SUCH TRANSACTIONS, AS WELL AS TRANSACTIONS THAT ARE OUTSIDE ITS USUAL ACTIVITY OR SIGNIFICANTLY DEVIATE FROM THE MARKET CONDITIONS UNDER WHICH THE COMPANY OR ITS SUBSIDIARY IS A PARTY WITH AN INDICATION OF THE VALUE OF THE TRANSACTIONS, THE NATURE OF THE RELATEDNESS AND EACH - THE FINANCIAL POSITION OF THE COMPANY;**

Information provided in value terms regarding transactions with related parties is presented in detail in the financial statements of the Company for 2021 - Explanatory Note 34 "Related party transactions and balances". Related party transactions do not deviate from normal market conditions.

4. INFORMATION ON EVENTS AND INDICATORS OF AN UNUSUAL NATURE FOR THE COMPANY, HAVING A SIGNIFICANT IMPACT ON ITS ACTIVITY, AND THE REVENUES AND EXPENSES INCURRED THEREBY; ASSESSMENT OF THEIR IMPACT ON THE RESULTS IN THE CURRENT YEAR;

There are no events and indicators of an unusual nature for Bulgargaz EAD in 2021, which have a significant impact on its activities and the revenues and expenses incurred thereby.

5. ANALYSIS OF THE RATIO BETWEEN THE ACHIEVED FINANCIAL RESULTS REFLECTED IN THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR, AND PREVIOUSLY PUBLISHED FORECASTS FOR THESE RESULTS.

Bulgargaz EAD has not disclosed forecasts for financial results.

6. INFORMATION ON OFF-BALANCE SHEET TRANSACTIONS - NATURE AND BUSINESS PURPOSE, INDICATION OF THE FINANCIAL IMPACT OF THE TRANSACTIONS ON THE ACTIVITY, IF THE RISK AND BENEFITS OF THESE TRANSACTIONS ARE SIGNIFICANT FOR THE COMPANY, AND IF THE DISCLOSURE OF THIS INFORMATION IS ESSENTIAL FOR ASSESSING THE FINANCIAL POSITION OF THE COMPANY;

The Company has disclosed in its financial statements the issued bank guarantees in favor of third parties, which are the only off-balance sheet transactions.

7. ASSESSMENT OF THE POSSIBILITIES FOR REALIZATION OF THE INVESTMENT INTENTIONS WITH INDICATION OF THE AMOUNT OF THE AVAILABLE FUNDS AND REFLECTION OF THE POSSIBLE CHANGES IN THE STRUCTURE OF FINANCING OF THIS ACTIVITYd.

Not applicable to the Company.

8. INFORMATION ON EQUITY PARTICIPATIONS OF THE COMPANY, ON ITS MAIN INVESTMENTS IN THE COUNTRY AND ABROAD (IN SECURITIES, FINANCIAL INSTRUMENTS, INTANGIBLE ASSETS AND REAL ESTATE), AS WELL AS INVESTMENTS IN EQUITY SECURITIES OUTSIDE ITS GROUP OF ENTERPRISES WITHIN THE MEANING OF THE ACCOUNTING ACT AND SOURCES / METHODS OF FINANCING;

The Company has no shareholdings and investments in the country and abroad. Information on the assets held by the Company is presented above in this financial stations in Section IX. “Financial position statement”**.**

9. INFORMATION ON THE LOAN AGREEMENTS CONCLUDED BY THE COMPANY, ITS SUBSIDIARY OR PARENT COMPANY, IN THEIR CAPACITY AS BORROWERS, INDICATING THE CONDITIONS UNDER THEM, INCLUDING THE DEADLINES FOR REPAYMENT, AS WELL AS INFORMATION ON PROVIDED GUARANTEES AND COMMITMENTS;

The Company has concluded contracts for overdraft loans with banking institutions in the total amount of BGN 110,000 thousand.

Undrawn loans

As of 31 December 2021, the Company has utilized and outstanding overdraft in the amount of BGN 2,603 thousand under a loan agreement with a banking institution, and undrawn overdrafts in the total amount of BGN 107,397 thousand.

10. INFORMATION ON LOAN AGREEMENTS CONCLUDED BY THE COMPANY, ITS SUBSIDIARY OR THE PARENT COMPANY, IN THEIR CAPACITY AS LENDERS, INCLUDING THE PROVISION OF GUARANTEES OF ANY KIND, INCLUDING TO RELATED PARTIES, INDICATING THE SPECIFIC CONDITIONS THEREOF, INCLUDING THE PAYMENT DEADLINES AND THE PURPOSE FOR WHICH THEY WERE GRANTED;

On 18 March 2019, a bank guarantee was issued by a credit institution selected by BEH EAD to secure a fine in accordance with Decision C(2018)8806 under Case AT.39849 BEH-Gas, whereby the European Commission imposed a fine on Bulgarian Energy Holding EAD (BEH EAD), its gas supply subsidiary Bulgargaz EAD and its gas infrastructure subsidiary Bulgartransgaz EAD (BEH Group) in the amount of EUR 77,068,000 for alleged blocking of access of competitors to key gas infrastructure in Bulgaria in violation of EU antitrust rules. The bank guarantee covers 2/3 of the total amount of the fine in the amount of EUR 77,068,000, which secures the obligations of BEH EAD and Bulgargaz EAD under the imposed fine.

On the basis of a preliminary agreement for reservation of capacity in 2019, an agreement for transportation of natural gas was concluded with ICGB AD. In connection with this agreement in favor of ICGB AD a corporate guarantee was issued by Bulgarian Energy Holding EAD in the amount of EUR 12 million. In 2021, the term of the guarantee has been extended until 1 July 2022.

According to a contract concluded in 2020 with a banking institution, the Company was provided with a credit product in the form of a bank guarantee. The guarantee is in favor of a natural gas supplier and is an obligation of the bank to repay the Company's liabilities in case liabilities arise.

11. ANALYSIS AND ASSESSMENT OF THE POLICY REGARDING THE MANAGEMENT OF THE FINANCIAL RESOURCES WITH INDICATION OF THE POSSIBILITIES FOR SERVICING THE OBLIGATIONS, THE POSSIBLE THREATS AND MEASURES, WHICH THE COMPANY HAS TAKEN OR IS ABOUT TO TAKE WITH A VIEW TO THEIR ELIMINATION;

The objectives of the Company in connection with the management of financial resources are to ensure the continuation of its activities in the foreseeable future as a going concern, as well as to ensure return for the sole owner, economic benefits to other stakeholders. Risk management is carried out on an ongoing basis by the operational management under the supervision of the Board of Directors and the sole owner.

The main risk factors in the Company's activities are the regulatory risk arising from the establishment of marginal natural gas prices for the domestic market lower than supply prices, trade and other receivables and payables, as well as currency risk.

12. INFORMATION ON CHANGES THAT HAVE OCCURRED DURING THE REPORTING PERIOD IN THE BASIC PRINCIPLES OF MANAGEMENT OF THE COMPANY AND ITS GROUP OF ENTERPRISES WITHIN THE MEANING OF THE ACCOUNTING ACT;

In 2021, there were no changes in the basic principles of management of the Company.

13. INFORMATION ON THE CHANGES IN THE MANAGEMENT AND SUPERVISORY BODIES DURING THE REPORTING FINANCIAL YEAR.

As of 13 July 2021, the Company has a Board of Directors in the following composition:

- Nikolay Pavlov - Executive Member of the Board of Directors;

- Iliyan Dukov - Member of the Board of Directors.

On 13 July 2021, by decision of Bulgarian Energy Holding EAD the following new members of the Board of Directors of Bulgargaz EAD were elected:

Nikolay Atanasov Donchev
Diana Stoyanova Boneva
Svetoslav Tanev Delchev

These circumstances were entered in the Commercial Register on 19 July 2021 and after that the Company has a Board of Directors in the following composition:

- Nikolay Pavlov - Executive Member of the Board of Directors;
- Diana Boneva - Chairman of the Board of Directors;
- Iliyan Dukov - Member of the Board of Directors;
- Nikolay Donchev - Member of the Board of Directors;
- Svetoslav Delchev - Member of the Board of Directors.

14. INFORMATION ON THE SHARES OF THE ISSUER HELD BY THE MEMBERS OF THE MANAGEMENT AND CONTROL BODIES AND THE PROCURATORS, INCLUDING THE SHARES HELD BY EACH OF THEM SEPARATELY AND AS A PERCENTAGE OF THE SHARES OF EACH CLASS, AS WELL AS OPTIONS PROVIDED BY THE ISSUER ON ITS SECURITIES - TYPE AND THE AMOUNT OF THE SECURITIES ON WHICH THE OPTIONS ARE ESTABLISHED, THE EXERCISE PRICE OF THE OPTIONS, THE PURCHASE PRICE, IF ANY, AND THE TERM OF THE OPTIONS.

All shares are held by Bulgarian Energy Holding EAD. No options have been issued on these shares.

15. INFORMATION ON THE MAIN CHARACTERISTICS OF THE INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM APPLIED BY THE COMPANY IN THE PROCESS OF PREPARATION OF THE FINANCIAL STATEMENTS;

The Company has developed and approved internal rules and procedures regarding internal control and reporting systems.

The financial management and control system in Bulgargaz EAD has been developed in compliance with the requirements of the Financial Management and Control in the Public Sector Act.

The system for financial management and control is mandatory when spending all financial resources of the Company in order to ensure compliance with legal provisions and compliance with the principles of legality, expediency, efficiency, effectiveness, economy, transparency and publicity.

Financial management and control is performed through the Financial Management and Control System to ensure reasonable assurance that the objectives of the Company have been achieved through:

- compliance with the legislation, the internal acts of Bulgarian Energy Holding EAD and the Company on the one hand, and on the other hand, the concluded contracts or obligations assumed / expenses incurred with primary accounting documents;
- reliability and comprehensiveness of financial and operational information;
- economy, efficiency and effectiveness of activities;
- safekeeping and protection of assets and information.

The scope of the Financial Management and Control System includes the financial management of expenses in the Company.

16. INFORMATION ON THE AMOUNT OF REMUNERATION, REWARDS AND/OR BENEFITS OF EACH OF THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES FOR THE REPORTING FINANCIAL YEAR, ACCRUED BY THE COMPANY AND ITS SUBSIDIARIES,

REGARDLESS OF WHETHER THEY WERE INCLUDED IN THE COMPANY'S EXPENSES, OR ARISE FROM THE DISTRIBUTION OF PROFITS, INCLUDING:

In 2021, the Company accrued the following remunerations and related social security payments to the members of the Board of Directors:

BGN thousand

	2021	2020
Remunerations of members of BoD	381	282
Social security payments	25	23
Total	**406**	**305**

17. INFORMATION ON THE ARRANGEMENTS KNOWN TO THE COMPANY (INCLUDING AFTER THE END OF THE FINANCIAL YEAR), AS A RESULT OF WHICH CHANGES MAY OCCUR IN THE FUTURE IN THE RELATIVE SHARE OF SHARES OR BONDS HELD BY CURRENT SHAREHOLDERS OR BONDHOLDERS.

No agreements are known as a result of which changes in the relative share of shares held by current shareholders may occur in the future. The Company has not issued bonds and has no bondholders.

18. INFORMATION ON PENDING COURT, ADMINISTRATIVE OR ARBITRATION PROCEEDINGS CONCERNING LIABILITIES OR RECEIVABLES OF THE COMPANY IN THE AMOUNT OF AT LEAST 10 PER CENT OF ITS OWN CAPITAL; IF THE TOTAL VALUE OF THE LIABILITIES OR RECEIVABLES OF THE COMPANY ON ALL INITIATED PROCEEDINGS EXCEEDS 10 PER CENT OF ITS OWN CAPITAL, INFORMATION FOR EACH PROCEEDING SHALL BE SUBMITTED SEPARATELY;

Case COMP/B1/AT.39849 – BEH gas

Case COMP/B1/AT.39849 - BEH gas (“The Case”) concerns a possible violation of Article 102 of the Treaty on the Functioning of the European Union (TFEU) in connection with allegations by the European Commission (EC) concerning the actions of Bulgarian Energy Holding EAD and its subsidiaries - Bulgargaz EAD and Bulgartransgaz EAD aimed at:

- preventing their competitors from gaining an access to key gas infrastructure (gas transmission network and natural gas storage facility) in the Republic of Bulgaria, such as explicitly or implicitly denying third parties access or causing delays;
- preventing competitors from gaining an access to the main import pipeline by reserving capacity that remains unused. The proceedings were instituted in 2013 with a view to adopting a decision under Chapter 3 (Articles 7 to 10) of Regulation 1/2003. On 23 March 2015, the European Commission issued a Statement of Objections. Bulgarian Energy Holding EAD and its gas subsidiaries submitted their respective responses to the European Commission on 9 July 2015 (Bulgargaz EAD), 10 July 2015 (Bulgarian Energy Holding EAD) and 17 July 2015 (Bulgartransgaz EAD).

On 24 November 2017, a decision was adopted by the 44th National Assembly (NA) of the Republic of Bulgaria to take the necessary actions to close Case COMP/B1/AT.39849 - BEH gas, whereby the National Assembly supported the closure of the case under Art. 7 of Regulation (EC) No. 1/2003 without acknowledging the infringements alleged by the European Commission and without taking responsibility for them, fulfilling the obligations arising from a possible prohibition decision, including a possible financial penalty.

On 26 July 2018, a decision was adopted by the 44th National Assembly (NA) of the Republic of Bulgaria to take action to close Case COMP/B1/AT.39849 - BEH gas under Art. 9 of Regulation (EC) No. 1/2003 by undertaking commitments on the part of Bulgaria and reaching an agreement with the European Commission. The second decision of the National Assembly was motivated by the development of case COMP/B1/AT.39816 between the European Commission and PJSC Gazprom and OOO Gazprom Export, on which on 24 May 2018 the Commission announced that an agreement had been reached and closed under the provisions of Art. 9 of Regulation (EC) No. 1/2003 without imposing a financial sanction on PJSC Gazprom and OOO Gazprom Export.

On 17 December 2018, the European Commission announced its adopted Decision C(2018)8806 in Case AT.39849 BEH-gas, whereby the European Commission imposed a fine on Bulgarian Energy Holding EAD (BEH EAD), its supply subsidiary Bulgargaz EAD and its gas infrastructure subsidiary Bulgartransgaz EAD (BEH Group) in the amount of EUR 77,068,000 for allegedly blocking competitors' access to key gas infrastructure in Bulgaria in violation of EU antitrust rules. The decision was received in the offices of the three companies on 19 December 2018, which determines the beginning of the period for appealing the EC Decision (two months and ten days from notification of the Decision to the Parties) and for payment of the fine (three months from the notification of Decision to the Parties), set out therein.

An appeal against the decision shall not delay payment of the fine. On 18 March 2019, a bank guarantee was issued by a credit institution selected through a procedure conducted by BEH EAD. The bank guarantee covers 2/3 of the total amount of the fine in the amount of EUR 77,068,000, which secures the obligations of BEH EAD and Bulgargaz EAD under the imposed fine.

On 4 July 2019, the Bulgarian state, through the Ministry of Foreign Affairs, submitted an application to intervene in the case in support of BEH EAD and its subsidiaries gas companies.

On 26 August 2019, the European Commission presented its Defense before the General Court in response to a complaint filed by Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD.

On 29 November 2019, Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD filed a Response against the Defense of the European Commission.

On 20 February 2020 within the specified period by the General Court of the European Union the Republic of Bulgaria through the Ministry of Foreign Affairs (MFA) filed the official position of the Republic of Bulgaria in case T-136/19, provided to the Ministry of Foreign Affairs by the Ministry of Energy, whereby the Bulgarian state intervenes in support of Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD v. European Commission before the General Court of the European Union.

The General Court examined additional documents and requested information in order to clarify all the circumstances attached to the case. By letter of 14 March 2022, the Court requested the European Commission to provide non-confidential versions of the documents listed by the Court. A response from the European Commission is expected.

It should be borne in mind that if the General Court decides to open the oral procedure, the President of the General Court of the EU sets the date of the hearing for the oral hearings.

As of 31 December 2021, there is no fixed date for an oral hearing of the parties.

As of 31 December 2021 the Company has accrued a provision in the amount of BGN 52,346 thousand, representing 1/3 of the total amount of the imposed fine and interest on it in the amount of BGN 2,102 thousand, and the estimate is that it is expected settlement to take place after more than 12 months.

19. OTHER INFORMATION AT THE DISCRETION OF THE COMPANY

The Company considers that there is no other information that would be important for the users.

Date: 27.04.2022

Oksana Yankova Digitally signed by Oksana Yankova Date: 2022.06.01 09:39:19 +03'00'

Oksana Yankova
Head of Finance Department

Lyudmil Ventsislavov Yotsov Digitally signed by Lyudmil Ventsislavov Yotsov Date: 2022.06.01 10:04:06 +03'00'

Lyudmil Yotsov
Executive Director

1. GENERAL PROVISIONS

This Statement of Corporate Governance has been prepared in compliance with the requirements of Art. 40, paragraph 1 of the Accounting Act and according to Art. 100n, paragraph 8 in conjunction to paragraph 7, item 1 of the Public Offering of Securities Act (POSA).

Bulgargaz EAD (the Company) is a company with main scope of business public supply of natural gas, as well as related purchases and sales, purchase of natural gas for the purpose of its storage in a gas storage facility, marketing research and analysis of the natural gas market. The specific normative acts for carrying out the activity of the Company are: Energy Act; Ordinance No. 3 of 2013 on licensing of activities in the energy sector; Ordinance No. 2 of 2013 on the regulation of natural gas prices; Rules for trade in natural gas; Regulation No. 994/2010 of the European Parliament and of the Council concerning measures to safeguard security of gas supply and repealing Directive 2004/64/EC.

Bulgargaz EAD is a legal entity under Bulgarian law, a sole-owned joint stock company acting in accordance with the provisions of the Commercial Act, the Public Enterprises Act, the Regulations on Implementation of the Public Enterprises Act (Regulations) and other regulations of the Republic of Bulgaria. A sole-owned joint stock company, whose share capital is owned by Bulgarian Energy Holding EAD. The ultimate owner of the Company is the Bulgarian state through the Minister of Energy.

The Company is managed by a one-tier management system. The Board of Directors holds management, representative and control functions.

Notwithstanding the statutory requirement for the implementation of the Corporate Governance Code, the adoption of such a standard is a result of the management's desire to continuously improve the principles and practices of corporate governance adopted by Bulgargaz EAD. The efforts of the executive management are aimed at transparency of the work by presenting timely and complete information, compliance with stakeholders, independence and prevention of conflicts of interest.

The Company observes the approved principles and norms of corporate governance set in the current regulations applicable to its activities. The Company will continue to strictly adhere to these norms and principles.

The Statement of Corporate Governance is a separate report that is published together with the activity report.

2. INFORMATION UNDER ART. 100n, PARAGRAPH (8), ITEM (1) of the POSA

Bulgargaz EAD shall, as appropriate, comply with the National Code of Corporate Governance as amended in April 2016, approved by the Deputy Chairman of the Financial Supervision Commission under Art. 100n, paragraph 7, item 1 of the Public Offering of Securities Act with Decision No. 461-ККУ of 30 June 2016 and adopted by the National Commission for Corporate Governance.

The Code is applied on the "observe or explain" principle, i.e. in case of deviation the management shall clarify the reasons for this.

3. INFORMATION UNDER ART. 100n, PARAGRAPH (8), ITEM (2) of the POSA

The bylaws of BEH EAD, which owns the capital of Bulgargaz EAD and exercises control (acting as a parent company), do not specify the number of companies in which the members of the Board of Directors may hold management positions, and the number of consecutive mandates of the independent members of the Board of Directors is not limited. However, good practices are followed, without a legal requirement, to prevent a high concentration of control functions in one person in terms of individual companies.

The remuneration of the Board of Directors of Bulgargaz EAD is determined by the terms and conditions of the Regulations on the implementation of the Public Enterprises Act. Remunerations other than those specified in the Regulations are not allowed.

Bulgargaz EAD protects the rights of shareholders described in Chapter Three of the National Code of Corporate Governance, as long as there are no restrictions in their application in connection with the presence of one shareholder - Bulgarian Energy Holding EAD (the ultimate owner - the Bulgarian state).

Bulgargaz EAD has no approved disclosure policy. The Company strictly observes the requirements for disclosure of information regarding the term and completeness in accordance with the Bulgarian legislation and observing the instructions of the Minister of Energy. Information on the annual, half-yearly and quarterly financial statements, activity reports is published on the Company's website, on the website of the Ministry of Finance and through the web-based electronic information system for public enterprises of the Agency for Public Enterprises and Control.

Important and substantial information fir its activity is periodically published on the Company's website.

Bulgargaz EAD does not have approved rules for taking into account the interests of the stakeholders, but on all issues that directly or indirectly concern them, the relevant conciliation procedures are carried out.

INFORMATION UNDER ART. 100n, PARAGRAPH (8), ITEM (3) of the POSA

By decision of the Board of Directors dated 18 June 2015, Bulgargaz EAD has established an Internal Audit Unit, which has been established as an independent department under the direct supervision of the Executive Director. The internal audit activity is performed in accordance with the requirements of the Internal Audit in the Public Sector Act. By decision of the Board of Directors of Bulgargaz EAD under item 2.1 of Minutes No. 321 dated 21 December 2017 the statute of the Internal Audit Unit was approved, respectively the current statute of the Internal Audit Department was revoked /item 2.3 of Minutes No. 321 dated 21 December 2017. Audit engagements for assurance and consulting are performed in Bulgargaz EAD.

The internal audit assists the management and employees of Bulgargaz EAD to achieve its objectives by:

- Identifying and assessing the risks in the Company with a view to allocating audit resources for maximum coverage of the audit environment;
- Assessing the adequacy and effectiveness of the financial management and control system with regard to:

  a) the identification, assessment and risk management by the management of Bulgargaz EAD;
  b) compliance with legislation, internal acts and contracts;
  c) the reliability and comprehensiveness of financial and operational information;
  d) the efficiency, effectiveness and economy of the activities;
  e) protection of assets and information;
  f) fulfillment of tasks and achievement of goals.

- Giving recommendations for improving the activities of Bulgargaz EAD.

By Decision under item 1.1 of Minutes No. 210 dated 14 April 2016 of the Board of Directors of Bulgargaz EAD the Financial Management and Control System of Bulgargaz EAD was adopted.

By Decision under item 2.1 and item 2.2 of Minutes No. 322 dated 29 December 2017 of the Board of Directors of Bulgargaz EAD, the Financial Management and Control System of Bulgargaz EAD, adopted by a decision under item 1.1 of Minutes No. 210 dated 14 April 2016 of the Board of Directors of Bulgargaz EAD has been revoked.

On 29 December 2017, the Financial Management and Control System of Bulgargaz EAD was approved by Decision under item 2.1 and item 2.2 of Minutes No. 322 dated 29 December 2017 of the Board of Directors, which entered into force on 09 January 2018.

The purpose of the system is to provide reasonable assurance that the Company's objectives have been achieved through:

- compliance with the legislation, the internal acts of the Company and the concluded contracts,
- reliability and comprehensiveness of financial and operational information,
- economy, efficiency and effectiveness of activities,
- protection of assets and information.

The control environment includes:

- personal integrity and professional ethics of the employees in the Company,
- management philosophy and style of work,

- organizational structure ensuring division of responsibilities, hierarchy and clear rules, rights, obligations and levels of reporting,
- human resources management policy,
- competence of the staff.

Since 04 June 2019, in connection with the implementation of its activities Bulgargaz EAD has been certified under BDS EN ISO 9001: 2015 Management System in accordance with the procedures of the Certification Body for Management Systems at TÜV NORD Bulgaria EOOD. The main procedure 610-01 "Context of the organization and management of risks and opportunities" concerning the risk management policies in the Company is an integral part of the management system.

An integral part thereof are the risk management policies and procedures in Bulgargaz EAD.

The risk management policy aims to regulate the general framework of risk management processes. In general, it is a set of measures aimed at reducing the risk of errors at the stage of management decision-making and to minimize the possible negative consequences of the adopted decision at other stages of activity. In addition, the policy sets out the basic principles and practices for implementing risk management processes. The risk management policy identifies, assesses and manages the risks in the Company, assesses the adequacy and effectiveness of the financial management and control systems in the Company. The risk management strategy provides:

- Systematic and synchronous application of a unified risk management model in Bulgargaz EAD with common terminology, rules and procedures;
- Creating the necessary prerequisites for a successful risk management process;
- Raising awareness of risk management and focusing on key risk areas in the implementation of management functions;
- Stimulating the introduction and implementation of adequate and effective control mechanisms;
- Focusing the attention of the Company's managers on potential events that may negatively affect the achievement of strategic and operational objectives, possible ways to reduce their negative impact and the likelihood of their occurrence;
- Providing information about potential events, possible ways to reduce their negative impact and the likelihood of occurence;
- Identification of the risks that may affect the lawful, efficient, effective and economical course of activities in the Company;
- Optimal use of the resources necessary for the implementation of the Company's activities;
- Protection of the institutional image and reputation of Bulgargaz EAD.

