BULGARGAZ EAD

ANNUAL MANAGEMENT REPORT
ANNUAL FINANCIAL STATEMENTS
INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2020

CONTENTS

This Management Report of Bulgargaz EAD for 2020 presents comments on and analysis of financial statements and other important information as regards to the financial position and results of the Company's activity for the period 1 January 2020 – 31 December 2020.

This report has been made pursuant to Article 39 of the Law on Accountancy, Article 187d, Article 247, paragraphs 1, 2 and 3 of the Commercial Law and Article 100(n), para 7, p. 2 of the Law on Public Offering of Securities.

I. COMPANY OVERVIEW

Bulgargaz EAD is a sole shareholder joint stock trading company, registered under the requirements of the Commercial Act, with seat and registered office: Republic of Bulgaria, Sofia District, Sofia Municipality, 1000 Sofia, Serdika Administrative Region, 47, Petar Parchevich Street.

The registered capital is distributed in 231 698 584 registered shares. The Company's capital is recorded and paid in by Bulgarian Energy Holding EAD. All shares have a par value of BGN 1.00. The shares of the Company are ordinary, registered, non-privileged shares with the right to vote. The state owns 100% of the registered capital of Bulgarian Energy Holding EAD.

Bulgargaz EAD's main line of activity is public supply of natural gas and related sales and purchase thereof.

Bulgargaz EAD has a public gas supply license on the territory of the country issued by the state Energy and Water Regulatory Commission (EWRC) on 29.11.2006 for a period of 35 years.

The normative acts specific to the Company's activities are: Energy Law; Ordinance No.3 of 2013 on licensing of activities in the energy sector; Ordinance No 2 of 2013 on natural gas price regulation; Rules for trade in natural gas; Regulation No 994/2010 of the European Parliament and of the Council concerning measures to ensure security of gas supply and repealing Directive 2004/64/EC.

On the basis of the Methodology adopted by the 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 entry-exit tariff model in accordance with the same methodology, as from 01.10.2017, the prices for access to and transmission through the gas transmission networks are set in BGN/MWh. Bulgargaz EAD and Bulgartransgaz EAD entered into a contract for access and transmission of natural gas through the gas networks of Bulgartransgaz EAD and a contract for purchase and sale of natural gas for balancing.

1. COMPANY STRUCTURE

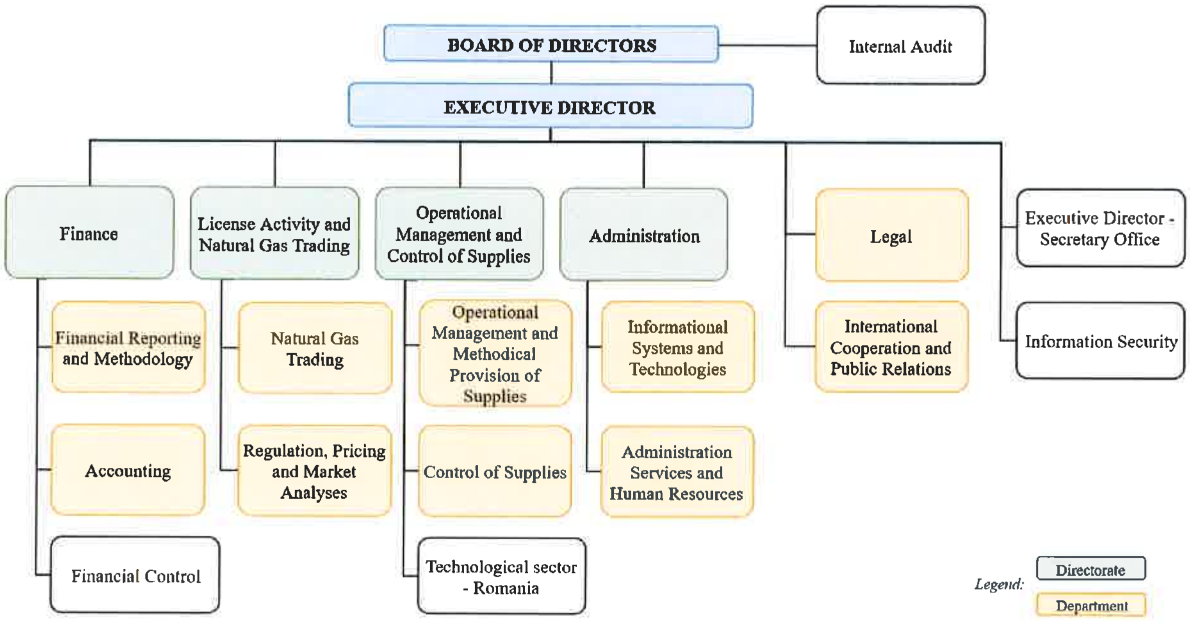
Bulgargaz EAD has one-tier system of management. The Company management bodies are:

- The Sole owner of the capital empowered to make decisions referred to the competence of the General Meeting;
- Board of Directors (BoD).

As of 31.12.2020, the composition of the Board of Directors is as follows:

Petyo Angelov Ivanov	Chairman of the BoD
Iliyan Kirilov Dukov	Member of the BoD
Nikolay Angelov Pavlov	Member of the BoD and Executive Director

BULGARGAZ EAD`S ORGANISATIONAL STRUCTURE



2. RESPONSIBILITY OF COMPANY'S MANAGEMENT

The Management confirms that adequate accounting policy has been applied during the preparation of the financial statements for 2020, and that the latter have been prepared based on a going concern principle.

The Company's management is responsible for keeping proper accounting records, for the expedient management of assets and for undertaking the necessary actions for prevention and detection of possible fraud and other irregularities.

3. INFORMATION REGARDING COMPANY SHARES' ACQUISITION AND OWNERSHIP BY MEMBERS OF THE BOARD OF DIRECTORS

BoD members do not own Company shares. There are no privileges and exclusive rights regarding shares and bonds acquisition foreseen for BoD members. BEH EAD owns 100% of the shares.

Information regarding BoD members shares in commercial companies as unlimited liability partners, possession of more than 25% of other companies' equity, as well as their participation in the management of other companies or co-operations as procurators, managers or Board members (pursuant to the requirements of Art.247, paragraph 2, item 4 of the Commercial Law) is as follows:

Petyo Angelov Ivanov - Chairman of the Board of Directors, Member of the BoD from 01.09.2018:

- does not participate as an unlimited liability partner in trade companies;
- does not own more than 25% of equity in commercial companies;
- does not participate in the management of other companies or co-operations as procurators, managers or Board members.

Iliyan Kirilov Dukov – Member of the BoD as of 06.01.2015:

- does not participate as an unlimited liability partner in trade companies;
- owns more than 25% of the equity of Yapi Investments OOD, Lift Corp OOD, Nilis OOD, Imokorp EOOD and Inmax EOOD;
- participates in the management of Nilis OOD, Imocorp EOOD and Inmax EOOD as a Manager.

Nikolay Angelov Pavlov – Executive Director, Member of the BoD from 22.05.2017:

- does not participate as an unlimited liability partner in trade companies;
- does not own more than 25% of equity in commercial companies;

- does not participate in the management of other companies or co-operations as procurator, manager or member of BoD.

4. INFORMATION ABOUT CONTRACTS UNDER ARTICLE 240Б OF THE COMMERCIAL ACT CONCLUDED THROUGH THE YEAR

As of 31.12.2020, the Board of Directors or other persons related to them have not entered into any contracts pursuant to Article 240B of the Commercial Act on behalf of the Company which go beyond its normal business or substantially deviate from the market conditions.

II. COMPANY ACTIVITY RESULTS FOR YEAR 2020

In 2020, Bulgargaz EAD carried out its activities in compliance with all regulatory provisions. The Company's result after taxation is profit in the amount of BGN 39 657 thousand (as of 31.12.2019: profit amounting to BGN 34 429 thousand).

1. GENERAL FACTORS AFFECTING COMPANY'S ACTIVITIES

The activity of Bulgargaz EAD as public supply of natural gas is regulated by the Energy Law and secondary legislation.

The Law on the Amendment of the Energy Law promulgated in the State Gazette, Issue 79, 2019 established an organized stock market and laid down the provisions for its functioning and the role of market participants.

As of 01.12.2019, a new obligation for Bulgargaz EAD was created to annually offer for sale on the organized stock market certain quantities of natural gas according to an exemption program covered by Art.176a of EA.

The Amendment of Art. 30, para 1, p. 7 of the Energy Law promulgated in the State Gazette, Issue 79, 2019 substantially narrows the circle of persons to whom Bulgargaz EAD sells natural gas at a regulated price. Taking effect as from 01.01.2020, this Amendment provides that Bulgargaz EAD, as a public supplier, sell natural gas at regulated prices only to:

(i) End suppliers of natural gas;

(ii) Persons possessing a license for generation and transmission of heat energy.

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

For 2020, Bulgargaz EAD as a Public supplier had contracts for the delivery of natural gas at regulated prices with customers connected to gas transmission network who were not licensed for generation and transmission of heat energy or end suppliers, respectively. These Contracts were concluded before the entry into force of the Law on the Amendment of the Energy Law.

According to Bulgarian legislation, laws including their amendments and supplements do not have retroactive force. Lack of explicit texts in the transitional and final provisions of the Law on the Amendment of the Energy Law concerning the existing contracts with customers who, after the enactment of the Law on the Amendment of the Energy Law, do not meet the requirements Art. 30, para 1, point 7, leads to the conclusion that these contracts will remain in force in the future.

It is permissible for the price to be determinable, including by reference to the public supply price proposed by Bulgargaz EAD for approval by the EWRC.

In order to ensure a level playing field between the Company's customers, Bulgargaz EAD applied a single approach to the formation of prices in which supplies natural gas on the regulated market and, accordingly, the prices under the contracts initially concluded under the conditions of regulated prices and after the enactment of the Law on the Amendments of the Energy Law should be implemented at freely negotiated prices

In view of ensuring the equality among the Company's customers, Bulgargaz EAD applies a single approach to the formation of prices at which it delivers natural gas to the regulated market and, accordingly, the prices under the Contracts which have been initially concluded under the conditions of regulated prices and after the entry into force of the SA of EA should be implemented at freely negotiated prices.

In order to ensure a smooth transition and to protect the interests of both parties to the maximum extent, Bulgargaz EAD proposed to its customers that the formation of the sales prices under the Contracts be carried out in accordance with the provisions of Ordinance No. 2 of 19 March 2013 on the regulation of natural gas prices.

2. QUANTITATIVE INDICATORS

2.1 Purchased and sold natural gas volumes

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

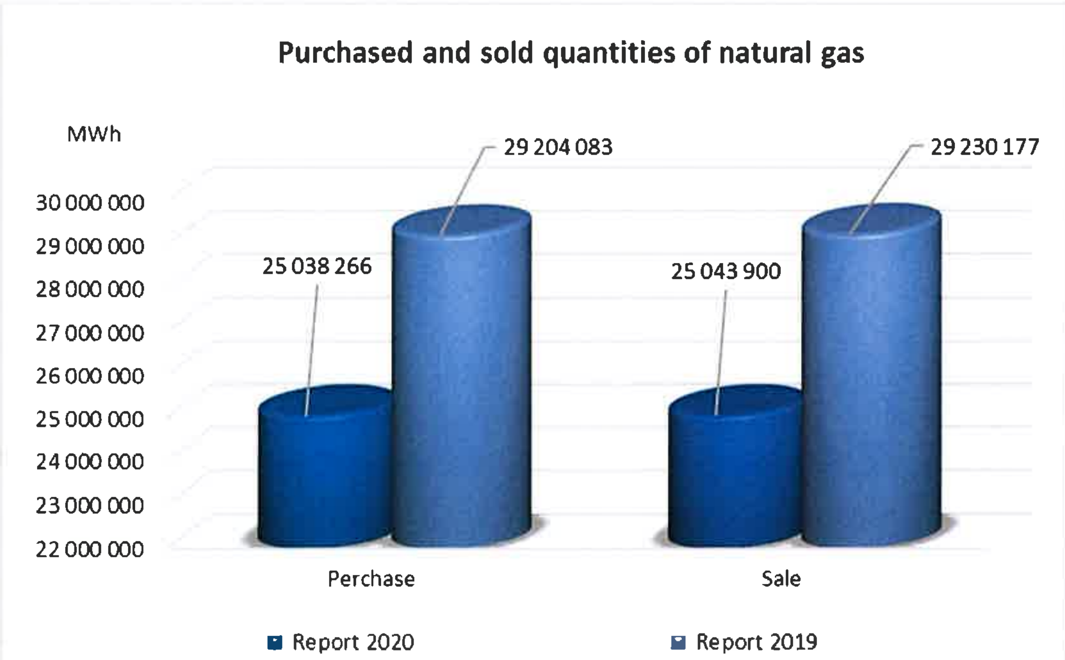
As a result of successful negotiations and agreements signed on 29 December2020, gas deliveries from Azerbaijan under the 2013 contract started on 31 December 2020. According to the signed agreements Bulgargaz EAD started receiving these deliveries at a temporary delivery point in Greece and transporting them through the Greek gas transmission network to the Bulgarian border.

In 2020, Bulgargaz EAD purchased quantities of natural gas under short-term contracts with alternative suppliers.

The purchased and sold quantities of natural gas as of 31.12.2020 compared to 31.12.2019 are presented in table No.1:

Table No.1 *MWh*

Type of delivery	Unit	Report 2020	Report 2019	Change in quantities	Change in (%)
Purchase	MWh	25 038 266	29 204 083	(4 165 817)	(14,26%)
Sale	MWh	25 043 900	29 230 177	(4 186 277)	(14,32%)



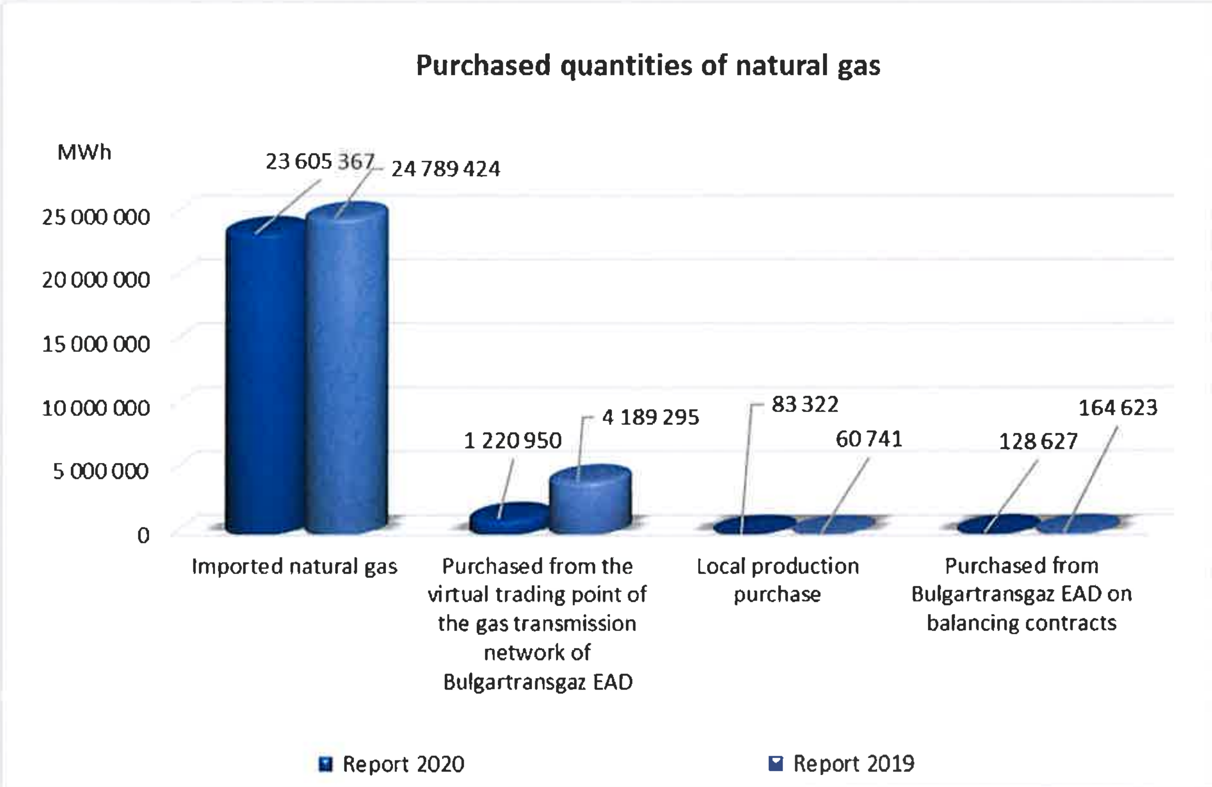
Total gas purchases during the reporting period were 25 038 266 MWh (2019: 29 204 083 MWh), a decrease of 4 165 817 MWh or 14,26%. Gas volumes sold were 25 043 900 MWh compared to 29 230 177 MWh in 2019, a decrease of 4 186 277 MWh or 14,32%. The decrease in sales was mainly due to lower consumption in the Chemicals Glass & Porcelain, Power and Distribution sectors due to the occurrence of exceptional circumstances and restrictive measures imposed in relation to the COVID-19 coronavirus pandemic.

