

BULGARGAZ EAD

**INTERIM MANAGEMENT REPORT
INTERIM CONDENSED FINANCIAL STATEMENTS
INDEPENDENT AUDITOR'S REPORT**

30 JUNE 2019

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This Company Management Report as at 30 June 2019 presents financial statements' comments and analysis and other important information as regards to the financial position and results of Bulgargaz EAD's activity, comprising the period 1 January 2019 – 30 June 2019.

This report has been made pursuant to Article 39 of the Accountancy Act, Article 187д, Article 247, Paragraph 1, 2 and 3 of the Commercial Act and Article 100(o), Paragraph 4, item 3 of the Public Offering of Securities Act.

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: the Republic of Bulgaria; Sofia Region; Stolichna Municipality; 1000 Sofia; Serdika District; 47, Petar Parchevich Str.

Bulgargaz EAD's principle subject of activity is public supply of natural gas and the related sales and purchase thereof; natural gas purchase for the purposes of its storage in a gas storage facility; marketing research and analyses of the Bulgarian natural gas market.

Bulgargaz EAD carries out its activities as regards to public supply of natural gas for the territory of the Republic of Bulgaria, in compliance with License No JI-214-14/29.11.2006, issued by the State Energy and Water Regulatory Commission (SEWRC), for a period of 35 years. With an Amendment Act to the Energy Act (amended, State Gazette, issue 17 As at 06.03.2015) the Commission was reorganized into the Energy and Water Regulatory Commission (EWRC).

OWNERSHIP AND MANAGEMENT

Bulgargaz EAD is a sole shareholder joint stock company within the organizational structure of Bulgarian Energy Holding EAD (BEH). The registered share capital is distributed into 231 698 584 registered shares. The total amount of the Company share capital is subscribed and entirely paid in by the Bulgarian Energy Holding EAD. All shares are with a nominal value of BGN 1. The Company shares are ordinary, registered, unprivileged and voting shares. The entire amount of the capital of the Company is subscribed and fully paid in by the sole owner of the capital Bulgarian Energy Holding EAD. In BEH EAD, the state holds 100% of the registered capital through the Minister of Energy.

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).

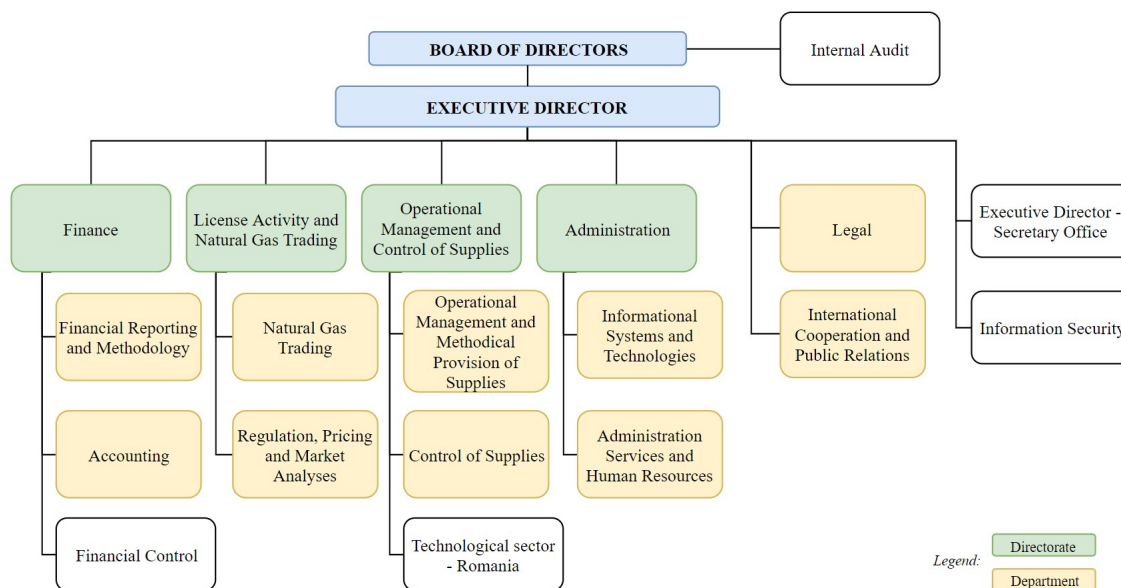
On 22 May 2017 an entry was made in the Commercial Register in accordance with the decision of the Board of Directors of Bulgarian Energy Holding EAD for the election of a new CEO. As of that date, the composition of the Board of Directors is the following:

Botyo Tomov Velinov	Chairman of the BoD;
Iliyan Kirilov Dukov	Member of the BoD;
Nikolay Angelov Pavlov	Member of the BoD and Executive Director.