Control activities include written policies and procedures designed to give reasonable responsibility that risks are limited within the tolerances set in the risk management process.

Control activities include:

- authorization and approval procedures,
- division of responsibilities in a way that does not allow one employee to have responsibility for approval, implementation, accounting and control at the same time,
- a double-signature system which does not allow a financial commitment or payment to be made without the signatures of the Executive Director and the person responsible for the accounting entries,
- rules for access to assets and information,
- procedures for full, accurate, correct and timely accounting of all transactions,
- reporting and verification of activities - evaluation of the efficiency and effectiveness of operations,
- monitoring procedures,
- rules for human resources management,
- rules for documenting all operations and actions related to the activity of the Company,
- rules for respecting personal integrity and professional ethics,
- the financial controller performs preliminary control for legitimacy before assuming an obligation and making an expense in Bulgargaz EAD.

4. INFORMATION UNDER ART. 100n, PARAGRAPH (8), ITEM (4) of the POSA

4.1. Information under Art. 10, paragraph (1), item (c) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004

Not applicable to the Company.

4.2. Information under Art. 10, paragraph (1), item (d) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004

Not applicable to the Company.

4.3. Information under Art. 10, paragraph (1), item (f) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004

There are no restrictions on voting rights.

4.4. Information under Art. 10, paragraph (1), item (h) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004.

The rules governing the appointment or replacement of board members are described in item 5.

The sole owner of the capital amends and supplements the Articles of Association of the Company.

4.5. Information under Art. 10, paragraph (1), item (i) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004

The powers of the members of the Board of Directors are described in item 5.

5. INFORMATION UNDER ART. 100n, PARAGRAPH (8), ITEM (5) of the POSA

The governing bodies of Bulgargaz EAD are:

- **Sole owner of the capital**;
- **Board of Directors**.

The company has appointed an **Audit Committee** under Art. 107 of the Independent Financial Audit Act.

5.1. Sole owner of the capital

5.1.1. Statute

The sole owner of the capital of the Company is Bulgarian Energy Holding EAD ("Holding"). The rights of the Holding as Sole owner of the capital in the Company are exercised by the person (persons) representing the Holding as the principal of the Company and is the body authorized to take all decisions granted in the competence of the sole owner of capital under the law or the Articles of Association.

5.1.2. Competence

(1) The sole owner of the capital has all the rights of a shareholder of the Company in accordance with the law and the Articles of Association. The sole owner of the capital decides on all issues that the law places within the competence of the general meeting of shareholders. In the cases provided by law, the sole owner of the capital seeks and receives from the State Energy and Water Regulatory Commission or other competent regulator the necessary permits or consents, if necessary for the exercise of its competence.

(2) The sole owner of the capital:

- amends and supplements the Articles of Association of the Company;
- increases and decreases the capital of the Company;
- transforms and terminates the Company;
- elects and dismisses the members of the Board of Directors and determines their remuneration; second the members of the Board of Directors abroad;
- elects and dismisses the certified public accountant;

- approves the annual financial statements after certification by the appointed certified public accountant;
- decides on the issuance of bonds;
- appoints the liquidators upon termination of the Company, except in case of insolvency, participates in the election of a special representative under the Energy Act by the State Commission for Energy and Water Regulation and concludes a contract with them;
- releases from liability the members of the Board of Directors;
- takes decisions for opening, transferring or closing branches of the Company;
- gives permission for: disposition transactions with fixed assets; for contracts for the use or lease of real estate or assets, the book value of which exceeds 5% of the total book value of fixed assets as of December 31 of the previous year or for transactions that (regardless of the value of assets) require permission from the State Commission for Energy and Water Regulation; for acquisition of shares and/or stocks in other companies, as well as for disposal of shares and/or stocks - property of the Company in other companies; for the conclusion of loan agreements; for the conclusion of joint venture agreements (so-called joint ventures), partnership and cooperation agreements, contracts with profit and loss clauses and contracts for participation in international projects or related to such projects and their implementation; for acquiring bill of exchange obligations; for securing the obligations of the Company by establishing a mortgage or pledge on fixed assets of the Company; for the provision of collateral in favor of third parties; for the conclusion of a court or out-of-court agreement, which recognizes the obligations of the Company or waives the receivables of the Company from third parties; for significant change in the activity of the Company; for significant organizational changes, for long-term cooperation of essential importance for the Company, as well as for the termination of such cooperation;
- approves the election of insurer when concluding contracts for compulsory insurance;
- approves the decision of the Board of Directors to start public procurement procedures with an estimated value of over BGN 500,000 (five hundred thousand Bulgarian levs), excluding VAT;
- authorizes the conclusion of contracts for the sale, exchange and lease of fixed assets, regardless of their carrying amount, to be carried out by direct negotiation;
- coordinates the acquisition of assets or the conclusion of contracts after a procedure under the Public Procurement Act, as well as amendments to the same, of a single or total value over BGN 500,000 (five hundred thousand Bulgarian levs), excluding VAT, excluding contracts for purchase, sale of natural gas and any other transactions with natural gas at freely negotiated prices on the organized stock exchange market and outside the organized stock exchange market (domestic and international markets) contracts for and related to natural gas storage in gas storage facilities, contracts for and related to access to, transmission and reservation of capacity from gas transmission networks, balancing contracts, as well as contracts concluded in fulfillment of a legal and/or licensing obligation at regulated prices, including the amendment of these contracts. Contracts, outside the conciliation regime, are concluded in compliance with the requirements for risk management, affordability and cost-effectiveness;
- Adopts and submits to the Board of Directors Corporate Governance Policy, Financial and Accounting Policy, Information Technology Policy, Human Resources Management Policy, Investment and Project Management Policy, Public Procurement Policy (including Policy on organizing tenders, competitions and direct negotiation for delivery of goods and performance of works and services); Policy for conducting tenders, competitions and direct negotiation for concluding contracts for sale, exchange and lease of fixed assets, Policy for risk management and internal audit, and other policies that are mandatory for the Company (the "Policies") and approves business the program of the Company prepared by the Board of Directors;
- decides on the distribution of the profit of the Company and its payment and on the payment of the additional remuneration to the members of the Board of Directors, as well as determines their amount;
- gives consent for election of a procurator of the Company and approves in advance the conditions of the power of attorney;

- gives prior consent for the decisions under the previous points (except for the secondment under item 4), which the Company takes in respect of its subsidiaries and project companies (if any and according to the type of company), as well as for the conclusion of any contracts between the Company and its subsidiaries and project companies, if any;
- decides other issues provided within its competence by the law and the Articles of Association.

5.1.3. Decision making

(1) The sole owner of the capital shall take decisions within the competence of a regular annual general meeting once a year, and within the competence of an extraordinary general meeting - depending on the necessity. An invitation in the Commercial Register shall not be announced for the exercise of the competence of a general meeting by the sole owner of the capital. The sole owner of the capital may take decisions within the competence of the general meeting at any time in writing by notifying the Board of Directors through its Chairman with a view to their implementation and sending him the original of its decisions.

(2) The Board of Directors shall fulfill its obligations under Art. 223, respectively under Art. 251 of the Commercial Act by sending a written application to the sole owner of the capital regarding the necessity, respectively the readiness, to take decisions by the sole owner of the capital. The written application contains proposals on the issues on which the Board of Directors proposes to the sole owner of the capital to make decisions. The proposals do not bind the sole owner of the capital to consider and resolve the issues raised, nor do they limit him to the range of issues on which he can make decisions.

(3) Minutes in writing shall be drawn up for the decisions of the sole owner of the capital, which shall be signed by the principal of the Company.

(4) In case the sole owner of the capital wishes members of the Board of Directors to be present at the decision-making, they shall be obliged to do so. The sole owner of the capital may request from the present members of the Board of Directors or other persons invited by him to re-sign the minutes with the decisions taken by him. In the cases provided by law, the employees of the Company shall participate in decision-making in the appropriate manner.

(5) The application for entry of the decisions of the sole owner of the capital, when these decisions are subject to entry shall be assigned to the executive director, who in such case has the right to authorize a person for that.

5.2. Board of Directors

5.2.1. Composition

As of 31 December 2021, the Board of Directors of Bulgargaz EAD consists of:

Svetoslav Tanev Delchev
Nikolay Atanasov Donchev,
Iliyan Kirilov Dukov
Nikolay Angelov Pavlov (Executive Director)
Diana Stoyanova Boneva

By decisions, as of 03 February 2022 of the Bulgarian Energy Holding EAD, the current Board of Directors has been determined. The composition is as follows:

Ivan Topchiiski
Lyudmil Yotsov
Angela Slavova
Anton Adamov
Stefan Voynov

At a meeting of the Board of Directors Ivan Topchiiski was elected Chairman of the Board of Directors, Lyudmil Yotsov was elected to represent the Company, and he was appointed at the position of Executive Director.

5.2.2. Statute

(1) The Board of Directors reports to the sole owner of the capital for the management of the Company, including for the strict compliance with the Policies. It meets as needed, but at least once every three months.

(2) The Board of Directors shall consist of 3 to 5 members - natural persons, elected by the sole owner of the capital.

(3) The Board of Directors shall elect one or two of its members as executive members, and the others shall be non-executive members. The term of office of the Board of Directors is the maximum allowed by the current law, as of the entry of the Board of Directors in the Commercial Register, and the Board of Directors continues to exercise its competence until the entry of a new Board of Directors and after expiration of its term of office.

A member of the Board of Directors may not be an individual who:

- on its own or on behalf of others carries out commercial transactions similar to the activities of the Company;
- is a partner in a general partnership, limited partnership or limited liability company, when it carries out activities similar to the activities of the Company;
- has been a member of the management or supervisory body of a company terminated due to insolvency in the last two years preceding the date of the insolvency decision, if unsatisfied creditors remain;
- is a spouse or a relative up to the third degree in direct or collateral line, including by marriage to another member of the Board of Directors;
- has been convicted of an offense of a general nature, including deprived by a sentence or by an administrative penalty of the right to hold a material accounting position;
- is a manager or a member of an executive or control body of another business company with state participation in its capital (excluding the Holding) or is a related party to a manager or a member of the executive or control body of another business company with state participation in its capital (except the Holding);
- is a Member of Parliament, Minister, District Governor, Deputy District Governor, Mayor, Deputy Mayor, Substitute Mayor, Secretary of a Municipality, Chairman of a State Agency, Member of a State Commission, Executive Director of an Executive Agency, Head of a state institution established by law or by an act of the Council of Ministers, which has functions in connection with the exercise of executive power, is an executive director or a member of the board of the Privatization Agency and the Post-Privatization Control Agency;
- owes public receivables to the state or municipality;
- has no higher education or does not meet other requirements provided by law.

(4) The Company may have procurators, for which persons who meet the requirements of the preceding paragraph may be elected.

5.2.3. Functions

The Board of Directors carries out the operational management of the Company and controls the activities of the Executive Director, including with regard to compliance with the Policies. He performs all functions and resolves all issues that are not within the exclusive competence of the sole owner of the capital by virtue of the law or the Articles of Association of the Company. The Board of Directors adopts Rules of Procedure, which are approved by the sole owner of the capital.

5.2.4. Competence

(1) The Board of Directors shall exercise the entire competence of the Board of Directors in accordance with the law and the Articles of Association of the Company.

(2) The Board of Directors:

- organizes, manages and controls the overall activity of the Company;

- prepares a business program of the Company for the entire term and separately for each year, presents it to the sole owner of the capital for approval and ensures its implementation;
- implements the investment policy of the Company and decides on the acquisition of property and other rights over real estate, which are not of the exclusive competence of the sole owner of the capital;
- is responsible for the implementation of the Policies and draws up procedures for their implementation by the Company and its subsidiaries (if any), for the implementation of the conditions under the licenses of the Company and the Company's subsidiaries (if any) and their maintenance, for the implementation of the production and business programs of the Company, monitors and is responsible for the good economic position of the Company;
- elects one or two of its members as executive directors and authorizes them to manage and represent the Company before third parties. In case two executive directors are elected, they represent the Company jointly;
- takes unanimously decisions for all transactions provided for in Art. 236, paragraph (2) of the Commercial Act;
- at the request of the principal seeks and receives from the State Energy and Water Regulatory Commission or other competent regulator the necessary permits or consents, makes proposals to the principal to resolve issues within the competence of the sole owner of capital and decides on all other issues that fall within the competence of the Board of Directors as set out in the Articles of Association.

(3) By the prior written approval of the principal, the Board of Directors may change the Executive Director at any time, and replace him with another member of the Board of Directors.

5.2.5. Contracts with members of the Board of Directors, remuneration and expenses

(1) Each of the members of the Board of Directors shall conclude a management contract with the sole owner of the capital. The contract is concluded for the period until the end of the term of the Board of Directors and contains the rights and obligations of the parties, the amount of remuneration and method of payment, liability of the parties for non-performance, grounds for termination and type and amount of guarantee that the members provide for their management and the amount of the penalty for early termination of the contract through no fault of the member of the Board of Directors.

(2) The members of the Board of Directors shall receive remuneration determined in terms of its amount and manner of payment by the sole owner of the capital.

(3) The members of the Board of Directors shall obligatorily provide a guarantee for their management in an amount determined by the sole owner of capital. The provided guarantee is returned after the termination of the contract and after the decision of the sole owner of the Company for release from liability. Where a guarantee has been paid in cash, interest on the amount paid shall also be refundable.

(4) If business trips are required, the members of the Board of Directors shall be seconded abroad by the Executive Director (including by seconding himself) at the expense of the Company. When holding meetings of the bodies of the Company, the expenses for holding the meeting and for secondment of members of the Board of Directors, if the place of holding is different from the place of residence of a member of the Board of Directors, shall be borne by the Company.

(5) The contract of procurator shall be signed jointly by the Executive Directors, respectively, independently by the sole Executive Director.

5.2.6. Status of the executive member of the Board of Directors

(1) The Board of Directors assigns the Executive Director to manage and represent the Company under the conditions of Art. 31. The non-executive members of the Board of Directors control the activities of the Executive Director.

(2) The Executive Director represents the Company independently and has the right to perform all actions and transactions related to the activities of the Company, as well as to compile and sign documents on behalf of the Company and to authorize other persons to perform individual actions and transactions. Upon election of two Executive Directors, they represent the Company under the conditions of joint representation.

(3) The Executive Director organizes the activity of the Company in accordance with the law, the Articles of Association, the decisions of the sole owner of the capital, the Regulations of the Board of Directors, the Policies and the decisions of the Board of Directors. He takes over the operational management of the Company's activities, concludes and terminates the employment and other contracts with employees and associates of the Company and is responsible for the reporting and the archives of the Company. The Executive Director also decides on all other issues that are not within the exclusive competence of the sole owner of the Capital or the Board of Directors in accordance with the law, the Articles of Association of the Company, or which are assigned to him by decision of the sole owner of capital.

(4) The management contract with the Executive Director, as well as the contracts of the members of the Board of Directors, shall be signed by the representative of the sole owner, unless the Board of Directors of the sole owner authorizes another member. The appraisal of the performance of the specific member of the Board of Directors (including under Article 29, paragraph (3) above) shall be performed by the Board of Directors of the sole owner of the capital.

5.2.7. Representation of the Company

(1) The Company shall be represented before third parties by the sole Executive Director independently (even if a procurator is appointed).

(2) In case of election of two Executive Directors - jointly by the Executive Directors. In the same way, the Executive Directors may authorize other persons to carry out certain actions or to conclude separate transactions (including to authorize one person).

(3) A procurator may represent the Company within the framework of the power of attorney granted to him.

5.3. Audit committee

5.3.1. Composition

By decision of Bulgarian Energy Holding EAD the following persons were elected:
Ilin Krivoshiev - Chairman
Irena Mihailova - Member
Vladimir Penevski - Member

5.3.2. Statute

The Committee is a specialized, supervisory, advisory body. The members of the Committee are elected by Bulgarian Energy Holding EAD in its capacity of sole owner of the capital of Bulgargaz EAD. The Committee consists of 3 members, one of whom is the chairman.

5.3.3. Remunerarion

The remuneration of the members of the Audit Committee is determined by the Board of Directors of Bulgarian Energy Holding EAD and is at the expense of Bulgargaz EAD. By Minutes No. 34-2021 dated 06 July 2021, the Board of Directors of Bulgarian Energy Holding EAD determines the remuneration of the members of the Audit Committee as follows:

- for a member of the Audit Committee in the amount of 80 percent of the monthly remuneration of a member of the Management Board of the Company;
- for chairman of the Audit Committee in the amount of 85 percent of the remuneration of a member of the Management Board of the company, elected under Art. 105, paragraph (6) of the Independent Financial Audit Act.

By Minutes No. 25-2018 dated 10 May 2018, the Board of Directors of Bulgarian Energy Holding EAD approved the Statute of the Audit Committee of Bulgargaz EAD.

5.3.4. Obligations and powers

(1) The Audit Committee carries out its activities in accordance with the requirements of the Independent Financial Audit Act, Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16

April 2014 on specific requirements regarding the statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (Regulation (EU) No. 537/2014), Directive 2014/56 and Directive 2006/43 of the European Parliament and of the Council and these Articles.

(2) The Committee shall have the following powers:

- to monitor the financial reporting process and make recommendations or suggestions to ensure its effectiveness;
- to review and, at its discretion, express an opinion on the accounting policy of the Holding and its application in the financial reporting;
- to monitor the effectiveness of the adopted current controls during the monthly review of the financial position of Bulgargaz EAD;
- to monitor the timely and reliable provision of financial information by the subsidiaries during the preparation of the annual consolidated financial statements of Bulgargaz EAD EAD;
- to monitor the effectiveness of the internal control system, the risk management system and the internal audit activity with regard to the financial reporting in Bulgargaz EAD EAD;
- to review and express an opinion on the risk management strategy, the risk register of the Holding and the annual report on the condition of the financial management and control system;
- to express an opinion on the status and number of staff of the Internal Audit Unit and on the strategic and annual plans for the internal audit activity;
- to discuss and adopt the Annual Internal Audit Activity Report and, if necessary, to get acquainted and give opinions on individual audit reports from performed audit engagements, as well as on all significant issues related to the internal audit;
- to be responsible for the selection procedure of the registered auditor, except in cases where the audited entity has a selection committee, and recommend its appointment;
- to check and monitor the independence of the statutory auditor and to take decisions in the cases provided by law, in accordance with the requirements of Chapters Six and Seven of the Independent Financial Audit Act, as well as pursuant to Art. 6 of Regulation (EU) No. 537/2014, including the expediency of providing services outside the audit under Art. 5 of the same Regulation;
- to monitor the mandatory audit of the annual and consolidated financial statements, including its implementation, taking into account the findings and conclusions of the Commission for Public Oversight of Statutory Auditors on the application of Art. 26, paragraph (6) of Regulation (EU) No. 537/2014;
- to get acquainted with the audit strategy and the audit plan of the statutory audit and expresses an opinion on them, assessing the arguments in support of important decisions and choices made at the planning stage;
- to monitor the implementation of the audit plan by giving recommendations to the management of the Company and the auditors to eliminate any difficulties;
- to review the draft audit reports under Art. 59 and Art. 60 of the Independent Financial Audit Act and the identified key audit issues, the findings and the audit opinion expressed, as well as to form an opinion on the annual work of the statutory auditor, which includes: independence of the auditor; objectivity and professional skepticism; composition of the audit team; findings from inspections of the Commission for Public Oversight of Statutory Auditors; communication and relations with the management of Bulgargaz EAD. The annual opinion is formed on the basis of criteria adopted by the Audit Committee and communicated in advance with the auditor;
- to discuss the additional report of the auditor (prepared in accordance with Art. 11, item (2) of Regulation (EU) No.537/2014) and make recommendations to the management of Bulgargaz EAD to eliminate the significant weaknesses and shortcomings identified in the report;

6. INFORMATION UNDER ART. 100n, PARAGRAPH (8), ITEM (6) of the POSA

The Board of Directors is appointed by minutes decision of Bulgarian Energy Holding EAD. When electing new members of the Board of Directors, the principle of competence of the candidates with the nature of the Company's activity is observed.

LYUDMIL YOTSOV
EXECUTIVE DIRECTOR
BULGARGAZ EAD

Lyudmil Ventsislavov Yotsov

Digitally signed by Lyudmil Ventsislavov Yotsov
Date: 2022.06.01 10:04:44 +03'00'

BULGARGAZ EAD
STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2021

(All amounts are in BGN'000)

	Note	AS AT 31 DECEMBER 2021	2020
ASSETS			
Non-current assets			
Property, plant and equipment	7	314	130
Intangible assets	8	281	190
Deferred tax assets	10	1 437	13 506
		2 032	**13 826**
Current assets			
Inventories	12	123 031	49 178
Trade and other receivables	11	475 759	128 337
Cash and cash equivalents	13	211	171 857
		599 001	**349 372**
TOTAL ASSETS		**601 033**	**363 198**
EQUITY AND LIABILITIES			
Equity			
Share capital	15	231 698	231 698
Reserves	16	14 757	7 360
Retained earnings		82 458	40 237
		328 913	**279 295**
Non-current liabilities			
Lease payables	9	-	2
Provisions	33	52 346	51 592
Liabilities for retirement employee benefits	19	121	95
		52 467	**51 689**
Current liabilities			
Borrowings	17	2 603	-
Trade and other payables	18	215 144	31 331
Lease payable	9	253	69
Income tax payables		1 593	723
Liabilities for retirement employee benefits	19	60	91
		219 653	**32 214**
TOTAL LIABILITIES		**272 120**	**83 903**
TOTAL EQUITY AND LIABILITIES		**601 033**	**363 198**

Prepared on: 20.04.2022
The annual financial statements were approved by the Board of Directors on 27.04.2022 and signed on 18.05.2022.

liliya Viktorova Ivanova Digitally signed by liliya Viktorova Ivanova Date: 2022.06.01 09:48:25 +03'00'

Liliya Ivanova
Head of Accounting Department

Lyudmil Ventsislavov Yotsov Digitally signed by Lyudmil Ventsislavov Yotsov Date: 2022.06.01 10:05:17 +03'00'

Lyudmil Yotsov
Executive Director

Auditor's report issued by the joint auditors

Grant Thornton LTD, Audit Firm No 032
Mariy Apostolov
Manager
MARIY GEORGIEV APOSTOLOV Digitally signed by MARIY GEORGIEV APOSTOLOV Date: 2022.06.01 11:27:22 +03'00'

Emiliya Marinova
EMILIYA GEORGIEVA MARINOVA-LALEVA Digitally signed by EMILIYA GEORGIEVA MARINOVA-LALEVA Date: 2022.06.01 11:21:18 +03'00'
Registered auditor responsible for the audit

Zaharinova Nexia EOOD, Audit Firm No 138
Dimitrina Zaharinova
Manager
Dimitrina Dimitrova Zaharinova Digitally signed by Dimitrina Dimitrova Zaharinova Date: 2022.06.01 11:51:02 +03'00'

Stoycho Milev
Stoycho Kirilov Milev Digitally signed by Stoycho Kirilov Milev Date: 2022.06.01 11:50:22 +03'00'
Registered auditor responsible for the audit

The accompanying notes on pages 5-58 are an integral part of the financial statements.
This version of financial statements as at 31 December 2021 of Bulgargaz EAD is free translation from Bulgarian to English language. These financial statements have been prepared and audited as of 18 May 2022

BULGARGAZ EAD
PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

(All amounts are in BGN'000)	**Note**	**YEAR ENDED DECEMBER 31, 2021**	**2020**
Revenues from sale of natural gas	20	2 123 087	683 451
Other revenue	21	12 137	15 311
Cost of natural gas as sold		(2 027 072)	(644 430)
(Accrued)/reversed expected credit losses on financial assets	22	(3 939)	4 302
Accrued impairment losses on non-financial assets	12	(2 138)	(310)
Hired services expenses	23	(11 875)	(6 749)
Employee benefits and social security expenses	24	(3 493)	(3 026)
Cost of materials	25	(123)	(75)
Depreciation and amortization charges of non-financial assets	7,8	(517)	(497)
Provision expenses	26	(754)	(756)
Other expenses	27	(1 111)	(93)
Operating activity profit		**84 202**	**47 128**
Interest income	28	419	1 127
Interest expense and bank charges and commissions	28	(1 648)	(1 126)
Foreign exchange losses, net	29	(1 904)	(2 978)
Financial costs, net		**(3 133)**	**(2 977)**
Profit before tax		**81 069**	**44 151**
Income tax expense	30	(17 164)	(4 494)
Net profit for the period		**63 905**	**39 657**
Other items of the comprehensive income:			
Items that will not be reclassified in profit or loss:			
Remeasurement of retirement defined benefit plans	19	(13)	(29)
Income tax related to items that will not be reclassified in profit or loss	10	1	3
Other comprehensive loss for the year, net of tax		**(12)**	**(26)**
Total comprehensive income for the period		**63 893**	**39 631**