2.2. Purchased natural gas volumes

The delivered natural gas volumes in 2020 and 2019 are presented in Table No.2:

Table No.2 *MWh*

	Report 2020	Report 2019	Change in the quantities	Change in (%)
TOTAL for the year	**25 038 266**	**29 204 083**	**(4 165 817)**	**(14,26%)**
Imported natural gas	**23 605 367**	**24 789 424**	**(1 184 057)**	**(4,78%)**
Purchased from the virtual trading point of the gas transmission network of Bulgartransgaz EAD	**1 220 950**	**4 189 295**	**(2 968 345)**	**(70,86%)**
Local production purchase	**83 322**	**60 741**	**22 581**	**37,18%**
Purchased from Bulgartransgaz EAD on balancing contracts	**128 627**	**164 623**	**(35 996)**	**(21,87%)**



In order to ensure the natural gas needs of its customers in 2020, Bulgargaz EAD purchased 25 038 266 MWh of natural gas (31.12.2019: 29 204 083 MWh). The quantities of natural gas purchased from imports as of 31.12.2020 amounted to 23 605 367 MWh (31.12.2019: 24 789 424 MWh), the quantities purchased from domestic production amounted to 83 322 MWh, as well as the purchase of natural gas from Bulgartransgaz EAD under system balancing contracts amounted to 128 627 MWh.

2.3. Natural gas production and gathering

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

The quantities of natural gas produced and gathered at Chiren UGS in 2020 and 2019 are presented in Table No. 3.

Table No.3 *MWh*

Production and gathering	Report 2020	Report 2019	Change MWh	Change %
Quantities available at the beginning of the period	**2 329 714**	**2 284 130**	**45 584**	**2,00%**
Production	2 510 047	3 403 640	(893 593)	(26,25%)
Injection	2 501 067	3 449 373	(948 306)	(27,49%)
Difference in restatement of inventories, production and injection at Chiren UGS	(2 066)	149	(2 215)	(1 486,58%)
Quantities available at the end of the period	**2 322 800**	**2 329 714**	**(6 914)**	**(0,30%)**

Natural gas production in 2020 was 2 510 047 MWh, down 893 593 MWh (26.25%) from 3 403 640 MWh in 2019. The quantities of stored natural gas as of 31.12.2020 were 2 501 067 MWh, which is a decrease by 948 306 MWh (27,49%), compared to 2019, when they were 3 449 373 MWh.

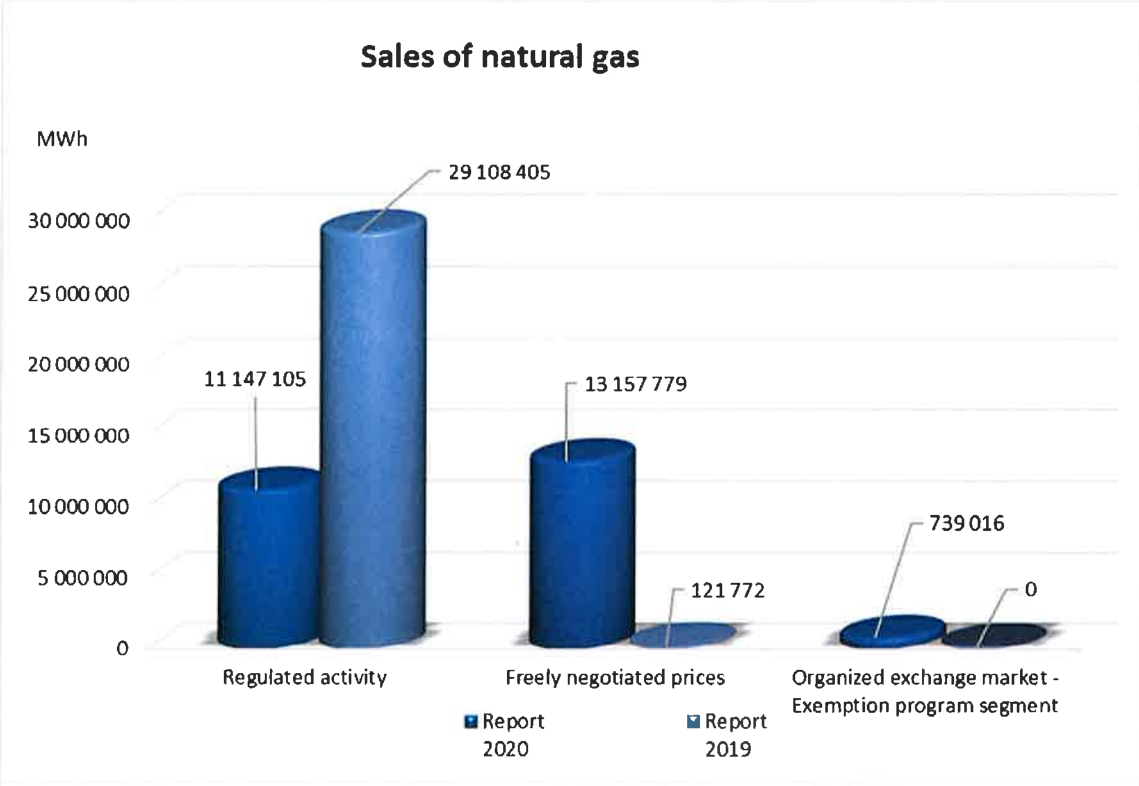
III. NATURAL GAS SALES

1. Sales

Bulgargas EAD ensures reliable supply of natural gas to its customers in the country in accordance with the contractual requirements. As of 31.12.2020, 25 043 900 MWh of natural gas were sold, which represents a decrease by 4 186 277 MWh or 14.32% compared to the quantities sold in 2019 – 29 230 177 MWh. Sales volume of natural gas for the period are represented in Table No. 4:

Table No.4 *MWh*

Sales	Report 2020	Report 2019
Regulated activity	11 147 105	29 108 405
Freely negotiated prices	13 157 779	121 772
Organized exchange market - Exemption program segment	739 016	-
Total	**25 043 900**	**29 230 177**



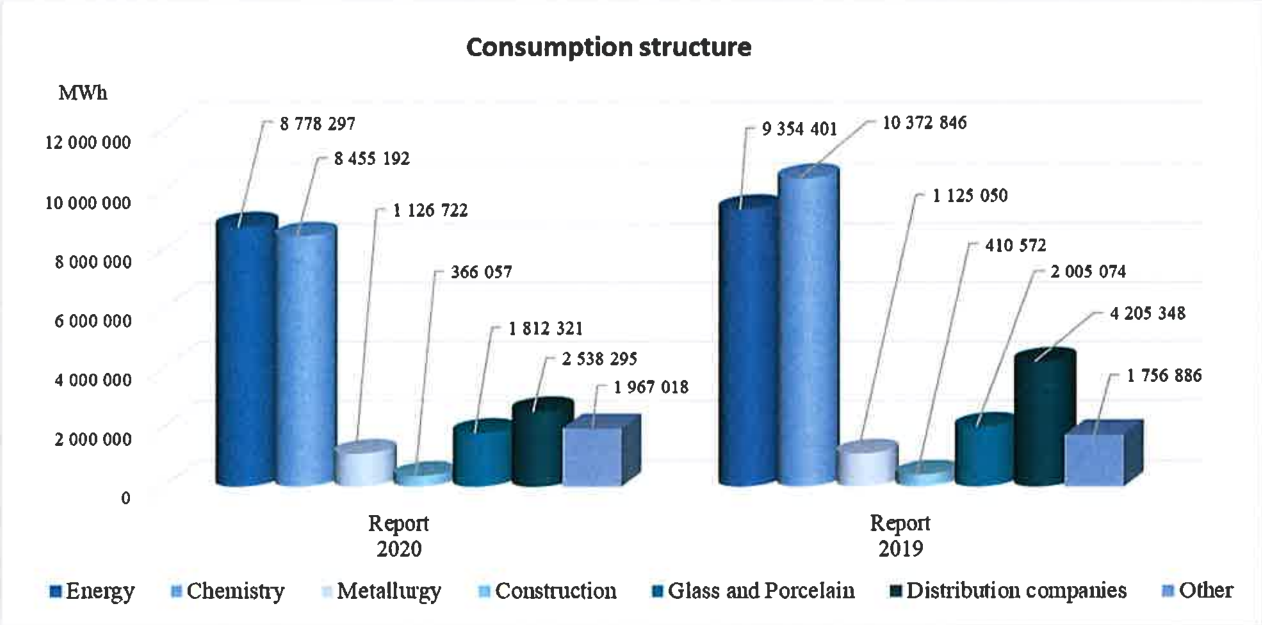
2. Sales structure

The volume of natural gas sold to customers of the Company by main sectors of economy for 2020 and 2019 are presented in Table No.5.

Table No.5 *MWh*

Sector	Report 2020	Report 2019	Change in the quantities	Change in (%)
Energy	8 778 297	9 354 401	(576 104)	(6,16%)
Chemistry	8 455 192	10 372 846	(1 917 654)	(18,49%)
Metallurgy	1 126 722	1 125 050	1 672	0,15%
Construction	366 057	410 572	(44 515)	(10,84%)
Glass and Porcelain	1 812 321	2 005 074	(192 753)	(9,61%)
Distribution companies	2 538 295	4 205 348	(1 667 053)	(39,64%)
Other	1 967 018	1 756 886	210 132	11,96%
Total	**25 043 902**	**29 230 177**	**(4 186 275)**	**(14,32%)**

As of December 31 2020 sales compared to those as of December 31 2019 decreased by 4 186 275 MWh or 14.32%. This is the result of lower consumption by customers mainly from the Chemical Glass and Porcelain Energy and Distribution sectors.



The data in Table No. 5 and in the chart above outline the tendency in the consumption structure of natural gas as follows:

✓ major consumers of natural gas remain the energy and chemical industries;

✓ decreased natural gas sales in 2020 compared to 2019 are due to decreased customer consumption as a result of the COVID-19 pandemic and imposed restrictive measures.

IV. RISK FACTORS

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

The following risks have been identified in the Company's operations:

1. Regulatory/Price risk

The specificity of the activity of Bulgargas EAD stems from the fact that the Company is a Public Supplier of natural gas. The Company purchases natural gas at market prices realizing part of the purchased quantities at regulated prices. The discrepancy between the purchase price and the selling price poses risks for the Company in the performance of its functional obligations. In cases where regulated prices are set lower than delivered prices sales revenues would not be sufficient to cover the actual costs of purchasing natural gas and the Company would experience difficulties in paying its obligations to suppliers.

2. Currency exchange risk

Currency risk relates to changes in foreign currencies' exchange rates that lead to profit/loss realization resulting from the revaluation of assets in foreign currency.

The main risk for Bulgargaz EAD arises out from the necessity to purchase natural gas in USD and sell it in BGN. Thus the Company is exposed at risk of exchange rate fluctuations. The approved marginal price set by the EWRC for each regulatory period is determined at a fixed USD-BGN exchange rate averaged over the 45 day period preceding the month of submission of the application for approval of the EWRC sale price for the next price period. The Company is also at risk of realizing a revaluation loss on its currency exposures due to the dynamic movement of the USD exchange rate.

3. Credit risk

The credit risk for the Company stems from the receivables from customers and the risk of financial loss in cases when a customer does not fulfill its contractual obligations to pay for the gas. The Company's main customers of are heating companies having difficulties in collecting their receivables and experiencing serious obstacles to discharge their liabilities on due dates. The Company conducts continuous monitoring and analysis of its receivables observes its clients conduct and considers in details its main debtors' activities. The Company enters into deferred payment agreements with some clients facing difficulties to discharge their current liabilities. An extreme measure to resort to is natural gas delivery suspension and collection of its claims through the court.

4. Liquidity risk

Liquidity risk occurs when the Company is not able to meet its current financial obligations and commitments. They are presented in short-term liabilities of the Company namely payment liabilities for transmission and storage liabilities towards the State in the form of taxes and excise duties liabilities under commercial loans and regular payments related to operational activity. Short-term liabilities require a careful planning of all cash flows based on monthly forecasts.

V. STRATEGIC AND MARKET OBJECTIVE

The development of the Company is linked to the implementation of strategic and market objectives.

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

Bulgargaz EAD's market objectives are related to entering other gas markets.

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

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 i.e. statement of profit or loss and other comprehensive income and cash flow statement as at 31.12.2020 compared to the same period in 2019 as well as statement of the financial position of the Company as at 31.12.2020 compared to that as at 31.12.2019.

On 02.03.2020 after successful negotiations Bulgargaz EAD and Gazprom Export signed an Amendment to the Natural Gas Supply Contract.

The Amendment regulates the new method of pricing and reimbursement of the overpaid amounts from Bulgargaz EAD for gas supply for the negotiation period.

The same rule applies to Bulgargaz EAD as the EC applies to Gazprom - a company with a dominant position is not allowed to retain revenues from non-market prices and the difference to market levels is refunded to consumers. As the only public supplier and dominant company on the Bulgarian market Bulgargaz EAD is not allowed to enrich itself from non-market prices of Russian gas at the expense of its customers. Having been compensated for the negotiation period by Gazprom Export for overpayments Bulgargaz EAD should compensate its customers who have borne the brunt of high prices for the same period. Failure to compensate Bulgargaz EAD's customers would result in the non-application of the Gazprom Commitments and a breach of the law - in effect Gazprom's abuse would be transformed into an abuse of a dominant position at national level for which Bulgargaz EAD would be liable. On 14.04.2020 the Law for the Amendment of the Energy Law was adopted establishing a mechanism for refunding Bulgargaz EAD customers who purchased natural gas at regulated prices in the period from 5 August 2019 to 31 March 2020.

A decision of the Council of Ministers of June 2020 regulated the terms and conditions for the refund of Bulgargaz EAD customers who purchased natural gas at freely negotiated prices in the period from 5 August

2019 to 31 March 2020. The retroactive implementation of the new price mechanism led to differences in sales prices of Bulgargaz EAD by months for the period 05.08.2019 - 31.03.2020 and the formation of an estimated amount of 201.7 million BGN including VAT which was refunded to the Company's customers.

On 31.12.2020 natural gas supplies from Azerbaijan were successfully commenced. Taking into account the delay in the construction of the IGB project Bulgargaz EAD negotiated a temporary delivery point in Greece with gas volumes being transported to the Bulgarian border via the gas transmission network of the Greek operator DESFA.

VII. MAIN FINANCIAL INDICATORS

The main financial and economic results of the Company's activities for 2020 and 2019 are presented as follows:

Thousand BGN

Indicators	31.12.2020	31.12.2019	Change	Change (%)
Total expenses	698 762	1 404 739	(705 977)	(50.26%)
EBITDA	(651 137)	(1 363 867)	712 730	(52.26%)
EBIT	**47 625**	**40 872**	**6 753**	**16.52%**
EBT	**47 128**	**40 442**	**6 686**	**16.53%**
Non-current fixed assets	**44 151**	**38 345**	**5 806**	**15.14%**
Total assets	69	88	(19)	(21.59%)
Current assets	363 198	426 723	(63 525)	(14.89%)
Current liabilities	349 372	405 267	(55 895)	(13.79%)
Cash	32 214	136 096	(103 882)	(76.33%)
Working capital	171 857	80	171 777	214721.25%
Equity	**317 158**	**269 171**	**47 987**	**17.83%**
Total expenses	**279 295**	**239 664**	**39 631**	**16.54%**
Share capital	231 698	231 698	0	0.00%
Reserves	7 360	7 404	(44)	(0.59%)
Retained profit /(unrecoverable loss)	580	(33 867)	34 447	(101.71%)
Profit/loss for the current period	**39 657**	**34 429**	**5 228**	**15.18%**
Number of personnel	51	53	(2)	(3.77%)

VIII. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Thousand BGN

Comprehensive income statement	As at 31.12.2020		As at 31.12.2019		Change	
	TBGN	% of the total	TBGN	% of the total	TBGN	%
Revenues	**698 762**	**100.00%**	**1 404 739**	**100.00%**	**(705 977)**	**(50.26%)**
Revenues from sale of natural gas	**678 769**	**97.14%**	**1 383 428**	**98.48%**	**(704 659)**	**(50.94%)**
Correction from a change in selling price	**(166 167)**	**(23.78%)**	**-**	**0.00%**	**(166 167)**	**-**
Regulated activity	397 475	56.88%	1 383 428	98.48%	(985 953)	(71.27%)
Unregulated activity - freely negotiated prices	420 691	60.21%	-	0.00%	420 691	-
Organized exchange market - Exemption program segment	22 279	3.19%	-	0.00%	22 279	-
Related persons - BTG cost of natural gas for balancing	4 491	0.64%	-	0.00%	4 491	-
Other income	**19 993**	**2.86%**	**21 311**	**1.52%**	**(1 318)**	**(6.18%)**
- penalties under overdue receivables /liabilities	15 305	2.19%	14 055	1.00%	1 250	8.89%
- other penalties	4 682	0.67%	7 151	0.51%	(2 469)	(34.53%)
- Other revenue	6	0.00%	105	0.01%	(99)	(94.29%)
Economic elements costs	**(651 137)**	**100.00%**	**(1 363 867)**	**100.00%**	**712 730**	**(52.26%)**
Cost of the natural gas sold	**(644 430)**	**98.97%**	**(1 353 232)**	**99.22%**	**708 802**	**(52.38%)**
Correction from change in delivery price	137 243	(21.08%)	-	0.00%	137 243	-
Regulated activity	(363 418)	55.81%	(1 353 232)	99.22%	989 814	(73.14%)
Unregulated activity - freely negotiated prices	(391 457)	60.12%	-	0.00%	(391 457)	-