On 1 September 2018 an entry was made in the Commercial Register in accordance with a decision of the Board of Directors of Bulgarian Energy Holding EAD to elect a new member of the Board of Directors. As of the said date, as well as at 30.06.2019, the composition of the Board of Directors is the following:

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



COMPANY'S MANAGEMENT RESPONSIBILITY

The management confirms that in the preparation of the financial statements as at 30.06.2019, adequate accounting policies were applied and they were prepared on the going concern basis.

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

INFORMATION ABOUT BOD REMUNERATION UNDER MANAGEMENT AND CONTROL CONTRACTS

As at 30.06.2019 and 30.06.2018 the members of the Board of Directors received the following remuneration:

BGN thousands

	30.06.2019	30.06.2018
BoD remunerations	99	97
Social security expenses	8	10
Total:	107	107

INFORMATION ABOUT COMPANY SHARES' ACQUISITION AND OWNERSHIP BY BOD MEMBERS

The members of the Board of Directors do not hold shares in the Company. They do not have any privileges or exclusive rights to acquire shares and bonds of the Company. All shares are the property of Bulgarian Energy Holding EAD.

Following is information about BoD members shares in trade companies, as unlimited liability partners; holding 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 Article 247, Paragraph 2, Item 4 of the Commercial Act):

Botyo Tomov Velinov – Member of the BoD from 03.10.2013; Chairman of BoD from 12.12.2013 to 01.09.2018:

- Does not participate as an unlimited liability partner in trade companies;
- Owns more than 25% of the equity of Svargaz OOD, Everfresh EOOD, Friyagas OOD;
- Participates in the management of Everfresh EOOD and Friyagas OOD as a Manager.

Petyo Angelov Ivanov – Chairman of the Board of Directors, Member of the Board of Directors since 01.09.2018:

- Does not participate as an unlimited liability partner in trade companies;
- Does not own more than 25% of trade companies' equity;
- Participates in the management of South Stream Bulgaria AD and Contur Global Operations Bulgaria AD as a member of the Board of Directors.

Iliyan Kirilov Dukov – Member of the BoD as at 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 trade companies' equity;
- Does not participate in the management of other companies, co-operations as procurator, manager or member of BoD.

INFORMATION ABOUT CONTRACTS UNDER ARTICLE 2406 OF THE COMMERCIAL ACT CONCLUDED DURING THE YEAR

As at 30.06.2019, the Board of Directors or other related persons did not conclude contracts under Art.240B of the Commercial Law on behalf of the Company which go beyond its normal activity or substantially deviate from market conditions.

II. COMPANY ACTIVITY RESULTS AS AT 30.06.2019

As at 30.06.2019 Bulgargaz EAD has been operating as it has been, complying with all regulations. The result of the Company's activity is profit after taxation in the amount of BGN 27 990 thousand (as at 30.06.2018: profit in the amount of BGN 9 379 thousand).

As at 31 December 2018, the registered share capital of Bulgargaz EAD amounted to BGN 231 698 thousand, which exceeds the net assets of the Company as of that date by BGN 26 455 thousand, which is thus in the hypothesis of Art. 252, paragraph 1, item 5 of the Commercial Act.

For 2018, the Company reports a net loss of BGN 31 978 thousand as a result of accrued provision for a fine in Case COMP/B1/AT.39849 - BEH gas, amounting to BGN 50 244 thousand, based on of the Decision of the European Commission of 17.12.2018. The Company recognized a provision expense amounting to 1/3 (one third) of the amount of the fine imposed on BEH EAD, Bulgargaz EAD and Bulgartransgaz EAD, with a total amount of EUR 77 068 thousand. The Decision of the European Commission sets out **alleged violations on the part of BEH EAD, Bulgargaz EAD and Bulgartransgaz EAD for the reporting periods from 2010 to 2014.**

Since the beginning of 2019, the management of Bulgargaz EAD has taken actions to bring the activity of the Company in compliance with Article 252 of the Commercial Act. As a result, the net profit as of 30.06.2019 in the amount of BGN 27 990 thousand covers the difference of BGN 26 455 thousand formed as at 31.12.2018 between the value of the subscribed shareholder's capital and the net assets of the Company.

GENERAL FACTORS AFFECTING THE COMPANY'S ACTIVITIES

Bulgargaz EAD's activity, public supply of natural gas, is regulated in accordance with the Bulgarian Energy Act and the bylaws – Licensing Ordinance, Natural Gas Trading Rules and Natural Gas Price Regulation Ordinance.

Natural gas public supply is regulated by EWRC. The prices at which Bulgargaz EAD buys natural gas are market prices and the prices at which the Company sells natural gas are regulated. Bulgargaz EAD does not have a branch network and does not carry out research and development activity.

1. QUANTITATIVE INDICATORS IMPLEMENTATION

Delivered and sold natural gas volumes

Natural gas deliveries that meet the needs of the Company's clients are secured through long-term contracts, mainly with Gazprom Export LLC.

During the review period of 2019, Bulgargaz EAD concluded alternative gas supply contracts.