Prepared on: 20.04.2022
The annual financial statements were approved by the Board of Directors on 27.04.2022 and signed on 18.05.2022.

liliya Viktorova Ivanova Digitally signed by liliya Viktorova Ivanova Date: 2022.06.01 09:49:10 +03'00'

Liliya Ivanova
Head of Accounting Department

Lyudmil Ventsislavov Yotsov Digitally signed by Lyudmil Ventsislavov Yotsov Date: 2022.06.01 10:05:41 +03'00'

Lyudmil Yotsov
Executive Director

Auditor's report issued by the joint auditors
Grant Thornton LTD, Audit Firm No 032
Mariy Apostolov
Manager
MARIY GEORGIEV APOSTOLOV

Emiliya Marinova
EMILIYA GEORGIEVA MARINOVA-LALEVA Digitally signed by EMILIYA GEORGIEVA MARINOVA-LALEVA Date: 2022.06.01 11:22:03 +03'00'
Registered auditor responsible for the audit

Zaharinova Nexia EOOD, Audit Firm No 138
Dimitrina Zaharinova
Manager
Dimitrina Dimitrova Zaharinova Digitally signed by Dimitrina Dimitrova Zaharinova Date: 2022.06.01 11:51:29 +03'00'

Stoycho Milev
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Registered auditor responsible for the audit

(All amounts are in BGN'000)

	Share capital	Reserves	Retained earnings	Total
AS AT 1 JANUARY 2021	**231 698**	**7 360**	**40 237**	**279 295**
Net profit for the year	-	-	63 905	63 905
Other components of comprehensive income, net of tax	-	(12)	-	(12)
Total comprehensive income	**-**	**(12)**	**63 905**	**63 893**
Transactions with the sole owner				
Dividend distribution	-	-	(14 275)	(14 275)
Total transactions with the sole owner	-	-	(14 275)	(14 275)
Transfer for "Reserve" Fund	-	7 409	(7 409)	-
AS AT 31 DECEMBER 2021	**231 698**	**14 757**	**82 458**	**328 913**
AS AT 1 JANUARY 2020	**231 698**	**7 404**	**562**	**239 664**
Net profit for the year	-	-	39 657	39 657
Other components of comprehensive income, net of tax	-	(26)	-	(26)
Total comprehensive income	**-**	**(26)**	**39 657**	**39 631**
Transfer of revaluation reserve of non-financial assets to retained earnings	-	(18)	18	-
AS AT 31 DECEMBER 2020	**231 698**	**7 360**	**40 237**	**279 295**

Prepared on: 20.04.2022

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Liliya Ivanova
Head of Accounting Department

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Lyudmil Yotsov
Executive Director

Auditor's report issued by the joint auditors:

Grant Thornton LTD, Audit Firm No 032
Mariy Apostolov MARIY GEORGIEV APOSTOLOV Digitally signed by MARIY GEORGIEV APOSTOLOV Date: 2022.06.01 11:29:06 +03'00'
Manager

Emiliya Marinova EMILIYA GEORGIEVA MARINOVA-LALEVA
Registered auditor responsible for the audit

Zaharinova Nexia EOOD, Audit Firm No 138
Dimitrina Zaharinova Dimitrina Dimitrova Zaharinova Digitally signed by Dimitrina Dimitrova Zaharinova Date: 2022.06.01 11:51:53 +03'00'
Manager

Stoycho Milev Stoycho Kirilov Milev Digitally signed by Stoycho Kirilov Milev Date: 2022.06.01 11:49:12 +03'00'
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BULGARGAZ EAD
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER, 2021

(All amounts are in BGN'000)

	Note	2021	YEAR ENDED DECEMBER 31, 2020
CASH FLOWS FROM OPERATING ACTIVITY			
Cash inflows from clients from sales of natural gas		2 444 483	856 426
Cash inflows from transactions with related parties		9 332	113 086
Income tax payments		(4 223)	(4 375)
Payments to suppliers, including:		(2 301 577)	(591 473)
Purchase of natural gas		*(2 171 993)*	*(514 164)*
Transactions with related parties		*(120 494)*	*(72 741)*
Payments to other counterparties		*(9 090)*	*(4 570)*
Taxes paid, different from corporate income tax		(304 199)	(139 704)
Payments to personnel and social security institutions		(3 632)	(3 272)
Interests received on deferred trade receivables		419	1 127
Other proceeds/(payments) from operating activity, net		413	(814)
Net cash flow from operating activities		**(158 984)**	**231 028**
CASH FLOWS FROM INVESTING ACTIVITY			
Acquisition of intangible assets		(304)	(187)
Acquisition of plant and equipment		(47)	(25)
Net cash flow from investing activity		**(351)**	**(212)**
CASH FLOWS FROM FINANCING ACTIVITY			
Dividend payments	32	(14 275)	-
Principal payments on lease contracts	9	(263)	(303)
Interest payments on lease contracts	9	(12)	(9)
Proceeds of overdraft		29 999	37 822
Payments of overdraft		(27 396)	(90 194)
Interest payments on borrowings		(1 527)	(783)
Net cash flows from financing activity		**(13 474)**	**(53 467)**
Net increase/decrease of cash and cash equivalents during the year		**(172 809)**	**177 349**
Cash and cash equivalents at the beginning of the year		171 857	80
Foreign currency gains/(losses) on cash and cash equivalents, net		1 008	(5 417)
Recovered/accrued expected credit losses on cash and cash equivalents under IFRS 9		155	(155)
Cash and cash equivalents at the end of the year	**13**	**211**	**171 857**

Prepared on: 20.04.2022

The annual financial statements were approved by the Board of Directors on 27.04.2022 and signed on 18.05.2022.

liliya Viktorova Ivanova Digitally signed by liliya Viktorova Ivanova Date: 2022.06.01 09:50:28 +03'00'

Liliya Ivanova
Head of Accounting Department

Lyudmil Ventsislavov Yotsov Digitally signed by Lyudmil Ventsislavov Yotsov Date: 2022.06.01 10:06:22 +03'00'

Lyudmil Yotsov
Executive Director

Auditor's report issued by the joint auditors:

Grant Thornton LTD, Audit Firm No 032

Mariy Apostolov MARIY GEORGIEV APOSTOLOV Digitally signed by MARIY GEORGIEV APOSTOLOV Date: 2022.06.01 11:29:50 +03'00'
Manager

Emiliya Marinova EMILIYA GEORGIEVA MARINOVA-LALEVA Digitally signed by EMILIYA GEORGIEVA MARINOVA-LALEVA Date: 2022.06.01 11:23:53 +03'00'
Registered auditor responsible for the audit

Zaharinova Nexia EOOD, Audit Firm No 138

Dimitrina Zaharinova Dimitrina Dimitrova Zaharinova Digitally signed by Dimitrina Dimitrova Zaharinova Date: 2022.06.01 11:52:17 +03'00'
Manager

Stoycho Milev Stoycho Kirilov Milev Digitally signed by Stoycho Kirilov Milev Date: 2022.06.01 11:48:49 +03'00'
Registered auditor responsible for the audit

1. GENERAL INFORMATION

BULGARGAZ EAD (the Company), UIC 175203485, is a sole-owned joint stock company, registered under the Commercial Act, with domicile and registered address at 47 Petar Parchevich Str., Serdika District, Sofia, Bulgaria. The Company is registered in the Bulgarian Registry Agency, under No 113068, Volume 1534, page 35, company case No 16440/2006 and was registered on the grounds of Decision No 1 of 15th January, 2007.

The Company's main activity is the public supply of natural gas as well as purchases and sales related thereto.

The major strategic goal of BULGARGAZ EAD are related to the responsibilities and obligations for continuity and security of supply. Guaranteeing the supply of natural gas is of key importance for the energy security of Bulgaria. To achieve these goals, BULGARGAZ EAD makes every effort for providing alternative sources and routes for natural gas.

The Company operates under an individual license for public supply of natural gas on the territory of Republic of Bulgaria – License No Л-214-14 of 29th November 2006, issued by the State Energy and Water Regulatory Commission for a period of 35 years. As of 16.09. 2021 the Company holds Natural Gas Trading Licence No L-548-15 of 16.09.2021 issued by the Energy and Water Regulatory Commission by virtue of Art. 31, paragraph 1, item 1, in connection with Art. 39, paragraph 5, second sentence of the Energy Act.

BULGARGAZ EAD is a sole-owned joint stock company, whose share capital is owned by Bulgarian Energy Holding EAD. The ultimate owner of the Company is the Bulgarian Republic, through the Minister of Energy.

The Company has a one-tier management system, with governing bodies being the General Meeting of the shareholders and the Board of Directors. As at 31 December 2021, the Company is managed and represented by the Executive Director Nikolay Pavlov and has a Board of Directors with the following members:

- Nikolay Pavlov - Executive Member of the Board of Directors;
- Iliyan Dukov - Member of the Board of Directors;
- Nikolay Donchev - Member of the Board of Directors;
- Diana Boneva - Chairman of the Board of Directors;
- Svetoslav Delchev - Member of the Board of Directors.

As at the date of execution of the Financial Statements, the Company is managed and represented by the Executive Director Lyudmil Yotsov and a Board of Directors with the following members:

- Lyudmil Yotsov – Executive Member of the Board of Directors;
- Ivan Topchiyski - Chairman of the Board of Directors;
- Angela Slavova - Member of the Board of Directors;
- Anton Adamov - Member of the Board of Directors;
- Stefan Voynov - Member of the Board of Directors.

The Company does not generate any reporting information by activities due to the fact that the supply of natural gas is the only activity for the period.

As at the date of execution of the present Financial Statements, the Company has an Audit Committee with the following members:

- Ilin Krivoshiev - Chairman
- Irena Mihaylova - Member
- Vladimir Penevski – Member

2. BASIS OF PREPARATION OF THE ANNUAL FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and adopted for use in the European Union by the European Commission ("European Commission"). By virtue of paragraph 1, item 8 of the Additional Provisions of the Accounting Act applicable in Bulgaria, the term "IFRS as adopted by the EU" means the International Accounting Standards (IAS) as adopted in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council.

The financial statements have been prepared on a historical cost basis, modified with respect to the valuation of items of plant and equipment at revalued amount.

The annual financial statements are presented in Bulgarian lev (BGN), which is also the functional currency of the Company. Unless otherwise stated, all amounts are presented in thousand Bulgarian lev (BGN'000), including the comparative information for 2020.

Going Concern Principle

For 2021 the Company reports a net profit of BGN 63 905 thousand. As at 31.12.2021, the accumulated profit amounts to BGN 82 458 thousand, the current assets exceed the current liabilities by BGN 379 348 thousand, but the net cash flow from operating activities is negative in value amounting to BGN (158 984) thousand.

As at 31 December 2021, the financial statements are prepared on a going concern principle, which assumes that the Company will continue its operations in the foreseeable future. As disclosed in Note 1 "General information", the Company has an individual license for public supply of natural gas in the Republic of Bulgaria, issued by the State Energy and Water Regulatory Commission for a period of 35 years and holds Natural Gas Trading Licence No Л-548-15 of 16.09.2021.

As at 31.12.2021, the financial information of the Company shows a significant decrease in the cash, a significant increase in the trade receivables and trade payables as at 31.12.2021 as compared to the preceding period. On the other hand, the Company has achieved an increase of about 30% in the quantities of natural gas sold for the reporting year of 2021, as compared to the preceding period.

Since the end of February, 2022 there has been a geopolitical crisis as a result of the military conflict between Ukraine and the Russian Federation. This event is expected to have a material, direct effect on the operations of Bulgargaz EAD, which is disclosed in detail in Note 35 to the Financial Statements. The main identified risk relates to ensuring continuity of natural gas supply through the supplier Gazprom Export LLC with whom the Company has a valid supply contract with a term of validity until 31 December 2022, but there is no option to renegotiate or sign a new contract under the existing conditions of armed conflict.

The future operations of the Company as a public supplier of natural gas depend on the business environment, the regulatory requirements, valid contracts in place for ensuring natural gas supplies as per consumer needs, contracts in place for sales of natural gas to the clients of the Company, as well as maintaining the necessary financial resources for implementation of its activity.

These circumstances indicate the existence of significant doubts as to the Company's ability to continue operating as a going concern without the support of the sole owner BEH EAD and the State, represented by the Ministry of Energy.

The risks and uncertainties described above are monitored and analyzed by the Management on a daily basis and are addressed by means and in a manner that is appropriate or possible with the current situation and circumstances, including with the support of the sole owner BEH EAD.

The main strategic objectives of Bulgargaz EAD are related to the responsibilities and obligations for continuity and security of supply. Ensuring the supply of natural gas is key to Bulgaria's energy security. In order to achieve these objectives, Bulgargaz EAD makes every endeavour to secure alternative sources and routes for supply of natural gas to help increase the security and reliability of gas supply. This is connected with maintaining constant financial stability and increasing the economic efficiency of the Company's operations, under the conditions of market uncertainty in the country and high intercompany indebtedness.

The market objectives of Bulgargaz EAD are related to maintaining its market position in the country and entering other gas markets. In order to achieve these objectives, Bulgargaz EAD will continue to offer flexible and competitive commercial terms on the market.

The financial objectives of Bulgargaz EAD are related to ensuring the financial stability of the Company.

The natural gas market in Bulgaria is relatively small, as up to the present time the trade with natural gas develops mainly in the direction of imports in Bulgaria. Imports are fully liberalised, while exports are technically limited and in practice symbolic. It is also essential to improve the functioning of the regulated market as well as of the gas exchange (trading platform "Gas Hub Balkan" EAD) in order to have predictability in the supply, and to secure and guarantee the execution of the natural gas transactions. The solutions require joint actions by Bulgargaz EAD, the independent regulator and the State.

The Company's Management has prepared a business plan and development projections, which are based on forecast customer requests, the applicable regulations governing natural gas pricing, obligations under existing contracts with natural gas suppliers, current enactments and forecast quotations provided by Argus Media for the European gas hubs and S&P Global Platts for the alternatives to natural gas fuels - fuel oil and gas oil and in accordance with the assumptions set out in the natural gas supply contracts.

Moderate growth of domestic consumption is projected as being a combined function of the steady trend of economic recovery from the Covid-19 pandemic and the planned decarbonisation of the economy.

The forecasts for ensuring the continuity of supply also include the Management's expectations that the IGB gas pipeline will be commercially operational in 2022, thus allowing the natural gas supplies from Azerbaijan to be made at the full contracted volume. In addition, Bulgargaz EAD plans to receive natural gas supplies from the Revithoussa LNG Terminal in Greece. The interconnectors under consideration, at which the said delivery could be made, are the Kulata/Sidirokastro interconnection point, or at the point of connection between the TAP gas pipeline and the IGB gas pipeline, at Komotini. In this regard, the Company has started preliminary discussions for the supply of LNG via LNG traders. In the medium term, the LNG terminal in Alexandroupolis, Greece, where Bulgargaz EAD has a long-term reserved capacity of 5,300,000 MWh per year, is expected to be put into commercial operation for a period of 10 years. The supplies are planned in full in accordance with the Company's capacity. As at the present moment, Bulgargaz EAD is negotiating with LNG traders from the USA.

The main challenges faced by Bulgargaz EAD are related on the one hand to the company's role as a public supplier and trader on a liberalized market, and on the other hand to its role in the transition to a carbon-neutral economy (Green Deal). Under these conditions, Bulgargaz EAD should continue to operate as a European natural gas trader that supplies gas at free prices and (like each of its competitors) aims for a leading role on the Bulgarian market, but also for an increasingly significant presence on the markets in the region. The security of the supplies offered by Bulgargaz EAD, its financial stability and reputation as a reliable partner should be used to its advantage in a freely competitive environment.

The Company will continue to operate as a going concern and will settle its obligations in accordance with the relevant maturities and conditions. Given the importance and strategic significance of the business performed by Bulgargaz EAD, Bulgarian Energy Holding EAD, as the parent company, has neither the intention nor the legal necessity to liquidate the Company, regardless of its liquidity indicators as at 31 December 2021. The sole owner of the capital has committed to supporting Bulgargaz EAD to achieve a sustainable financial and business development model.

The Management of the Company, with the support of the sole owner BEH EAD, as well as the Bulgarian Government, make every endeavour and take the necessary measures to ensure the performance of the continued operation of the Company in a manner that ensures the fulfilment of the main purpose of Bulgargaz EAD, namely to continue its role as the main public supplier of natural gas in the country. Hence, the Management believes that based on the information currently available, on the basis of which forecasts have been made regarding the future development of the Company, and due to the continued financial and operational support of the sole owner, it will be able to continue its operations and repay its liabilities without selling any assets and without undertaking any material changes to its operations, and therefore the going concern basis has been adequately and appropriately applied upon execution of the 2021 Annual Financial Statements.

Given the assessment of the expected future cash flows and the group strategy of BEH for the development of the energy sector in Bulgaria, including the potential opportunities for providing alternative supplies through alternative routes to those used so far, the Company's Management believes that it is appropriate for financial statements to be prepared on the going concern principle.

The preparation of financial statements in accordance with IFRS requires the Management to make estimates related to the application of the accounting policy of the Company. The areas of the financial statements that incorporate a higher degree of judgment or complexity, as well as areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

3. ACCOUNTING POLICY AND CHANGES DURING THE PERIOD

3.1. CHANGES IN THE ACCOUNTING POLICY

3.1.1. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS EFFECTIVE FROM 1 JANUARY 2021

The Company applies the following new standards, amendments and interpretations to IFRSs, developed and published by the International Accounting Standards Board, which have an effect on the Company's financial statements and are required to be applied from the annual period beginning on 1 January 2021:

The following standards and interpretations shall apply for the first time to financial and reporting periods beginning on or after 1 January 2021, but shall not have any material effect of their application on the financial result and financial position of the Company:

- Amendments to IFRS 4 Insurance Contracts - defferal of IFRS 9, effective from 1 January 2021, adopted by the EU;
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16 Interest Rate Benchmark Reform - Phase 2, effective from 1 January 2021, adopted by the EU.

3.1.2. STANDARDS, AMENDMENTS AND CLARIFICATIONS WHICH HAVE NOT BEEN ENTERED INTO FORCE AND WERE NOT APPLIED FROM AN EARLY DATE BY THE COMPANY

As of the date of approval of these financial statements, new standards, amendments and interpretations have been published to existing standards but have not entered into force or been adopted by the EU for the financial year beginning on 1 January 2021, and were not applied from an earlier date by the Company. They are not expected to have any material effect on the financial statements of the Company. The Management expects that all standards and amendments are adopted in the accounting policy of the Company in the first period beginning after their effective date.

The changes are related to the following standards:

- Amendments to IAS 1 Presentation of Financial Statement: Classification of liabilities as current and non-current, effective from 1 January 2023, not adopted by the EU yet
- Amendments to IFRS 3 Business Combinations, IAS 16 Property, plant and equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, effective from 1 January 2022, not adopted by the EU yet
- Annual improvements 2018-2020, effective from 1 January 2022, not adopted by the EU yet
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies, effective from 1 January 2023, not adopted by the EU yet
- Amendments to IAS 8 Accounting Policies, changes in accounting assessments and errors: Definition of accounting estimate, effective from 1 January 2023, not adopted by the EU yet
- Amendments to IFRS 16 Lease Contracts: Covid-19-Related Rent Concessions, after 30 June 2021 , effective from 1 April 2021, not adopted by the EU yet
- IFRS 14 "Regulatory Deferral Accounts", effective from 1 January 2016, not adopted by the EU yet
- IFRS 17 "Insurance Contracts", effective from 1 January 2021, not adopted by the EU yet

3.2. OVERALL CONSIDERATIONS

The most significant accounting policies used in the preparation of these financial statements are set out below.

The financial statements have been prepared in accordance with the IFRS valuation principles for all types of assets, liabilities, income and expenses. The valuation bases are disclosed in greater detail in the accounting policies of the financial statements.

It should be noted that accounting estimates and assumptions were used in the preparation of the presented financial statements. Although they are based on information provided to management at the date of preparation of the financial statements, actual results may differ from estimates and assumptions made.

3.3. PRESENTATION OF FINANCIAL STATEMENTS

These financial statements are presented in accordance with IAS 1 „Presentation of Financial Statements". The Company presents the Statement of profit or loss and other comprehensive income in a single statement.

Two comparative periods are presented in the Statement of financial position when the Company: a) applies an accounting policy retrospectively; b) restates retrospectively items in the financial statements; or c) reclassifies items in the financial statements and this has a material effect on the information in the statement of financial position as at the beginning of the previous period.

In order to achieve a presentation that provides more relevant information about the effect of operations and other events or conditions on the Company's financial position, certain items are presented differently in the financial statements as compared to the 2020 financial statements. Such change refers to the following items:

in the statement of financial position:

- Assets with right of use in the amount of BGN 61 thousand as at 31 December 2020 have been reclassified from line Intangible assets to line Plant and equipment.

in profit or loss and other comprehensive income:

- Income from penalties on unaccepted and over-collected gas quantities recorded in 2020 in the amount of BGN 4 682 thousand has been reclassified from the line Other income to the line Income from sale of natural gas.

The change relates only to the presentation of items in the statement of financial position as at 31 December 2020 and the statement of profit or loss and other comprehensive income for the period ending 31 December 2020 and does not relate to the way of their assessment.

3.4. FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are translated into the functional currency of the Company, using the exchange rates prevailing at the dates of the transactions (exchange rate as published by the Bulgarian National Bank). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognized in profit or loss.

Non-monetary items measured at historical cost in foreign currency are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when fair value was determined.

3.5. REVENUE

RECOGNITION AND MEASUREMENT OF REVENUE FROM CONTRACTS WITH CUSTOMERS

The main revenue generated by the Company is related to the sale of natural gas.

The Company's three main areas of natural gas sales are as follows:

- on a regulated market - at prices regulated by the Energy and Water Regulatory Commission (EWRC);

- on an organized exchange market - at freely negotiated prices;
- under the Program for the release of natural gas on an organized exchange market - under the terms of the Program Implementation Agreement approved by the EWRC;
- organized stock market (on the domestic market and on the international markets) - at freely negotiated prices.

In its capacity as a public supplier, Bulgargaz EAD provides a service of public interest - supply of natural gas to a range of persons stipulated in the Energy Act, at prices approved by the EWRC ("regulated prices"). Regulated prices shall be determined pursuant to Ordinance No 2 of 19 March 2013 on the regulation of natural gas prices issued by the State Energy and Water Regulatory Commission, promulgated in the State Gazette, Issue No 33 of 05 April 2013 ("Ordinance No 2").

Since 01 January 2020 Bulgargaz EAD has been supplying natural gas at regulated prices only to final suppliers of natural gas and to a person who had been issued a licence for production and transmission of thermal energy (Energy Act, Art. 30, paragraph 1, item 7). The Energy Act obliges Bulgargaz EAD to supply natural gas to the heating and gas distribution companies, but they are not obliged to purchase gas from Bulgargaz EAD and may prefer other suppliers, as they may also purchase gas from the gas exchange.

For all other customers connected to the gas transmission network - production enterprises, thermal power plants, greenhouses, etc. ("industrial customers"), Bulgargaz EAD supplies natural gas at freely negotiated prices. Under contracts with customers at freely negotiated prices, Bulgargaz EAD performs the function of a natural gas trader on competitive terms.

As of 01 December 2019, the Energy Act has introduced an obligation for Bulgargaz EAD to offer on an annual basis for sale on the organized exchange market certain quantities of natural gas under the Natural Gas Exemption Program (Art. 176a of the Energy Act under the terms of the Agreement for the implementation of the Natural Gas Exemption Program approved by the Energy and Water Regulatory Commission).

To determine whether and how to recognize revenue, the Company uses the following 5 steps:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation.

Revenue is recognized either at a given time or over time when, or until the Company fulfills, its obligations to transfer the promised goods or services to its customers.

The Company recognizes revenue for each individual obligation to perform at the level of an individual contract with a client by analyzing the type, term and conditions for each specific contract. For contracts with similar characteristics, revenue is recognized on a portfolio basis only if grouping it into a portfolio would not have a materially different impact on the financial statements.

MEASUREMENT

Revenue is measured on the basis of the sales prices on the regulated and free market.

The transaction price is the amount of remuneration to which the Company expects to be entitled in exchange for the transfer of the promised goods or services to the client, except for the amounts collected on behalf of third parties (for example, value added tax). The remuneration promised in the contract with the client may include fixed amounts, variable amounts, or both.