Comprehensive income statement	As at 31.12.2020		As at 31.12.2019		Change	
	TBGN	% of the total	TBGN	% of the total	TBGN	%
Organized exchange market - Exemption program segment	(22 164)	3.40%	-	0.00%	(22 164)	-
Related persons - BTG cost of natural gas for balancing	(4 634)	0.71%	-	0.00%	(4 634)	-
Recovered/ (accrued) impairment	**3 992**	**(0.61%)**	**629**	**(0.05%)**	**3 363**	**534.66%**
Recovered/ (accrued) impairment of receivables - net	4 457	(0.68%)	629	(0.05%)	(1 385)	(220.19%)
Recovered/ (accrued) impairment of cash at hand	(155)	(0.02%)		0.00%	(75)	-
Recovered/ (accrued) impairment of natural gas	(310)	(0.04%)		0.00%	(15)	-
Recognized (accrued) cost of provisions	(756)	(0.11%)	(593)	0.04%	(163)	27.49%
Costs of materials	**(75)**	**0.00%**	**(64)**	**0.00%**	**47**	**(73.44%)**
- main materials	(15)	(0.00%)	(15)	0.00%	6	(40.00%)
- fuels and lubricants	(19)	(0.00%)	(26)	0.00%	16	(61.54%)
- stationary and consumables	(17)	(0.00%)	(10)	0.00%	5	(50.00%)
- sanitary materials	(9)	(0.00%)	(4)	0.00%	(5)	125.00%
- advertising materials	(10)	(0.00%)	(6)	0.00%	(4)	66.67%
- other materials	(5)	(0.00%)	(3)	0.00%	(2)	66.67%
Costs of hired services	**(6 749)**	**1.04%**	**(7 151)**	**0.52%**	**(402)**	**(5.62%)**
- natural gas storage costs	(4 010)	(0.57%)	(5 497)	0.40%	(1 487)	(27.05%)
- expenses on management contracts	(95)	(0.01%)	(121)	0.01%	(26)	(21.49%)
- license fees	(732)	(0.10%)	(673)	0.05%	(59)	8.77%
- gas hub charges	(28)	(0.00%)	-	0.00%	(28)	-
- insurances	(109)	(0.02%)	(111)	0.01%	2	(1.80%)
- rents	(1)	(0.00%)	(14)	0.00%	13	(92.86%)
- court charges and expenditures	(594)	(0.09%)	(91)	0.01%	(503)	552.75%
- consulting and audit services	(683)	(0.10%)	(254)	0.02%	(429)	168.90%
- communications	(142)	(0.02%)	(108)	0.01%	(34)	31.48%
- audit committee remuneration	(97)	(0.01%)	(88)	0 01%	(9)	10.23%
- building maintenance	(1)	(0.00%)	(1)	0.00%	-	0.00%
- public utility	(27)	(0.00%)	(26)	0.00%	(1)	3.85%
- subscription service	(14)	(0.00%)	(13)	0.00%	(1)	7.69%
- repair and technical maintenance	(24)	(0.00%)	(19)	0.00%	(5)	26.32%
- parking expenses and other vehicle cost	(17)	(0.00%)	(20)	0.00%	3	(15.00%)
- visa services	(1)	(0.00%)	-	0.00%	(1)	-
- translation services	(20)	(0.00%)	(12)	0.00%	(8)	66.67%
- security	(70)	(0.01%)	(69)	0.01%	(1)	1.45%
- labor medicine service	(1)	(0.00%)	(3)	0.00%	2	(66.67%)
- EWRC's fee - price approval	(21)	(0.00%)	(5)	0.00%	(16)	320.00%
- other charges	(62)	(0.01%)	(26)	0.00%	(36)	138.46%
Employee benefit expenses	**(3 026)**	**0.46%**	**(2 981)**	**0.22%**	**(45)**	**1.51%**
- remuneration expenses	(2 580)	(0.37%)	(2 521)	0.18%	(59)	2.34%
- compensated leaves expenses	(86)	(0.01%)	(91)	-	-	0.00%
- current service costs (retirement benefits)	(13)	(0.00%)	(11)	0.00%	(2)	18.18%
- social security expenses	(347)	(0.05%)	(358)	0.03%	11	(3.07%)
Other expenses	**(93)**	**0.01%**	**(475)**	**0.03%**	**382**	**(80.42%)**
- penalties for overdue payments	29	0.00%	(371)	0.03%	400	(107.82%)
- business trips and entertainment expenses	(36)	(0.01%)	(66)	0.00%	30	(45.45%)
- training	(1)	(0.00%)	(7)	0.00%	6	(85.71%)
- one-off taxes	(34)	(0.00%)	(11)	0.00%	(23)	209.09%
- membership in organization	(7)	(0.00%)	(4)	0.00%	(3)	75.00%
- donations	(24)	(0.00%)	(13)	0.00%	(11)	84.62%
- Others	(20)	(0. 00%)	(3)	0.00%	(17)	566.67%
Profit before interest taxes depreciation	**47 625**		**40 872**		**6 753**	**16.52%**
Depreciation costs	**(497)**	**0.08%**	**(430)**	**0.03%**	**(67)**	**15.58%**
Profit / (loss) of operational activity	**47 128**		**40 442**		**6 686**	**16.53%**

Comprehensive income statement	As at 31.12.2020		As at 31.12.2019		Change	
	TBGN	% of the total	TBGN	% of the total	TBGN	%
Financial revenue /(costs) - Net	**(2 977)**		**(2 097)**		**(880)**	**(41.96%)**
Financial income	**1 127**	**100.00%**	**2 928**	**100.00%**	**(1 801)**	**(61.51%)**
- interest income on long-term receivables	1 127	100.00%	2 928	100.00%	(1 801)	(61.51%)
Financial costs	**(1 126)**	**100.00%**	**(937)**	**100.00%**	**(189)**	**20.17%**
- expenses under overdue payables – related parties	-	0.00%	(177)	18.89%	177	(100.00%)
- - interest expenses under overdrafts from banks	(24)	2.13%	(20)	2.13%	(4)	20.00%
- interest expenses under tax liabilities	(20)	1.78%		0.00%	-	-
- interest expenses under overdue tax liabilities	-	0.00%	(221)	23.59%	212	(95.93%)
- interest expenses on rental contracts	(9)	0.80%	(2)	0.21%	(7)	350.00%
- Bank guarantee costs	(513)	45.56%	(396)	42.26%	(117)	29.55%
- bank charges	(560)	49.73%	(121)	12.91%	(439)	362.81%
Other financial profit /(loss) from foreign exchange rate differences	**(2 978)**	**100.00%**	**(4 088)**	**100.00%**	**1 110**	**(27.15%)**
Profit/(loss) from foreign exchange rate differences	(2 978)	100.00%	(4 088)	100.00%	1 110	(27.15%)
Profit/ (loss) before tax	**44 151**		**38 345**		**5 806**	**15.14%**
Profit/(loss) for income taxes	**(4 494)**		**(3 916)**		**(578)**	**14.76%**
Net profit/ (loss) for the period	**39 657**		**34 429**		**5 228**	**15.18%**

1. Revenue

The Company generated revenues of BGN 678 769 thousand in 2020 (2019: BGN 1 383 428 thousand) representing a decrease of BGN 704 659 thousand or 50.94%. The decrease is due to the lower delivered gas price as well as a decrease in volumes sold. The net result from the sale of natural gas for 2020 amounted to BGN 34 339 thousand (2019: BGN 30 196 thousand) an increase of BGN 4 143 thousand.

2. Expenses

Cost of natural gas sold impairment charges material costs costs of external services depreciation and amortization expense labour costs social security and benefit costs provision expense and other. In 2020 these amounted to BGN 651 137 thousand (2019: BGN 1 363 867 thousand) representing a decrease of BGN 712 730 thousand or 52.26% mainly due to the decrease in the delivery price. The cost of natural gas sold for 2020 amounting to BGN 644 430 thousand (2019: BGN 1 353 232 thousand) accounts for the largest relative share of the total costs.

An impairment charge of BGN 3 992 thousand (2019: BGN 629 thousand) was made in 2020.

The cost of external services in 2020 amounted to BGN 6 749 thousand (2019: BGN 7 151 thousand) a decrease of BGN 402 thousand or 5.62%. This is mainly due to a decrease in natural gas storage costs and management contract costs. In 2018 the Company accrued provision expense in Case COMP/B1/AT.39849 - BEH gas in which the European Commission (EC) imposed a fine totalling EUR 77 068 thousand on Bulgarian Energy Holding EAD (BEH) its gas supply subsidiary Bulgargaz EAD and its gas infrastructure subsidiary Bulgartransgaz EAD (the BEH Group) following allegations by the Commission of past infringements - from 2010 to 2014. The company has charged 1/3 of the fine amounting to BGN 50 244 thousand. The fine imposed by the Commission is being appealed by BEH Group. As of 31.12.2020 Bulgargaz EAD has accrued provision expenses in the amount of BGN 756 thousand. Other expenses for 2020 amount to BGN 93 thousand (2019: BGN 475 thousand) which represents a decrease of BGN 382 thousand or 80.42% compared to the previous reporting period. Of these business travel and entertainment expenses account for the largest relative share.

The result from operating activities is a profit of BGN 47 128 thousand for 2020 (2019: BGN 40 442 thousand) an increase of BGN 6 686 thousand or 16.53%. After reflecting the financial income and expenses for 2020 the financial result before taxes is a profit of 44 151 thousand levs (2019: profit of 38 345 thousand levs) an increase of 5 806 thousand levs or 15.14%.

IX. STATEMENT OF FINANCIAL POSITION

As of 31.12.2020 the Company's assets amounted to BGN 363 198 thousand (31.12.2019: BGN 426 723 thousand). The changes to the asset structure for the two periods is shown in the following Table

Thousand BGN

Assets	As at 31.12.2020		As at 31.12.2019		Change	
	TBGN	% of the total	TBGN	% of the total	TBGN	% of the total
Non-current assets						
Plant and equipment	69	0.50%	88	0.41%	(19)	(21.59%)
Intangible assets	251	1.82%	548	2.55%	(297)	(54.20%)
Trade and other receivables	-	**0.00%**	**7 046**	**32.84%**	**(7 046)**	**(100.00%)**
trade receivables from sales of natural gas	-	0.00%	7 046	32.84%	(7 046)	(100.00%)
Deferred tax assets	13 506	97.69%	13 774	64.20%	(268)	(1.95%)
Total non-current assets	**13 826**	**100.00%**	**21 456**	**100.00%**	**(7 630)**	**(35.56%)**
Current assets						
Inventories	**49 178**	**14.08%**	**106 201**	**26.21%**	**(57 023)**	**(53.69%)**
- natural gas	49 158	14.07%	106 179	26.20%	(57 021)	(53.70%)
- materials	20	0.01%	22	0.01%	(2)	(9.09%)
Trade and other receivables	**128 337**	**36.73%**	**298 986**	**73.78%**	**(170 649)**	**(57.08%)**
- trade receivables from natural gas sales	62 397	17.86%	183 381	45.25%	(120 984)	(65.97%)
- court and awarded receivables	9 987	2.86%	2 586	0.64%	7 401	286.19%
- prepaid advances for natural gas deliveries	35 638	10.20%	104 285	25.73%	(68 647)	(65.83%)
- prepaid advances for delivery of fixed tangible assets	1	0.00%	-	0.00%	1	
- receivables on VAT and other taxes	1 136	0.33%	-	0.00%	1 136	
- receivables from related parties (natural gas deposits and guarantees)	14 128	4.04%	476	0.12%	13 652	2868.07%
- other receivables	5 050	1.45%	8 258	2.04%	(3 208)	(38.85%)
Cash and cash equivalents	**171 857**	**49.19%**	**80**	**0.02%**	**171 777**	**214 721.25%**
Total current assets	**349 372**	**100.00%**	**405 267**	**100.00%**	**(55 895)**	**(13.9%)**
Total assets	**363 198**		**426 723**		**(63 525)**	**(14.89%)**

1. Non-current assets

Non-current assets as at 31.12.2020 amounted to BGN 13 826 thousand (31.12.2019: BGN 21 456 thousand) which represents a decrease by BGN 7 630 thousand or 35.56%. Non-current assets in the reporting period consist of non-current tangible and intangible assets for BGN 320 thousand and deferred tax assets for BGN 13 506 thousand.

As of 01.01.2019 a one-type model of accounting treatment for a leased asset contract - office building - has been applied in accordance with IFRS 16. A right-of-use asset has been recognized with a value of BGN 546 thousand which will be depreciated over the term of the contract and accordingly a lease liability has been recognized under this contract.

2. Current assets

The Company's current assets as at 31 December 2020 amounted to BGN 349 372 thousand (31 December 2019: BGN 405 267 thousand) representing a decrease of BGN 55 895 thousand or 13.79% as a result of a decrease in trade and other receivables and inventories.

Inventories as at 31 December 2020 amounted to BGN 49 178 thousand (31 December 2019: BGN 106 201 thousand) representing a decrease of BGN 57 023 thousand or 53.69%.

Trade and other receivables as at 31.12.2020 amounted to BGN 128 337 thousand (31.12.2019: BGN 298 986 thousand) which represents a decrease by BGN 170 649 thousand or by 57.08% compared to the end of 2019 mainly due to a decrease in receivables from Toplofikatsia Sofia EAD. The prepaid advance for natural gas supply as of 31 December 2020 is BGN 35 638 thousand (31 December 2019: BGN 104 285 thousand) which represents a decrease by BGN 68 647 thousand or 65,83%.

The largest trade receivables as of 31.12.2020 are from the following companies:

Thousand BGN

Counterparty	Receivables on deferred payment agreements	Overdue trade receivables	Total
Toplofikatsia Sofia EAD	-	47 230	**47 230**
Toplofikatsia Pleven EAD	5 278	-	**5 278**
TPP Varna	-	3 973	**3 973**
Veolia Energy Varna EAD	-	505	**505**
Global Commerce 1 OOD	-	246	**246**
Other	-	417	**417**
Total	**5 278**	**52 371**	**57 649**

Receivables from customers under agreements for the rescheduling of overdue debts are concluded against financial security provided in favour of Bulgargaz EAD.

The Company's cash on current accounts and in cash at the end of the reporting period amounted to BGN 171 857 thousand (31.12.2019: BGN 80 thousand) which represents an increase of BGN 171 777 thousand.

3. Changes in equity and liabilities structure

In thousand BGN

Equity and liabilities	31.12.2020		31.12.2019		Change	
	TBGN	% of the total	TBGN	% of the total	TBGN	%
Equity						
Share capital	231 698	82.96%	231 698	96.68%	-	0.00%
Reserves	**7 360**	**2.64%**	**7 404**	**3.09%**	**(44)**	**(0.59%)**
incl. Statutory reserves	7 367	2.64%	7 366	3.07%	-	0.00%
Other reserves	(7)	(0.00%)	38	0.02%	(45)	(118.42%)
Retained earnings /(accumulated loss)	580	0.21%	(33 867)	(0.14)	34 447	101.71%
Profit/loss for current period	39 657	14.20%	34 429	14.37%	5 228	15.18%
Total equity	**279 295**	**100%**	**239 664**	**100%**	**39 631**	**16.54%**
Liabilities						
Non-current liabilities	-	-	-	-	-	-
Lease payable	2	0.00%	64	0.13%	(62)	(96.88%)
Provisions	51 592	99.81%	50 837	99.75%	755	1.49%
Trade and other payables	-	-	-	-	-	-
Liabilities for retirement employee benefits	95	0.18%	62	0.12%	33	53.23%
Total non-current liabilities	**51 689**	**100%**	**50 963**	**100%**	**726**	**1.42%**
Current liabilities						
Loans	-	-	**52 386**	**38.49%**	**(52 386)**	**(100.00%)**
- payables on bank overdrafts	-	-	52 386	38.49%	(52 386)	(100.00%)
Trade and other payables	**31 331**	**97.26%**	**82 475**	**60.60%**	**(51 144)**	**(62.01%)**
- trade payables	8 104	25.15%	35 940	26.41%	(27 839)	(77.46%)
- payables to related parties	2 952	9.16%	3 159	2.32%	(207)	(6.55%)
- received advances from clients for sale of natural gas	53	0.42%	17 654	12.97%	(17 518)	(99.23%)
- VAT to be paid	18 644	57.88%	24 048	17.67%	(5 404)	(22.47%)
- excise duty to be paid	1 131	3.51%	1 211	0.89%	(80)	(6.61%)
- Payables to personnel	133	0.41%	134	0.10%	(1)	(0.75%)
- Liabilities to insurance companies	81	0.25%	82	0.06%	(1)	(1.22%)
-Other liabilities	233	0.47%	247	0.18%	(94)	(38.06%)
Lease liability – rental contract	**69**	**0.21%**	**249**	**0.18%**	**(180)**	**(72.29%)**
Profit tax liability	**723**	**2.24%**	**875**	**0.64%**	**(152)**	**(17.37%)**
Liabilities for retirement employee benefits	**91**	**0.28%**	**111**	**0.08%**	**(20)**	**(18.02%)**
Total current liabilities	**32 214**	**100.00%**	**136 096**	**100.00%**	**(103 882)**	**(76.33%)**

Equity and liabilities	31.12.2020		31.12.2019		Change	
	TBGN	% of the total	TBGN	% of the total	TBGN	%
Total liabilities	**83 903**		**187 059**		**(103 156)**	**(55.15%)**
Total equity and liabilities	**363 198**		**426 723**		**(63 525)**	**(14.89%)**

3.1. Capital structure

The registered share capital as at 31.12.2020 is BGN 231 698 thousand and is unchanged compared to the previous reporting period.

As at 31.12.2020 retained earnings amounted to BGN 580 thousand (31.12.2019: accumulated loss BGN 33 867 thousand). The change as at 31.12.2020 is by BGN 34 447 thousand.

3.2. Non-current liabilities

The non-current liabilities of the Company as at 31.12.2020 are BGN 51 689 thousand (31.12.2019: BGN 50 963 thousand) which represents an increase of BGN 726 thousand or 1.42%. The main part of non-current liabilities is formed by accrued provision for legal liability related to Case COMP/B1/AT.39849 - BEH gas retirement benefit obligations and lease obligations - non-current part.

3.3. Current liabilities

As at 31.12.2020 the current liabilities of the Company amounted to BGN 32 214 thousand (31.12.2019: BGN 136 096 thousand) which represents a decrease of BGN 103 882 thousand or 76.33% as a result of a decrease in bank loan liabilities (overdrafts) and trade payables.