In February 2019, as a result of a financially economically favourable commercial offer from Dexia Bulgaria OOD, Bulgargaz EAD concluded two contracts for the first alternative natural gas supply at a virtual trading point and at GMS Dolni Dabnik for a total 16,901 MWh (6,467 thousand m³). The quantities were supplied in Q2 2019.

In March 2019 Bulgargaz EAD conducted an open tender procedure for the supply of natural gas for the second quarter of 2019 for pumping and storing at UGS Chiren. As a result of the tender, in April, a contract was concluded with the first-ranked bidder in the tender – DEPA – for the supply of 1 532 000 MWh (144 000 thousand m³) of natural gas. The assessment was based on the most economically advantageous price criterion.

In April and May 2019, as a result of the economically favourable commercial offers from the Kolmar Group for the sale of natural gas, Bulgargaz EAD concluded contracts for the supply of 1 459 220 MWh (137 816 thousand m³) of natural gas for the second and third quarters of 2019. The deliveries for the second quarter of 2019 are 959 220 MWh (90 744 thousand m³), and in the third quarter of 2019 there will be delivered 500,000 MWh (47 072 thousand m³), according to the terms of delivery.

In June 2019, as a result of a financially economically favourable commercial offer, Bulgargaz EAD concluded a contract with Dexia Bulgaria OOD for the supply of 144,000 MWh (14 000 thousand m³) of liquefied natural gas at a virtual trading point in the third quarter of 2019.

The transmission of natural gas through the territory of Romania is carried out by Transgaz S.A. Medias - Romania.

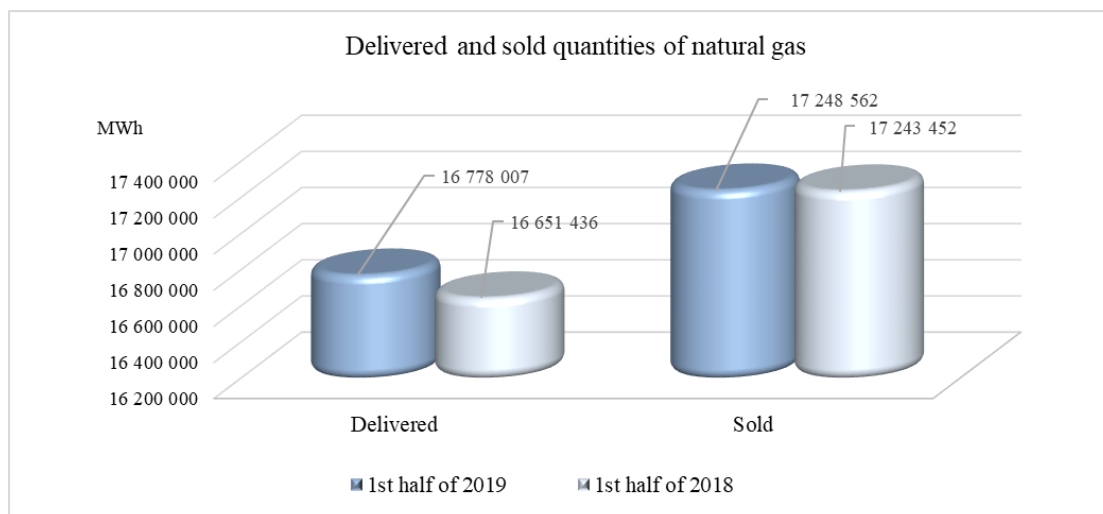
The transmission of natural gas through the territory of the Republic of Bulgaria is carried out by the combined operator Bulgartransgaz EAD.

In order to carry the transmission through the territory of Romania and Bulgaria, Bulgargaz EAD participates in auctions for the purchase of capacity through the RBP platform.

The natural gas volumes delivered and sold as at 30.06.2019 compared to 30.06.2018, are presented in Table 1:

Table No. 1:

Type of delivery	Unit	30.06.2019	30.06.2018	Volume change	% change
Delivered	MWh	16 778 007	16 651 436	126 571	0.76%
Sold	MWh	17 248 562	17 243 452	5 110	0.03%



During the reporting period a total of 16 778 007 MWh were delivered (30.06.2018: 16 651 436 MWh), which represents an increase of 126 571 MWh or 0.76%.

The quantities of natural gas sold as at 30.06.2019 is 17 248 562 MWh (30.06.2018: 17 243 452 MWh), which is an increase of 5 110 MWh or 0.03%. The insignificant increase is mainly due to customer consumption in the energy sector, including heat and/or electricity generating companies.