APPROACH FOR RECOGNITION OF MAIN TYPES OF REVENUE FROM CONTRACTS WITH CUSTOMERS

A. REVENUE FROM SALES OF NATURAL GAS

As a public supplier of natural gas, Bulgargaz EAD carries out the supply of natural gas all year round under a continuous routine of operation. The customer:

- simultaneously receives and consumes all of the benefits;
- receives control of the commodity (natural gas) by way of transfer of the legal title to the asset;
- bears the significant risks and rewards related to the ownership of the asset;
- accepts the asset.

As a result of the Company's activity, no asset with an alternative use is created for the Company and the Company has an enforceable right to payment for performance completed to date.

Sales revenue is recognized on each transfer of control over the assets sold when they are delivered to the buyer and there are no outstanding commitments that could affect the purchaser's acceptance of natural gas. Delivery occurs for each asset dispatch to the specific place (pick-up point) and when the risks of potential losses have been transferred to the buyer and he has accepted the assets in accordance with the sales contract.

The quantity of natural gas delivered to the customer on each of the days of the respective month is reflected in a Monthly Report containing information about Bulgargaz's delivery obligations and the customer's acceptance obligations.

The consideration from the customer for the sale of natural gas includes fixed and variable amounts.

The fixed amount is the sale price of the natural gas for each quarter of the year and is formed according to the Ordinance on Natural Gas Price Regulation. It is cost-oriented and consists of the following components: delivery price, a "public provision component" (Art. 17, paragraph 6 of the Ordinance on Natural Gas Price Regulation) and "public service obligation" (Art. 11a, paragraph 2 of the Ordinance on Natural Gas Price Regulation).

The charge for capacity and transmission of natural gas is determined in accordance with the Method for Determining the Access and Transmission Price published by the State Energy and Water Regulatory Commission in accordance with the tariffs of the Combined Operator, for the benefit of which it is collected on behalf of the customer.

The variable consideration is related to:

- deviations between the declared and actually delivered minimum annual gas quantity;
- variations in the daily gas quantity agreed;
- delivered natural gas of deteriorated quality.

Sales payments are payable within 12 days of the issuance of the final invoice for the supply of natural gas, which is in line with market practice. It is therefore considered that there is no financing component in the sales of natural gas.

A receivable is recognized when assets are delivered, as this is the moment when the right to receive consideration becomes unconditional and only the passage of time is required before payment becomes due.

The Table below provides information about the accounting policy applied by the Company for revenue recognition and the timing of satisfaction of obligations for performance of the contracts with customers under IFRS 15.

Product/ Service type	**Nature and timing of satisfaction of performance obligations, including material payment terms**	**Revenue recognition under IFRS 15**
Revenues from the sale of natural gas (including revenues from penalties on unaccepted or over-collected quantities of gas)	As a public supplier of natural gas, Bulgargaz EAD supplies natural gas all year round in continuous operation mode. The Customer: • receives and consumes the benefits at the same time; • obtains control of the commodity (natural gas) by transferring the legal title to the asset; • bears the significant risks and rewards of ownership of the asset; • accepts the asset. As a result of the Company's operations, no asset of alternative use is created for the Company and the Company has a binding right to receive payment for the activity performed as at the relevant date.	Sales revenue is recognised on any transfer of control on the assets sold when they are delivered to the buyer and there are no outstanding obligations that could affect the buyer's acceptance of the natural gas. Delivery occurs for each shipment of the assets to the specific location (point of acceptance), the risks of potential losses have been transferred to the buyer, as the latter has accepted the assets in accordance with the sales contract. The quantity of natural gas delivered to the customer during each of the days of the respective month shall be reflected in a Monthly Act containing information Bulgargaz EAD Bulgargaz on delivery and the customer's obligations for acceptance. The transaction price is the amount of the consideration, to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer, excluding the amounts collected on behalf of third parties (VAT, excise duty). The consideration by the customer for the sale of natural gas includes fixed and variable amounts. The fixed amount is the selling price of the natural gas. The variable remuneration is related to: - deviations in the daily agreed amounts of gas - deviations between the declared and actually delivered minimum annual amounts of gas; - delivered natural gas of poor quality. The payment for the sales is due within 12 days as of the issuance of the final gas supply invoice, which is in accordance with market practice.
Revenue from the sale of natural gas for balancing	For the performance of the supply of natural gas to the customers Bulgargaz EAD has a contract for access and transmission of natural gas through the territory of Bulgaria with the combined operator Bulgartransgaz EAD. There is a gas purchase and sale agreement for balancing, which is an integral part of the access and transmission agreement. The balancing is also of continuous nature and the customer receives and	The remuneration from the customer for the sale of natural gas for balancing includes fixed amounts and is based on the price for the sale of natural gas for the current month + a balancing cost component determined and fixed by the EWRC for the gas year. There is no financing component to balancing gas sales, as the payment for the sales is due within 20-25 days of invoice issuance, which is in accordance with the market practice.

Product/ Service type	Nature and timing of satisfaction of performance obligations, including material payment terms	Revenue recognition under IFRS 15
	consumes the benefits simultaneously. The revenue is recognized over time, as with the sale of natural gas described above.	

B. REVENUE FROM THE SALE OF NATURAL GAS FOR BALANCING

For the performance of the supply of natural gas to the customers Bulgargaz EAD has a contract for access and transmission of natural gas through the territory of Bulgaria with the combined operator Bulgartransgaz EAD. There is a gas purchase and sale agreement for balancing, which is an integral part of the access and transmission agreement. The balancing is also of continuous nature and the customer receives and consumes the benefits simultaneously. The revenue is recognized over time, as with the sale of natural gas described above.

The remuneration from the customer for the sale of natural gas for balancing includes fixed amounts and is based on the price for the sale of natural gas for the current month + a balancing cost component determined and fixed by the EWRC for the gas year.
There is no financing component to balancing gas sales, as the payment for the sales is due within 20-25 days of invoice issuance, which is in accordance with the market practice.

A receivable is recognized when assets are delivered, as this is the moment when the right to receive consideration becomes unconditional and only the passage of time is required before payment becomes due.

C. PENALTIES FOR OVERDUE RECEIVABLES

Revenue from penalties for overdue receivables is recognized when the Company's right to receive payment is established.

D. INTEREST INCOME

Interest income is calculated by applying the effective interest rate on the gross carrying amount of financial assets except for financial assets impaired (Phase 3) for which interest income is calculated by applying the effective interest rate on their amortized value (the gross carrying amount adjusted for the provision for expected credit losses).

Determining whether the Company acts as a principal or an agent

When a third party is involved in providing goods or services to a customer, the Company determines whether the nature of his promise is an obligation to perform related to the provision of the particular goods or services (principal) or to the arranging for the other party to provide those goods or services (agent).

The company is the principal when controlling the promised commodity or service before transferring it to the customer. However, the Company does not necessarily act as the principal if it receives the ownership of an asset only temporarily before the ownership right is transferred to the client.

The Company is an agent if the Company's obligation to perform is to arrange the delivery of the goods or services from a third party. When an agent company fulfils an obligation to perform, it recognizes revenue at the amount of a fee or commission it expects to be entitled to in exchange for arranging for the goods and services to be provided by another party. The fee or commission of the Company may be the net amount of remuneration the Company retains after paying to the other party the consideration received in exchange for the goods or services to be provided by that party.

The indicators that the Company is an agent include the following elements:

- A third party has primary responsibility for fulfilling the contract;
- The company has no inventory risk before or after the goods have been ordered, during shipping or on return;
- The company does not have discretion to establish pricing for the other party's goods or services (i.e., the benefit the entity can receive from those goods or services is limited);
- The company's consideration is in the form of a commission;
- The company is not exposed to credit risk for the amount receivable in exchange for the goods or services.

Contractual balances

Trade receivables and assets under contracts

Receivable is the right of the Company to receive remuneration at a certain amount, which is unconditional (i.e., before the payment of the remuneration becomes due, it is only necessary to expire a certain period of time).

The contract asset is the right of the Company to receive consideration in exchange for the goods or services it has transferred to the client but which is not unconditional (the accrual for the receivable). If, through the transfer of the goods and/or the provision of services, the Company fulfils its obligation before the client pays the relevant consideration and/or before the payment becomes due, a contract asset is recognized for the earned remuneration (which is conditional). Recognized contract assets are reclassified as a trade receivable when the right to remuneration becomes unconditional.

Contract liabilities

As a contract liability, the Company presents the payments received by the customer and/or an unconditional right to receive a payment before fulfilling its contractual obligations. Contract liabilities are recognized as income when (or as) it settles the obligations to perform.

Assets and liabilities arising from a contract are presented net in the statement of financial position even if they are the result of different contractual obligations for performance of the contract.

After initial recognition, contract trade receivables and assets are subject to an impairment review in accordance with the IFRS 9 Financial Instruments".

3.6. OPERATING EXPENSES

Operating expenses are recognized in profit or loss upon utilization of the service or on the date of their origin in accordance with the income matching principle.

Impairment losses on assets include reported impairments for receivables and impairment expenses for inventories and non-current tangible and intangible assets.

DIFFERENCES WITHIN CLASS "UNCERTAINTY" OF MEASUREMENT SYSTEMS

Differences within the class „uncertainty" of the measurement systems are reported monthly on the basis of the prepared by the „Operational control and balance of natural gas" department gas balance and the respective protocols and monthly reports for the supply and consumption of gas. The value of these differences is based on the amounts and the average weighted cost of gas for the month.

3.7. INTEREST EXPENSES AND BORROWING COSTS

Interest expenses are recognized on a current basis using the effective interest rate method.

Borrowing costs primarily comprise interest on the Company's borrowings. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time when the asset is expected to be completed and prepared for its intended use or sale. Other borrowing costs are recognized in the period in which they occurred and reported in the Statement of profit and loss and other comprehensive income in the line "Financial costs".

3.8. PROPERTY, PLANT AND EQUIPMENT

The Company's property consists of a leased building classified as a right-of-use asset. Plant and equipment are initially recognized at cost, including purchase price and any directly attributable costs of bringing the asset to working condition. Subsequent measurement after initial recognition is applied to a whole class of identical assets as follows:

No	Class of Property, plant and equipment	Subsequent evaluation model
1	Plant and equipment	Revaluation model
2	Computers	Acquisition price
3	Vehicles	
	• trucks	Revaluation model
	• cars	Acquisition price
	• special vehicles	Revaluation model
4	Office equipment and inventory	Acquisition price
5	Spare parts, recognized as plant and equipment	Revaluation model
6	Other machinery and equipment	Acquisition price
7	Leased buildings, real estate	Acquisition price determined by virtue of IFRS 16

Plant and equipment, for which revaluation model is applied, are subsequently valued at a revalued amount, equal to the fair value at the date of the revaluation less any subsequently accumulated amortisation and impairment losses. Revaluations made are presented in the Statement of profit and loss and other comprehensive income and reported at the expense of the equity (revaluation reserve) and if no expenses have been incurred before that. Upon sale or disposal of the revalued asset, the remaining revaluation reserve is discharged against retained earnings.

Revaluations are carried out according to the following frequency:

- in case the fair value of assets changes insignificantly, the assets are revaluated every three years;
- in case the fair value of plant and equipment changes significantly in short-term intervals, they are revaluated at short-term intervals, so that the asset's carrying amount not to differ materially from its fair value;

The frequency of subsequent revaluation of plant and equipment, when applying the revaluation model depends on whether the carrying amount substantially differs from the fair value of a certain revalued asset at the end of the reporting period.

In this regard, when performing the annual stock-tacking at the end of the reporting period (end of financial year) the Company reviews the plant and equipment for indications that if their carrying amount differs materially from their fair value. As a significant deviation is assumed a deviation of the asset's carrying amount from its fair value at the date of preparation of the financial statements with more than 5%. Significant deviation is also a deviation below 5%, but the difference between the plant and equipment's carrying amount and its fair value, as a cumulative value, is significant for the purposes of preparation of the financial statements.

Plant and equipment that are not measured under the revaluation model are subsequently valued at purchase price less the accumulated amortisation and impairment losses. Impairment made is calculated as a cost and are recognized in the statement of profit or loss and other comprehensive income for the respective period.

Subsequent expenditures relating to an item of plant and equipment are added to the carrying amount of the asset when it is probable that the Company has economic benefits in excess of the asset's originally assessed effectiveness. All other subsequent expenditure is recognized as such for the period it is made.

Depreciation of plant and equipment is calculated by using the straight-line method over the estimated useful life of assets' groups, as follows:

Plant and equipment	2-7 years
Vehicles	2-12 years
Computers	2 years
Leased buildings	For the term of the lease agreement

Plant and equipment is derecognised upon their sale or when no expected future economic benefits from its use or disposal. Profit or loss arising out from writing off of the asset representing the difference between the net disposal proceeds, if any, and the carrying amount of the asset, are recognized in Statement of profit or loss and other comprehensive income, when the asset is write off.

At the end of each financial year the residual values, useful life and methods of depreciation are reviewed, and, if expectations differ from previous estimates, the latter are changed in future periods.

Materiality threshold for Company's property, plant and equipment amounts to BGN 500.

Plant and equipment acquired under finance lease agreement are depreciated based on their expected useful life, determined by reference to comparable own assets or based on the period of the lease contract, if shorter.

3.9. INTANGIBLE ASSETS

Intangible assets include licenses and software products. They are accounted by their acqisition price, including any paid duties and non-refundable taxes, and any directly attributable expenditure on preparing the asset for its intended use, whereby capitalized costs are amortized on a straight line basis over their estimated useful lives, as these assets are considered finite. Upon acquisition of an intangible asset resulting from a business combination of its cost is equal to the fair value at the acquisition date.

Subsequent recognition is carried out at purchase price less any accumulated amortization and any accumulated impairment losses. Impairment losses are recognized as expense and are recognized in the statement of profit or loss and other comprehensive income for the respective period.

Subsequent expenditure incurred in relation to intangible assets after initial recognition are recognized in the statement of profit or loss and other comprehensive income for the period of their occurrence, unless this expenditure would enable the asset to generate future economic benefits in excess of its originally assessed standard of performance, and where this expenditure may be measured reliably and attributed to the asset. If these two conditions are met, the expenditure is added to the cost of the asset.

Intangible assets' residual values and useful lives are reviewed by the management at each reporting date.

Amortization of intangible assets is calculated using the straight-line method over the estimated useful life of individual assets as follows:

License	35 years
Software	10 years

The gain or loss arising out of the sale of an intangible asset is determined as the difference between the proceeds from sales and the carrying amount of the asset, and is recognized in the statement of profit or loss and other comprehensive income in line "Other revenue".

The recognition of materiality threshold as adopted by the Company for the intangible assets amounts to BGN 500.00.

3.10. REPORTING OF LEASE AGREEMENTS

A. THE COMPANY AS A LESSEE

For all contracts, the Company assesses whether the contract is or is a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Company evaluates whether the contract meets three key evaluations that it has given:

- the contract contains a specific asset that is either explicitly identified in the contract, or; is implicitly specified by being identified at the time that the asset is made available for use to the Company;
- the Company is entitled to receive substantially all the economic benefits from the use of the specified asset throughout the period of use, taking into account its rights within the defined scope of the contract;
- the Company has the right to direct the use of the designated asset throughout the period of use. The Company assesses whether it is entitled to direct the „how and for what purpose" of the asset to use throughout the period of use.

At the inception of the lease, the Company recognizes an asset with a right to use and a lease payable in the balance sheet. The asset with a right to use is measured at cost, which consists of the initial assessment of the lease liability, all initial direct costs incurred by the Company, an estimate of all costs for dismantling and disposal of the asset at the end of the lease and any lease payments made before the start date of the lease (without any incentive received).

The Company amortizes assets with the right to use on a straight-line basis from the date of inception of the lease to the earlier of the useful life of the asset with the right to use or the end of the lease term. The Company also performs a review of impairment of the asset with the right to use when such indicators exist.

At the inception date, the Company estimates the lease payable at the current amount of the lease payments outstanding at that date discounted using the interest rate included in the lease. If this rate cannot be directly determined, the company uses the interest rate it would have to pay to borrow for a similar period of time with similar collateral the funds needed to obtain an asset of similar value in a similar economic environment.

The lease payments included in the measurement of the lease payable consist of fixed payments, variable payments based on an index or a percentage, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to exercise.

After the inception date, the Company measures the lease liability by increasing its carrying amount to reflect interest on the leasing liability and reducing its carrying amount to reflect the lease payments made, and remeasures the carrying amount of the liability to reflect revaluations or changes in the lease or to reflect the substantially adjusted lease payments.

The Company is exposed to potential future increases in variable lease payments based on an index or interest rate that are not included in the lease liability until they enter into force. When adjustments to lease payments take effect, based on an index or interest, the lease liability is remeasured and adjusted against the asset with a right to use.

When the lease liability is revalued, the relevant adjustment is reflected in the asset with a right to use or in profit and loss if the asset with a right to use is already reduced to zero.

The Company has chosen to account for short-term leases and leases, the main asset of which is of low value, using exemptions from recognition requirements. Instead of recognizing an asset with a right to use and a lease obligation, the related payments are recognized as an expense in the profit or loss on a straight line over the lease term.

In the statement of financial position, the assets with a right to use are included in Property, plant and equipment assets, and lease payables are included in lease payables.

B. THE COMPANY AS A LESSOR

The Group's accounting policies under IFRS 16 have not changed since the comparative period.

As a lessor, the Company classifies its leases as operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership of the underlying asset and is classified as an operating lease if it does not.

3.11. NON-CURRENT ASSETS IMPAIRMENT TESTS

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All assets and cash-generating units are tested for impairment at least once per year. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that their carrying amount cannot be recovered.

As impairment loss is recognized the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less the sale cost of an asset and its value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount factor in order to calculate the current amount of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of future reorganizations and assets enhancements. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by the management of the Company.

Impairment losses for cash-generating units reduce the carrying amount of the assets allocated to that cash-generating unit. All assets are subsequently reassessed by the management for indications that an impairment loss previously recognized may no longer exist or is decreased. Impairment, recognized in previous period is recovered if the cash-generating unit's recoverable amount exceeds its carrying amount.

3.12. FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

A financial asset is any asset that is: cash, an equity instrument of another entity, a contractual right to receive or exchange, on potentially favorable terms, cash or financial instruments with another entity, and a contract that will be settled by instruments of The Company's equity is a non-derivative in which it may or will receive a variable number of its equity instruments, or a derivative that may or may be settled by exchange of a fixed amount of cash or other assets. d financial assets, against a fixed number of equity instruments.

A financial liability is any liability that represents: a contractual right to grant or exchange, on potentially unfavorable terms, cash or financial instruments with another entity, as well as a contract that will be settled by the issuer's equity instruments and is a non-derivative in which the Company may or will receive a variable number of the entity's equity instruments, or a derivative that may or may be settled, other than by exchanging a fixed amount of cash or other financial assets, cf. vs. fixed number of equity instruments of the entity.

3.12.1. FINANCIAL ASSETS

Initial recognition and qualification

The Company initially recognizes a financial asset at the time it becomes a party to a contractual arrangement and classifies it according to the business model for managing financial assets and the characteristics of the contracted cash flows.

The Company classifies its financial assets according to their subsequent measurement in three categories: „financial assets measured at amortized cost", „financial assets measured at fair value through other comprehensive income" or „financial assets at fair value through profit or loss", as appropriate, under the contractual terms of the instruments and established business models in the Company in accordance with IFRS 9.

The business model of the Financial Assets Management Company refers to the way in which it manages its financial assets to generate cash flows. The business model determines whether cash flows will result from the collection of contractual cash flows, the sale of financial assets, or both.

The management of the Company has determined that the financial assets representing cash in bank, trade receivables, other receivables, court and awarded receivables and receivables from related parties are held by the Company in order to obtain the agreed cash flows and are expected to generate cash flows, representing only payments of principal and interest (business model applied). These financial assets are classified and subsequently measured at amortized cost.

Initial measurement

Initially, all financial assets, excluding trade receivables, are measured at their fair value plus direct transaction costs if they are not carried at fair value through profit or loss when initially recognized as net of transaction costs. Trade receivables that do not have a significant component of financing and for which the Company applies the practically feasible measure under IFRS 15 in this respect are initially measured at the transaction price in accordance with IFRS 15.

Subsequent measurement and presentation

For the purposes of subsequent assessment and presentation, financial assets shall be classified in one of the following categories: "financial assets measured at amortized cost" (debt instruments), "financial assets measured at fair value through other comprehensive income with reclassification of accumulated profits and losses (debt instruments), "financial assets measured at fair value through other comprehensive income, without reclassification of accumulated profits or losses on write-off" (capital instruments) or "financial assets measured at fair value in profit or loss" (debt and capital instruments).

Financial assets at amortized cost (debt instruments)

This category includes cash in banks, trade receivables, other receivables, court and awarded receivables and receivables from related parties. This category of financial assets is the most significant for the Company.

The Company measures and measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets to collect the contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent measurement is carried out using the "effective interest" method through which interest income is calculated using the effective interest rate applied to the gross carrying amount of the instruments. For purchased or originated assets with initial credit impairment and those with a subsequently recognized credit impairment, the credit-adjusted effective interest rate, respectively the effective interest rate, is applied to the amortized cost of the asset.

Financial assets in this category are subject to impairment testing at the date of each financial statement of the Company, the changes being reflected in profit or loss.

Gains or losses are recognized in profit or loss when the asset is derecognized, changed or impaired.

Derecognition

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognized when the contractual rights to the cash flows of the asset have expired or the Company has transferred its rights to receive cash flows from the asset underwent the obligation to pay all the cash flows received without significant delay to a third party under a „transfer" arrangement.

When a financial asset is derecognised in its entirety, the difference between 1) the carrying amount (measured at the date of derecognition) and 2) the consideration received (including any new asset received without the new assumption of a new liability) is recognized in profit or loss.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a transfer agreement, it assesses whether and to what extent the risks and rewards of ownership are preserved. When neither transfers nor substantially retains all the risks and rewards of the asset nor transfers control over the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In this case, the Company recognizes a related liability. The transferred asset and the related liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Impairment of financial assets

The Company recognizes provisions for expected credit losses for all debt instruments, which are not reported at fair value in the profit or loss by applying the approach set out in the Table below:

	Type of financial asset	Category under IFRS 9	Impairment approach
1	Short-term trade receivables	Debt instruments measured at amortized cost	Simplified approach
2	Trade receivables with a financing component	Debt instruments measured at amortized cost	Standardized approach
3	Short-term receivables from related parties	Debt instruments measured at amortized cost	Simplified approach
4	Receivables from related parties with a financing component	Debt instruments measured at amortized cost	Standardized approach
5	Loans receivable	Debt instruments measured at amortized cost	Standardized approach
6	Cash and cash equivalents	Debt instruments measured at amortized cost	Standardized approach
7	Other financial, court and awarded receivables	Debt instruments measured at amortized cost	Simplified approach

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the current amount of each shortage of money) over the expected term of the financial instrument. Monetary deficiency is the difference between the cash flows payable to the Company in accordance with the contract and the cash flows that the Company expects to receive. Because the expected credit losses account for the amount and timing of payments, an expected credit loss is recognized even if the Company expects the asset to be fully paid but later than the due date.

Impairment and losses on financial instruments are dealt with in three stages, the first two being the expected credit losses for losses that may arise as a result of default events, and the third as credit impairment (loss), based on evidence of potential or actual default under the instruments.

Expected credit losses for exposures for which there is no significant increase in the credit risk compared to the initial recognition are recognized for credit losses that may arise as a result of default events over the next 12 months. For credit exposures for which there is a significant increase in the credit risk after initial recognition, a loss adjustment for the expected credit losses over the remaining life of the exposure is required, irrespective of the timing of the default (lifetime ECL).

For trade receivables and contract assets arising from transactions in the scope of IFRS 15 that do not contain a significant component of finance, the Company applies a simplified approach in accordance with IFRS 9 by recognizing a provision for impairment loss for expected credit losses based on the expected credit loss for the lifetime of the receivables at each reporting date. The Company applies a matrix that calculates the expected credit losses on trade receivables. Receivables are classified by days in arrears and are grouped by type and client segments with different credit loss models.

For baseline data on trade receivables, the Company uses its accumulated experience of credit losses on such instruments to measure expected credit losses. The historical data used is for periods of 3 to 5 years back, grouped by type and corresponding client segment models, and adjusted by forecast factors specific to debtors and the industry concerned.

For cash in banks, the Company recognizes impairment for expected credit losses by applying the Standardized Approach and the credit rating of the financial institutions in which the Company has deposited its cash is used to determine the loss from default in the model parameters.

At each reporting date, the Company sets the depreciation allowance for each instrument to the amount of expected lifetime losses if the credit risk for that instrument has increased significantly since the initial recognition.

If, at the reporting date, the credit risk on a financial instrument has not increased significantly from the time of initial recognition, the impairment for that financial instrument is equal to the expected 12-month credit losses.

3.12.2. FINANCIAL LIABILITIES

Initial recognition, classification and measurement

The Company recognizes a financial liability in the statement of financial position only when it becomes a party to the contractual terms of the financial instrument.