As at 31 December 2020 trade and other payables decreased by BGN 51 144 thousand or by 62.01% compared to 2019.

As at 31.12.2020 trade payables decreased by BGN 27 839 thousand or by 77.46% compared to 2019. As of 31.12.2020 liabilities to related parties are BGN 207 thousand or 6.55% less compared to 2019 due to repaid liabilities to Bulgartransgaz EAD.

The current VAT payable to NRA is BGN 18 644 thousand (31.12.2019: BGN 24 048 thousand) a decrease of BGN 5 404 thousand or 22.47%.

There was a decrease in trade payables for advances received from customers by BGN 17 518 thousand and trade payables by BGN 27 839 thousand.

X. CASH FLOW STATEMENT

The table below presents data on changes in cash flows as of 31.12.2020 compared to 31.12.2019.

Thousand BGN

Cash flow statement	31.12.2020	31.12.2019	Change	
	TBGN	TBGN	TBGN	%
Net cash flows from operating activity	224 484	(50 790)	275 274	541.98%
Net cash flows from investing activity	915	2 503	(1 588)	(63.44%)
Net cash flows from financing activity	(53 467)	48 267	(101 734)	(210.77%)
Net change in cash and cash equivalents during the year	**171 932**	**(20)**	**171 952**	**859 760.00%**

Cash flow statement	31.12.2020	31.12.2019	Change	
	TBGN	TBGN	TBGN	%
Cash and cash equivalents at the beginning of the period	80	100	(20)	(20.00%)
Cash impairment under IFRS	(155)	-	(155)	-
Cash and cash equivalents at end of the period	171 857	80	171 777	214 721.25%

The Company's net cash flow from operating activities in 2020 is positive in the amount of BGN 224 484 thousand (2019: negative in the amount of BGN 50 790 thousand) - there is an increase of BGN 275 274 thousand due to the amounts recovered from Gazprom Export as a result of the price reduction achieved. In December 2020 Bulgarian Energy Holding EAD purchased BGN 109 946 thousand of Bulgargaz EAD's receivables from Toplofikatsia Sofia EAD which were paid in the same month. The net cash flow from operating activities was mainly generated by the difference between the receipts from customers for natural gas sold and payments to suppliers for natural gas purchased.

Net cash flows from investing activities amounted to BGN 915 thousand a decrease of BGN 1 588 thousand compared to 2019 due to less interest received from deferred trade receivables.

Net cash flows from financing activities were negative in the amount of BGN 53 467 thousand and positive in the amount of BGN 48 267 thousand as at 31.12.2019 as a result of net amount from overdraft type loans and bank guarantees.

XI. EVENTS AFTER THE REPORTING PERIOD

The events are described in Note 35 “Events after the reporting period” of the financial statements as at 31.12.2020.

XII. FINANCIAL RATIOS

These are indicators based on financial statements which aim to present the overall assessment for the Company’s financial performance profitability and effectiveness in utilizing its assets to achieve its operational objectives.

In 2020 the financial ratios for liquidity and independence show the stability of the Company being optimal to market levels.

1. Liquidity

The indicators for liquidity indicate Company’s ability to repay its current liabilities with its current short-term assets.

Indicators	31.12.2020	31.12.2019
Current liquidity ratio	10,85	2,98
Quick liquidity ratio	9,32	2,20
Absolute liquidity ratio	5,33	0,00

The current liquidity ration as of 31.12.2020 is 10,85 which shows that available current assets can cover more than 10 times the current liabilities of the Company (31.12.2019 – 2,98).

The quick liquidity ratio is 9,32 which indicates that current assets reduced by inventories can cover more than 9 times the current liabilities of the Company.

2. Financial independence

The financial autonomy indicators reveal Company financial independence from creditors and its ability to meet all liabilities' payments in the long run.

Indicators	31.12.2020	31.12.2019
Financial autonomy ratio	3,33	1,28
Indebtedness ratio	0,30	0,78

When the financial autonomy ratio is below 1 (one) there is an excess of liabilities over equity. In this case the current liabilities are not sufficiently secured with Company's property.

When the indicator is above 1 (one) it shows the level of financial independence from using funds from other parties. The financial autonomy ratio as at 31.12.2020 is 3,33 (31.12.2019: 1,28).

The indebtedness 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 at 31.12.2020 is 0,30 (31.12.2019: 0,78).

The data presented and the information analyzed in the Annual Management Report of Bulgargaz EAD for year 2019 show that the Company fulfils its licensing obligations as a public supplier of natural gas in the Republic of Bulgaria in full compliance with the requirements of the legislation. The activity is directly related to the business environment regulatory requirements and financial security. Regardless of the dynamic market conditions during the period under review the Company reacted promptly and adequately and significantly improved its financial performance maintaining financial stability and increasing the cost-effectiveness of its operations.

Date: 15.04.2021

2016/679

Kiril Dimitrov

Head of Finance Department

ЕДНОЛИЧНО АКЦИОНЕРНО ДРУЖЕСТВО
БУЛГАРГАЗ
СОФИЯ

2016/679

Nikolay Pavlov

Executive Director

ADDITIONAL INFORMATION UNDER SECTION VI A ANNEX No 10 ORDINANCE No 2 OF THE FINANCIAL SUPERVISION COMMISSION

1. INFORMATION AS EXPRESSED IN VALUE AND QUANTITY ON MAJOR CATEGORIES OF GOODS PRODUCTS AND/OR SERVICES AS PROVIDED SPECIFYING THEIR SHARE IN INCOME OF SALE AS A WHOLE AND CHANGES AS OCCURRED IN THE REPORTED FINANCIAL YEAR;

Bulgargaz EAD's income includes income from natural gas sale and other services.

During the reporting period the Company generated revenues from the sale of natural gas in the amount of BGN 678 769 thousand. Natural gas sales income represents 97,14 % of the Company's sales for 2020.

Company's income structure for 2020 and 2019 and their change are represented in **Section V "Financial and Economic Position"** Table "Statement of profit or loss and other comprehensive income" herein above".

1. INFORMATION ON INCOME DISTRIBUTED AS PER SEPARATE CATEGORY OF ACTIVITIES INTERNAL AND EXTERNAL MARKETS AS WELL AS INFORMATION ON MATERIAL SUPPLY SOURCES NECESSARY FOR GOODS PRODUCTION OR PROVISION OF SERVICES AND REFLECTING THE LEVEL OF DEPENDENCE FROM EVERY SINGLE SELLER OF BUYER/CONSUMER AS IN CASE THAT THE RELATIVE SHARE OF ANYONE OF THE AFORESAID EXCEEDS 10% OF SALES INCOME OR COSTS INFORMATION SHALL BE PROVIDED FOR EACH PERSON SEPARATELY REGARDING THEIR SHARE IN SALES OR PURCHASE AND RELATIONS WITH THE COMPANY;

The income structure for 2020 compared to 2019 and their relative share of total revenue are presented above in in Section V. "Financial and Economic Position" Table "Statement of profit or loss and other comprehensive income" herein above.

Regarding the revenues from the sale of natural gas representing 97,14% of the total income for 2020 the sales on the territory of Bulgaria amount to BGN 698 769 thousand (25 043 900 MWh of natural gas).

Information on natural gas sales to clients exceeding 10% of the total income of sales of natural gas as follows:

Customer	Natural gas sales		
	Quantity *MWh*	Thousand BGN	%
Toplofikatsia Sofia EAD	6 899 529	199 800	27,55%
Lukoil Neftohim Burgas AD	3 486 748	92 506	11,81%
Neochim AD	2 957 844	80 800	13,92%

Bulgargaz EAD's main supplier of natural gas is Gazprom Export LLC. For 2020 its share of the total volumes of gas delivery amounted to 94,27%. There is no other counterpart in 2020 the cost to which exceeds 10% of the total cost of Bulgargaz EAD.

3. INFORMATION ON TRANSACTIONS ENTERED INTO BETWEEN THE COMPANY AND RELATED PARTIES DURING REPORTED PERIOD PROPOSALS TO ENTER INTO SUCH TRANSACTIONS AS WELL AS DEALS BEYOND ITS REGULAR ACTIVITY OR SIGNIFICANTLY DEVIATING FROM THE MARKET CONDITIONS WHERE THE COMPANY OR ITS AFFILIATE IS A PARTY AND SPECIFYING THE VALUE OF TRANSACTIONS NATURE OF RELATIONS AND ANY OTHER INFORMATION NECESSARY FOR ASSESSMENT OF THE IMPACT ON COMPANY'S FINANCIAL STATUS;

Information given in value terms regarding related parties transactions' has been provided in details in the financial statements for year 2020 Note 34 "Related parties' transactions". Related parties transactions do not deviate from normal market conditions.

4. INFORMATION ON EVENTS AND INDICATORS OF UNUSUAL NATURE HAVING SIGNIFICANT INFLUENCE ON ITS ACTIVITY INCOME AS REALIZED AND EXPENSES AS MADE; ASSESSMENT OF THEIR INFLUENCE ON THE RESULTS FOR THE CURRENT YEAR;

In 2020 there were no events and indicators with an unusual nature having significant influence on the activity of Bulgargaz EAD income as realized and expenses as made.

5. ANALYSIS OF THE RATIO BETWEEN FINANCIAL RESULTS ACHIEVED IN THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR AND PROVISIONS PRESENTED.

Bulgargaz EAD has not disclosed financial result forecasts.

6. INFORMATION ON OFF-BALANCE TRANSACTIONS – NATURE AND BUSINESS GOAL SPECIFYING THEIR FINANCIAL IMPACT ON COMPANY'S ACTIVITY IF THE RISK AND BENEFITS OF SUCH TRANSACTIONS ARE OF IMPORTANCE TO THE COMPANY AND IF DISCLOSURE OF SUCH INFORMATION IS SIGNIFICANT FOR COMPANY'S FINANCIAL STATUS ASSESSMENT;

The Company has no off-balance transactions.

7. EVALUATION OF THE POSSIBILITIES FOR REALIZATION OF INVESTMENT INTENTIONS SPECIFYING THE AMOUNT OF AVAILABLE FUNDS AND REFLECTING POSSIBLE CHANGES IN THE FINANCING STRUCTURE OF THIS ACTIVITY.

Not applicable to the Company.

8. INFORMATION ON COMPANY'S SHAREHOLDING MAJOR INVESTMENTS IN BULGARIA AND ABROAD (IN SECURITIES FINANCIAL INSTRUMENTS INTANGIBLE ASSETS AND REAL ESTATES) AS WELL AS INVESTMENTS IN SHARE SECURITIES OUTSIDE ITS GROUP AS PER THE MEANING OF THE ACCOUNTANCY ACT AND SOURCES/METHODS OF FINANCING;

The Company has no shareholding and investments in Bulgaria and abroad. Information on assets as owned by the Company is represented in **Section V "Financial and Economic Position"** Table "Statement of Financial Position" herein above.

9. INFORMATION ON LOAN CONTRACTS CONCLUDED BETWEEN THE COMPANY ITS AFFILIATE OR PARENT COMPANY IN THEIR CAPACITY OF BORROWERS SPECIFYING RESPECTIVE TERMS AND CONDITIONS THERETO INCLUDING REPAYMENT DEADLINES AS WELL AS INFORMATION ON GUARANTIES AS PROVIDED AND COMMITMENTS UNDERTAKING;

The Company has concluded overdraft loans with four banking institutions in the total amount of BGN 70 000 thousand.

Undrawn loans

As of 31.12.2020 the Company has undrawn overdrafts.

10. INFORMATION ON LOAN CONTRACTS CONCLUDED BETWEEN THE COMPANY ITS AFFILIATE OR PARENT COMPANY IN THEIR CAPACITY OF LENDERS AS WELL AS PROVISION OF GUARANTIES OF ANY KIND TO RELATED PARTIES INCLUSIVE SPECIFYING THE SPECIFIC TERMS AND CONDITIONS THERETO INCLUDING REPAYMENT DEADLINES AND THE PURPOSE FOR A LOAN PROVISION;

Bulgargaz EAD did not conclude loan contract in the capacity of a lender in 2020.

11. ANALYSIS AND ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT WITH IDENTIFICATION OF POSSIBILITIES FOR DISCHARGING LIABILITIES POSSIBLE THREATS AND MEASURES THE COMPANY HAS UNDERTAKEN OR TO BE UNDERTAKEN IN ORDER TO AVOID THOSE THREATSИМ;

Company's goals as regards financial resources management are to secure its ability to continue to exist as a going concern and to secure return to the Sole Shareholder business benefits to other interested parties. Risk management is being currently performed by the Company's operative management under monitoring of the BoD and the Sole Shareholder.

The main risk factors in the Company's activity are the regulatory risk arising from the establishment of natural gas prices for the domestic market lower than delivery prices commercial and other receivables and commitments and the currency risk.

12. INFORMATION ON CHANGES AS OCCURRED DURING THE REPORTED PERIOD IN COMPANY'S MANAGEMENT MAJOR PRINCIPLES AND ITS GROUP OF COMPANIES AS PER THE MEANING OF THE ACCOUNTANCY ACT;

In 2020 no changes in the Company's management major principles have been made.

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

Not applicable to the Company.

14. INFORMATION ON THE MAJOR FEATURES OF INTERNAL SYSTEM CONTROL AND RISK MANAGEMENT SYSTEM IN THE PROCESS OF FINANCIAL STATEMENTS PREPARATION AS APPLIED BY THE COMPANY;

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

Bulgargaz EAD's financial management system and control has been developed having observed the requirement of Financial Management and Control in the Public Sector Act.

Financial management and control system is mandatory upon spending any Company's funds with a view securing correspondence with legal provisions and observing principles of legality appropriacy efficiency effectiveness economy transparency and publicity.

To secure reasonable certainty that Company's aims are achieved financial management and control is performed via Financial management and control system by:

- compliance with legislation internal acts of BEH EAD and Bulgargaz EAD on the one hand and concluded contracts or commitments as taken/expenses as made supported by accounting documents on the other hand;
- reliable and comprehensive financial and operative information;
- activities' economy effectiveness and efficiency;
- storage and protection of assets and information.

Financial management of expenses also falls into the scope of financial management control system.

15. INFORMATION ON AMOUNT OF REMUNERATION REWARDS AND/OR BENEFITS OF EACH MEMBER OF MANAGEMENT AND CONTROL BODIES DURING THE REPORTED YEAR AS PAID BY THE COMPANY AND ITS AFFILIATES NOTWITHSTANDING WHETHER INCLUDED IN COMPANY'S EXPENSES OR COMING FROM PROFIT DISTRIBUTION

INCLUSIVE:

In 2020 the Company paid the follows remunerations to the BoD members:

Thousand in BGN

	2020	2019
BoD remuneration	203	180
Social security payments	23	18
Total	**226**	**198**

16. INFORMATION ON THE COMPANY'S AGREEMENTS (INCLUDING AFTER THE END OF THE FINANCIAL YEAR) AS A RESULT OF WHICH FUTURE CHANGES MAY OCCUR IN THE RELATIVE SHARES OR BONDS BY CURRENT SHAREHOLDERS OR BONDHOLDERS.

There are no known arrangements that may result in changes in the relative ownership of shares or bonds of current shareholders or bondholders in the future.

17. INFORMATION ON PENDING COURT ADMINISTRATIVE OR ARBITRATION PROCEEDINGS RELATED TO COMPANY'S LIABILITIES OR RECEIVABLES AMOUNTING AT LEAST 10% OF ITS EQUITY; IF THE TOTAL AMOUNT OF COMPANY'S LIABILITIES OR RECEIVABLES UNDER ALL PROCEEDINGS EXCEEDS AT LEAST 10% OF COMPANY'S EQUITY INFORMATION ON EACH PROCEEDINGS SHALL BE PROVIDED SEPARATELY;

Case COMP/B1/AT.39849 – BEH gas

Case COMP/B1/AT.39849 – BEH Gas is related to an alleged infringement of Article 102 of TFUE in connection to alleged actions of BEH EAD and its subsidiaries - Bulgargaz EAD and Bulgartransgaz EAD related to:

- preventing their competitors from getting access to key gas infrastructure (gas transmission network and the gas storage facility) in 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 (Art.7 and 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) 10 July 2015 (Bulgarian Energy Holding EAD) and 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. It should be borne in mind that if the General Court decides to open the oral procedure the President sets the date for the oral hearing most probably in 2021.

As of 31 December 2019 the Company has accrued a provision in the amount of BGN 50 244 thousand representing 1/3 of the total amount of the imposed fine and interest thereon for 2020 in the amount of BGN 756 thousand.

18. OTHER INFORMATION AT COMPANY'S DISCRETION

The Company considers that there is no other information that would be important to consumers.

Date: 15.04.