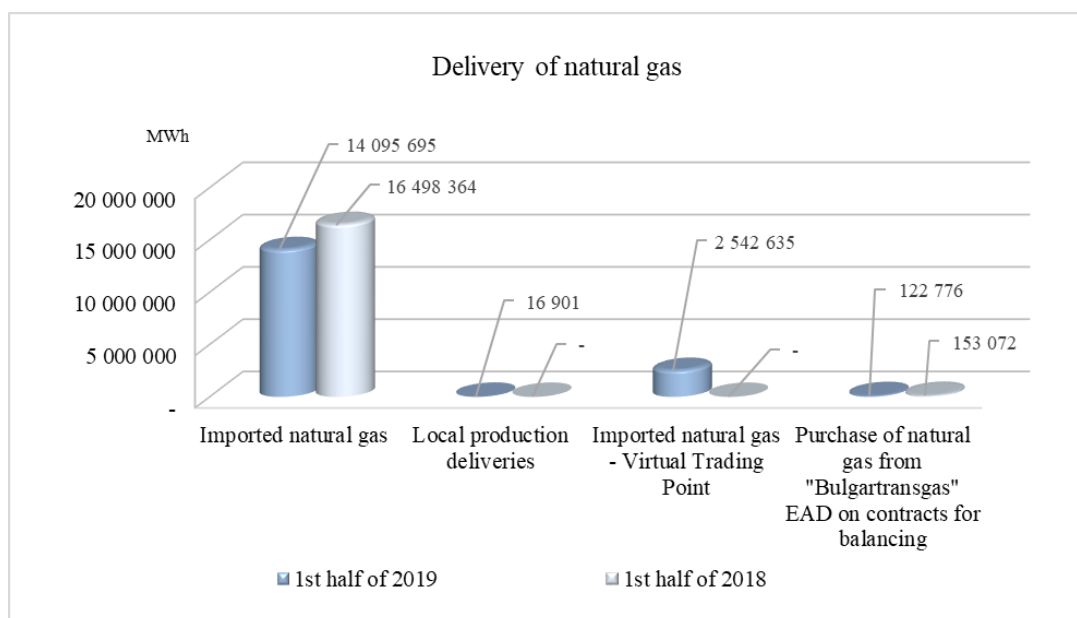
1.1. DELIVERED NATURAL GAS VOLUMES

The delivered natural gas volumes as at 30.06.2019 compared to 30.06.2018 are presented in Table 2.

Table No. 2:

MWh

No	Type of delivery	30.06.2019	30.06.2018	Relative Share		% Change
				30.06.2019	30.06.2018	
1	Imported natural gas	14 095 695	16 498 364	84.01%	99.08%	(14.56%)
2	Local production deliveries	16 901	-	0.10%	-	-
3	Delivered Natural gas – virtual trading point	2 542 635	-	15.16%	-	-
4	Purchase of natural gas from Bulgartransgaz EAD on contracts for balancing	122 776	153 072	0.73%	0.92%	(19.79%)
	Total:	16 778 007	16 651 436	100%	100%	0.76%



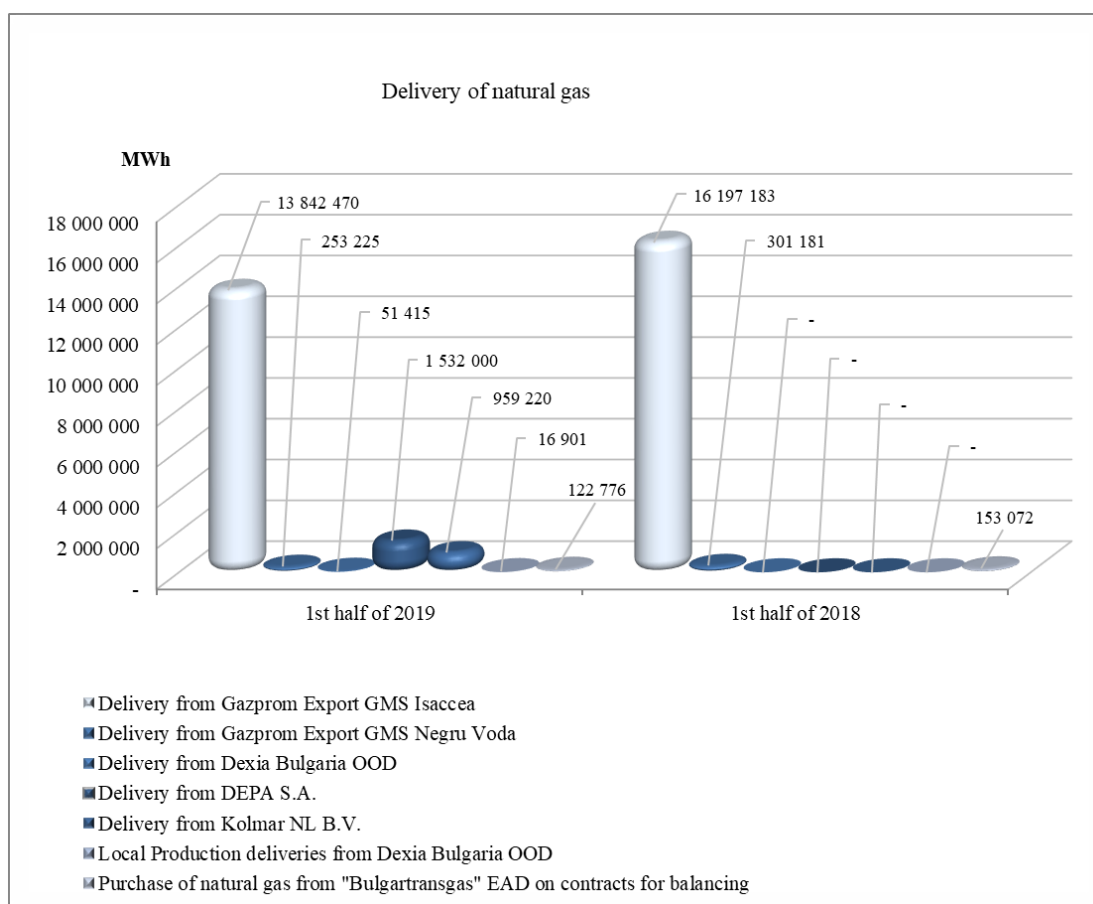
To ensure the needs of natural gas to its customers, as at 30.06.2019, Bulgargaz EAD delivered 14 095 695 MWh of imported natural gas, which is 84.01% of the total delivery, 16 901 MWh representing local deliveries, 2 542 635 MWh purchase of natural gas at a virtual trading point, as well as from Bulgartransgaz EAD under contracts for balancing of the system amounting to 122 776 MWh.