Upon initial recognition, financial liabilities are classified as „financial liabilities subsequently measured at amortized cost" (loans and borrowings, trade and other payables) or „financial liabilities measured at fair value through profit or loss".

Initial recognition occurs at the settlement date and is carried at fair value plus, in the case of financial liabilities that are not carried at fair value through profit or loss, directly attributable to the acquisition or issue of the financial liability. Loan management fees are deferred over the borrowing period using the effective interest method and are included in the amortized cost of the loans.

The financial liabilities of the Company include loans, trade and other payables and payables to related parties.

According to their repayment term, financial liabilities are classified as long-term and short-term.

Subsequent measurement

Subsequent measurement of financial liabilities depends on their classification as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated at their initial recognition at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are made for redemption purposes in the near future.

Gains or losses on liabilities held for trading are recognized in profit or loss and other comprehensive income.

Financial liabilities designated at their initial recognition at fair value through profit or loss are determined at the initial recognition date and only if the criteria in IFRS 9 are met.

The Company has not designated financial liabilities as measured at fair value through profit or loss.

Financial liabilities measured at amortized cost

The category „financial liabilities at amortized cost" includes borrowings, trade payables and other payables where the Company has become a party to a contract or arrangement and should be settled in net cash. This category has the most significant share for the Company's financial instruments and for it as a whole.

Financial liabilities are subsequently measured at amortized cost using the effective interest method. The amortized cost is calculated, taking into account any discount or premium on acquisition, also charges or expenses that are an integral part of the effective interest rate. Expenditure (calculated using the effective interest method) is included as financial expense in the separate profit or loss account and other comprehensive income in line „Financial expenses".

For financial liabilities that are measured at amortized cost, profit or loss is recognized in profit or loss for the period when the financial asset or financial liability is derecognized or impaired through the amortization process.

Trade payables are initially recognized at their nominal value and are subsequently measured at amortized cost less payment to settle.

Dividends payable to the sole shareholder are recognized when the dividends are approved at the General Meeting.

Derecognition

The Company derecognises a financial liability only when the instrument fulfils (settles) the obligation, the liability expires or the creditor waives its rights.

Where an existing financial liability has been replaced by another by the same lender under substantially different conditions or the terms of an existing obligation have been materially changed, such an exchange or change is treated as a write-off of the original liability and recognition of a new liability. The difference in the appropriate carrying amounts is recognized in the profit or loss.

The difference between the carrying amount of a financial liability settled or transferred to another party and the consideration paid for settlement, including cash and the transfer of non-monetary assets, is recognized in profit or loss for the period.

Compensation of financial instruments

Financial assets and financial liabilities are offset and the net amount is recognized in the statement of financial position if there is a legally enforceable right to offset the amounts recognized and the Company intends to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

3.13. INVENTORIES

Inventories include materials and commodities – natural gas.

Inventories are measured at the lower of prime cost and net realizable value.

In compliance with a Methodology for price formation for access and transmission of natural gas through the gas transmission network of the operator (Bulgartransgaz EAD), and the decisions of the Energy and Water Regulatory Commission (EWRC) for the approval of the prices for the operator's services in the MWh unit of measurement, Bulgargaz EAD takes into account the sales of natural gas in the same unit of measurement.

GAS IN UNDERGROUND GAS STORAGES

The underground gas storage contains two types of natural gas – operating gas, part of which is owned by the Company, and cushion gas, which is owned by the operator of the gas transmission system Bulgartransgaz EAD.

The operating gas owned by the Company may be used without causing any negative impacts on the future use of the underground gas storage. Its quantity is determined through the specialized measuring system owned by the operator, and at the end of each month the Company and Bulgartransgaz EAD sign protocols evidencing the quantity of the measured operating gas available in the gas storage.

The cushion gas owned by Bulgartransgaz EAD forms an integral part of the underground gas storage and is of major importance to its functioning.

The cost of gas purchased comprises the direct purchase expenses – purchase price, transport costs, transit fee for the transmission of gas through the territory of Turkey and Greece, transition fee for the transmission of gas through the territory of Republic of Bulgaria, non-refundable taxes and charges, and other direct costs.

Costs for the storage of natural gas in an underground storage are reported as current expense.

Net realisable value is the estimated sales price in the ordinary course of business, less the approximately estimated costs of completion of the manufacturing cycle and the estimated costs necessary to make the sale. When assessing the net realisable value at the end of the each reporting period prices, approved by the Energy and Water Regulatory Commission (EWRC), for the first quarter of the next reporting period are being used.

In case that the natural gas has already been impaired to net realizable value and in a subsequent period it turns out that the conditions, which have led to this impairment no longer exist, then the newly determined net realizable value is accepted. The reversal of the impairment is limited to the carrying amount of the natural gas prior to its impairment. Such reversal is recognised in profit or loss for the period in which it has occurred.

3.14. INCOME TAXES

Tax expenses recognized in profit or loss comprise the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable income, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws in force at the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of an asset or liability unless the related transaction affects tax or accounting profit.

Deferred tax assets and liabilities are calculated, without discounting. There are calculated at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax liabilities are recognized in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. As for management's assessment of the probability of future taxable income to utilize against deferred tax assets, see Note 5.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

3.15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, current bank accounts, demand deposits and deposits up to 3 (three) months, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

3.16. EQUITY AND RESERVES

Share capital represents the nominal value of shares that have been issued.

Reserves include legal reserves and revaluation of non-current assets and reserve from revaluation of defined benefit obligations.

Retained earnings and accumulated loss include current financial results and accumulated earnings and uncovered losses from previous years.

All transactions with the sole shareholder of the Company are presented separately in the statement of changes in equity.

3.17. POST-EMPLOYMENT BENEFITS AND SHORT-TERM EMPLOYEE BENEFITS

The Company recognizes short-term payables relating to unutilized paid leaves, which shall be compensated in case it is expected the leaves to occur within 12 months after the end of the reported period during, which the employees have performed the work related to those leaves. The short-term payables to personnel include salaries and related social security payments.

In accordance with Labour Code requirements, in case of retirement, after the employee has become eligible acquired for pension due to years of services and age, the Company is obliged to pay him/her compensation at the amount of up to six gross salaries. The Company has recognized a liability by law for the payment of retirement compensation in accordance with IAS 19 “Employee Benefits”. The amount is based on forecasts made for the next five years, currently discounted with the long-term income percentage of risk free guarantees.

Management estimates the defined benefit obligations once annually with the assistance of independent actuary. The estimate of its post-retirement benefit obligations is based on standard rates of inflation, medical cost trends and mortality. It also takes into account the Company's specific anticipation of future salary increases. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains or losses are recognized in other comprehensive income.

Interest expenses related to pension obligations are included in line “Financial costs” in the Statement of profit or loss and other comprehensive income. All other post-employment benefit expenses are included in “Employee benefits expenses”.

Short-term employee benefits, including holiday entitlement, are current liabilities included in lines “Trade and other payables” and “Retirement benefit obligations”, measured at the undiscounted amount that the Company expects to pay.

The Company has not developed and implemented plans for employee benefits after resignation.

3.18. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Company and amounts may be estimated reliably. Timing or amount of the outflow may be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example warranties, legal disputes or onerous contracts. Restructuring provisions are recognized only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it. Provisions are not recognized for future losses.

Provisions are measured at the most reliably estimated expenditure required to settle a present obligation, based on the most reliable evidence available at the end of the reporting period, taking into account the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted when the effect of time differences in money value is significant.

Any reimbursement that the Company is certain to collect from a third party with respect to an obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at the end of each reporting date and adjusted to present the best current estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized. Contingent liabilities should be measured subsequently at the higher value between the above described comparable provision and the amount initially recognized decreased with accumulated amortization.

(All amounts are in BGN'000, unless specified otherwise)

Possible inflows of economic benefits, which do not yet meet the recognition criteria of an asset, are considered contingent assets.

4. FINANCIAL RISK MANAGEMENT

4.1. FINANCIAL RISK FACTORS

The Company is exposed to various risks in relation to financial instruments. The most significant financial risks to which the Company is exposed are market risk, credit risk and liquidity risk.

Risk management of the Company is carried out by the headquarters of the Company, in cooperation with the Board of Directors and Bulgarian Energy Holding EAD. A priority of management is to provide short and medium term cash flows by minimizing the exposure to financial markets. The Company is not trading with financial assets for speculative purposes, does not issue options and does not take speculative or hedging positions on the financial markets. In 2021, there was no change to the risk management objectives, policies and procedures and the methods by which they are measured.

The most significant financial risks to which the Company is exposed are described below.

4.1.1. MARKET RISK

The Company is exposed to market risk as a result of using financial instruments and specifically to currency risk, interest rate risk and risk of certain price changes, as a result of the operating activity of the Company.

(A) FOREIGN CURRENCY RISK

A large part of the transactions mainly related to sales to the Company's customers are executed in Bulgarian leva (BGN). Another significant portion of the Company's transactions are connected with the purchase of natural gas and are denominated principally in US dollars. They place the Company at foreign exchange risk.

The financial assets and liabilities, which are denominated in a foreign currency and are translated into Bulgarian lev at the end of the reporting period, are presented as follows:

	Exposure to short-term risk
	USD
31 December 2021	
Financial assets	277,180
Financial liabilities	(84,126)
Total exposure to risk	**193,054**
31 December 2020	
Financial assets	118,769
Financial liabilities	(3,668)
Total exposure to risk	**115,101**

The tables below show the sensitivity of the annual net financial result after taxes and equity to a probable change in the exchange rates of the Bulgarian lev against the following foreign currencies (https://www.ecb.europa.eu/stats):

- US dollar +/- 3.8% (for 2020 +/- 6.9%)

All other parameters are considered constant.

These rates are based on average exchange rates over the last 12 months. The sensitivity analysis is based on the investments of the Company in foreign currency financial instruments held at the end of the reporting period.

(All amounts are in BGN'000, unless specified otherwise)

31 December 2021	**Increase of the exchange rate of BGN**		**Decrease of the exchange rate of BGN**	
	Net financial result	**Equity**	**Net financial result**	**Equity**
US dollar (+/- 3,8%)	3,197	3,197	(3,197)	(3,197)

31 December 2020	**Increase of the exchange rate of BGN**		**Decrease of the exchange rate of BGN**	
	Net financial result	**Equity**	**Net financial result**	**Equity**
US dollar (+/- 6,9%)	7,942	7,942	(7,942)	(7,942)

The Company does not present a currency risk of changing the exchange rate of the Bulgarian lev against the euro becase the exchange rate is fixed.

Exposure to exchange rate fluctuations varies throughout the year depending on the volume of international transactions performed. However, the analysis presented above is considered to represent the Company's exposure to foreign currency risk.

(B) INTEREST RATE RISK

The Company's policy is to minimize interest rate risk in long-term financing. As of 31 December 2021, the Company has several overdraft contracts with banks with a fixed interest rate. All financial assets and liabilities of the Company have fixed interest rates. As of 31 December 2021, the Company is not exposed to any risk of changes in the market interest rates on bank loans, which have a variable interest rate, due to the fact that there is no change observed in the average market interest rates.

(C) OTHER PRICE RISKS

The Company is exposed to a price risk associated with the activities under the license for public supply of natural gas.

The specificity of the activity of Bulgargaz EAD stems from the fact that the Company is a public natural gas supplier. The Company purchases natural gas at market prices by selling some of the quantities purchased at regulated prices. The discrepancy between the purchase and sale price bears risks to the Company when performing its functional obligations. If regulated prices which are lower than the delivery prices are validated, sales revenue would not be sufficient to cover the actual cost for purchasing natural gas and the Company would experience difficulties in paying their liabilities towards suppliers.

The Company is not exposed to other price risks because it does not own publicly traded stocks and bonds and participation in subsidiaries or joint projects.

4.1.2. CREDIT RISK

Credit risk is the risk that counterparty fails to discharge an obligation to the Company. The Company is exposed to this risk in relation to receivables from clients.

The Company's policy is that all customers, which wish to trade under deferred payment agreements are subject to verification procedures of their solvency. Moreover, the balance of trade receivables are monitored on an on-going basis. The credit risk arising from other financial assets of the Company, such as cash and other financial assets represents the Company's credit exposure arising from the possibility of its counterparties to fail to meet their obligations.

(All amounts are in BGN'000, unless specified otherwise)

The Company's exposure to credit risk is limited to the carrying amount of financial assets recognized at the end of the reporting period as indicated below:

	AS AT 31 DECEMBER, 2021	2020
Trade and other receivables (including Related party receivables Note 34)	195 585	91 051
Cash and cash equivalents	211	171 857
Carrying amount	**195 796**	**262 908**

The Company has not provided any financial assets to secure its obligations.

As at 31 December 2021 and 31 December 2020, the Company is exposed to concentration of credit risk with respect to receivables from Toplofikatsia Sofia EAD that comprise more than 10% of the total amount of short-and long-term net receivables:

	AS AT 31 DECEMBER, 2021	2020
Receivables from Toplofikatsia Sofia EAD	46,736	47,230
Total Trade and other receivables	**195,585**	**91,051**

Additional disclosures relating to credit risk are presented in Note 11.

4.1.3. LIQUIDITY RISK

Liquidity risk is the risk arising from the Company not being able to meet its obligations. The Company meets its liquidity needs by carefully keeping track of payments to be made under long-term financial liabilities and cash inflows and outflows, arising in the course of the operating activity. Liquidity needs are monitored for various time bands, on a day-to-day basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly.

Non-derivative financial liabilities have the following remaining contractual maturities, as the amounts shown are the undiscounted contractual cash flows:

AS AT 31 DECEMBER 2021		**Current**	**Non-current**		
	Within 6 months	**6 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Leases	253	-	-	-	253
Borrowings	2,603				2,603
Trade and other payables	94,209	-	-	-	94,209
Total	**97,065**	**-**	**-**	**-**	**97,065**

DECEMBER 2020		**Current**	**Non-current**		
	Within 6 months	**6 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Leases	69	-	2	-	71
Trade and other payables	11,056	-	-	-	11,056
Total	**11,125**	**-**	**2**	**-**	**11,127**

The category of trade and other payables classified as financial liabilities does not include those arising from legal requirements (taxes and related interest thereto, and social security payables) and advances from customers.

There are no non-derivative financial liabilities for which the cash flows are expected to occur significantly earlier than indicated in the table above.

The amounts disclosed in the maturity analysis of liabilities represent the undiscounted cash flows on the contracts, which may differ from the carrying amounts of the liabilities at the reporting date.

Financial assets used for managing liquidity risk

(All amounts are in BGN'000, unless specified otherwise)

In assessing and managing liquidity risk the Company considers expected cash flows of financial instruments, especially cash and trade receivables. Available cash resources do not constitute significant amounts because the need for cash covers current daily payments for administrative purposes. Under contracts with customers, all cash flows from trade receivables are paid in advance.

4.2. CAPITAL MANAGEMENT

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern.

The Company determines the adjusted capital based on the book value of equity and subordinated debt represented in the statement of financial position. Subordinated debt includes unsecured loans received by the parent company.

The net debt is calculated as total debt reduced with the book value of cash and cash equivalents.

The Company determines the proportionate amount of capital compared to total financial structure, equity and financial liabilities except for the subordinated debt. The Company manages its capital structure and makes adjustments according to changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, after the express approval of the parent company, the Company may adjust the amount of dividends paid to the sole owner, return capital to sole owner, issue new shares or sell assets to reduce debt. For the presented accounting periods, capital is analyzed as follows:

	AS AT 31 DECEMBER,	
	2021	**2020**
Equity (Net assets)	328,913	279,295
Adjusted capital	**328,913**	**279,295**
Total liabilities less subordinated debt:	272,121	83,903
- Cash and cash equivalents	(211)	(171,857)
Net debt	**271,910**	**(87,954)**
Ratio of net debt to adjusted capital	**(1):8,27**	**(1):3,18**

The Company has not changed its objectives, policies and processes for managing capital, as well as the ways of determining capital during the presented reporting periods.

4.3. FAIR VALUE MEASUREMENT

The Company has no financial instruments that are classified as such at fair value. The fair value for the purposes of disclosure of these financial instruments is assumed to be reasonable approximation of their carrying value:

- Trade and other receivables;
- Cash and cash equivalents;
- Loans; and
- Trade and other payables.

5. SIGNIFICANT ESTIMATES IN APPLYING THE ACCOUNTACY POLICY OF THE COMPANY. KEY JUDGEMENTS AND ASSUMPTIONS WITH HIGH UNCERTAINTY

Upon preparing the financial statements, the Management makes a number of assumptions, estimates and assumptions regarding the recognition and measurement of assets, liabilities, revenue and costs. The actual results may differ from the Management's assumptions, estimates and assumptions and, in rare cases, are fully consistent with pre-estimated results.

Upon preparing the presented financial statements, the Management's significant judgements in applying the Company's accounting policies and the main sources of uncertainty in accounting estimates do not differ from those disclosed in the Company's annual financial statements as at 31 December 2020. Information about the significant assumptions, estimates and assumptions having the most significant effect on the recognition and measurement of assets, liabilities, income and expenses is presented below.

5.1. IMPAIRMENT OF FINANCIAL ASSETS

Recognition and measurement of expected credit losses of debt instruments measured at amortized cost

Approach for impairment of short-term trade and other receivables and receivables from related parties

The Company applies a simplified approach to calculate the expected credit losses for trade receivables that do not contain an element of finance.

For the purpose of determining the expected credit losses the company applies models at the level of client's industry. The models allow the inherent assessment of financial risk that customers bring to companies in the Company.

Expected credit losses are calculated for each single receivable (invoice, interest rate, etc.) that puts a counterparty in a debt, adjusted on the basis of past due dates and the standard counterparty payment cycle. The average number of days of customer's delay is determined on the basis of historical information about the customer's coverage period. The retrospective review is for a period of 3 to 5 years.

For the purpose of calculating the expected credit losses for financial assets arising from contracts with contractors from the energy industry, the Company has determined the existence of additional risk. Trade receivables arising from counterparties in the above industry are therefore considered to be of higher risk.

The additional risk is identified on the basis of a historical experience of the Company's receivables with counterparties from this industry, including deteriorated financial condition, liquidity problems and other difficulties, especially for traders of electricity.

The identified risk factors are considered an indication of a possible increase in credit risk. The quantitative effect of credit risk growth on counterparties from the energy industry is determined by separating an additional industry, „Energy – High Risk", which adds the „specific risk" component that is involved in determining the discount rate used for the calculation of the amount of impairment. The assessment of the ratio between observed historical default data, estimated economic conditions, industry risk rating, and the amount of expected credit losses is a significant estimate. Information on impairment of expected credit losses of the Company is presented in Note 11.

Approach for impairment of granted loans, trade receivables and receivables from related parties with a financing element

The Company applies an individual approach for impairment of receivables with an element of financing and of granted credits. The impairment model is based on the cash flows agreed in the financial instrument, as well as the assumptions and estimates of expected cash flows and the realization of the financial asset adopted by the management in the preparation of the financial statements.

The expected credit losses are a probability-weighted estimate of credit losses (i.e. the current amount of each shortage of money) over the expected term of the financial instrument. Monetary deficiency is the difference between the cash flows payable to the Company in accordance with the contract and the cash flows that the Company expects to receive. Because the expected credit losses account for the amount and timing of payments, an expected credit loss is recognized even if the Company expects the asset to be fully paid but later than the due date.

Depending on the characteristics of the asset and the counterparty, the expected future cash flows from the asset may materially differ from the contracted assets. This would also lead to significant levels of expected credit losses on the asset.

Revision of expected future cash flows for each specific asset is made at each reporting date.

Approach for impairment of court and awarded receivables

In cases where the Company has undertaken legal actions to satisfy its claims, these are classified as court receivables. This type of receivables is characterized by an absolute default – i.e. unwillingness or inability of the client to settle its obligation. For this reason, irrespective of the existence of decisions of judicial authorities and the started enforcement procedures, the collection of these receivables and respectively the expected future cash flows are determined as such at a low level of probability, and the probability of default has already occurred with respect to the original asset, i.e. it is equal to 100%.

In 2021 the Company reviewed the methodology and assumptions used to determine the estimate of expected credit losses on litigation and adjudicated receivables in the prior reporting period. The analysis is intended to reduce the differences between estimates and actual credit losses. In connection with the review, the Company determined that all litigation receivables that were from customers declared bankrupt had to be impaired at 100%.

Approach for impairment of cash in banks

Cash and cash equivalents are the most liquid financial instruments. They do not carry any settlement risk, and the liquidity risk they carry is limited to the technical possibility for their disposal not to be fulfilled. However, cash deposited with banks carry a counterparty credit risk (risk of default). Counterparty risk is the likelihood that the counterparty in a financial transaction will not fulfil its contractual obligations. The Company applies the standardized approach for calculating the expected credit losses of cash in banks and the credit rating of the financial institutions in which the Company has deposited its cash is used to determine the loss given default in the model parameters. As at 31 December 2021, the Management's best estimate of expected credit losses on cash in banks was that no such expected credit losses were anticipated (31 December 2020: BGN 155 thousand) (Note 3.12.1 and Note 13).

Expected credit losses are the sum of the expected credit losses for each court and awarded receivable based on the historical collection of this asset class. Further information is also provided in Note 11.

5.2. INVENTORIES

Impairment of natural gas stocks is recognized up to its net realizable value. The determination of impairment requires the Management to assess the turnover of stocks of natural gas and its possible realization through sale. The Company's Management believes that the carrying amount of inventories consisting of natural gas represents the best estimate of its net realizable value as at the date of statement of financial position according to IAS 2 Inventories. Additional information is disclosed in Note 12.

5.3. USEFUL LIFE OF DEPRECIABLE ASSETS

Financial reporting of plant and equipment and intangible assets involves the use of estimates of their expected useful lives and residual values that are based on judgments by the Company's Management. The Management reviews the useful life of depreciable assets at the end of each reporting period.

As at 31 December 2021 the Management assesses the useful life of assets that represented the expected term of their use. The carrying amounts of the assets are analyzed in Notes 7 and 8. The actual useful life, however, may vary due to technical obsolescence, particularly relating to software and IT equipment..

5.4. REVENUE FROM CONTRACTS WITH CUSTOMERS.

On recognizing revenue from contracts with customers the management makes various judgments, estimates and assumptions that affect the reported revenue, expense, assets and liabilities under contracts. Key appraisals and assumptions that have a material impact on the amount and timing of recognizing revenue from contracts with customers are disclosed in detailed in Note 3.5. These mainly relate to the determination of variable remuneration in the events of deviations in the daily contracted gas quantities; deviations between the minimum annual gas quantities requested and actually delivered; penalties for deliveries of natural gas of poor quality.

5.5. DEFINED BENEFIT OBLIGATIONS

The Management assesses once a year with the help of an independent actuary the obligation to pay defined benefit. The actual value of the liability may differ from the preliminary assessment due to its uncertainty. The amount of the assessed obligation for payment of defined benefit is BGN 181 thousand (31 December 2020: BGN 186 thousand)

(All amounts are in BGN'000, unless specified otherwise)

and is based on inflation statistics, cost of healthcare service and mortality. Another factor that has an impact is the future salary increases predicted by the Company. Discount factors are determined at the end of each year to the yield on long-term government guarantees with 10-year maturity, denominated in the currency in which the defined benefits will be paid. There is uncertainty in the estimate particularly in terms of the tendency to change healthcare costs, which may vary significantly in future assessments of the value of the obligations for defined benefit.

5.6. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

An impairment loss is recognized as the amount by which the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is higher than the fair value less costs to sell of an asset and its value in use. To determine the value in use, the Company's management calculates the expected future cash flows for each cash-generating unit and determines the appropriate discount factor in order to calculate the current amount of those cash flows. In calculating expected future cash flows, management makes assumptions about future gross profits. These assumptions are related to future events and circumstances. Actual results may differ and may require significant adjustments in the assets of the Company in the next accounting year. In most cases, when determining the applicable discount factor, the appropriate market risk adjustments and asset-specific risk factors are assessed.

The Company did not report any impairment losses on non-current assets during the current and the previous period.

5.7. PROVISIONS

The Company is a defendant on several lawsuits as at 31 December 2021, the outcome of which may lead to liabilities of a value other than the amount of provisions recognized in the financial statements. Provisions will not be considered here in more detail in order to avoid prejudices related to the Company's position in the above-mentioned disputes.

As at 31 December 2021, the best estimate of the required provision for claims against the Company amounted to BGN 52 346 thousand (31 December 2020: BGN 51 592 thousand). Further information is provided in Note 33.

5.8. DEFERRED TAX ASSETS

The assessment of the probability of future taxable income in which deferred tax assets may be utilized is based on the Company's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. If a reliable forecast of taxable income indicates the probable use of a deferred tax asset, especially when it may be utilized without a time limit, then deferred tax asset is recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed by the management individually based on the specific facts and circumstances.