2016/679

Head of Finance Department

2016/679

Executive Director

BULGARGAZ EAD
STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2020

(All amounts are in thousands BGN)

	Note	AS AT 31 DECEMBER 2020	2019
ASSETS			
Non-current assets			
Plant and equipment	7	69	88
Intangible assets	8	251	548
Long-term trade receivables	11		7 046
Deferred tax assets	10	13 506	13 774
		13 826	**21 456**
Current assets			
Inventories	12	49 178	106 201
Trade and other receivables	11	128 337	298 986
Cash and cash equivalents	13	171 857	80
		349 372	**405 267**
TOTAL ASSETS		**363 198**	**426 723**
EQUITY AND LIABILITIES			
Equity			
Share capital	15	231 698	231 698
Reserves	16	7 360	7 404
Retained earnings /(accumulated) loss		40 237	562
		279 295	**239 664**
Non-current liabilities			
Lease payables	9	2	64
Provisions	33	51 592	50 837
Liabilities for retirement employee benefits	19	95	62
		51 689	**50 963**
Current liabilities			
Borrowings	17	-	52 386
Trade and other payables	18	31 331	82 475
Lease payable	9	69	249
Income tax payables		723	875
Liabilities for retirement employee benefits	19	91	111
		32 214	**136 096**
TOTAL LIABILITIES		**83 903**	**187 059**
TOTAL EQUITY AND LIABILITIES		**363 198**	**426 723**

The annual financia [redacted] orized for issue by the Board of Directors on [redacted]

Liliy [redacted]
Head of Acc [redacted]

[redacted]
Executive Director

Финансов отчет,
...то сме издали одиторски
доклад с дата:
21. 04. 2021

ЕДНОЛИЧНО АКЦИОНЕРНО ДРУЖЕСТВО БУЛГАРГАЗ СОФИЯ

Audit Firm
HLB Bulgaria OOD

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 017 ЕЙЧ ЕЛ БИ БЪЛГАРИЯ ООД

The accompanying notes on pag [redacted]

BULGARGAZ EAD
PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

(All amounts are in thousands BGN)	Note	AS AT 31 DECEMBER 2020	2019
Revenues from sale of natural gas	27	678 769	1 383 428
Other revenue and income	26	19 993	21 311
Cost of natural gas as sold		(644 430)	(1 353 232)
Recovered/(accrued) impairment losses on financial assets	20	4 302	629
Accrued impairment losses on non-financial assets	20	(310)	
Cost of hired services	21	(6 749)	(7 151)
Employee benefits and social security expenses	22	(3 026)	(2 981)
Cost of materials	23	(75)	(64)
Non-financial assets depreciation/amortization expenses	7,8	(497)	(430)
Expenses on provisions	24	(756)	(593)
Other expenses	25	(93)	(475)
Operating activity profit (loss)		**47 128**	**40 442**
Interest income	28	1 127	2 928
Interest expense and bank charges and commissions	28	(1 126)	(937)
Income (expense) from change in exchange rates	29	(2 978)	(4 088)
Financial income/(costs) – net		**(2 977)**	**(2 097)**
Profit (loss) before tax		**44 151**	**38 345**
Income tax expense	30	(4 494)	(3 916)
Net profit (loss) for the period		**39 657**	**34 429**
Other items of the comprehensive income:			
Items that will not be reclassified in profit or loss:			
Remeasurement of retirement defined benefit plans	19	(29)	(8)
Income tax related to items that will not be reclassified in profit or loss	10	3	1
Other comprehensive income for the year, net of tax		**(26)**	**(7)**
Total comprehensive income for the period		**39 631**	**34 422**

The annual financial statements were authorized for issue by the Board of Directors o[redacted]

Liliy[redacted]
Head of Acc[redacted]

[redacted]
Nikolay Pavlov
Executive Director

ЕДНОЛИЧНО АКЦИОНЕРНО ДРУЖЕСТВО БУЛГАРГАЗ СОФИЯ

Audit Firm
HLB Bulgaria OOD

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 017 Ейч Ел Би България ООД

Финансов отчет,
върху който сме издали одиторски
доклад с дата:
21. 04. 2021

Упра[redacted]

The accompanying notes on pages 5-56 are an integral part of the financial statements.

BULGARGAZ EAD
REPORT ON CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31 2020
All amounts are in thousands BGN

	Note	Share capital	Reserves	Retained earnings / accumulated loss	Total
AS AT 1 JANUARY 2020 г.		**231 698**	**7 404**	**562**	**239 664**
Total comprehensive income for the year, of which:					
Net loss for the year		-	-	39 657	39 657
Other items of the 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**
AS AT 1 JANUARY 2019		**231 698**	**7 412**	**(33 867)**	**205 243**
Total comprehensive income for the year, of which:					
Net loss for the year		-	-	34 429	34 429
Other items of the comprehensive income, net of tax		-	(8)	-	(8)
Total comprehensive income		**-**	**(8)**	**34 429**	**34 421**
AS AT 31 DECEMBER 2019		**231 698**	**7 404**	**562**	**239 664**

The annual financial statements were authorized for issue by the Board of Directors on 19.04.2021

[redacted]

Head of Accounting Department

[redacted]

Nikolay Pavlov
Executive Director

ЕДНОЛИЧНО АКЦИОНЕРНО ДРУЖЕСТВО БУЛГАРГАЗ СОФИЯ

Audit Firm
HLB Bulgaria OOD

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 017 Ейч Ел Би България ООД

Финансов отчет,
върху който сме издали одиторски
доклад с дата:
21. 04. 2021

[redacted]

BULGARGAZ EAD

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020
(All amounts are in thousands BGN)

	Note	YEAR ENDED 31 DECEMBER 2020	2019
CASH FLOWS FROM OPERATING ACTIVITY			
Proceeds from clients from sales of natural gas		856 426	1 627 112
Proceeds from transactions with related parties		113 086	7 726
Income tax payments		(4 375)	(3 220)
Payments to suppliers, including:		(591 473)	(1 389 115)
Purchase of natural gas		*(514 163)*	*(1 271 788)*
Transactions with related parties		*(72 714)*	*(115 475)*
Payments to other counterparties		*(4 570)*	*(1 852)*
Taxes paid, different from corporate income tax		(139 704)	(286 891)
Payments to personnel and social security institutions		(3 272)	(2 899)
Profit/(loss) of exchange rate revaluation of cash and cash equivalents		(5 417)	(2 990)
Other proceeds/payments from operating activity		(814)	(513)
Net cash flow from operating activities		**224 484**	**(50 790)**
CASH FLOWS FROM INVESTING ACTIVITY			
Payments for intangible assets		(187)	(320)
Payments for plant and equipment		(25)	(33)
Interest on deferred trade receivables		1 127	2 856
Net cash flow from investing activity		**915**	**2 503**
CASH FLOWS FROM FINANCING ACTIVITY			
Principal payments on lease contracts	9	(303)	(232)
Interest payments on lease contracts	9	(9)	(20)
Proceeds and payments of overdraft, net		(52 372)	48 685
Proceeds and payments on borrowings and financing agreements		-	(4)
Interest payments on borrowings and deferred trade payables		(783)	(162)
Net cash flow from financing activity		**(53 467)**	**48 267**
Net decrease of cash and cash equivalents during the year		**171 932**	**(20)**
Cash and cash equivalents at the beginning of the year, net of overdrafts		80	100
Impairment under IFRS 9		(155)	-
Cash and cash equivalents at the end of the year	13	**171 857**	**80**

The annual financial statements were authorized for issue by the Board of Directors on

Lili
Head of Accounting Department

Nikolay Pavlov
Executive Director

Audit Firm
HLB Bulgaria OOD

Финансов отчет,
върху който сме издали одиторски
доклад с дата:

1. GENERAL INFORMATION

BULGARGAZ EAD (the Company), UIC 175203485, is a sole shareholder joint stock company, registered under the Commercial Act, with domicile and registered address at 47 Petar Parchevich St., 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.

BULGARGAZ EAD sole shareholder 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 does not generate reporting information by activities due to the fact that the supply of natural gas is the only activity for the period.

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"). 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 thousand), including comparative information for 2019.

As of 31 December 2019, the registered share capital of Bulgargaz EAD amounts to BGN 231 698 thousand, which exceeds the net assets of the Company at that date by BGN 47 597 thousand.

For 2020 the Company reports a net profit of BGN 39 657 thosand and a positive cash flow from operating activities BGN 224,484 thousand.

As at 31 December 2019, 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. The future operations of the Company as a public supplier of natural gas depend on the business environment, the regulatory requirements, contracts for ensuring natural gas supplies in place, the contracts for natural gas sales to the clients of the Company, as well as maintaining the necessary financial resources for implementation of its activity. Given the assessment of the expected future cash flows and the group strategy for the activity development in Bulgaria, the Company's management believes that it is appropriate 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. Areas of the financial statements that incorporate 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 2020

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 2020:

The following standards and interpretations shall apply for the first time to financial and reporting periods beginning on or after 1 January 2020:

- **Definition of Material – Amendments to IAS 1 and IAS 8, effective from 1 January 2020**

The Council on International Accounting Standards (CIAS) has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, changes in accounting assessments and errors that use a a consistent definition of material in International financial reporting standards and the Conceptual financial reporting framework and clarify when information is essential and includes some of the IAS 1 guidelines on non-essential information. In particular, the amendments clarify:

- that the link to unclear information addresses situations where the effect is similar to the missing or misrepresentation of this information and that an entity assesses the materiality in the context of the financial statements, as a whole, and

- the importance of "primary users of general purpose financial statements" to which these financial statements are targeted by defining them as "existing and potential investors, lenders and other creditors" who have to rely on general purpose financial statements for most of the financial information they need.

- **Definition of a Business - Amendments to IFRS 3 - effective from 1 January 2020.**

The amended business definition requires the acquisition to include input resources and an essential process that together significantly contribute to the ability to create results. The definition of the term "results" is amended to focus on goods and services provided to customers generating investment income and other income, and excludes returns in the form of lower costs and other economic benefits. Amendments are likely to lead to more acquisitions that are accounted for as assets acquisitions.

- **Interest Rate Benchmark Reform - Amendments to IFRS 7, IFRS 9 and IAS 39 - Effective from 1 January 2020.**

Amendments made to IFRS 7 Financial Instruments: Disclosure, IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and measurement, provide certain relief in relation to the interest rate benchmark reform. The relief relates to the reporting of hedging and leads to the fact that the modifications required as a direct consequence of the interest rate benchmark reform and are made on an economically equivalent basis not to suspend hedge accounting. However, any hedging inefficiency should continue to be reported in the income statements. Given the comprehensive nature of hedging, including IBOR-based contracts, facilitations will affect enterprises in all sectors.

- **Amendments to Conceptual Framework for Financial Reporting - Effective from 1 January 2020.**

The CIAS publishes a revised conceptual framework that will be used for solutions to determine standards with immediate effect. The major amendments include:

- Increasing the significance of management in the objective of financial reporting;

• Restoring caution as a component of neutrality;

• Definition of a reporting enterprise which may be a legal person or part of an enterprise;

• Revision of asset and liability definitions

• Removing the probability threshold for recognition, and adding guidance on derecognition;

• Adding guidelines for a different measurement basis, and

• Indication that profit or loss is the main indicator of measuring the result and that in principle revenue and expenditure in other comprehensive income must be processed when this increases the appropriateness or reliable presentation of the financial statements.

No amendments will be made to any of the current accounting standards. Enterprises relying on the framework in determining their accounting policies for transactions, events or conditions not otherwise addressed under accounting standards will have to implement the revised Framework from 1 January 2020. These subjects will have to judge whether their accounting policies are still appropriate according to the revised framework.

• Rental discounts In the context of Covid-19 - amendments to IFRS 16 - effective from 1 June 2020.

As a result of the Covid-19 pandemic to the lessees rental discounts were provided. Such discounts can take a variety of forms, including suspension of payments for a certain period and deferring lease payments. In May 2020, the CIAS made an amendment to IFRS 16 Lease Contracts, which provides lessees the opportunity to treat the defined rental discounts in the same way as they would have done if they were not modifications to the lease. In many cases, this will result in reporting of discounts such as variable lease payments in the period in which they are provided.

Enterprises applying the practically appropriate measure must disclose that fact, whether applied to all identified rental discounts or, if not, information on the nature of the contracts to which it has been applied and the amount recognized in profit or loss deriving from rental discounts.

The following standards and interpretations were issued but were not mandatory for annual reporting periods ended 31 December 2020.

• IFRS 17 Insurance Contracts - Effective date: originally on 1 January 2021 but extended until 1 January 2023 by CIAS in March 2020.

IFRS 17 was issued in May 2017 as a substitute for IFRS 4 Insurance Contracts. It requires a model for current measurement, where assessments are overtaken for each reporting period. Contracts are measured using the building elements of:

• discounted cash flows with weighted probabilities;

• explicit risk adjustment, and

• Contractual Services Margin (CSM) representing the unrealized profit from the contract, which is recognized as revenue for the coverage period.

The standard allows to select between recognition of changes in discount rates or in the profit or loss statements, or directly in other comprehensive income. The choice will probably reflect how insurers report their financial assets under IFRS 9.

An additional, simplified approach to the allocation of premiums is authorized for the obligation of remaining coverage under short-term contracts, which are often written by life insurance insurers.

There is a modification of the general measurement model called a "variable charge approach" for certain contracts concluded by life insurance, where policy holders are involved in the return on the basic elements. When applying the variable charge approach, the share of the entity from the changes in the fair value of the base positions is included in the CSM. Therefore, the results of insurers using this model are likely to be less variables than in the general model.

The new rules will affect the financial statements and key performance indicators of all entities that conclude insurance contracts or investment contracts with discretionary participation characteristics.

3.1.2. STANDARDS, AMENDMENTS AND CLARIFICATIONS WHICH HAVE NOT BEEN ENTERED INTO FORCE AND DID NOT APPLY 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 1 January 2020 and have not been applied from an earlier date by the Company. They are not expected to have a material effect on the financial statements of the Company. The management expects that all standards and amendments will be 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:

• Classification of liabilities such as current or non-current - amendments to IAS 1 - Effective date: 1 January 2022 [eventually postponed to January 1, 2023]

Amendments to the narrow scope of IAS 1 Presentation of financial statements clarify that liabilities are classified as current or non-current depending on the rights existing at the end of the reporting period. Classification is not affected by the expectations of the enterprise or events after the reporting date (eg receipt from hesitation or breach of the agreement). The amendments also clarify what IMS 1 mean when it mentions a "settlement" of a liability.

The amendments may affect the classification of liabilities, especially the enterprises previously taken into account the intentions of the management guidance as well as for some liabilities that can be transformed into equity.

They must be applied retrospectively in accordance with normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

In May 2020, the CIAS published a project for exposure offering to postpone the effective date of the amendments for 1 January 2023.

• Property, Plant and Equipment — Proceeds before Intended Use - Property, Machinery and Equipment: Receipts before the intended use - Amendments to IAS 16 - Effective date: 1 January 2022.

Amendment to IAS 16 Property, Plant and Equipment (PPE) prohibits the enterprise to deduct from the cost of an asset from a PPE any proceeds received from the sale of items produced while the entity prepares the asset for its intended use. It also clarifies that the enterprise "tests whether the asset is functioning properly" when measuring the technical and physical characteristics of the asset. The financial performance of the asset is not relevant to this measurement.

Enterprises must separately disclose the amounts of revenue and expenditure related to products produced not resulting from enterprise's usual activities.

• Reference to the conceptual framework - Amendments to IFRS 3 - Effective date: 1 January 2022.

Minor amendments to IFRS 3 Business Combinations have been made to update references to the conceptual financial reporting framework and add an exception to recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognized at the acquisition date

• Onerous contracts - Costs of the contract performance Amendments to IAS 37 - Effective date: January 1, 2022.

The amendment to IAS 37 clarifies that the direct costs for contract performance include both additional costs for the contract performance, also the allocation of other costs directly related to the contract performance. Before recognizing a separate provision for an onerous contract, an enterpise recognizes any impairment loss occurring on assets used in the contract performance.

• **Annual Improvements to IFRS Standards 2018–2020 - Effective date: 1 January 2022.**

The following improvements were finalized in May 2020:

• **IFRS 9 Financial Instruments - clarify which charges should be included in the 10% test for the write-off of financial liabilities.**

• **IFRS 16 Leases - Amendment of Illustrative Example 13, to remove the illustration of payments by the lessor related to lease right improvements in order to eliminate any confusion on the treatment of lease incentives.**

• **IFRS 1 Adoption of international financial reporting standards for the first time - allows the enterprises which have measured their assets and liabilities by carrying values recorded in the accounts of their parent companies also measure all differences of recalculations using the amounts, reported by the parent company. This amendment will also apply to associated and joint ventures which have undertake the same exemption under IFRS 1.**

• **IAS 41 Agriculture - Eliminating the requirement to enterprise to exclude cash flows for taxation in measurement of fair value under IAS 41. This amendment is intended to align with the requirement of the cash flow discount standard on an after tax base.**

• **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28**

The CIAS has made amendments to the scope of IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associated and Joint Ventures. The amendments explain the accounting treatment of sales or asset contributions between investor and its associated or joint ventures. They confirm that accounting treatment depends on whether non-monetary sold or imported into an associate or joint venture assets are a "business" (as defined in IFRS 3 Business Combinations). When non-cash assets are a business, the investor will recognize the full profit or loss from the sale or asset importation. If assets do not meet the definition of business, profit or loss is recognized by the investor only to the extent of interests of the other investor at the associated or joint venture. Amendments apply prospectively.

In December 2015, the CIAS decided to postpone the date of enforcement of this amendment until the CIAS completed its research project by the equity method.

At the date of adoption and approval of these financial statements, CIAS published several new but still in force standards and amendments to existing standards and clarification. None of these standards or amendments to existing standards have previously been adopted by the Company.

The management expects all relevant notices to be adopted for the first period beginning on or after the date of entry into force of the notice. The non-adopted during the current year new standards, amendments and interpretations have not been disclosed as they are not expected to have a significant impact on the Company's financial statements.

3.2. GENERAL

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.

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. 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.

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" (Article 17, paragraph 6 of the Ordinance on Natural Gas Price Regulation) and „public service obligation" (Article 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.

B. REVENUE FROM SALES OF NATURAL GAS FOR BALANCING

In order to carry out the supply of natural gas to its customers, Bulgargaz has a contract for access and transmission of natural gas through the territory of Bulgaria with the combined operator Bulgartransgaz EAD. An agreement for the purchase and sale of natural gas for balancing has been concluded and forms an inseparable part of the access and transmission agreement. Balancing is also of continuous nature and the customer receives and consumes the benefits at the same time. Revenue is recognized over time as in the sale of natural gas described above.