Delivered natural gas volumes, allocated by sources, are indicated in Table 3.

Table No. 3

MWh

№	Type of delivery	30.06.2019	30.06.2018	Relative share		% Change
				30.06.2019	30.06.2018	
1	Imported natural gas	14 095 695	16 498 364	84.01%	99.08%	(14.56%)
1.1.	Gazprom Export	14 095 695	16 498 364	84.01%	99.08%	(14.56%)
1.1.1	GMS Issaccea	13 842 470	16 197 183	82.50%	97.27%	(14.54%)
1.1.2	GMS Negru Voda	253 225	301 181	1.51%	1.81%	(15.92%)
2	Local production delivery	16 901	-	0.10%	-	100%
2.1.	Dexia Bulgaria OOD	16 901	-	0.10%	-	100%
3	Delivered Natural gas – virtual trading point	2 542 635	-	15.16%	-	100%
3.1.	Dexia Bulgaria OOD	51 415	-	0.31%	-	100%
3.2.	DEPA S.A.	1 532 000	-	9.13%	-	100%
3.3.	KOLMAR NL B.V.	959 220	-	5.72%	-	100%
4	Purchase of natural gas by Bulgartransgaz EAD on contracts for balancing	122 776	153 072	0.73%	0.92%	(19.79%)
	Total	16 778 007	16 651 436	100%	100%	0.76%



1.2 NATURAL GAS PRODUCTION AND INJECTION

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

Natural gas volumes produced and injected in UGS Chiren as at 30.06.2019 and as at 30.06.2018 are represented in Table No. 4.

Table No. 4:

MWh

Period	30.06.2019			30.06.2018		Change in production		Change in injection	
	Production	Difference from conversion in MWh	Injection	Production	Injection				
January	978 927	-	-	955 710	-	23 217	2.43%	-	-
February	810 785	-	-	764 090	-	46 695	6.11%	-	-
March	446 427	(88)	-	510 190	-	(63 763)	(12.50%)	-	-
April	-	-	194 779	-	263 225	-	-	(68 446)	(26%)
May	-	-	787 316	-	547 508	-	-	239 808	43.80%
June	-	-	832 257	-	875 899	-	-	(43 642)	(4.98%)
Total	2 236 139	(88)	1 814 352	2 229 990	1 686 632	6 149	0.28%	127 720	7.57%

Natural gas production as at 30.06.2019 is 2 236 139 MWh, which is an increase of 6 149 MWh (0.28%) compared to 30.06.2018: 2 229 990 MWh due to the contemplated in the Bulgargaz EAD's program increased quantity for production in the first half of 2019, as well as the different representative calorific value used for the conversion from volume to energy units of the produced quantities.

The injected natural gas volumes as at 30.06.2019 are 1 814 352 MWh, which is more by 127 720 MWh (7.57%), compared to 30.06.2018 when they were 1 686 632 MWh. The increase is due to the capacity of Bulgartransgaz EAD allocated by Bulgargaz EAD in UGS Chiren for storage of natural gas during the six months of 2018-2019, compared to the same period in 2017-2018 gas year.