6. FINANCIAL INSTRUMENTS BY CATEGORIES

The carrying amounts of the Company's financial assets and liabilities may be presented in the following categories:

	AS AT 31 DECEMBER 2021
Financial assets	**Debt instruments carried at amortized cost**
Trade and other receivables (Note 11, Note 34)	195,585
Cash and cash equivalents (Note 13)	211
Total financial assets in the statement of financial position	**195,796**

Financial liabilities	**Financial liabilities carried at amortized cost**
Borrowings (Note 17)	2,603
Leases (Note 9)	253
Trade and other payables (Note 18)	94,209
Total financial liabilities in the statement of financial position	**97,065**

(All amounts are in BGN'000, unless specified otherwise)

AS AT 31 DECEMBER 2020

Financial assets	**Debt instruments carried at amortized cost**
Trade and other receivables (Note 11, Note 34)	91,051
Cash and cash equivalents (Note 13)	171,857
Total financial assets in the statement of financial position	**262,908**

Financial liabilities	**Financial liabilities carried at amortized cost**
Loans (Note 17)	-
Leases (Note 9)	71
Trade and other payables (Note 18)	94,209
Total financial liabilities in the statement of financial position	**94,280**

See Note 3.12. for accounting policy information for each category of financial instruments. A description of the Company's risk management policies and objectives regarding financial instruments is set out in Note 4.

Trade and other receivables listed above do not include those arising from legal requirements (other tax receivables), as well as, advances paid to suppliers and prepaid expenses.

Trade and other payables listed above do not include those arising from legal requirements (other tax liabilities and liabilities to social security companies), as well as, obligations to employees and advances received from clients.

7. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment include vehicles, computers and the related equipment, office equipment and furniture. The carrying amount may be analyzed as follows:

	Plant and equipment	**Vehicles**	**Office equipment**	**Right-of-use assets – Office building**	**Total**
AS AT 1 JANUARY 2020					
Book value	91	468	334	546	1,439
Depreciation	(57)	(444)	(304)	(243)	(1,048)
Carrying amount	**34**	**24**	**30**	**303**	**391**
CHANGES IN 2020					
Newly acquired	10	-	21	-	31
Written-off	(46)	-	-	-	(46)
Depreciation	(7)	(11)	(23)	(242)	(283)
Written-off depreciation	37	-	-	-	37
AS AT 31 DECEMBER 2020					
Book value	55	468	355	546	1 424
Depreciation	(27)	(455)	(327)	(485)	(1,294)
Carrying amount	**28**	**13**	**28**	**61**	**130**
CHANGES IN 2021					
Newly acquired	-	-	39	434	**473**
Written-off	(1)	(48)	(115)	(546)	**(710)**
Depreciation	(7)	(7)	(28)	(247)	**(289)**
Written-off depreciation	1	48	115	546	**710**
Total Carrying amount	**21**	**6**	**39**	**248**	**314**

(All amounts are in BGN'000, unless specified otherwise)

AS AT 31 DECEMBER 2021					
Book value	54	420	279	434	1 187
Depreciation	(33)	(414)	(240)	(186)	(873)
Carrying amount	**21**	**6**	**39**	**248**	**314**

All depreciation costs are included in the statement of profit or loss and other comprehensive income in line "Depreciation and amortization of non-financial assets".

As at 31 December 2021 no assets of the group of property, plant and equipment are pledged as collateral of Company's liabilities. As at 31 December 2021 the Company has no contractual obligation to purchase any assets.

As at 31 December 2021, the plant and equipment were evaluated and the outcome from these tests and evaluations show that there are no significant fluctuations in their market values and therefore there is no need of correcting their carrying values.

The right-of-use assets include a rented office building. The liabilities for leases, which correspond to the right-of-use assets, are presented in Note 9 Leases.

The Company has a contractual obligation to purchase tangible fixed assets - highly reliable IT infrastructure, which is to be realized in 2022.

8. INTANGIBLE ASSETS

Intangible assets of the Company include software and license for public supply of natural gas. The carrying amounts for the reporting periods may be analyzed as follows:

	Software	Licences	Total
AS AT 1 JANUARY 2020			
Book value	1,159	41	**1,200**
Depreciation	(945)	(10)	**(955)**
Carrying amount	**214**	**31**	**245**
CHANGES IN 2020			
Newly acquired	159	-	**159**
Depreciation	(211)	(3)	**(214)**
Total Carrying amount	**162**	**28**	**190**
AS AT 31 DECEMBER 2020			
Book value	1,318	41	**1,359**
Depreciation	(1,156)	(13)	(1,169)
Carrying amount	**162**	**28**	**190**
CHANGES IN 2021			
Newly acquired	302	17	**319**
Written-off	(18)	-	**(18)**
Written-off depreciation	18	-	**18**
Depreciation	(224)	(4)	**(228)**
Total Carrying amount	**240**	**41**	**281**
AS AT 31 DECEMBER 2021			
Book value	1,620	58	**1 678**
Depreciation	(1,380)	(17)	**(1,397)**
Carrying amount	**240**	**41**	**281**

All amortization costs are included in the Statement of profit or loss and other comprehensive income in line "Depreciation and amortization of non-financial assets".

(All amounts are in BGN'000, unless specified otherwise)

The intangible assets acquired in 2021 represent a change in the functionality of the Software "Supplies", the accounting software product Azur L, module "Sales Management", a license for natural gas trading and trademarks of the Company. No intangible assets are pledged as collateral of Company`s liabilities. The Company has no contractual obligation to purchase any intangible assets to be realized in 2022.

9. LEASES

This note provides information on leases when the Company is a lessee.

9.1. AMOUNTS RECOGNIZED IN THE FINANCIAL STATEMENTS

The statement of financial position shows the following amounts related to leases:

	Note	AS AT 31 DECEMBER, 2021	2020
Right-of-use assets			
Office building	7	248	61
		248	**61**
Lease payables			
Current		253	69
Non-current		-	2
		253	**71**

The Company has rented an office building. With the exception of short-term leases and leases of low-value assets, each lease is reflected in the statement of financial position as a right-of-use asset and a lease liability. Variable lease payments, which do not depend on an index or variable rates (e.g. lease payments based on a percentage of the Company's sales) are excluded from the initial measurement of the liability and asset under the lease. The Company classifies its right-of-use assets in a consistent manner in Note 7.

Each lease generally imposes a restriction that the right-of-use assets may be used only by the Company, unless the Company has a contractual right to sublease the asset to a third party.

Under the contractual terms, termination of the lease is excluded during the term of validity of the lease relations. In the event that either party terminates the lease early, it must do so by sending a six-month written notice, and the terminating party shall owe the other party a penalty of a specified amount. The Office Building Lease does not contain an option for direct asset purchase. The Company is not permitted to sell or pledge the leased asset as security. According to the Office Building Lease, the Company must maintain the leased property in good condition and return the property to its original condition upon expiration of the Lease. The Company is obliged to insure the leased property and to pay maintenance fees in accordance with the lease agreements.

The future minimum lease payments as at 31 December 2021 shall be as follows:

	Minimum lease payments due		
	Within 1 year	**1-2 years**	**Total**
31 December 2021			
Lease payments	259	-	259
Financial costs	(6)	-	(6)
Net current amount	**253**	**-**	**253**
31 December 2020			
Lease payments	69	2	71
Financial costs	-		
Net current amount	**69**	**2**	**71**

9.2. AMOUNTS RECOGNIZED IN THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The statement of profit or loss and other comprehensive income shows the following amounts related to leases:

(All amounts are in BGN'000, unless specified otherwise)

	Note	AS AT 31 DECEMBER, 2021	2020
Costs for depreciation of right-of-use assets			
Office building	7	(247)	(242)
		(247)	**(242)**
Interest expenses (included in financial expenses)	28	(12)	(9)
Operating lease expense (IAS 17) (included in the cost of hired services)	21	(1)	(1)

The total outgoing cash flow for leasing in 2021 amounts to BGN 275 thousand (2020: BGN 312 thousand).

The Company has dedcided not to recognize any liability under lease contracts if they are short-term (leases with an expected term of 12 months or less) or if they are for low-value lease assets. Payments made under these lease contracts are recognized as an expense on a straight-line basis.

10. DEFERRED TAX ASSETS

Deferred tax assets and liabilities are recognized for all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, at a tax rate of 10% (2020: 10%), applicable for the year, when they are expected to occur retroactively.

	AS AT 31 DECEMBER, 2021	2020
Deferred tax assets		
– Deferred tax assets for recovery in 12 months	1,438	13,694
Total deferred tax assets	**1,438**	**13,694**
Deferred tax liabilities		
– Deferred tax liabilities for recovery in 12 months	(1)	(188)
Total deferred tax liabilities	**(1)**	**(188)**
Deferred tax assets, net	**1,437**	**13,506**

The total movement of deferred income tax may be presented as follows:

	YEAR ENDED 31 DECEMBER, 2021	2020
AS AT 1 JANUARY	**13,506**	**13,774**
Recognized as expense in profit or loss (Note 29)	(12,070)	(271)
Tax income related to components of other comprehensive income (Note 26)	1	3
AS AT 31 DECEMBER	**1,437**	**13,506**

The amounts recognized in other comprehensive income relate to remeasurement of defined benefit retirement plans.

As of 31 December 2021 and 31 December 2020, the Company has no unused tax losses that may be used in subsequent reporting periods.

(All amounts are in BGN'000, unless specified otherwise)

The movement of deferred tax assets and liabilities during the period by elements may be presented as follows:

	Impairment of inventory	Impairment of financial assets - receivables	Pension provisions and constructive obligations	Unused paid leaves	Leases IFRS 16	Property, plant and equipment	Total
DEFERRED TAX ASSETS							
AS AT 1 JANUARY 2020	-	(13,744)	(17)	(16)	(1)	-	(13,778)
Expense/(Income) in profit or loss	(31)	303	1	-	-	-	**273**
Expense/(Income) in other comprehensive income	-	-	(3)	-	-	-	**(3)**
AS AT 31 DECEMBER 2020	**(31)**	**(13,441)**	**(19)**	**(16)**	**(1)**	**-**	**(13,508)**
AS AT 1 JANUARY 2021	**(31)**	**(13,441)**	**(19)**	**(16)**	**(1)**	**-**	**(13,508)**
Expense/(Income) in profit or loss	(197)	12,263		2	1	-	**12,069**
Expense/(Income) in other comprehensive income	-	-	1	-	-	-	1
AS AT 31 DECEMBER 2021	**(228)**	**(1,178)**	**(18)**	**(14)**	**-**	**-**	**(1,438)**
DEFERRED TAX LIABILITIES							
AS AT 1 JANUARY 2020	-	-	-	-	-	**4**	**4**
Expense in profit or loss	-	-	-	-	-	(2)	(2)
AS AT 31 DECEMBER 2020	-	-	-	-	-	**2**	**2**
Expense in profit or loss	-	-	-	-	-	(1)	(1)
AS AT 31 DECEMBER 2021	-	-	-	-	-	**1**	**1**
DEFERRED TAX ASSETS AS AT 31 DECEMBER 2020, NET	**(31)**	**(13,441)**	**(19)**	**(16)**	**(1)**	**2**	**(13,506)**
DEFERRED TAX ASSETS AS AT 31 DECEMBER 2021, NET	**(228)**	**(1,178)**	**(18)**	**(14)**	**-**	**1**	**(1,437)**

(All amounts are in BGN'000, unless specified otherwise)

11.TRADE AND OTHER RECEIVABLES

	AS AT 31 DECEMBER, 2021	2020
Financial receivables		
Trade receivables	168,859	63,415
Accumulated impairment of trade receivables	(6,160)	(1,019)
Trade receivables, net	**162,699**	**62,396**
Court and awarded receivables	203,010	213,001
Accumulated impairment of court and awarded receivables	(202,225)	(203,014)
Court and awarded receivables, net	**785**	**9,987**
Receivable from Corporate Commercial Bank AD - insolvent	3,804	4,064
Accumulated impairment of receivables from Corporate Commercial Bank AD – insolvent	(3,804)	(4,064)
Receivable from Corporate Commercial Bank AD - insolvent, net	**-**	**-**
Receivables from related parties (Note 34)	**27,584**	**14,128**
Other financial receivables – guarantees	**4,517**	**39**
Financial receivables total	**195,585**	**86,550**
Non-financial receivables		
Prepaid advances for natural gas delivery	277,178	35,639
Other receivables – prepaid expenses, guarantees and deposits	2,996	6,148
Non-financial receivables total	**280,174**	**41,787**
Total Trade and other receivables - current	**475,759**	**128,337**

All receivables are short-term. The Company's trade receivables are related to the sale of natural gas and are due within 12 days of the issuance and receipt of the invoice from the relevant counterparty. The net carrying amount of trade and other receivables is assumed to be a reasonable estimate of their fair value.

Prepaid advances for natural gas supply represent amounts paid in advance by Bulgargaz EAD to natural gas suppliers.

The Company has receivables from the Corporate Commercial Bank AD (insolvent), amounting to BGN 17.463 thousand. Pursuant to the Decision No ЗБН66-8, ЗБН66-39 of 28.12.2015 of the trustees of CCB AD (insolvent), entered in the Commercial Register, the amount of the recognised receivables of the Company is BGN 5,077 thousand. An appeal has been filed against the decision of the syndics before the competent court for recognition that the Company had a receivable amounting to BGN 12 394 thousand and a claim for contractual interest on the entire amount of the receivables filed in the bankruptcy proceedings. The Company's objection was rejected by two courts. A cassation complaint was filed with the Supreme Court of Cassation against the decision of the Second Instance Court. By a ruling of the Supreme Court of Cassation of 13.03.2018 the appeal of Bulgargaz EAD against the decision of the Sofia Court of Appeal in the case with CCB AD was not admitted to cassation and the decision came into legal force. The decision of the Sofia Court of Appeal confirmed the decision of the Sofia City Court, which rejected the objection of Bulgargaz EAD against the decision of the syndics of CCB AD (insolvent) to acknowledge that the Company was the holder of a receivable for an amount in amount to BGN 12,394 thousand as well as a claim for contractual interest on bankruptcy claims in the amount of BGN 17,472 thousand. As of the date of the Supreme Court of Cassation's ruling, the Sofia Court of Appeal's decision entered into force. On the basis of this decision of the Sofia Court of Appeal, the unrecognized amount of the assigned receivable, by accounting data amounting to BGN 12 386 thousand, was written-off in 2018.

(All amounts are in BGN'000, unless specified otherwise)

In 2017 and in the period 2020-2021, the Commercial Register published statements of the partial account for allocation of available amounts between CCB 's creditors by the trustees of CCB AD (insolvent), as according to allocation of the trustees, in the period 2019-2021 of Bulgargaz EAD has been reimbursed an amount of BGN 1,273 thousand in total.

The following table contains information about the exposure to credit risk arising from customer receivables from unrelated persons of the Company using the provision matrix for expected credit losses as of 31 December 2021 and 31 December 2020, respectively:

31 December 2021	**Relative share**	**Gross amount of customer receivables**	**Impairment of expected credit loss**	**Net amount of receivables from customers**
	%			
Not past due	89.30%	150,787	(2,385)	148,402
30-90 days	1.84%	3,103	(415)	2,688
90 – 180 days	8.81%	14,869	(3,356)	11,513
180 – 360 days	0.06%	100	(4)	96
		168,859	**(6,160)**	**162,699**

31 December 2020	**Relative share**	**Gross amount of customer receivables**	**Impairment of expected credit loss**	**Net amount of receivables from customers**
	%			
Unmatured	89.61%	56,829	-	56,829
30-90 days	2.06%	1,307	(1,019)	288
90 – 180 days	0.00%	0	-	-
180 – 360 days	0.00%	1	-	1
Under agreements	8.32%	5,278	-	5,278
		63,415	**(1,019)**	**62,396**

The maturity structure of current trade receivables is as follows:

As at 31 December 2021

	Not overdue	**30-90 days**	**90-180 days**	**180-360 days**	**Total**
Trade receivables	150,787	3,103	14,869	100	**168,859**
	150,787	**3,103**	**14,869**	**100**	**168,859**

As at 31 December 2020

	Not overdue	**30-90 days**	**90-180 days**	**180-360 days**	**Total**
Trade receivables	62,107	1,307	-	1	**63,415**
	62,107	**1,307**	**-**	**1**	**63,415**

(All amounts are in BGN'000, unless specified otherwise)

The Company's judgment includes assumptions, such as days of delay, customer risk profile, industry risk modeling, correction factor based on the percentage of (non-)collectability.

Some of the information used in the developed model for expected credit losses of the Company as country risk (Risk by Country), the discount rate of risk-free securities (Risk free - T bonds), the financing cost (Cost of debt), is based on ready data, and other – on the reporting data for the amount of the respective financial asset at the end of the period.

The calculations made include financial asset impairment tests based on several "models" based on the adopted Company's accounting policy. As at 31 December 2021, trade receivables with a book value of BGN 100,670 thousand (31 December 2020: BGN 51,992 thousand) were impaired.

The aging analysis of trade receivables for which an impairment loss is recognized as at 31 December 2021 is as follows:

	AS AT 31 DECEMBER,	
	2021	**2020**
Within 3 months	2,800	1,019
3 to 6 months	3,365	-
Over 6 months	4	-
Total	**6,160**	**1,019**

Changes in loss adjustment credit loss account on receivables are as follows:

	YEAR ENDED 31 DECEMBER,	
	2021	**2020**
AS AT 1 JANUARY	**208,095**	**213,477**
Accrued impairment losses of financial assets – receivables	16,401	10,993
Derecognised bad debts	-	(925)
Recovered losses from impairment of receivables	(12,048)	(15,011)
Recovered losses from impairment of CCB AD-insolvent	(259)	(439)
AS AT 31 DECEMBER	**212,189**	**208,095**

Impairment loss and recovery are recognized in the Statement of profit or loss and other comprehensive income (Note 20). The effects of time elapsed/change in the discount rate are reported in financial income/expense - net. Amounts recognized in the allowance account for credit losses on receivables are written-off when there is no expectation that the Company will be able to obtain additional additional funds.

At the end of the reporting period the Company's maximum exposure to credit risk is the fair value of each group of trade and other receivables mentioned above, except for prepaid advances for natural gas delivery, right to receive natural gas after the corresponding advance paid and the prepaid expenses for future periods.

As at 31 December 2021, the Company holds collateral as a security for trade receivables for natural gas supply (granted deposits) in the amount of BGN 137 thousand (2020 - BGN 80 thousand).

Carrying amount of trade and other receivables is denominated in the following currencies:

(All amounts are in BGN'000, unless specified otherwise)

	AS AT 31 DECEMBER,	
	2021	**2020**
Bulgarian Lev (BGN)	194,281	84,038
US Dollar (USD)	277,177	35,653
Romanian Leu (RON)	-	1
Euro (EUR)	4,301	8,645
Total Trade and other receivables	**475,759**	**128,337**

The Company has no trade and other receivables pledged as security for its liabilities.

12. INVENTORIES

Inventories recognized in the statement of financial position may be analyzed as follows:

	AS AT 31 DECEMBER,	
	2021	**2020**
Natural gas at cost	125,153	49,468
Impairment to a net realizable value	(2,138)	(310)
Natural gas – net realisable value	123,015	49,158
Materials	16	20
Total Inventories	**123,031**	**49,178**

In 2021, the value of the realized natural gas in the amount of BGN 2,027,072 thousand was reported as an expense in profit or loss (2020: BGN 644,430 housand).

At the date of the statement of financial position, the Company has analyzed the circumstances that would lead to the availability of indications of impairment of the natural gas value.

The main external source used as evidence for the indication of impairment are the EWRC's monthly gas pricing decisions.

The reversal of impairment losses on inventories is recognized as an adjustment to the cost of natural gas sold during the period. Accrued new impairment losses are recognized as such in the income statement and other comprehensive income in line " Accumulated impairment losses on non-financial assets".

The Company has no inventories that are provided as collateral for liabilities.

13. CASH AND CASH EQUIVALENTS

	AS AT 31 DECEMBER,	
	2021	**2020**
Cash in current bank accounts	211	172,003
Cash on hand	-	9
Cash accumulated impairment	-	(155)
Total Cash and cash equivalents in the statement of financial position	**211**	**171,857**

(All amounts are in BGN'000, unless specified otherwise)

The carrying amount of the cash and cash equivalents is denominated in following currency:

	AS AT 31 DECEMBER, 2021	2020
Bulgarian Lev (BGN)	206	88,756
US Dollar (USD)	3	83,131
Euro (EUR)	2	125
Total Cash and cash equivalents	**211**	**172,012**

As at 31.12.2021, the Company has no blocked cash.

The changes in the allowance account for expected credit losses are as follows:

	YEAR ENDED DECEMBER 31, 2021	2021
At the beginning of the period	**(155)**	**-**
Accrued expected credit losses on cash and cash equivalents	-	(155)
Compensated expected credit losses on cash and cash equivalents	155	-
At the end of the period	**-**	**(155)**

14. RECONCILIATION OF INITIAL AND ENDING BALANCES IN THE STATEMENT OF FINANCIAL POSITION OF LIABILITIES ARISING FROM FINANCIAL ACTIVITIES

The reconciliation between the initial and final balances in the statement of financial position as at 31.12.2021 of the liabilities arising from financial activities may be presented as follows:

	On 1 January 2021	Cash flows from financial activities		Changes of a non-monetary nature - dematerialized		On 31 December 2021
		Receipts	Payments	Acquired (increases)	Other changes	
Short-term bank loans	-	29,999	(27,396)	-	-	2,603
Lease payables	71	-	(263)	445	-	253
Interest on lease cnotract		-	(12)	12		-
Interests and commissions on granted loans	-	-	(1,527)	-	1,527	-
Total liabilities from financial activities:	**71**	**29,999**	**(29,198)**	**457**	**1,527**	**2,856**

The reconciliation between the initial and final balances in the statement of financial position as at 31.12.2020 of the liabilities arising from financial activities may be represented as follows:

(All amounts are in BGN'000, unless specified otherwise)

	On 1 January 2020	Cash flows from financial activities		Changes of a non-monetary nature - dematerialized		On 31 December 2020
		Receipts	**Payments**	**Acquired (increases)**	**Other changes**	
Short-term bank loans	52,372		(52,372)			-
Lease payables	313		(312)		70	71
Interest on granted loans and deferred trade liabilities	14		(783)		769	-
Total liabilities from financial activities:	**52,699**		**(53,467)**		**839**	**71**

15. SHARE CAPITAL

As at 31 December 2021, the registered share capital of the Company consists of 231 698 584 ordinary shares with a par value of BGN 1 per share. All shares are entitled to dividend and liquidation share and represent one vote of the General Meeting of Shareholders of the Company. All issued shares are fully paid.

There is no change in the number of shares for the reporting periods.

The sole shareholder of the Company's capital is Bulgarian Energy Holding EAD, the capital of which is owned by the Ministry of Energy.

16. RESERVES

	Statutory reserves	Revaluation reserves of non-financial assets	Reserve of revaluations of defined benefit plans	Total
AS AT 1 JANUARY 2020	**7,367**	**53**	**(16)**	**7,404**
Write-off of reserve for written-off assets	-	(18)	-	(18)
Revaluation of defined benefit plans	-	-	(26)	(26)
AS AT 31 DECEMBER 2020	**7,367**	**35**	**(42)**	**7,360**
Allocations to the "Reserve" Fund	7,409	-	-	7,409
Revaluation of defined benefit plans	-	-	(12)	(12)
AS AT 31 DECEMBER 2021	**14,776**	**35**	**(54)**	**14,757**

STATUTORY RESERVES

Statutory reserves comprise the "Reserve" Fund, a source for the formation of which is 1/10 of the profit, while the funds in the Fund reach at least 1/10 of the registered capital.

According to Decision No 3-2021/26.01.2021 of the Board of Directors of BEH EAD as the sole owner of the capital of Bulgargaz EAD, it was adopted that a part of the profit for 2019 to the amount of BGN 3,443 thousand is allocated to the "Reserve" Fund.

According to Decision No 32-2021/22.06.2021 of the Board of Directors of BEH EAD as the sole owner of the capital of Bulgargaz EAD, it was adopted that a part of the profit for 2020 to the amount of BGN 3,966 thousand is allocated to the "Reserve" Fund.

REVALUATION RESERVES OF NON-FINANCIAL ASSETS

(All amounts are in BGN'000, unless specified otherwise)

The Company's revaluation reserves are formed as a result of the revaluation of plant and equipment. Under the acting Bulgarian legislation, the revaluation reserves resulting from the revaluation of plant and equipment cannot be distributed as dividends.

RESERVE FROM REVALUATIONS OF DEFINED BENEFIT PLANS

The Company recognizes actuarial gains and losses in reserve from revaluations of defined benefit plans, in accordance with IAS 19. They are not reclassified to profit or loss in subsequent periods.