The consideration from the customer for the sale of natural gas for balancing includes fixed amounts and is based on the natural gas sales price for the current month + the cost component of balancing determined and fixed by the State Energy and Water Regulatory Commission for the gas year.

There is no financing component in the sales of natural gas for balancing because the payment on sales is due within a period of up to 20 – 25 days from the issue of the invoice, which is in line with 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 THE 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. PLANT AND EQUIPMENT

Plant and equipment are initially recognised 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 Plant and equipment	Subsequent evaluation model
1	Plant and equipment	Revaluation model
2	Computers	Purchase price

No	Class of Plant and equipment	Subsequent evaluation model
3	Vehicles	
	• trucks	Revaluation model
	• cars	Purchase price
	• special vehicles	Revaluation model
4	Office equipment and inventory	Purchase price
5	Spare parts, recognized as plant and equipment	Revaluation model
6	Other machinery and equipment	Purchase price

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.

To this end, during the annual stock-tacking at the end of the reporting period (end of financial year) the Company reviews the plant and equipment for any indications that if their carrying amount differs materially from their fair value. As a substantial 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

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 purchase 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 can 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.

3.10. REPORTING OF LEASES

A. THE COMPANY AS A LESSEE

For all new contracts entered into on or after 1 January 2019, 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 present value 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, assets with a right to use are included in intangible 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 present value 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 writ-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.

Financial assets measured at fair value through other comprehensive income (equity instruments)

Upon initial recognition, the Company classifies the investments in equity instruments in this category when they meet the definition of equity under IAS 32 „Financial Instruments: Presentation" and are not held for trading.

Subsequent measurement of this instrument category is carried at fair value and changes are recognized in other comprehensive income. Fair values are determined on the basis of quoted prices in an active market, and when there is no one based on valuation techniques, usually a discounted cash flow analysis.

Gains or losses on these financial assets are never reclassified to profit or loss. Dividends are recognized in the item „financial income" in the statement of profit or loss and other comprehensive income when the payment entitlement is established. Equity instruments designated at fair value in other comprehensive income are not subject to impairment.

Financial assets at fair value through profit or loss

The Company measures all other financial assets other than those that are measured at amortized cost or at fair value through other comprehensive income at fair value through profit or loss.

If this eliminates or significantly reduces the discrepancy in the measurement or recognition of a financial asset that would result from recognition of results and changes based on different bases, the Company may take the option in accordance with IFRS 9 and upon initial recognition to irrevocably designate a financial asset as measured at fair value through profit or loss, contracts for delivery of a non-financial item. Such financial assets are presented in the notes to the financial statements separately from the other instruments for which this measurement approach is mandatory.

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 that are not carried at fair value through profit or loss using the approach presented 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 present value 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 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 cost and net realisable value.

As of 01.10.2017, a new tariff structure has been introduced for the prices for access and transmission of natural gas through the gas transmission network of Bulgartransgaz EAD due to the need to implement Regulation (EC) 715/2009 of the European Parliament and of the Council on the basis of which a Methodology for price formation for access and transmission of natural gas through the operator's gas network, and the Energy and Water Regulatory Commission has adopted Decision No. НГП-1 of 01.08.2017.

As of 01.10.2017, the Energy and Water Regulatory Commission approves prices for the services of the operator in a new unit of measure – MWh, and Bulgargaz EAD reports the realization of natural gas in the same unit of measure.

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 ECLIPSE, and at the end of each month BULGARGAZ EAD and Bulgartransgaz EAD sign bilateral protocols evidencing the quantity of operating gas available in the underground 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 securities.

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 can 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.

(All amounts are presented in thousands BGN, unless otherwise stated)

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.

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 in financial markets.

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

The majority of the Company's transactions are executed in Bulgarian leva. The Company's foreign transactions, denominated principally in US dollars, Romanian Leu and British Pounds, place the Company at foreign exchange risk.

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

	Exposure to short-term risk	
	US dollars	**Romanian LEU**
31 December 2020		-
Financial assets	118 769	-
Financial liabilities	(3 668)	-
Total exposure to risk	**115 101**	-
31 December 2019		

(All amounts are presented in thousands BGN, unless otherwise stated)

Financial assets	72 803	2 492
Financial liabilities	(12 226)	(387)
Total exposure to risk	**60 577**	**2 105**

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 +/- 6.9% (for 2019 +/- 2.9%)
- Romanian Leu (for 2019 +/- 1.3%)

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.

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 dollars (+/- 6,9%)	7 942	7 942	(7 942)	(7 942)

31 December 2019	**Increase of the exchange rate of BGN**		**Decrease of the exchange rate of BGN**	
	Net financial result	**Equity**	**Net financial result**	**Equity**
US dollars (+/- 2,9%)	1 757	1 757	(1 757)	(1 757)
British pounds (+/- 1,3%)	27	27	(27)	(27)

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 2020, the Company has several overdraft contracts with banks with a fixed interest rate. All other financial assets and liabilities of the Company have fixed interest rates. As of 31 December 2019, the Company is not exposed to the risk of changes in the market interest rates on its bank loans, which have a variable interest rate, due to the fact that there is no change in the average market interest rates.

(C) OTHER PRICE RISKS

The Company is exposed to 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 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 obligations to Suppliers.

(All amounts are presented in thousands BGN, unless otherwise stated)

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.

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	
	2020	**2019**
Trade and other receivables (including Related party receivables Note 34)	91 051	211 942
Cash and cash equivalents	171 857	80
Carrying amount	**262 908**	**212 022**

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

As of 31 December 2020 and 31 December 2019, the Company is exposed to concentrations of credit risk with respect to receivables from Toplofikatsia Sofia EAD that comprise more than 10% of the short-and long-term net receivables:

	AS AT 31 DECEMBER	
	2020	**2019**
Receivables from Toplofikatsia Sofia EAD	47 230	170 864
Total trade and other receivables	**91 051**	**211 942**

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.

Недеривативните финансови пасиви имат следните оставащи по договорите падежи, като посочените суми са недисконтираните договорени парични потоци:

AS AT 31 DECEMBER 2019	Current		Non-current		
	Within 6 months	**6 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Leases	69	-	2	-	71
Trade and other payables	11 056	-	-	-	11 056
Total	**11 125**	**-**	**2**	**-**	**11 127**

AS AT 31 DECEMBER 2019	Current		Non-current		
	Within 6	**6 to 12**	**1 to 5**	**More**	**Total**

(All amounts are presented in thousands BGN, unless otherwise stated)

	months	months	years	than 5 years	
Borrowings	52 386	-	-	-	52 386
Leases	124	125	64	-	313
Trade and other payables	39 098	-	-	-	39 098
Total	**91 608**	**125**	**64**	**-**	**91 797**

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

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 analysed as follows:

	AS AT 31 DECEMBER	
	2020	**2019**
Equity (Net assets)	279 295	239 664
+ Subordinated debt	-	-
Adjusted capital	**279 295**	**239 664**
Total liabilities less subordinated debt:	83 903	187 059
- Cash and cash equivalents	(171 857)	(80)
Net debt	**(87 954)**	**186 979**
Ratio of net debt to adjusted capital	**(1):3,18**	**1:1,28**

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 APPROXIMATE EXTIMATES AND ASSUMPTIONS WITH HIGH UNCERTAINTY

5.1. IMPAIRMENT OF FINANCIAL ASSETS

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

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 of 31 December 2020, management's best estimate of expected credit losses on cash in banks amounts to BGN 155 thousand (31 December 2019: BGN 0 thousand) (Note 3.12.1 and Note 13).

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.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value 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.

In 2020, the Company reviewed the methodology and assumptions used to estimate the estimated credit losses during the previous reporting period to reduce the differences between the estimates and actual credit losses. In connection with the review, the Company has changed its impairment model in calculating expected credit losses on long-term trade and other receivables and receivables from related parties with a financial component.

Approach for impairment of court and awarded receivables

In cases where the Company has taken legal action to satisfy its claims, it is classified as a court receivable. This type of receivable 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 judgments of the judiciary and the started enforcement procedures, the collection of these receivables and respectively the expected future cash inflows are low and the probability of default has already occurred with respect to the original asset, i.e. it is equal to 100%.

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 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 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 2019 management assesses the useful life of assets that represents 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 Note 27.

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 186 thousand (31 December 2019: BGN 173 thousand) 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 securities 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 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 present value 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 of December 31, 2020, 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 of 31 December 2020, the best estimate of the required provision for claims against the Company amounted to BGN 51 592 thousand (31 December 2019: BGN 50 837 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 can 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 can 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::

(All amounts are presented in thousands BGN, unless otherwise stated)

	AS AT 31 DECEMBER 2020
Financial assets	**Debt instruments carried at amortized cost**
Trade and other receivables (Note 11) (including Related party receivables 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**
Leases (Note 18)	71
Trade and other receivables (Note 18)	39 099
Total financial liabilities in the statement of financial position	**39 170**

AS AT 31 DECEMBER 2019

Financial assets	**Receivables and cash**
Trade and other receivables (Note 11) (including Related party receivables Note 34)	211 942
Cash and cash equivalents (Note 13)	80
Total financial assets in the statement of financial position	**212 022**

Financial liabilities	**Financial liabilities carried at amortized cost**
Borrowings (Note 17)	52 386
Lease (Note 18)	313
Trade and other receivables (Note 18)	39 098
Общо финансови пасиви в отчета за финансовото състояние	**91 797**

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. PLANT AND EQUIPMENT

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

	Plant and equipment	**Vehicles**	**Office equipment**	**Total**
AS AT 1 JANUARY 2019				
Gross carrying amount	91	468	304	863
Depreciation	(52)	(429)	(282)	(763)

(All amounts are presented in thousands BGN, unless otherwise stated)

Carrying amount	**39**	**39**	**22**	**100**
CHANGES IN 2019				
Newly acquired	-	-	30	30
Depreciation	(5)	(15)	(22)	(42)
AS AT 31 DECEMBER 2019				
Gross carrying amount	91	468	334	893
Depreciation	(57)	(444)	(304)	(805)
Carrying amount	**34**	**24**	**30**	**88**
CHANGES IN 2020				
Newly acquired	10-	0-	21	**31**
Derecognised	(46)	0	(48)	**(94)**
Depreciation	(7)	(11)	(23)	**(41)**
Derecognised depreciation	37	0	48	**85**
AS AT 31 DECEMBER 2020				
Gross carrying amount	55	468	307	830
Depreciation	(27)	(455)	(279)	(761)
Carrying amount	**28**	**13**	**28**	**69**

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 2020 no plant and equipment are pledged as collateral of Company's liabilities.

As at 31 December 20120, 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.

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 can be analyzed as follows:

	Software	**Licences**	**Assets with right to use**	**Total**
AS AT 1 JANUARY 2019				
Gross carrying amount	887	40	-	**927**
Depreciation	(803)	(7)	-	**(810)**
Carrying amount	**84**	**33**	**-**	**117**
CHANGES IN 2019				
Newly acquired	272	1	546	**819**
Depreciation	(142)	(3)	(243)	**(388)**
Final carrying value	**214**	**31**	**303**	**548**
AS AT 31 DECEMBER 2019				
Gross carrying amount	1 159	41	546	**1 746**
Depreciation	(945)	(10)	(243)	**(1 198)**
Carrying amount	**214**	**31**	**303**	**548**
CHANGES IN 2020				
Newly acquired	159	0	0	**159**
Derecognised	(2)	0	0	**(2)**
Derecognised depreciation	2	0	0	**2**

(All amounts are presented in thousands BGN, unless otherwise stated)

Depreciation	(211)	(3)	(242)	**(456)**
Final carrying value	**162**	**28**	**61**	**251**
AS AT 31 DECEMBER 2020				
Gross carrying amount	1 318	41	546	**1 905**
Amortization	1156)	(13)	(485)	**(1 654)**
Carrying amount	**162**	**28**	**61**	**251**

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".

Intangible assets acquired in 2020 represent a change in functionality of the Supplies and Sales Management modules and software licenses for the Company's server equipment.

No intangible assets are pledged as collateral of Company`s liabilities.

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 2020**	**2019**
Assets with right to use			
Intangible assets	8	60	303
		60	**303**
Lease payables			
Current		69	249
Non-current		2	64
		71	**313**

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

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

	Note	**AS AT 31 DECEMBER 2020**	**2019**
Depreciation of Assets with Right to Use			
Intangible assets	8	(485)	(243)
		(485)	**(243)**
Interest expenses (included in financial expenses)	28	(9)	(20)
Operating lease expense (IAS 17) (included in the cost of hired services)	21	-	-

The total cash flow for leasing in 2020 amounts to BGN 312 thousand.

10. DEFERRED TAX ASSETS AND LIABILITIES

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% (2019: 10%), applicable for the year, when they are expected to occur retroactively.

	AS AT 31 DECEMBER 2020 г.	**2019 г.**
Deferred tax assets		
– Deferred tax assets for recovery in more than 12 months	13 694	13 778

(All amounts are presented in thousands BGN, unless otherwise stated)

Total deferred tax assets	**13 694**	**13 778**
Deferred tax liabilities		
– Deferred tax liabilities for recovery in more than 12 months	(188)	(4)
Total deferred tax liabilities	**(188)**	**(4)**
Deferred tax assets, net	**13 506**	**13 774**

Total movement of deferred income tax can be presented as follows:

	YEAR ENDED 31 DECEMBER	
	2020	**2019**
AS AT 1 JANUARY	**13 774**	**13 814**
Adjustment from initial application of IFRS 9	-	-
AS AT 1 JANUARY (recalculated)	**13 774**	**13 814**
Recognized as expense in profit or loss (Note 29)	(271)	(41)
Tax income related to components of other comprehensive income (Note 26)	3	1
AS AT 31 DECEMBER	**13 506**	**13 774**

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

As of December 31, 2020 and 31 December 2019, the Company has no unused tax losses that can be used in subsequent reporting periods.

(All amounts are presented in thousands BGN, unless otherwise stated)

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

	Impairment of inventory	Impairment of financial assets - receivables	Pension provisions and constructive obligations	Unused paid leaves	Leases IFRS 16	Plant and Equipment	Total
DEFERRED TAX ASSETS							
AS AT 1 JANUARY 2019	-	**(13 786)**	**(15)**	**(16)**	-	-	**(13 817)**
Expense/(Income) in profit or loss	-	42	(2)	-	(1)	-	**39**
Expense/(Income) in other comprehensive income	-	-	-	-	-	-	-
AS AT 31 DECEMBER 2019	-	**(13 744)**	**(17)**	**(16)**	**(1)**	-	**(13 778)**
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)**
DEFERRED TAX LIABILITIES							
AS AT 1 JANUARY 2019	-	-	-	-	-	3	3
Expense in profit or loss	-	-	-	-	-	1	1
AS AT 31 DECEMBER 2019	-	-	-	-	-	4	4
Expense in profit or loss	-	-	-	-	-	(2)	(2)
AS AT 31 DECEMBER 2020	-	-	-	-	-	**2**	**2**
DEFERRED TAX ASSETS AS AT 31 DECEMBER 2019, NET		**(13 744)**	**(17)**	**(16)**	**(1)**	**4**	**(13 774)**
DEFERRED TAX ASSETS AS AT 31 DECEMBER 2020, NET	**(31)**	**(13 441)**	**(19)**	**(16)**	**(1)**	**2**	**(13 506)**

(All amounts are presented in thousands BGN, unless otherwise stated)

11. TRADE AND OTHER RECEIVABLES

	AS AT 31 DECEMBER 2020	2019
Trade receivables	63 415	218 104
Accumulated impairment of trade receivables	(1 019)	(7 165)
Trade receivables, net	**62 396**	**210 939**
Court and awarded receivables	213 001	202 335
Accumulated impairment of court and awarded receivables	(203 014)	(201 809)
Court and awarded receivables, net	**9 987**	**526**
Receivable from Corporate Commercial Bank AD - insolvent	4 064	4 503
Accumulated impairment of receivable from Corporate Commercial Bank AD-insolvent	(4 064)	(4 503)
Receivable from Corporate Commercial Bank AD-insolvent, net	-	-
Prepaid advances for natural gas delivery	35 639	80 263
Receivables from related parties (Note 34)	14 128	10 728
Other receivables - prepaid expenses, guarantees and deposits	6 187	3 576
Total trade and other receivables	**128 337**	**306 032**
Less non-current portion	-	7 046
Current trade and other receivables	**128 337**	**298 986**

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.

In 2017 and 2020, the Commercial Register published partial 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 2019 and 2020 of Bulgargaz EAD has been reimbursed an amount of BGN 1,014 thousand in total.

(All amounts are presented in thousands BGN, unless otherwise stated)

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 2020 and 31 December 2019, respectively:

31 December 2020	**Relative share**	**Gross amount of customer receivables**	**Impairment of expected credit loss**	**Net amount of receivables from customers**
	%	**TBGN**	**TBGN**	**TBGN**
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
Over 360 days	0.00%	-	-	-
Under agreements	8.32%	5 278	-	5 278
		63 415	**(1 019)**	**62 396**

31 December 2019	**Relative share**	**Gross amount of customer receivables**	**Impairment of expected credit loss**	**Net amount of receivables from customers**
	%	**TBGN**	**TBGN**	**TBGN**
Unmatured	45.84%	99 987	(1 030)	98 957
30-90 days	25.09%	54 726	(5 361)	49 365
90 – 180 days	19.34%	42 180	(694)	41 486
180 – 360 days	0.05%	99	(9)	90
Over 360 days	0.34%	745	(71)	674
Under agreements	9.34%	20 367	-	20 367
		218 104	**(7 165)**	**210 939**

The maturity structure of current trade receivables is as follows:

As at 31 December 2020

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

As at 31 December 2019

	Not overdue	**30-90 days**	**90-180 days**	**180-360 days**	**>360 days**	**Total**
	TBGN	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**
Trade receivables	101 227	57 206	45 511	6 369	7 791	**218 104**
	101 227	**57 206**	**45 511**	**6 369**	**7 791**	**218 104**

(All amounts are presented in thousands BGN, unless otherwise stated)

In calculating the impairment, the concept and approach in the new depreciation model under IFRS 9 Financial Instruments, in force since 1 January 2018, have been completely changed.