2. NATURAL GAS SALES

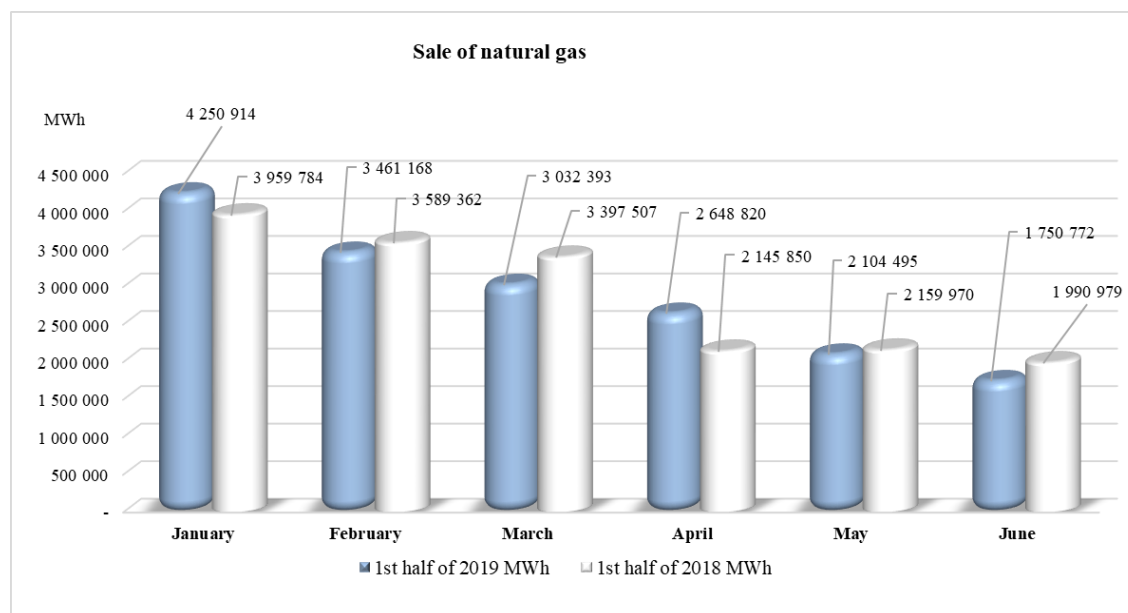
2.1. GENERAL CONSUMPTION

Bulgargaz EAD's ensures reliable supply of natural gas to its customers, in accordance with the quantity and quality contractual requirements. As at 30.06.2019, 17 248 562 MWh of natural gas were sold, which is an increase of 5 110 MWh or 0.03%, compared to the quantities sold as at 30.06.2018 - 17 243 452 MWh.

Sales per months to the total sold volumes for the period are represented in Table No. 5.

Table No. 5:

Reporting period	30.06.2019		30.06.2018		Change	
	MWh	Share in %	MWh	Share in %	MWh	%
January	4 250 914	24.64%	3 959 784	22.96%	291 130	7.35%
February	3 461 168	20.07%	3 589 362	20.82%	(128 194)	(3.57%)
March	3 032 393	17.58%	3 397 507	19.70%	(365 114)	(10.75%)
April	2 648 820	15.36%	2 145 850	12.44%	502 970	23.44%
May	2 104 495	12.20%	2 159 970	12.53%	(55 475)	(2.57%)
June	1 750 772	10.15%	1 990 979	11.55%	(240 207)	(12.06%)
Total	17 248 562	100%	17 243 452	100%	5 110	0.03%