17. BORROWINGS

	AS AT 31 DECEMBER,	
	2021	**2020**
Current		
Bank loans	2,603	-
Total current	**2,603**	**-**
Total loans	**2,603**	**-**

As at 31 December 2021, the Company has a drawn and outstanding overdraft of BGN 2,603 thousand under an agreement with a banking institution. The loan matures on 23.12.2022 and bears an interest at market rate. The loan is unsecured.

The total amount of the agreed sums of the Company's overdraft is BGN 110,000 thousand. The loans are unsecured and mature in the period October 2022 – December 2022.

The fair values of current loans do not differ from their carrying amounts.

18. TRADE AND OTHER PAYABLES

	AS AT 31 DECEMBER,	
	2021	**2020**
Trade payables	89,060	8,104
Related party payables (Note 34)	5,149	2,952
Total Financial liabilities	**94,209**	**11,056**
Advances received from clients for sale of natural gas (liabilities under contracts with customers)	32,213	53
VAT payable	86,991	18,644
Excise duty	1,185	1,131
Payables to employees	127	133
Liabilities to insurance companies	76	81
Other liabilities	343	233
Total Non-financial liabilities	**120,935**	**20,275**
Total Current trade and other receivables	**215,144**	**31,331**

The Company's trade payables mainly include payables to natural gas suppliers.

Liabilities under advances received from customers for the sale of natural gas represent amounts received from customers of the Company in accordance with the terms of the contracts for the supply of natural gas.

(All amounts are in BGN'000, unless specified otherwise)

Payables to employees represent obligations to Company's employees, to be settled in 2022. They occur mainly in relation to accumulated unused leave at the end of the reporting period and amounted to BGN 127 thousand (31 December 2020: BGN 133 housand).

Liabilities to insurance companies amount to BGN 76 thousand (31 December 2020: BGN 81 thousand) include the social security payables related to accrued unused compensation leaves in the amount and social security payables over remunerations for December 2021 paid in January 2022.

The fair values of current trade and other payables do not differ from their carrying values.

19. LIABILITIES FOR RETIREMENT EMPLOYEE BENEFITS

The liability presented in the statement of financial position is related to provisions for defined benefit plan of retirement. The Company applies the regulations for payments of retirement benefits by age and length of service and illness under the current Labour Code.

Pursuant to Article 222, paragraph 2 of the Labour Code, in case of termination of the employment due to illness, the employee is entitled to compensation in the amount of his/her gross salary for a period of two months, if the employee has at least 5 years of service in the Company and during the last five years of service he/she is not received compensation on the same basis.

Pursuant to Article 222, paragraph 3 of the Labour Code, in case of termination of the employment, the employee is entitled for retirement based on social security length of service and age, regardless of the reasons for the termination, he/she is entitled to compensation as follows: the amount of his/her gross salary for the period 2 months in all cases, and if employed by the Company in the last 10 years of his/her service - compensation in the amount of his/her gross salary for 6 months.

The amounts recognized in the statement of financial position are determined as follows:

	AS AT 31 DECEMBER,	
	2021	**2020**
Current amount of liabilities	181	186
Liability at the end of the reporting period	**181**	**186**

Movements of liability recognized in the statement of financial position is as follows:

	YEAR ENDED DECEMBER 31,	
	2021	**2020**
AS AT 1 JANUARY	**186**	**173**
Current length-of-service costs (Note 22)	17	13
Interest expenses (Note 28)	1	1
Total expenses in profit or loss	**18**	**14**
Revaluations:		
- Gains from changes in financial assumptions	6	15
- Profit/(loss) from the actual experience	7	14
Total Other comprehensive income	**13**	**29**
Paid benefits	**(36)**	**(30)**
AS AT 31 DECEMBER	**181**	**186**

(All amounts are in BGN'000, unless specified otherwise)

The main actuarial assumptions used are as follows:

	AS AT 31 DECEMBER, 2021	2020
Discount rate	0.6 %	0.5 %
Future increases of salaries	10 % for the first year and 5% for every following year	10 %

These assumptions were developed by the Management with the assistance of independent actuary. Discount rates are determined close to each year-end by reference to yields of risk free securities in BGN having maturity approximating to the terms of the related pension obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

The present value of the defined benefit obligation was measured using the projected unit credit method.

These assumptions are used when determining the amount of the obligations for the defined benefit for the reporting periods and are considered the best estimate of management.

The significant actuarial assumptions for the determination of the defined benefit obligation are related to the discount rate, the expected salary growth rate and the average life expectancy.

The table below presents an analysis of the sensitivity and summarizes the effects of changes in these actuarial assumptions on the defined benefit liability as at 31 December 2021:

AS AT 31 DECEMBER 2021	Change in the actuarial assumption	Effect on the liability in BGN	Change in the actuarial assumption	Effect on the liability in BGN
Discount rate	+ 1 %	(11 124)	– 1 %	12 853
Salary increase	+ 1 %	10 640	– 1 %	(9 453)
Staff turnover	+ 1 %	(10 495)	– 1 %	11 844
Change of life expectancy	+1 year	964	-1 year	1 067

The sensitivity analysis shown above is based on a model estimating the potential change in the liability in case of a change in only one of the actuary assumptions, while others are deemed constant. In reality, this is unlikely to happen, as the changes in some of the assumptions are correlated. In determining sensitivity of liabilities under the defined benefit plan to the changes in the major actuarial assumptions is used the same method used to estimate recognized in the statement of financial position liability, namely an estimation of the present value of the liability under defined benefit plan by using the credit method of projected units.

As at 31 December 2021, the weighted average duration of the obligation to pay compensation upon retirement is 5 years.

(All amounts are in BGN'000, unless specified otherwise)

20. REVENUE FROM THE SALE OF NATURAL GAS

REVENUE FROM CONTRACTS WITH CUSTOMERS	YEAR ENDED 31 DECEMBER,	
	2021	**2020**
Types of goods or services		
Revenue from the sale of natural gas, incl. by type of activities:	2,085,495	674,278
- regulated	786,275	318,569
- freely negotiated	1,066,500	336,022
- stock market under release programme	232,720	20,434
Revenue from the sale of natural gas for balancing	20,433	3,744
Revenue from penalties for non-performance under contracts with customers for unaccepted and over-collected quantities of natural gas	17,159	4,682
Total Revenue from the sale of natural gas	**2,123,087**	**683,451**

The revenue under contracts with customers is realized in Bulgaria and recognized over time.

BALANCES UNDER CONTRACTS WITH CUSTOMERS	AS AT 31 DECEMBER,	
	2021	**2020**
Trade receivables (Note 11)	94,510	55,673
Receivables from related parties (Note 34)	6,302	312
Assets under contracts with customers - unbilled receivables (Note 11)	68,188	6,747
Liabilities		
Liabilities under contracts with customers (Note 18)	94,209	11,056

The Company's unbilled receivables at the end of each reporting period represent the amounts for natural gas delivered during the month of December, which under the terms of the contracts are invoiced by Bulgargaz EAD by the 9th day of the month following the month of delivery. The invoicing of the gas shall be carried out following the final execution of a monthly act of the quantity of natural gas delivered to the Customer on each of the days of the respective month, which contains information about the obligations of Bulgargaz for delivery and the obligations of the Customer for acceptance of the natural gas.

The liabilities under contracts with customers represent payments made by customers during the months of delivery for contracted quantities of natural gas and capacity products.

21. OTHER REVENUE

The other revenue of the Company includes as follows:

	YEAR ENDED DECEMBER 31,	
	2021	**2020**
Penalties on overdue receivables	11,661	15,304
Reimbursed legal costs	465	6
Others	11	1
Total Other revenue	**12,137**	**15,311**

The income from penalties on overdue receivables is recognized as a percentage of the amount due by the customer for delay for the period from the due date of the relevant invoice to the date of receipt in the Company's bank account.

(All amounts are in BGN'000, unless specified otherwise)

22. REVERSED / (ACCRUED) EXPECTED CREDIT LOSSES FOR FINANCIAL ASSETS, NET

The Company's expected credit losses related to depreciation of financial assets are as follows:

	YEAR ENDED DECEMBER 31, 2021	2020
(Accrued)/reversed loss from depreciation of trade receivables, net (Note 11)	(5,142)	6,031
(Accrued)/ reversed losses from depreciation of legal and awarded receivables, net (Note 1)	789	(2,014)
(Accrued)/ reversed loss from depreciation of funds in banks, net (Note 13)	155	(155)
Reversed losses from depreciation of receivables from CTB (n) Note 11)	259	440
Total (Accrued)/reversed expected credit losses of financial assets for the period, net	**(3,939)**	**4 302**

23. HIRED SERVICES EXPENSES

The costs for hired services of the Company include as follows:

	YEAR ENDED DECEMBER 31, 2021	2020
Natural gas storage expenses	(8,748)	(4,010)
Court fees and legal advices	(1,419)	(1,194)
Participation fee for a natural gas trading platform	(716)	(34)
Other fees	(196)	(167)
Communications	(179)	(142)
License fees	(163)	(732)
Insurances	(108)	(109)
Remunerations of audit committee members	(104)	(97)
Security	(84)	(70)
Consulting services	(80)	(84)
Costs under management contracts	(62)	(95)
Subscription service	(15)	(14)
Rents	(1)	(1)
Total hired services expenses	**(11,875)**	**(6,749)**

24. EMPLOYEE BENEFITS AND SOCIAL SECURITY EXPENSES

The costs for staff salaries of the Company include as follows:

	YEAR ENDED DECEMBER 31, 2021	2020
Salary expenses	(2,966)	(2,580)
Social security expenses	(418)	(347)
Compensated leaves costs	(92)	(86)
Cost of defined retirement benefit obligations (Note 19)	(17)	(13)
Total employee benefit expenses	**(3,493)**	**(3,026)**

The number of employees at the end of the reporting periods and the average number of employees is as follows:

(All amounts are in BGN'000, unless specified otherwise)

	YEAR ENDED DECEMBER 31, 2021	2020
Hired employees at the end of the period	49	51
Average number of hired employees throughout the year	50	52

25. COSTS FOR MATERIALS

The costs for materials of the Company include as follows:

	YEAR ENDED DECEMBER 31, 2021	2020
Basic materials	(31)	(14)
Fuels and lubricants	(16)	(19)
Office supplies and consumables	(22)	(17)
Other	(54)	(25)
Total Costs for materials	**(123)**	**(75)**

26. PROVISION EXPENSES

	YEAR ENDED DECEMBER 31, 2021	2020
Costs for interests related to a provision under Case COMP/B1/AT.39849 – BEH gas (Note 33)	(754)	(756)
Total Costs for provisions	**(754)**	**(756)**

27. OTHER EXPENSES

The other costs of the Company include as follows:

	YEAR ENDED DECEMBER 31, 2021	2020
Penalties on delayed payments	(999)	-
Business trips and entertainment costs	(16)	(36)
Trainings	(2)	(1)
One-off taxes	(10)	(34)
Others	(84)	(22)
Total Other costws	**(1 111)**	**(93)**

(All amounts are in BGN'000, unless specified otherwise)

28. FINANCIAL INCOME AND COSTS

The financial income and costs of the Company for the presented reporting periods may be analyzed as follows:

	YEAR ENDED DECEMBER 31, 2021	2020
Financial income		
Interest income on long-term receivables	419	1,127
Income from interests from financial assets carried at amortized cost	**419**	**1,127**
Total Financial income	**419**	**1,127**
Financial costs		
Interest costs under leases	(12)	(9)
Interest costs under short-term loans	(23)	(24)
Interest costs under financial liabilities carried at amortized cost	**(35)**	**(33)**
Interest costs on overdue tax liabilities	(17)	(20)
Bank fees	(1,074)	(559)
Bank Guarantee commission fee under Case COMP/B1/AT.39849 – BEH gas	(521)	(513)
Interest costs on payment of obligations according to defined benefit plans (Note 19)	(1)	(1)
Total Financial costs	**(1,648)**	**(1,126)**
Financial income/(costs), net	**(1,229)**	**1**

29. FOREIGN EXCHANGE LOSSES, NET

	YEAR ENDED DECEMBER 31, 2021	2020
Foreign exchanges losses on receivables and payables and cash and cahs equivalents	(16,735)	(11,669)
Foreign exchanges gains on receivables and payables and cash and cash equivalents	14,831	8,691
Other Financial income/costs, net	**(1,904)**	**(2,978)**

30. INCOME TAX EXPENSES

The expected tax income/(costs) based on the applicable tax rate of 10% (2020: 10%) and the tax income/expenses actually recognized in profit or loss may be aligned as follows:

(All amounts are in BGN'000, unless specified otherwise)

	2021	**YEAR ENDED DECEMBER 31, 2020**
Profit before tax	81,069	44,151
Tax rate	10%	10%
Expected tax expenses	(8,107)	(4,415)
Tax effect on:		
Expenses not recognized for tax purposes	(970)	(1,610)
Income not recognized for tax purposes	3,983	1,802
Income tax expenses	**(5,094)**	**(4,223)**
Expenses on current corporate tax	(9,094)	(4,223)
Effect of the change in deferred taxes (Note 10)	(12,070)	(271)
Income tax expenses	**(17,164)**	**(4,494)**
Deferred tax income (expenses) recognized directly in the other comprehensive income	**1**	**3**

31. NON-CASH TRANSACTIONS

In 2021 the Company did not enter into any investment and financing transactions, in which cash and cash equivalents were not used and which are not reflected in the cash flow statement.

32. DIVIDENDS

Profit distribution is carried out by a decision of the sole shareholder in the following order:

- at least 10% of the profit shall be set aside to fund „Reserve";
- by the proposal of the Board of Directors part of the profits attributable to certain funds of the Company may be set aside;
- the outstanding amount can be used to pay dividends.

According to Decision No 32-2021/22.06.2021 of the Board of Directors of Bulgarian Energy Holding EAD, a dividend was distributed from the net profit for 2020 of Bulgargaz EAD to the sole owner to the amount of BGN 14,275 thousand. The dividend was paid out during the reporting period. The accrual and payment did not give rise to any tax effects.

33. PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Provisions

European Commission procedures

***Case* COMP/B1/AT.39849 – BEH gas**

Case COMP/B1/AT.39849 – BEH Gas (the "Case") has as its subject an alleged infringement of Article 102 of TFUE in connection to claims by the European Commission (EC) for actions of Bulgarian Energy Holding EAD and its subsidiaries - Bulgargaz EAD and Bulgartransgaz EAD directed towards:

- preventing their competitors from getting access to key gas infrastructure (gas transmission network and to the gas storage facility) in the Republic of Bulgaria, such as explicitly or tacitly refusing third party access or delaying;

- preventing competitors from getting access to a major gas import pipeline via booking a capacity, which remains unused. The proceedings were instigated in 2013 with view of adopting a decision under Chapter 3 (Articles 7 - 10) of Regulation 1/2003. On 23 March 2015 the European Commission (EC) issued a Statement of Objections (SO). Bulgarian Energy Holding EAD and its gas subsidiaries presented their respective replies to the European Commission on 9 July 2015 (Bulgargaz EAD), on 10 July 2015 (Bulgarian Energy Holding EAD), and on 17 July 2015 (Bulgartransgaz EAD).

On 24 November 2017, a decision was taken by the 44th National Assembly of the Republic of Bulgaria to take the necessary action for the closing of Case COMP/B1/AT.39849 – BEH Gas, by which the National Assembly supports the closing of the case under Article 7 of Regulation (EC) No 1/2003 without admitting the alleged infringements and without assuming liability for them, by fulfilling the obligations arising from a possible prohibitive decision, including a possible financial sanction.

On 26 July 2018, a decision was taken by the 44th National Assembly (NA) of the Republic of Bulgaria to take action for the closing of COMP/B1/AT.39849 – BEH Gas pursuant to Article 9 of Regulation (EC) No 1/2003 by entering into commitments on the part of the Bulgarian party and reaching an agreement with the European Commission. The second decision of the NA is motivated by the development of case COMP/B1/AT.39816 between the EC and PJSC Gazprom and Gazprom Export LLC, in which, on 24 May 2018, the Commission announced that an agreement had been reached and the same was closed under Article 9 of Regulation (EC) No 1/2003 without a financial penalty for PJSC Gazprom and Gazprom Export LLC.

On 17 December 2018, the European Commission notified Decision C (2018) 8806 in case AT.39849 BEH-Gas, by which the European Commission imposed a fine on Bulgarian Energy Holding EAD (BEH), its subsidiary for gas supply Bulgargaz EAD and its subsidiary for gas infrastructure Bulgartransgaz EAD (the BEH group) amounting to EUR 77 068 000 for allegedly blocking competitors' access to key gas infrastructure in Bulgaria in violation of EU antitrust rules. The decision was received in the offices of the three companies on 19.12.2018, which set the start of the appeal period of the EC Decision (two months and ten days after notification of the Decision to the parties) and payment of the fine (three months after the notification of the decision to the Parties), defined in the same.

The appeal against the decision does not delay the payment of the fine. On 18 March 2019, a bank guarantee was issued by a selected bank through a procedure conducted by BEH EAD. The bank guarantee covers 2/3 of the total amount of the fine amounting to EUR 77 068 000. The bank guarantee secures obligations of BEH EAD and Bulgargaz EAD on the imposed fine.

On 4 July 2019, the Bulgarian State, through the Ministry of Foreign Affairs, filed an application to intervene in support of Bulgarian Energy Holding EAD and its subsidiaries.

On 26 August 2019, the European Commission presented to the General Court its defense in response to the Application lodged by Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD.

On 29 November 2019, a response was filed by the Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD against the defense of the European Commission.

On 20 February 2020, within the deadline set by the General Court of the European Union, the Republic of Bulgaria, through the Ministry of Foreign Affairs (MFA), deposited the official position of the Republic of Bulgaria in Case T-136/19, submitted by the Ministry of Energy of the Ministry of Foreign Affairs, with which the State intervenes in support of Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD against the European Commission before the General Court of the European Union.

The General Court examined additional documents and requested information in order to clarify all circumstances attached to the case. By Letter dated 14 March 2022, the Court requested the European Commission to provide non-confidential versions of the documents listed by the Court. A reply from the European Commission is expected.

It should be noted that if the General Court rules on opening the oral phase of the proceedings, the President of the General Court of the European Union shall set the date of hearing for the oral hearings.

As at 31 December 2021, no date has been set for the oral hearing of the parties.

As at 31 December 2021, the Company has accrued a provision to the amount of BGN 50,244 thousand (31.12.2020: BGN 50,244 thousand), representing 1/3 of the total amount of the imposed fine and interests thereon to the amount of BGN 2,102 thousand (31.12.2020: BGN 1,348 thousand), with the estimate being that the settlement is expected to occur after more than 12 months.

Contingent assets

In connection with a trade dispute from preceding periods, Bulgargaz EAD claimed the return of natural gas to fill the Transit 1 gas pipeline. The Company could not resolve extrajudicially the commercial dispute and its claims and initiated International Arbitration Case No 78/2019 before the International Commercial Arbitration Tribunal to the Romanian Chamber of Commerce and Industry, against Transgaz National Gas Company SA, Romania. By Decision No 120 of 09.12.2021 under the arbitration case brought before the International

(All amounts are in BGN'000, unless specified otherwise)

Commercial Arbitration Court of the Chamber of Commerce and Industry of Romania, Transgaz S.A., Romania was ordered to reimburse Bulgargaz EAD for the quantity of natural gas in kind or its cash equivalent to the amount of USD 923 thousand, as well as the statutory interest on the amount, together with the costs incurred in connection with the arbitration. The defendant has applied to a Romanian court for the annulment of the arbitral award, which has become final and for suspension of its enforcement. The application was lodged and at the first hearing the application was dismissed. On 09.03.2022 the amounts were received in favor of Bulgargaz EAD, but there is no suspension of the proceedings and a hearing is to be held in 2022.

Due to the limited access to the natural gas at issue in the Transit 1 gas pipeline, the same was impaired by the Company during the reporting period.

Contingent liabilities

There are legal claims initiated against the Company, but they are not of considerable material interest. With the exception of those for which provisions have already been accrued, the Management of the Company considers that the claims are unfounded and that they are unlikely to incur expenses for the Company in settling them. This judgment of the Management is supported by the opinion of an independent legal consultant.

None of the aforementioned claims is set out in detail here, so as not to have a serious impact on the Company's position in dispute resolution.

A natural gas transportation agreement was entered into with I.C.G.B. Inc. based on a preliminary agreement for capacity expansion in 2019. In connection with this agreement, a corporate guarantee to the amount of EUR 12 million was issued by Bulgarian Energy Holding EAD in favour of ICGB SA. In 2021 the term of the guarantee was extended until 01.07.2022.

Commitments

Pursuant to an agreement entered into in 2020 with a banking institution, the Company has been granted a credit product in the form of issuance of a bank guarantee. The guarantee is for the benefit of a natural gas supplier and constitutes an obligation of the bank for the repayment of the Company's obligations in the event that liabilities arise. This commitment represents a contingent asset for the Company. In order to secure the Bank's receivables in connection with the granted loan, the Company has established a security interest in favor of the Bank in the form of cash in a special account of the Company. This obligation is a contingent liability in its nature. As at 31 December 2021, the security has been closed.

The Company has concluded agreements with bank institutions for the provision of working capital financing in the form of overdrafts and credit line limits of up to BGN 110,000 thousand.

Others

Tax authorities may at any time initiate tax inspection revision of the Company within 5 years after the end of the financial year and may impose additional tax liabilities and sanctions. The Company's management has no information about any circumstances, which may lead to potential effective additional tax liabilities in significant amount.

34. RELATED PARTY TRANSACTIONS AND BALANCE

The Company discloses the following related parties:

Entity	Country of incorporation	Main activity
Sole shareholder of the Company, exercising control (Parent company)		
Bulgarian Energy Holding EAD (BEH)		
Sole shareholder of the Parent company		
The Bulgarian State through the Minister of Energy		
Companies under mutual joint control with the Company (entities within the group)		
Kozloduy NPP EAD	Bulgaria	production of electricity and heat

HPP Kozloduy EAD	Bulgaria	generation and distribution of electricity from hydropower
Interpriborservice OOD	Bulgaria	installation and maintenance of automated systems
Kozloduy - New Builds EAD	Bulgaria	operation of a nuclear plant for electricity production
Bulgargaz EAD	Bulgaria	public supply of natural gas
Bulgartransgaz EAD	Bulgaria	storage and transmission of natural gas
Balkan Gas Hub EAD	Bulgaria	building and operating an electronic platform for natural gas trading, energy products, green and white certificates, carbon emissions
Electricity System Operator EAD	Bulgaria	transmission of electricity
Bulgartel EAD	Bulgaria	implementation of telecommunications
Bulgartel-Skopje DOOEL	Macedonia	implementation of telecommunications
Maritsa East Mines EAD	Bulgaria	extraction and sale of coal
Natsionalna Elektricheska Kompania EAD	Bulgaria	generation of electricity and public electricity supplier
TPP Maritsa East 2 EAD	Bulgaria	production of electricity and heat
PFC Beroe – Stara Zagora EAD	Bulgaria	soccer club
TPP Maritsa East 2 (9 and 10) EAD	Bulgaria	production and trade in electricity
Jointly controlled entities		
ICGB AD	Bulgaria	construction and operation of gas transmission system
South Stream Bulgaria AD	Bulgaria	construction and operation of gas transmission system
Transbalkan Electric Power Trading S.A. – NECO S.A.	Greece	sale of electricity
Associates		
ContuourGlobal Maritsa Iztok 3 AD	Bulgaria	electricity production
ContourGlobal Operations Bulgaria AD	Bulgaria	operation and maintenance of a thermal power plant
Energy Insurance JSC	Bulgaria	insurance company
VPI Allianz Bulgaria EAD	Bulgaria	pension insurance company
HEC "Gorna Arda" AD	Bulgaria	construction of hydroelectric power plants

Other related parties under joint control

Public sector enterprises under common control of the Council of Ministers in the Republic of Bulgaria

Key management of the Parent Company as at 31.12.2021

Veselina Lachezarova Kanatova - Buchkova	Chairman and Member of the Board of Directors of BEH EAD
Plamen Dilkov Dilkov	Vice Chairman and Member of the Board of Directors of BEH EAD
Ivan Todorov Andreev	Executive Member of the Board of Directors of BEH EAD
Diyan Stanimirov Dimitrov	Member of the Board of Directors of BEH EAD
Stelian Penchev Koev	Member of the Board of Directors of BEH EAD
Anton Georgiev Simeonov	Member of the Board of Directors of BEH EAD
Zheko MihaYlov Zhekov	Member of the Board of Directors of BEH EAD

(All amounts are in BGN'000, unless specified otherwise)

Aleksander Plamenov Tsarnorechki	Member of the Board of Directors of BEH EAD

Key management staff of the Company as at 31.12.2021

Nikolay Pavlov – Executive Member of the Board of Directors;
Iliyan Dukov – Member of the Board of Directors;
Nikolay Donchev - Member of the Board of Directors;
Diana Boneva - Chairman of the Board of Directors;
Svetoslav Delchev - Member of the Board of Directors.