The Company's judgment has been replaced by new assumptions, including various items - credit rating of banks, days of delay and customer risk, industry risk modeling, invoicing correction factor, formulas for estimating expected credit losses and others.

Some of the information used, such as Risk by Country, Risk Free, T-Bonds, Cost of debt, etc., 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 asset impairment tests based on several „models", depending on the above classification of the Company's accounting policies.

As at 31 December 2020, trade receivables with book value of BGN 51 992 thousand (31 December 2019: BGN 172 293 thousand) were impaired.

The aging analysis of trade receivables for which an impairment loss is recognized as at 31 December 2020 is as follows:

	AS AT 31 DECEMBER	
	2020	2019
Within 3 months	1 019	6 391
Between 3 and 6 months	-	694
Over 6 months	-	80
Total	**1 019**	**7 165**

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

	YEAR ENDED 31 DECEMBER	
	2020	2019
AS AT 1 JANUARY	**213 477**	**214 108**
Accrued impairment losses of financial assets	11 148	6 928
Derecognised bad debts	(925)	(3)
Recovered losses from impairment	(15 011)	(7 348)
Recovered losses from impairment of CCB AD-insolvent	(439)	(208)
AS AT 31 DECEMBER	**208 251**	**213 477**

Impairment loss and recovery is 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 payments.

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 of 31 December 2020, the Company holds collateral as a security for trade receivables in the amount of BGN 80 thousand (2019 - BGN 62 thousand).

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

	AS AT 31 DECEMBER	
	2020	2019
Bulgarian Lev (BGN)	84 038	215 810

(All amounts are presented in thousands BGN, unless otherwise stated)

US Dollars (USD)	35 653	80 261
Romanian Leu (RON)	1	1 115
Euro (EUR)	8 645	1 800
Total trade and other receivables	**128 337**	**298 986**

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

12. INVENTORIES

Inventories recognized in the statement of financial position can be analysed as follows:

	AS AT 31 DECEMBER	
	2020	**2019**
Natural gas at cost	49 468	106 179
Impairment to a net realizable value	(310)	
Natural gas – net realisable value	49 158	106 179
Materials	20	22
Total inventories	**49 178**	**106 201**

In 2020, the value of the realized natural gas in the amount of BGN 644 430 tousand was reported as an expense in profit or loss (2019: BGN 1 353 232 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 decisions of EWRC № Ц-1/01.01.2020, № Ц-10/1.04.2020, № Ц-26/01.07.2020 and № Ц-37/01.10.2020 and № Ц -1/01.01.2021.

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.

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

13. CASH AND CASH EQUIVALENTS

	AS AT 31 DECEMBER	
	2020	**2019**
Cash in current bank accounts	172 003	76
Cash on hand	9	4
Cash accumulated impairment	(155)	-
Total cash and cash equivalents in the statement of financial position	**171 857**	**80**

The amount of cash that has been apprehended in relation to a claim against a counterparty of the Company as at 31 December 2020, amounts to BGN 0 (31 December 2019: BGN 50 thousand).

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

	AS AT 31 DECEMBER	
	2020	**2019**
Bulgarian Lev (BGN)	88 756	66
US Dollars (USD)	83 131	1

(All amounts are presented in thousands BGN, unless otherwise stated)

Euro (EUR)	125	13
Total cash and cash equivalents	**172 012**	**80**

14. RECONCILIATION OF INITIAL AND FINAL 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 of 31.12.2020 of liabilities arising from financial activities can be presented as follows:

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

The reconciliation between the initial and final balances in the statement of financial position as of 31.12.2019 of liabilities arising from financial activities can be presented as follows:

Liabilities arising from financial activities	On 1 January	Cash flows from financial activities		Changes of a non-monetary nature - dematerialized		On 31 December
		Receipts	Payments	Acquired (increases)		
Short-term bank loans	3 687	52 372	(3 687)	-	14	52 386
Lease payables	-	-	(252)	546	19	313
Interest on borrowings and deferred trade liabilities	-	-	(166)	-	166	-
Total liabilities of financial activities:	**3 687**	**52 372**	**(4 265)**	**546**	**199**	**52 699**

15. SHARE CAPITAL

As at 31 December 2020, 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.

Movement of shares for the reporting periods can be represented as follows:

	Number of shares	Amount TBGN
AS AT 1 JANUARY 2019	**231 698 584**	**231 698**
AS AT 31 DECEMBER 2019	**231 698 584**	**231 698**
AS AT 31 DECEMBER 2020	**231 698 584**	**231 698**

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	Reserve of revaluations	Total

		non-financial assets	of defined benefit plans	
AS AT 1 JANUARY 2019	**7 367**	**53**	**(8)**	**7 412**
Transfer to "Reserve" Fund		-	-	
Revaluation of defined benefit plans	-	-	(8)	**(8)**
AS AT 31 DECEMBER 2019	**7 367**	**53**	**(16)**	**7 404**
Writ-off of reserve for derecognised assets	-	(18)	-	(18)
Revaluation of defined benefit plans	-	-	(26)	(26)
AS AT 31 DECEMBER 2020	**7 367**	**35**	**(42)**	**7 360**

STATUTORY RESERVES

Statutory reserves comprise the „Reserve Fund", a source for the formation of which is 1/10 of the profit, while the resource of the fund reaches at least 1/10 of the registered capital.

REVALUATION RESERVES OF NON-FINANCIAL ASSETS

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 2020	2019
Current		
Borrowings (BGN)	-	52 372
Interest	-	14
Total current	**-**	**52 386**
Total borrowings	**-**	**52 386**

As at 31 December 2020, Д the Company has not undrawn overdrafts granted by 4 /four/ banking institutions. The agreed amount of the concluded loans is BGN 70 000 thousand. The loans are unsecured and have maturities in the period October 2021 – December 2021.

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

18. TRADE AND OTHER PAYABLES

	AS AT 31 DECEMBER 2020	2019
Related party payables (Note 34)	2 952	3 159
VAT payable	18 644	24 048
Trade payables	8 104	35 940
Advances received from clients for sale of natural gas	53	17 654
Excise duty	1 131	1 211
Payables to employees	133	134
Liabilities to insurance companies	81	82
Other liabilities	233	247

(All amounts are presented in thousands BGN, unless otherwise stated)

Total trade and other payables	**31 331**	**82 475**

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.

Payables to employees represent obligations to Company's employees, to be settled in 2021. They occur mainly in relation to accumulated unused leave at the end of the reporting period and amounted to 133 thousand (31 December 2019: 134 housand).

Liabilities to insurance companies amount to BGN 81 thousand (31 December 2019: BGN 82 thousand) include the social security payables related to accrued unused compensation leaves in the amount and social security payables over remunerations for December 2019, paid during January 2021.

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	
	2020	**2019**
Current amount of liabilities	186	173
Liability at the end of the reporting period	**186**	**173**

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

	YEAR ENDED 31 DECEMBER	
	2020	**2019**
AS AT 1 JANUARY	**173**	**151**
Current length-of-service costs (Note 22)	13	11
Interest expenses (Note 28)	1	2
Total expenses in profit or loss	**14**	**13**
Revaluations:		
- Gains from changes in demographic assumptions	0	1
- Gains from changes in financial assumptions	15	3
- Profit/(loss) from the actual experience	14	5
Total other comprehensive income	**29**	**9**
Paid benefits	**(30)**	**-**

(All amounts are presented in thousands BGN, unless otherwise stated)

AS AT 31 DECEMBER	**186**	**173**

The main actuarial assumptions used are as follows:

	AS AT 31 DECEMBER 2020	2019
Discount rate	0.5 %	0.6 %
Future salaries increase	10%	2%

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 2020:

AS AT 31 DECEMBER 2019	Change in the actuarial assumptions	Effect on the liability in BGN	Change in the actuarial assumptions	Effect on the liability in BGN
Discount rate	+ 1 %	(9 194)	– 1 %	10 651
Salary increase	+ 1 %	8 638	– 1 %	(7 645)
Staff turnover	+ 1 %	(8 370)	– 1 %	9 584
Average life expectancies	+1 year	683	-1 tyear	732

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 of 31 December 2020, the weighted average duration of the obligation to pay compensation upon retirement is 5 years.

20. RECOVERED/(ACCRUED) IMPAIRMENT LOSSES ON FINANCIAL ASSETS - NET

Impairment losses for the Company related to impairment of financial assets are as follows:

	YEAR ENDED 31 DECEMBER 2020	2019
Accrued impairment loss on trade receivables, net	(6 031)	(843)
Accrued impairment loss on court and awarded receivables, net	2 014	422
Accrued impairment loss on cash in banks, net	155	-
Accrued and recovered impairment loss on receivables from CCB (insolvent)	(440)	(208)
Total impairment loss on financial assets	**(4 302)**	**(629)**

(All amounts are presented in thousands BGN, unless otherwise stated)

In 2019, the Company reviewed the methodology and assumptions used to estimate the estimated credit losses during the previous reporting period to reduce the differences between the estimates and actual credit losses. In connection with the review, the Company has changed its impairment model in calculating expected credit losses on long-term trade and other receivables and receivables from related parties with a financial component and cash in banks. In 2020, no change was made in the above models to establish credit losses.

21. COST OF HIRED SERVICES

The cost of hired services includes:

	YEAR ENDED 31 DECEMBER	
	2020	**2019**
Natural gas storage expenses	4010	5 497
Court fees and legal advices	1194	279
License fees	732	673
Rents	1	14
Other fees	271	179
Insurance	109	111
Management contract expenses	95	121
Communications	142	108
Remunerations of audit committee members	97	88
Subscription service	14	13
Consulting services	84	68
Total cost of hired services	**6 749**	**7 151**

22. EMPLOYEE BENEFITS AND SOCIAL SECURITY EXPENSES

Employee benefits and social security expenses of the Company include:

	YEAR ENDED 31 DECEMBER	
	2020	**2019**
Salary expenses	2 580	2 521
Social security expenses	347	358
Compensated leaves costs	86	91
Cost of defined retirement benefit obligations (Note 19)	13	11
Total employee benefit expenses	**3 026**	**2 981**

The number of employees at the end of the reporting periods and the average number of employees is as follows:

	YEAR ENDED 31 DECEMBER	
	2020	**2019**
Hired employees at the end of the period	51	53
Average number of hired employees throughout the year	52	53

23. COST OF MATERIALS

The cost of materials of the Company includes:

YEAR ENDED

(All amounts are presented in thousands BGN, unless otherwise stated)

	31 DECEMBER	
	2020	**2019**
Fuel and lubricants	19	26
Stationery and consumables	17	10
Main materials	14	15
Other	25	13
Total cost of materials	**75**	**64**

24. EXPENSES ON PROVISIONS

	YEAR ENDED 31 DECEMBER	
	2020	**2019**
Provision for a fine in Case COMP/B1/AT.39849 - BEH gas (Note 33)	756	593
Total expenses on provisions	**756**	**593**

25. OTHER EXPENSES

Other expenses of the Company include:

	YEAR ENDED 31 DECEMBER	
	2020	**2019**
Penalties on delayed payments	-	371
Business trips and entertainment expenses	36	66
Trainings	1	7
One-off taxes	34	11
Others	21	20
Total other expenses	**93**	**475**

26. OTHER REVENUE AND INCOME

Other revenue and income of the Company include:

	YEAR ENDED 31 DECEMBER	
	2020	**2019**
Penalties on overdue receivables	16 337	14 055
Other sanctions and contract penalties	3 649	7 151
Recovered legal expenses	6	100
Other	1	5
Total other revenue	**19 993**	**21 311**

27. REVENUES FROM SALE OF NATURAL GAS

REVENUE UNDER CONTRACTS WITH CUSTOMERS

	YEAR ENDED 31 DECEMBER	
	2020	**2019**
Types of goods and services		
Revenues from sale of natural gas	678 769	1 383 428
	678 769	**1 383 428**

(All amounts are presented in thousands BGN, unless otherwise stated)

Geographic markets		
- Domestic market	678 769	1 383 428
	678 769	**1 383 428**
Timing of revenue recognition		
Goods passed at a given moment of time	678 769	1 383 428
	678 769	**1 383 428**

The table below provides information on the accounting policy applied by the Company for recognition of revenue and time to satisfy obligations for the execution of contracts with clients under IFRS 15.

Type of product/ service	Nature and timing of fulfilment of performance obligations, including essential payment terms	Recognition of revenue under IFRS 15
Revenue from sale 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; • has 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 EAD's delivery obligations and the customer's acceptance obligations. The transaction price is the amount of the consideration the entity expects to have the right to in exchange for the customer's transfer of the promised goods or services, except for amounts collected on behalf of third parties (VAT, excise duty). Sales payments are payable within 12 days of the final invoice for the supply of natural gas, which is in line with market practice.
Revenue from sales of natural gas for balancing	In order to carry out the supply of natural gas to its customers, Bulgargaz has a contract for access and transmission of natural gas through the territory of Bulgaria with the combined operator Bulgartransgaz. An agreement for the purchase and sale of natural gas for balancing has been concluded and forms an inseparable part of the access and transmission agreement. Balancing is also of continuous nature and the customer receives and consumes the benefits at the	The consideration from the customer for the sale of natural gas for balancing includes fixed amounts and is based on the natural gas sales price for the current month + the cost component of balancing determined and fixed by the State Energy and Water Regulatory Commission for the gas year. There is no financing component in the sales of natural gas for balancing because the payment on sales is due within a period of up to 20 - 25 days from the issue of the invoice, which is in line with market practice

(All amounts are presented in thousands BGN, unless otherwise stated)

Type of product/ service	Nature and timing of fulfilment of performance obligations, including essential payment terms	Recognition of revenue under IFRS 15
	same time. Revenue is recognized over time as in the sale of natural gas described above.	

BALANCES ON CONTRACTS WITH CUSTOMERS

	AS AT 31 DECEMBER 2020	AS AT 31 DECEMBER 2019
Trade receivables	59 851	210 939
Receivables from related parties	14 128	10 728
	73 979	**221 667**

28. FINANCIAL INCOME AND COSTS

Financial income and costs of the Company for the reporting periods can be analysed as follows:

	YEAR ENDED 31 DECEMBER 2020	2019
Financial income		
Interest income on long-term receivables	1 127	2 928
Finance income – interest income from financial assets carried at amortized cost	**1 127**	**2 928**
Total financial income	**1 127**	**2 928**
Financial costs		
Interest expense on trade payables to related parties	-	(177)
Interest expenses on leases	(9)	(20)
Interest expense on short-term loans	(24)	-
Interest expense on financial liabilities carried at amortized cost	**(33)**	**(197)**
Interest expense on overdue tax liabilities	(20)	(221)
Bank charges	(559)	(121)
Bank Guarantee commission fee in Case COMP/B1/AT.39849 - BEH gas	(513)	(396)
Interest expense on defined benefit obligations (Note 19)	-	(2)
Total financial costs	**(1 126)**	**(937)**
Financial income/(costs), net	**1**	**1 991**

29. OTHER FINANCIAL INCOME/COSTS, NET

	YEAR ENDED 31 DECEMBER 2020	2019
Loss from changes in exchange rates of receivables and payables and cash	(2 978)	(4 088)
Financial income/(costs), net	**(2 978)**	**(4 088)**

30. INCOME TAX EXPENSES

The relationship between the expected tax income/(expense) based on the applicable tax rate in Bulgaria of 10% (2019: 10%) and the tax expense/income actually recognized in profit or loss can be reconciled as follows:

(All amounts are presented in thousands BGN, unless otherwise stated)

	YEAR ENDED 31 DECEMBER	
	2020	**2019**
Profit before tax	44 151	38 345
Tax rate	10%	10%
Expected tax expense	(4 415)	(3 834)
Tax effect on income tax expense on:		
Expenses not recognized for tax purposes	(1610)	(966)
Income not recognized for tax purposes	1 802	925
Income taxes expenses	**(4 223)**	**(3 875)**
Expenses on current corporate tax	(4 223)	(3 875)
Effect of the change in deferred taxes (Note 10)	(271)	(41)
Income (expense) tax revenues	**(4 494)**	**(3 916)**
Deferred tax income (expense) recognized directly in the other comprehensive income	**3**	**1**

31. NON-CASH TRANSACTIONS

In 2020 the Company did not enter into investing 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.

Dividends obligations are determined annually by the State Budget Act.

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") is related to an alleged infringement of Article 102 of TFUE in connection to alleged actions of BEH EAD and its subsidiaries - Bulgargaz EAD and Bulgartransgaz EAD related to:

- preventing their competitors from getting access to key gas infrastructure (gas transmission network and the gas storage facility) in 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 (Art.7 and 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), 10 July 2015 („Bulgarian Energy Holding" EAD) and 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. It should be borne in mind that, if the General Court decides to open the oral procedure, the President sets the date for the oral hearing, most probably in 2021.

As of 31 December 2020, the Company has accrued a provision in the amount of BGN 50 244 thousand, representing 1/3 of the total amount of the imposed fine and interest thereon in the amount of BGN 1 348 thousand, with the estimate being that the settlement is expected to occur after more than 12 months.

Contingent asset

Bulgargaz EAD initiated the International Arbitration Case No. 78/2019 of the International Commercial Arbitration Tribunal of the Romanian Chamber of Commerce and Industry, against Transgaz National Gas Company SA, Romania. The expected outcome of the case is a full refund of the amount of BGN 3 737 thousand.