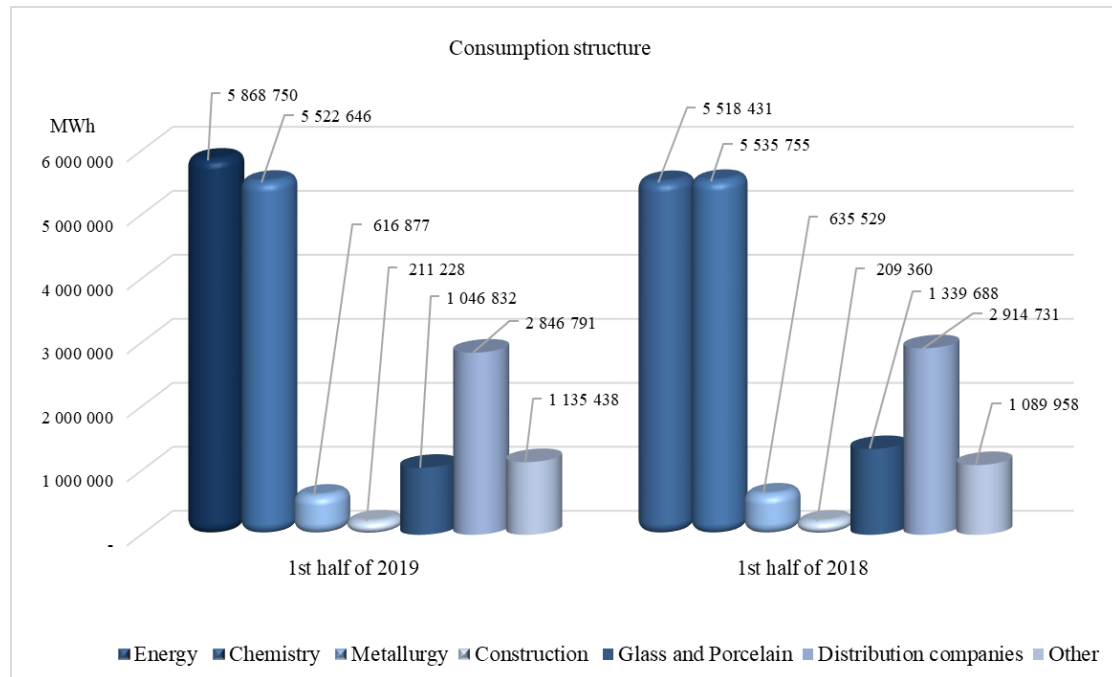
2.2. CONSUMPTION STRUCTURE

A comparison of the natural gas sales by main economic sectors as at 30.06.2019 and 30.06.2018, allocated by main industry sectors, is presented in Table No. 6.

Table No. 6:

Sector	30.06.2019		30.06.2018		Change	
	MWh	% Share	MWh	% Share	MWh	%
Energy	5 868 750	34.02%	5 518 431	32%	350 319	6.35%
Chemistry	5 522 646	32.02%	5 535 755	32.10%	(13 109)	(0.24%)
Metallurgy	616 877	3.58%	635 529	3.69%	(18 652)	(2.93%)
Construction	211 228	1.23%	209 360	1.22%	1 868	0.89%
Glass and Porcelain	1 046 832	6.07%	1 339 688	7.77%	(292 856)	(21.86%)
Distribution companies	2 846 791	16.50%	2 914 731	16.90%	(67 940)	(2.33%)
Other	1 135 438	6.58%	1 089 958	6.32%	45 480	4.17%
Total	17 248 562	100%	17 243 452	100%	5 110	0.03%

As at 30.06.2019, the sales compared to the same period of 2018 increased by 5 110 MWh or 0.03%. This is mainly due to the increased consumption of customers in the Energy sector.



The data disclosed in Table No. 6, and illustrated in the chart above, outline the tendency in the consumption structure of natural gas, as follows:

- ✓ The major consumers of natural gas remain the companies in the field of chemical and energy industries;
- ✓ There is an increase in the consumption of natural gas in the enterprises in the energy and construction sectors;
- ✓ All other sectors mark a decrease in consumption.

3. NATURAL GAS PRICES FOR DELIVERY AND SALE ON THE INTERNAL MARKET

The comparison between the weighted average prices for delivery and sale of natural gas as at 30.06.2019, excluding the costs of access and transmission, is shown in Table No. 7.

Table No. 7

Period	Weighted average delivery price up to the entry of gas transmission system (BGN/MWh)	Weighted average sale price excluding access and transmission fee (BGN/MWh)	Change	
			BGN	%
First quarter of 2019	45.27	44.81	(0.46)	(1.03%)
Second quarter of 2019	43.48	45.17	1.69	3.74%
First half of 2019	44.38	44.95	0.57	1.26%
First half of 2018	33.47	33.64	0.17	0.51%

The delivery price at the entrance to the gas pipeline network (to the Bulgarian border) includes costs for the purchase of natural gas under the contract with Gazprom Export LLC and the cost of transporting through the territory of Romania. The price also includes purchases of natural gas from other suppliers - Kolmar NL B.V., DEPA S.A. and Dexia Bulgaria OOD.

As at March 31, 2019, the sale price was lower than the delivery price due to the higher transmission and capacity related costs for the extraction of natural gas from Chiren UGS approved by EWRC.

The weighted average selling price reflects the sales of natural gas to customers in the country during the relevant period at a price regulated by EWRC, incl. sales under the contract for sale of natural gas for balancing.

III. 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; currency risk associated with a change in foreign exchange rates.

In conducting its activity the Company is exposed to the following types of risk:

1. REGULATORY/ PRICE RISK

The specificity of Bulgargaz EAD activity relates to the fact that the Company is a “Public Supplier of natural gas”. The Company purchases natural gas to meet its clients’ needs at market prices and sells these quantities under regulated prices. The lack of correspondence between the aforementioned prices might cause risks to the Company in conducting its functional obligations.

When applying regulated sales prices lower than the purchase ones, the revenues are insufficient to cover the actual costs of purchase and supply of natural gas and the Company is experiencing difficulties in paying amounts due to suppliers. Under the terms of delivery contracts, fines and penalties for delayed payments are charged.

2. CURRENCY 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 by EWRC marginal price for each regulatory period is determined at a fixed USD-BGN exchange rate.

The Company is exposed at risk of loss of continuous increase of USD exchange rate within the period of prices’ application, compared to the exchange rate, as applied at the time of their approval. 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 represents a risk of financial loss, if a customer fails to meet its contractual obligations. That risk arises out of Company's receivables from customers. The Company's customers 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 on 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 settle their current liabilities. As an extreme measure to resort to is natural gas delivery suspension. The Company also protects its interests through court proceedings.

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 inflows and outflows, based on monthly forecasts.