Key management staff of the Company as of 03.02.2022

Ivan Topchiyski	Chairman and Member of the Board of Directors of Bulgargaz EAD
Lyudmil Yotsov	Member of the Board of Directors and Executive Director of Bulgargaz EAD
Anzhela Slavova	Member of the Board of Directors
Anton Adamov	Member of the Board of Directors
Stefan Voynov	Member of the Board of Directors

The sales and purchases to related parties are carried out at agreed prices. Outstanding balances at the end of the reporting period are unsecured, interest free (excluding loans and deferred trade payables) and their settlement is done in cash. For the receivables or obligations from/to related parties, no guarantees were granted or received, except for a guarantee amount of Bulgartransgaz EAD under a Contract for natural gas access and transmission, a Contract for natural gas balancing, and a Contract for natural gas storage.

The transactions between the Company and its related parties are as follows:

(A) SALE OF GOODS	**YEAR ENDED DECEMBER 31,**	
	2021	**2020**
Companies under common control		
Bulgartransgaz EAD	21 526	3 745
Total	**21 526**	**3 745**

Sales include natural gas for balancing and realized natural gas, in accordance with the Rules for Operation of the Organized Exchange Market of Gas Hub Balkan EAD.

(B) ASSIGNMENT OF CLAIMS	**YEAR ENDED DECEMBER 31,**	
	2021	**2020**
Parent company		
Bulgarian Energy Holding EAD	206 327	109 946
Total	**206 327**	**109 946**

During the reporting period the Company transferred its own receivables from Toplofikatsia Sofia EAD to Bulgarian Energy Holding EAD to the total amount of BGN 206,327 thousand pursuant to an assignment agreement. The price was paid by the assignee of the assignor as at 31.12.2021.

(C) PURCHASE OF GOODS AND SERVICES	**YEAR ENDED DECEMBER 31,**	
	2021	**2020**
Parent company		

Bulgarian Energy Holding EAD	63	95
Companies under common control		
Bulgartransgaz EAD	102,151	58,151
Bulgartel EAD	7	7
Balkan Gas Hub EAD	389	28
Total	**102,610**	**58,281**

The purchases of services from Bulgarian Energy Holding EAD include services under management and control agreement and others.

The purchases of services from Bulgartransgaz EAD include transmission, access (capacity) and storage of natural gas, and purchases of natural gas for balancing.

The purchases of services from Bulgartel EAD include technical support.

The purchases of services from Gas Hub Balkan EAD represent fees for access granted to the natural gas trading platform.

(D) ACCRUED CHARGES FOR BANK COMMISSIONS AND PENALTIES

	YEAR ENDED DECEMBER 31,	
	2021	**2020**
Companies under common control		
Bulgarian Energy Holding EAD	521	513
Total	**521**	**513**

The accrued expenses for bank commissions are in connection with bank guarantee maintenance under case COMP/B1/AT.39849 – BEH gas.

(E) RECEIVABLES UNDER SALES OF GOODS AND SERVICES

	AS AT 31 DECEMBER	
	2021	**2020**
Companies under common control		
Bulgartransgaz EAD	27,584	14,128
Total Current receivables	**27,584**	**14,128**

The receivables from Bulgartransgaz EAD represent financial collateral in the form of a credit limit and a guarantee granted in connection with a Contract for natural gas access and transmission on the gas transmission network and a Contract for balancing entered into with Bulgartransgaz EAD, and a receivable for balancing settled in January 2022.

(F) PAYABLES FOR PURCHASES OF GOODS AND SERVICES

	AS AT 31 DECEMBER,	
Current	**2021**	**2020**
Parent company		
Bulgarian Energy Holding EAD	16	30
Companies under common control		
Bulgartransgaz EAD	5,083	2,921
Bulgartel EAD	-	1
Gas Hub Balkan	50	-
Total Current liabilities	**5,149**	**2,952**

The liabilities toward Bulgartransgaz EAD are related to received current services for access, transmission and storage of natural gas and current supply of natural gas for balancing.

(All amounts are in BGN'000, unless specified otherwise)

(G) KEY MANAGEMENT PERSONNEL REMUNERATIONS

The key management personnel includes members of the Board of Directors. Key management personnel remunerations are as follows:

	YEAR ENDED DECEMBER 31,	
	2021	**2020**
Short-term benefits to key management personnel		
- Remunerations	(381)	(282)
- Social security costs	(25)	(23)
Total	**(406)**	**(305)**

The Company has no remuneration obligations toward the key management personnel as at the end of each of the reporting periods.

35. POST-REPORTING PERIOD EVENTS

There have not occurred any adjusting events between the date of the financial statements and the date of its approval. Significant non-adjusting events are as follows:

1/ By Decisions of the EWRC, the price at which the public supplier sells natural gas to the end suppliers of natural gas and to the persons to whom a license for production and transmission of heat energy has been approved, amounting to BGN 133.41 /MWh (excluding excise duty and VAT) for January 2022, and subsequently – in the amount of BGN 142.59 /MWh (excluding excise duty and VAT) for April 2022.

2/ On 28 January 2022, by decision No. 6-20-22 of Bulgarian Energy Holding EAD the following new members of the Board of Directors of Bulgargaz EAD were elected:

Ivan Topchiyski	Chairman and member of the Board of Directors of Bulgargaz EAD
Lyudmil Yotsov	Member of the Board of Directors and Executive Director of Bulgargaz EAD
Angela Slavova	Member of the Board of Directors
Anton Adamov	Member of the Board of Directors
Stefan Voynov	Member of the Board of Directors

These circumstances were entered into the Commercial Register on 03 February 2022.

3/ In order to mitigate the economic consequences of the sudden instability of energy market prices, the Council of Ministers developed and adopted by its Decision No. 31 of 25 January 2022 a Program for compensation of household customers of natural gas and district heating companies using mainly natural gas fuel, with a fixed amount of compensation per MWh. The program aims to protect and support businesses and consumers in general to deal with the effects of fluctuations in natural gas prices. It has a compensatory effect and complements other temporary measures taken at national level to increase transparency and improve the functioning of the energy market, as well as to strengthen regulatory control. Initially, the program covered a period of compensation from 1 December 2021 to 31 January 2022 inclusive, but subsequently the period was extended until the end of the heating season, i.e. by 30 April 2022. The adoption of the program aims to maintain the competitiveness of the industry and overcome the additional inflationary pressures caused by high prices of natural gas. In this way the amount due for payment by household customers will be reduced. The compensatory measure is in line with the Communication from the European Commission dated 13 October 2021 "Tackling rising energy prices: a set of instruments for action and support" regarding the energy prices. No possible negative effects of the compensation are expected on the competition in the electricity market and electricity trade.

According to the Program, the amount of compensation is calculated as 50% of the difference between the price of the public supplier as approved by the EWRC for the respective month and the estimated price of natural gas for the first quarter or, respectively, the second quarter of 2022.

For the purposes of program implementation a contract has been concluded between Bulgargaz EAD, in its capacity of Supplier and the Ministry of Energy. The performance of the compensation program has been applied by the Company by reducing the amount due for payment for natural gas supplies from clients through the relevant tax documents as issued in March, 2022 (invoices, debit and/or credit notes).

4/ On 21 February 2022, by decree of the President of the Russian Federation (RF), the Donetsk People's Republic and the Luhansk People's Republic were recognized as independent states. On 24 February 2022, the Ministry of Defense of the Russian Federation announced a "special military operation" on the territory of the Republic of Ukraine. The hostilities received widespread international condemnation, and many countries imposed sanctions on assets and operations owned by the Russian state and certain individuals. The invasion initiated a refugee crisis among Ukrainian citizens. Due to Russia's invasion to Ukraine and the complicated situation, the United States and the European Union imposed a package of sanctions on the Russian Federation in response to the unprecedented military attack. The measures aim to impose economic and political burdens, namely individual sanctions, economic, diplomatic measures, restrictions on the media, etc. Economic sanctions include restricting the access of some Russian banks and companies to primary and secondary capital markets in the EU, a ban on the export of dual-use goods, restricting Russia's access to certain sensitive technologies and services, excluding certain banks from the international SWIFT system, etc. The Russian ruble (RUB) began to depreciate in the days after 24 February 2022 and from 95.71 rubles per Euro reached 117.20 rubles per Euro on 01 March 2022 according to the exchange rate of the European Central Bank. Since that date, the bank stopped publishing the RUB / EUR reference rate.

The economic consequences of the military conflict in Ukraine cannot be accurately quantified, but they are already indicating extremely serious effects on the overall global economy. Energy and raw material prices have risen significantly, further exacerbating inflationary pressures from supply chain disruptions and the recovery from the Covid-19 pandemic. Price shocks are expected to have an impact on a global scale. If the conflict continues to be unresolved and continues for a longer period of time, the economic damage will be significant and is expected to affect all sectors of the economy, both Bulgaria and the EU. The IMF noted that sanctions against Russia are affecting the global economy and financial markets, and will have significant side effects in other countries. The Russian counterparty of the Company and its servicing banks are not included in the EU sanctions lists against Russia and do not pose a direct threat to the receipt and payment of goods and services under the terms of the current agreement.

Fuel and natural gas prices have skyrocketed following the sanctions imposed to the Russian Federation, and traders are preparing for disruptions in supplies from Russia and Ukraine, through which Russian gas passes. There are also concerns that removing large Russian banks from the SWIFT payment system could make it more difficult to buy Russian gas and oil. This is creating tensions for many in Europe, which receives more than 1/3 of its natural gas and 1/4 of its oil from Russia.

Russia's invasion risks ruining the global economic recovery after the pandemic, complicating the situation for politicians expected to control inflation, which is now the highest since decades in countries such as the United States and Germany. Gas markets in Europe are very dynamic and in recent days the price of raw materials has been rising against the background of Russia's demand for payment in rubles.

This event is expected to have a significant, direct effect on the activities of Bulgargaz EAD as the main supplier of natural gas to the Company so far is the Russian company Gazprom Export. The main risk at the date of adoption of these financial statements is related to ensuring the continuity and security of natural gas supplies. Despite the existence of a valid, effective gas supply contract with a term until 31 December 2022 and strict compliance with the terms of the contract by Bulgargaz EAD, the supplier Gazprom Export OOO sent a letter of notification that the supply of natural gas will be suspended as of 27 April 2022.

The Bulgarian party has fully fulfilled its obligations and has made all payments required under the contract for the supply of natural gas with Gazprom Export OOO, in a timely manner, strictly and in accordance with its clauses. After an analysis by the management of the Company and the Bulgarian Energy Holding, it was found that the new two-stage payment procedure proposed by Russia is not in accordance with the existing contract until the end of 2022 and poses significant risks for Bulgaria, including to make payments without receiving any gas supplies from the Russian party. The proposed mechanism implies real risks for the Bulgarian party from unilateral and uncontrolled suspension of supplies without providing the appropriate opportunity to seek liability from the Russian supplier. The new method of payment is set as a process that includes control over the financial assets of Bulgargaz EAD, intended for payment of supplies under the contract, to be controlled by a financial institution related to Gazprom Export, and not by an independent third party. In order to limit the consequences of the actions of Gazprom Export, Bulgargaz EAD has taken all necessary actions, not contrary to

Bulgarian legislation, to ensure the integrity of the country's gas transmission system and continuity of supply to Bulgarian domestic and industrial consumers.

The Ministry of Energy, the Bulgarian Energy Holding, Bulgargaz and Bulgartransgaz, with the support of the Bulgarian authorities, have taken steps to make alternative arrangements for the supply of natural gas from alternative sources by using the supply opportunities of the existing transmission infrastructure, and to face the situation occurred. Currently, talks are underway between representatives of the Bulgarian government and the European Commission to form a unified strategy and approach for all affected European countries and to ensure long-term more stable contracts at better prices. A commitment has been made at intergovernmental and pan-European level to provide the necessary volume of natural gas needed to meet local consumption. In this regard, Bulgargaz EAD will continue to play a key role in ensuring the supply of natural gas for end users and district heating companies. Apart from the support provided by BEH EAD and taking into account the importance of the Company as a public supplier of natural gas, the Government of the Republic of Bulgaria considers the activities of Bulgargaz EAD as one of the tools for implementing its policies to prevent disruptions in supply for the consumers in the country. In this regard, the Government and the Ministry of Energy, with the participation and assistance of Bulgargaz EAD, as well as at the EU level, have taken measures to start negotiations for negotiating quantities of natural gas from various sources, including through concluding centralized supply contracts at EU level, thus diversifying suppliers and supply routes on the one hand in order to ensure customers' energy consumption and, on the other hand, ensuring security and continuity of gas supplies.

As an immediate response, Bulgargaz EAD sent a written request to natural gas traders operating on the Bulgarian and regional gas markets to submit quotes that include specific conditions for the supply of natural gas by the end of April and for May 2022. Inquiries regarding the possibility of supplying natural gas in volumes necessary to satisfy the consumption of the Bulgarian consumers after the termination of the supplies under the long-term contract with OOO Gazprom Export were sent to 12 active traders in Bulgaria and neighboring countries, as part of the invited companies informed that they are not able to submit proposals for the specified period. After an analysis of the submitted proposals, seven quotes from three suppliers were ranked according to the criterion "lowest delivery price". The ranking of the quotes was done according to the conditions set by Bulgargaz EAD and until the necessary quantities are provided, in order to fulfill the binding requests submitted by the Bulgarian clients for May 2022 and to guarantee the security and continuity of supplied. In April 2022, Bulgargaz EAD realized transactions for the purchase of quantities on the organized stock market in the country.

At present, no restrictive measures are required for consumption in Bulgaria.

As the situation is extremely dynamic, the Company's management is not able to reliably assess the quantitative impact of the war on the future financial position and the results of its activities in 2022. This in turn could lead to a change in the carrying amounts of the Company's assets, which are identified in the financial statements in making a number of judgments and assumptions by management and reporting the most reliable information available at the date of estimates, as well as to influence the forecasts for future development, the cash flows and results of operations of the Company.

36. DISCLOSURE ACCORDING TO LEGAL REQUIREMENTS

These financial statements have been audited by the audit firm Grant Thornton LTD and the audit firm Zaharinova Nexia EOOD, on the basis of a contract concluded between Bulgarian Energy Holding EAD and DZZD Audit BEH.

The consolidated financial statements of Bulgarian Energy Holding EAD include disclosure of accrued amounts for services provided by the registered statutory auditors for an independent financial audit. During the period the registered statutory auditors did not provide any other services.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements as at 31 December 2021 (including comparatives) were approved for issuance by the Board of Directors on 27 April 2022.

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INDEPENDENT AUDITOR'S REPORT

To the sole shareholder of
BULGARGAZ EAD
Sofia
47 Petar Parchevich str.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bulgargaz EAD (the Company), which comprise the statement of financial position as at 31 December 2021 and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU and Bulgarian legislation.

Basis for Opinion

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 Financial Statements" section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independent Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code), together with the ethical requirements of Bulgarian Independent Financial Audit Act, and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to note 35. Post-reporting period events, which discloses detailed information about non-adjusting events that have a direct effect on the Company's activities related to public supply of natural gas in the Republic of Bulgaria. Since the end of February 2022, there has been a geopolitical crisis as a result of the military conflict between Ukraine and the Russian Federation. The hostilities received widespread international condemnation, and many countries imposed sanctions on assets and operations owned by the Russian Federation and certain individuals. The economic consequences of the military conflict in Ukraine are difficult to be quantified, but they are already indicating extremely serious effects on the global economy as a whole. Energy and raw material prices have risen significantly, further exacerbating inflationary pressures from supply chain disruptions and the recovery from the Covid-19 pandemic. The main supplier of natural gas to Bulgargaz EAD is the Russian company OOO Gazprom Export, on whose behalf a notification was received for the suspension of natural gas supplies, as of April 27, 2022.
This event potentially exposes Bulgargaz EAD to a risk related to ensuring the continuity of natural gas supplies. The future activity of the Company as a public supplier of natural gas depends directly on the business environment, regulatory requirements, the existence of valid contracts to ensure the supply of natural gas according to consumption needs, availability of contracts for the sale of natural gas to customers, as well as from maintaining the necessary financial stability, ensuring the continuity of the activity. The management of the Company, with the support of the sole owner Bulgarian Energy Holding EAD, as well as the Bulgarian government make all possible efforts and take the necessary measures and actions to reach agreements for natural gas supply from alternative sources by using supply opportunities on existing transmission infrastructure , so as to guarantee the security and continuity of natural gas supplies and, accordingly, the function of Bulgargaz EAD as a major public supplier of natural gas, without imposing restrictive measures on consumption on the territory of the country.
The actions are related to close communication between representatives of the Bulgarian government and the European Commission to build a unified strategy and approach for all affected European countries as well as to

ensure long-term more stable contracts at better prices. A commitment has been made at intergovernmental and European level to provide the necessary volume of natural gas needed to meet local consumption.

Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th colspan="2">Determining the expected credit losses on trade receivables</th></tr>
<tr><th colspan="2">Notes 5.1. Key accounting estimates and assumptions with high uncertainty. Impairment of financial assets, 4.1.2. Credit risk management and 11. Trade and other receivables</th></tr>
<tr><th>Key audit matter</th><th>How this matter was addressed during the audit</th></tr>
<tr><td>The assessment of financial receivables is among the most significant for the financial statements of the Company, as they require significant judgments and key assumptions by the management of the Company in applying the adopted model for calculating expected credit losses.

The models used are based on the probability of default and the expected amount of loss given default. The input data for the models, calculation methods and their application depend to some extent on the subjective judgment of the management of the Company. When calculating the expected credit losses, the Company's management is required to apply its critical review and analysis of the main assumptions and assessments related to the financial condition of the counterparties, their behaviour in relation to the agreements with the Company, including based on historical data of non-compliance, industry-level modelling referred to relevant specific or additional risks.
As disclosed in Note 11 to the financial statements, the Company's trade and other financial receivables as of December 31, 2021 are in gross amount before impairment of BGN 407 774 thousand and adjustment for impairment losses in the amount of BGN 212 189 thousand. The net book value of the financial receivables of the Company as of December 31, 2021 is BGN 195 585 thousand and represents 33% of the total assets as of that date.

Note 5.1. Impairment of financial assets to the financial statements presents detailed information about the assessments and assumptions of the management of the Company in the formation of the expected credit losses from impairment as of 31.12.2021 of financial receivables, subsequently reported at amortized cost.

Due to the importance of the assessments, as well as taking into account the uncertainties of the business environment, incl. the continuing effect of the deteriorating economic situation for some particular industries, we identified the valuation of financial assets subsequently carried at amortized cost at the reporting date as a key audit matter.</td><td>During our audit, our audit procedures included, but were not limited to:
- analysis of the adequacy of policies and procedures related to classification, subsequent reporting and monitoring in terms of their compliance with IFRS 9 and good practices in the field;
- review and assessment of whether there are factors indicating a significant increase in credit risk related to financial receivables at amortized cost;
- examining inquiries into the extent to which the negative impact on a number of sectors of the economy as a result of the Covid-19 pandemic and the ensuing energy price crisis and the observability of external data used by the Company made it difficult for management to assess
- determining the necessary impairment on an individual basis by testing specific receivables and performing tests of the details as part of the substantive procedures regarding their classification and value;
- applying professional judgment to analyse and evaluate the key assumptions used in applying the expected credit loss models and calculating impairments for trade and other receivables;
- analysis of the financial position of a sample of clients and other debtors of the Company and examination of whether there are deviations in compliance with the contractual terms;
- analysis of the age structure of trade receivables from customers and examination of the reasons for delays and difficulties with payments;
- analytical procedures for calculating key indicators for the turnover of receivables in previous and current years, as well as after the end of the reporting period;
- review of primary documents regarding facts and circumstances related to the collection of receivables and the ability of the client to generate cash flows;
- assessment of the adequacy of the disclosures in the financial statements, including the disclosures of the main assumptions, judgments, sensitivity and exposure of the Company to credit risk..</td></tr>
</table>

Other matters

The financial statements of the Company for the year ended 31 December 2020 have been audited by another auditor, who expressed an unmodified opinion on those statements on 21 April 2021.

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

Management is responsible for the other information. The other information comprises the annual management report, including the corporate governance statement, prepared in accordance with Bulgarian Accountancy Act, but does not include the financial statements and our auditor's report thereon..

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or whether our knowledge obtained in the audit may indicate that there is a material misstatement or otherwise the other information 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. We have nothing to report in this regard

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

In accordance with International Financial Reporting Standards (IFRS), as adopted by the EU Bulgarian legislation, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 and Bulgarian Independent Financial Audit Act 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 financial statements.

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

- identify and assess the risks of material misstatement of the 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 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 financial statements, including the disclosures, and whether the 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 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.

We are jointly liable for the performance of our joint audit and the issued joint auditors' opinion in accordance with the requirements of Bulgarian Independent Financial Audit Act. Upon acceptance and performance of the joint audit engagement on which we report, we have complied with the "Guidelines on performance of joint audit" issued by Bulgarian Institute of Certified Public Accountants and Bulgarian Commission for Public Oversight of Statutory Auditors on 13th of June 2017.

Report on Other Legal and Regulatory Requirements

In addition to our responsibilities for reporting under ISAs, described above in section "Information Other than the Financial Statements and Auditor's Report Thereon", regarding annual management report, including the corporate governance statement, we have performed the additional procedures contained in the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). The procedures on the existence, form and contents of the other information have been carried out in order to state whether the other information includes the elements and disclosures in accordance with Chapter Seven of Bulgarian Accountancy Act and Article 100n, paragraph (7), subparagraph (2) of Bulgarian Public Offering of Securities Act, as well as Article 29 of Public Companies Act, applicable in Bulgaria.

Statement Pursuant to Article 37, Paragraph (6) of Bulgarian Accountancy Act

Based on the procedures performed, we describe the outcome of our work:

(a) the information in the management report is consistent with the financial statements for the same reporting period;
(b) the management report is prepared in accordance with the applicable legal requirements;
(c) as a result of the acquired knowledge and understanding of the activities of the Company and the environment in which it operates, we have found no cases of material misrepresentation in the management report;
(d) the corporate governance statement for the financial year contains the required information in accordance with the applicable legal requirements, including Article 100m, paragraph (8) of Bulgarian Public Offering of Securities Act;

Reporting Pursuant to Article 59 of Bulgarian Independent Financial Audit Act in relation to Article 10 of Regulation (EC) № 537/2014

In accordance with the requirements of Bulgarian Independent Financial Audit Act and in relation with Article 10 of Regulation (EC) № 537/2014, we report additionally the information as follows:

– Grant Thornton OOD and Zaharinova Nexia EOOD, as participants in the association DZZD AUDIT BEH have been appointed statutory auditors of the financial statements of Bulgargaz EAD for the year ending December 31, 2021 by the sole shareholder on December 15, 2020, for a period of three years.
– The audit of the financial statements for the year ended 31 December 2021 of the Company is the first consecutive year of continuous commitment for mandatory audit of this company, performed by each of the joint auditors Grant Thornton OOD and Zaharinova Nexia EOOD.

- In support of our audit opinion, we have provided a description of the most significant assessed risks of material misstatement, a summary of the auditor's response and where relevant, key observations arising with respect to those risks in the section „Key audit matters" of this report.
- We confirm that our audit opinion is consistent with the additional report to the audit committee, which was provided in accordance with Article 60 of Bulgarian Independent Financial Audit Act.
- We declare that prohibited non-audit services referred to in Article 64 of Bulgarian Independent Financial Audit Act were not provided.
- We confirm that we remained independent of the Company in conducting the audit.
- For the period covered by our statutory audit, in addition to the audit, we have not provided other services to the Company.

Grant Thornton OOD
Audit firm №032
Mariy Apostolov MARIY GEORGIEV APOSTOLOV Digitally signed by MARIY GEORGIEV APOSTOLOV Date: 2022.06.01 11:31:17 +03'00'
Managing partner

Emilia Marinova EMILIYA GEORGIEVA MARINOVA-LALEVA Digitally signed by EMILIYA GEORGIEVA MARINOVA-LALEVA Date: 2022.06.01 11:24:55 +03'00'
Registered auditor responsible for the audit

Zaharinova Nexia EOOD
Audit firm №138
Dimitrina Zaharinova Dimitrina Dimitrova Zaharinova Digitally signed by Dimitrina Dimitrova Zaharinova Date: 2022.06.01 11:52:48 +03'00'
Managing Partner

Stoycho Milev Stoycho Kirilov Milev Digitally signed by Stoycho Kirilov Milev Date: 2022.06.01 11:48:12 +03'00'
Registered auditor responsible for the audit

18 May, 2022
Sofia, Bulgaria