The claim brought by the Company through a lawsuit, the outcome of which is uncertain, meets the criteria for a Contingent Asset.

According to a 2020 contract entered into with a banking institution, the Company was granted a credit product in the form of issuance of a bank guarantee. The guarantee is in favor of a natural gas supplier and is an obligation on the Bank to repay the Company's obligations in the event that they arise, which is eligible for a conditional asset. For securing the Bank's receivables, in connection with the credit provided, the Company has established a collateral in its benefit, which is in a special account of the Company and has the character of a conditional liability.

Contingent liabilities

There are legal claims 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.

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 BALANCES

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

Andon Petrov Andonov	Chairman and member of the Board of Directors of BEH EAD
Zhivko Dimitrov Dinchev	Member of the Board of Directors of BEH EAD
Jacklen Yosif Cohen	Member of the Board of Directors of BEH EAD and Executive Director

Key management of the Company

Petyo Angelov Ivanov	Chairman of and member of the Board of Directors
Iliyan Kirilov Dukov	Member of the Board of Directors
Nikolay Angelov Pavlov	Member of the Board of Directors and Executive Director

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 transmission.

The transactions between the Company and its related parties are as follows:

(A) SALE OF GOODS

	YEAR ENDED 31 DECEMBER	
	2020	**2019**
Companies under common control		
Bulgartransgaz EAD	3 745	6 339

(All amounts are presented in thousands BGN, unless otherwise stated)

Total	**3 745**	**6 339**

Sales include natural gas sold for technology and balancing.

(B) ASSIGNMENT OF CLIAMS

	YEAR ENDED 31 DECEMBER	
	2020 г.	**2019 г.**
Parent company		
Bulgarian Energy Holding EAD	109 946	-
Total	**109 946**	**-**

During the reporting period, the Company had transferred his own receivables from Toplofikatsia Sofia EAD to Bulgarian Energy Holding EAD, a the total amount of BGN 109,946 thousand. The price is paid by the assignee of the assignor as of 31.12.2020.

(C) PURCHASE OF GOODS AND SERVICES

	YEAR ENDED 31 DECEMBER	
	2020	**2019**
Parent company		
Bulgarian Energy Holding EAD	95	122
Companies under common control		
Bulgartransgaz EAD	58 151	87 720
Bulgartel EAD	7	7
Balkan Gas Hub EAD	28	
Total	**58 281**	**87 849**

Purchases of services from Bulgarian Energy Holding EAD include services under management and control agreement and others.

Purchases of services from Bulgartransgaz EAD include transmission, access (capacity) and storage of natural gas.

Purchases of services from Bulgartel EAD include technical support.

(D) ACCRUED PENALTY CHARGES

	YEAR ENDED 31 DECEMBER	
	2020	**2019**
Companies under joint control		
Bulgarian Energy Holding EAD	513	-
Bulgartransgaz EAD	-	117
Total	**513**	**117**

The accrued expense for bank commissions are in connection with bank guarantee maintenance under case COMP/B1/AT.39849 – BEH gas and for penalties on transmission and storage of natural gas.

(E) RECEIVABLES FOR PURCHASES OF GOODS AND SERVICES

	AS AT 31 DECEMBER	
	2020	**2019**
Companies under common control		
Bulgartransgaz EAD	14 128	10 728
Total current	**14 128**	**10 728**

The receivables from Bulgartransgas EAD represent financial collateral in the form of a credit limit and guarantee granted in connection with a Contract for access and transmission of natural gas on the gas transmission network of Bulgartransgaz EAD and receivables for balancing services, settled in January 2021.

(All amounts are presented in thousands BGN, unless otherwise stated)

(F) PAYABLES FOR PURCHASES OF GOODS AND SERVICES

	AS AT 31 DECEMBER	
Current	**2020**	**2019**
Parent company		
Bulgarian Energy Holding EAD	30	32
Companies under common control		
Bulgartransgaz EAD	2 921	3 126
Bulgartel EAD	1	1
Total current	**2 952**	**3 159**
Total	**2 952**	**3 159**

Trade payables of the Company to Bulgartransgaz EAD are related to transmission and storage of natural gas, settled in 01.2021.

(G) KEY MANAGEMENT PERSONNEL REMUNERATIONS

Key management personnel includes members of the Board of Directors. Key management personnel remunerations are as follows:

	YEAR ENDED 31 DECEMBER	
	2020	**2019**
Short term benefits to key management personnel		
- Remunerations	282	180
- Social security costs	23	18
Total	**305**	**198**

The Company has no remuneration obligations to the key management personnel at the end of each of the reporting periods.

35. POST-REPORTING DATE EVENTS

Change of natural gas delivery point

On 30 December 2019, an ancillary agreement was signed between Bulgargaz EAD and Gazprom Export LLC to the gas supply contract dated 15 November 2012.

With this ancillary agreement, as of 01.01.2020 the entry-exit point is changed from Isakcha and Negru Voda to Strandzha 2/Malkoclar (interconnection point "Strandzha 2").

In this regard, the Technology Unit in the Republic of Romania has been closed as of 1 January 2020.

Amendment and supplement to the Energy Act

With the Act Amending and Supplementing the Energy Act (AAS of the Energy Act), adopted on 25.09.2019 by the National Assembly and promulgated in the State Gazette No. 79 of 2019, an organized natural gas exchange market is created, and its functioning and the role of market participants in it are regulated.

From 01.12.2019 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, regulated in Art. 176a EA. The release shall respect the following conditions:

1) Conducting up to two auctions for release in order to guarantee the security of supply for the country, the quantities being intended for end suppliers or customers connected to the Bulgarian gas transmission system. The quantities released are purchased directly or through a natural gas dealer;

2) persons related with the public supplier cannot participate in the auctions;

3) for the released and unbought quantities of the two auctions, subsequent auctions with price increase shall be held, the quantities may be intended for clients in and/or outside the country.

4) the public contractor has the right to dispose of the quantities not purchased since the last auction.

5) the starting price of the auctions for release should be fully compliant with the provision of Art. 176a, para 3, item 2 EA – it must include all costs of Bulgargaz EAD for the provision of natural gas to the virtual trading point (VTP).

With regard to the supply of natural gas on the organized stock market under the Natural Gas Release Program, Bulgargaz EAD applies the terms of the Agreement for the Implementation of a Natural Gas Release Program approved by the EWRC on 29.11.2019.

With the amendment of Art. 30, para. 1, item 7 of the Energy Act (EA), introduced by the Act Amending and Supplementing the Energy Act (AAS of the Energy Act), promulgated. in the State Gazette No. 79 of 2019, the number of persons to whom Bulgargaz EAD sells natural gas at a regulated price has been significantly narrowed. The amendment enters into force as of 01.01.2020, as Bulgargaz EAD, as a public provider, 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 energy.

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

For 2020, Bulgargaz EAD, as a public supplier, has concluded contracts for the supply of natural gas at regulated prices to customers connected to the gas transmission network, who are not licensees for the activities of production and transmission of heat or respectively end suppliers ("Contracts"). The contracts were concluded prior to the entry into force of the AAS of the Energy Act.

The principle under the Bulgarian law is that the laws, including their amendments, have no retroactive effect, i.e. they only act in the future. The lack of explicit text in the transitional and final provisions of the AAS of the Energy Act, concerning the contracts already concluded with customers, which after the entry into force of the APA of the Energy Act, do not fall into the circle of persons under Art. 30, para. 1, Item 7 of the EA, stipulates that these contracts continue to be valid.

It is admissible for the price to be determinable, including by reference to the price for public supply offered by Bulgargaz EAD for approval by EWRC.

In order to ensure a level playing field between the clients of the company, Bulgargaz EAD applies a uniform approach in the formation of the prices at which it supplies natural gas to the regulated market and, accordingly, the prices under the Contracts, which were initially concluded under the conditions of regulated prices, and which after entering into force of AAS of the Energy Act should be performed at freely negotiated prices.

In order to ensure a smooth transition and to maximize the protection of the interests of both parties, Bulgargaz EAD offered to its clients the formation of the sale prices under the Contracts to be carried out in accordance with the provisions of Ordinance No. 2 of 19.03.2013 on the regulation of natural gas prices (the Ordinance (s))..

Renegotiation the natural gas supply price

On March 2, 2020 Bulgargaz EAD and Gazprom Export PLC signed an Addendum to the Natural GasSupply Contract. The Addendum governs the new pricing and reimbursement of overpaid amounts for the past negotiation period. The new pricing formula is applied as from 05.08.2019 - the date of the first request of Bulgargaz EAD for reviewing the price.

The signed Addendum will have an effect on the cost of gas delivered by reducing the delivery price, as well as on the reported sales revenue by reducing the selling price for the specified period.

The repayment of amounts for past periods by Gazprom Export LLC is unprecedented and for that there is a proposal for a compensation mechanism to be regulated to transfer the benefits from the renegotiations of the supply price under the Contract from Bulgargaz EAD to the Company's customers. It is proposed that the settlement of the relations for the repayment of the sums due to the customers of Bulgargaz EAD should be settled with a transitional provision of the EA in view of its one-off nature.

The National Assembly adopted a Law on the Supplement to the Energy Act in connection with the reimbursement of BULGARGAZ EAD to the Company's clients for the period 05.08.2019 - 31.03.2020.

The Law was promulgated on 24.04.2020 in the State Gazette, Issue 38 and has had a significant effect on the Company's financial statements.

As a result of the adopted Supplement to the Energy Act, the Energy and Water Regulatory Commission adopted decisions to promote the natural gas prices for each month from the period 05.08.2019 - 31.03.2020. The approved selling price is in accordance with the new pricing according to the Supplement signed with the Supplier.

Bulgargaz EAD calculated the reimbursement amounts to the customers under natural gas supply contracts as the difference between the amounts paid for the quantities delivered at the prices approved by decisions of the Energy and Water Regulatory Commission, until the entry into force of the Law on the Supplement to the Energy Act and at the prices approved by relevant new decisions of the EWRC.

Agreements have been entered into with the Company's customers and the amounts of the customers have been reimbursed.

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

Coronavirus

At the end of 2019, news from China about COVID-19 (Coronavirus) first appeared, when a limited number of unknown virus cases were reported to the World Health Organization. During the first few months of 2020, the virus spread globally and its negative effects gained momentum.

On 11 March 2020, after cases of new coronavirus strains were reported in 114 countries, the World Health Organization (WHO) announced the COVID-19 epidemic for a pandemic.

On 13 March 2020, at the request of the government, the National Assembly declared a state of emergency in Bulgaria because of the coronavirus. The management considers this as a non-adjusting event after the date of the reporting period because it believes that it will not call into question the Company's ability to continue to operate as a going concern.

Bulgargaz EAD takes all necessary measures in order to preserve the health of the workers. The actions are in accordance with the instructions of the National Operational Headquarters and strictly follow the instructions of all national institutions.

As at the date of approval of the current financial statements, the extraordinary epidemic situation continues and by order of the Minister of Health No.РД-01-677 of 25.11.2020 for the introduction of anti-epidemic measures on the territory of the Republic of Bulgaria it was extended until 30 April 2021.

36. EVENTS OCCURRING AFTER THE END OF THE REPORTING PERIOD

On 25.02.2021, additional Agreements have been signed with recent customers, in connection with the reimbursement of amounts by Bulgargaz EAD to the Company's customers for the period on 05.08.2019 - 31.03.2020, according to the Law on Supplement to the Eneregy Act.

The signed agreements meet the requirements of events after the end of the reporting period within the meaning of IAS 10 and are reflected as adjusting events for 2020 within the meaning of the same standard .

The contract of Bulgargaz EAD for assignment the management to Petyo Angelov Ivanov, as a non-excutive member of the Board of Directors and Chair of the Board of Directors, was terminated as from 11.02.2021, abd the termination was entered in the Commercial Register of the Commercial Register on 01.03.2021.

There are no other adjusting or non-adjusting events after the date of the reporting period, which to require additional disclosure or adjustments to the financial statements of Bulgargaz EAD as of December 31 2020.

37. DISCLOSURE ACCORDING TO LEGAL REQUIREMENTS

These financial statements have been audited by the audit company HLB Bulgaria Ltd., on the basis of a contract concluded between Bulgarian Energy Holding EAD and HLB Bulgaria Ltd. The Company does not charge fees for an independent financial audit. The consolidated financial statements of Bulgarian Energy Holding EAD include disclosure of accrued amounts for services provided by the registered statutory auditor for an independent financial audit. During the period the registered statutory auditor did not provide other services.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements at 31 December 2020 (including comparatives) were approved and adopted by the Board of Directors on 19 април 2021.

HLB BULGARIA

INDEPENDENT AUDITOR'S REPORT

TO THE SOLE OWNER OF

BULGARGAZ EAD

Report on the audit of the financial statements

Opinion

We have audited the Annual Financial Statements of **Bulgargaz EAD** („Company"), which comprise the statement of financial position as of December 31, 2020 and the profit or loss and other comprehensive income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the accompanying financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards of Auditing (ISAs). Our responsibilities under these standards are further described in the section of our report "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 of Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA Code), together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the annual financial statements in Bulgaria, and we have fulfilled our other ethical 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.

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

The management is responsible for the other information. The other information comprises the annual activity report prepared by the management under Chapter Seven of the Accountancy Act, but does not include the annual financial statements and our auditor's report thereon.

Our opinion on the annual financial statements does not cover the other information and we do not express any form of conclusion on its reliability, unless expressly stated in our report and to the extent to which it is stated.

In connection with our audit of the annual 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 our knowledge obtained in the audit or otherwise appears to be materially misstated.

We have nothing to report in this regard.

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Key Audit Matters

Key audit matters are those matter that, in our professional judgment, were of most significance in our audit of the annual financial statements for the current period. These matters were addressed as part of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of financial assets by the model of expected credit losses under IFRS 9 „Financial Instruments"

IFRS 9 „Financial Instruments" (IFRS 9) entered into force for annual reporting periods beginning on or after 1 January 2018. Given the fact that IFRS 9 is a comprehensive accounting standard, which requires considerable assessment and interpretation in its implementation, we have designated this issue as a key audit issue for our audit.

Appendix 3.12.1, Appendix 5.1, Appendix 11 and Appendix 18 to the financial statements

Key audit matter	How this key audit matter was addressed to the audit we performed
We have focused on this area because: • The management performs significant judgments using subjective assumptions on the assessment of financial assets according to IFRS 9 regulations. • The process of determining the expected credit losses implies multiple judgments and a higher level of uncertainty and subjectivity in the forecast assumptions about when and how much to recognize the impairment of receivables and evaluating the amount of expected credit losses; calculation of credit losses to financial assets are already determined on the basis of expected losses rather than on historically suffered losses; • As of December 31, 2020, trade and other receivables of Bulgargaz EAD net of impairment amounted to BGN128,337 thousand, which is 37% of the value of the Company's current assets as at that date. In connection with the above, we have identified this issue as a key audit issue for our audit.	Our audit procedures include the following procedures: • Assessment and verification of accounting policy applicable as at 31 December 2020 for recognition, classification, post evaluation and impairment of financial assets; • We have checked and evaluated the existing impairment methodology, based on expected credit losses, as well as the classification and assessment of financial assets, in order to identify compliance with the IFRS 9 requirements; • We have received understanding and assessed the reasonableness of the main results calculated by the models as well as the key judgments and assumptions used by the management in their application; • For a sample of substantial exposures, we checked the appropriateness of determining the exposure at default, we checked the calculation of the probability of default (PD) used in the calculations of the expected credit losses (ECL). Also, we checked the mathematical accuracy of the calculation in the models as of December 31 2020. • Assessment of the adequacy of announcements in the annual financial statements in terms of financial assets to determine whether they are in line with the IFRS 9 requirements.

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

The management is responsible for the preparation and fair presentation of this financial statements in accordance with IFRSs, as adopted by the EU, and for such internal control system as management determines is necessary to ensure 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 Annual 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 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 an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the 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.

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— 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.

Report on Other Legal and Regulatory Requirements

Additional issues raised by the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the „Information Other than the Financial Statements and Auditor's Report Thereon" section, in relation to the management report, we have also performed the procedures added to those required under ISAs in accordance with "Guidelines about new and expanded auditor's reports and communications from the auditor's side" of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming opinions about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act (Art. 100m, paragraph 7 (2) of the POSA), applicable in Bulgaria.

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

Based on the procedures performed, our opinion is that:

a) The information included in the management report referring to the financial year for which the financial statements have been prepared is consistent with those financial statements.

b) With the exception of the following, the management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100(m), paragraph 7 (2) of the Public Offering of Securities Act.

The management report of the Company does not include the required information on the amount of the remunerations, awards and / or benefits of each of the members of the management and control bodies, according to p.17 of Appendix 10 to Ordinance 2 of 17.09.2003 in connection with Art. 100 (m) para. 7, (2) of the POSA.

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Reporting According to Art. 10 of Regulation (EU) No 537/2014 in Relation to the Requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

— Audit firm HLB BULGARIA OOD was appointed as a statutory auditor of the financial statements of BULGARGAZ EAD (the Company) for the year ended 31 December 2020 by the Minutes № Е-РД-21-16 of the Minister of Energy dated from 15 June 2018 for a period of three years.

— The audit of the financial statements of the Company for the year ended 31 December 2020 is the sixth total uninterrupted statutory audit engagement for that entity carried out by us.

— We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to Company's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.

— We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.

— We hereby confirm that in conducting the audit we have remained independent of the Company.

Audit Company

HLB BULGARIA OOD

Manager:

Veronika Revalska

2016/679

Registered auditor responsible for the audit:

Svetlana Pavlova

April 21, 2021

2016/679