IV. PROSPECTS AND DEVELOPMENT

Company's development prospects relate to the implementation of its strategic and operational objectives.

1. STRATEGIC OBJECTIVES

Bulgargaz EAD's main strategic objective is to abide by the responsibilities and obligations contained in the Natural Gas Delivery License, implementing all necessary measures to ensure timely supply of quality natural gas to consumers.

- In order to achieve the objectives, the Company endeavors to provide alternative sources and routes for the supply of natural gas that will increase the geographic supply portfolio and help to increase the security and reliability of gas supply. For the first half of 2019, for the first time in its history, Bulgargaz EAD purchased natural gas from imports from alternative suppliers at economically cheaper prices compared to the current long-term contract. The main import supply continues to be made from a single point of entry, at the same time the country's gas production is stopped. This represents a risk given the conflict between Ukraine and the Russian Federation;
- Maintaining stable financial stability and increasing the economic efficiency of the Company's activity;
- Entering the gas market of neighboring countries.

2. OPERATIONAL OBJECTIVES:

- Maintaining Company's financial stability;
- Providing more flexible customer services.

In the short-run, Company's major objective is securing the Company's financial stability in a situation of market uncertainty in Bulgaria and higher inter-company indebtedness. The Company is optimising its cash flow position by increasing Company's receivables collection from clients, receivables' sale to third parties, as well as funds securing in the form of loan.

V. FINANCIAL AND ECONOMIC STATUS

The financial and economic status of Bulgargaz EAD has been examined and analyzed on the basis of financial and accounting statements prepared: statement of profit or loss and other comprehensive income and cash flow statement as at 30.06.2019 compared to the same period in 2018, as well as a condensed statement of the financial position of the Company as at 30.06.2019 compared to the previous period as at 30.06.2018.

MAIN FINANCIAL INDICATORS

The main financial and economic results from the activity of the Company as at 30.06.2019 and as at 30.06.2018 are presented below:

BGN thousands

Indicators	30.06.2019	30.06.2018 Restated	Change	Change (%)
Total revenues	825 508	635 689	189 819	29.86%
Total expenses	(794 850)	(622 689)	(172 161)	27.65%
EBITDA	30 866	13 092	17 774	135.76%
EBIT	30 658	13 000	17 658	135.84%
EBT	28 010	10 421	17 589	168.78%

BGN thousands

Indicators	30.06.2019	31.12.2018	Change	Change (%)
Non-current fixed assets	104	100	4	4.00%
Total assets	405 340	339 742	65 598	19.31%
Current assets	377 264	325 711	51 553	15.83%
Current liabilities	121 478	84 183	37 295	44.30%
Cash	9 874	100	9 774	9774.00%
Working capital	255 786	241 528	14 258	5.91%
Equity	233 233	205 243	27 990	13.64%
Share capital	231 698	231 698	0	0.00%
Reserves	7 412	7 412	0	0.00%
Retained profit / (uncovered loss)	(5 877)	(33 867)	(27 990)	82.65%
Profit/(loss) for the period	27 990	(31 978)	59 968	187.53%
Number of personnel	52	54	(2)	(3.70%)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

BGN thousands

	30.06.2019		30.06.2018, restated		Change	
	BGN thousands	% of the total	BGN thousands	% of the total	BGN thousands	% of the total
Revenues	825 508	100.00%	635 689	100.00%	189 819	29.86%
Revenues from sale of natural gas	816 066	98.86%	626 732	98.59%	189 334	30.21%
Other income	9 442	1.14%	8 957	1.41%	485	5.41%
- penalties under overdue receivables/liabilities	6 871	0.83%	7 644	1.20%	(773)	(10.11%)
- sanctions for 105% volume	1 652	0.20%	907	0.14%	745	82.14%
- penalties for volumes not taken under Art.7.4 and 7.5	817	0.10%	405	0.06%	412	101.73%
- income from unregulated activity	0	0.00%	0	0.00%	-	-
- other income	102	0.01%	1	0.00%	101	10100%
Expenses as per economic elements	(794 850)	100.00%	(622 689)	100.00%	(172 161)	27.65%
Cost of sold natural gas	(790 134)	99.41%	(609 691)	97.91%	(180 443)	29.60%
Recovered/ (accrued) impairment	(617)	0.08%	(9 045)	1.45%	8 428	(93.18%)
- recovered/ (accrued) impairment of receivables, net	(543)	0.07%	(9 045)	1.45%	8 502	(94.00%)
- recovered/ (accrued) impairment of cash	(57)	0.01%	0	0.00%	(57)	
- recovered/ (accrued) impairment of natural gas	(17)	0.00%	0	0.00%	(17)	
Recognized (accrued) expenses for provisions	0	0.00%	0	0.00%	-	
Costs of materials	(25)	0.00%	(38)	0.01%	13	(34.21%)
-fuel gas	0	0.00%	(14)	0.00%	14	(100.00%)
-main materials	(4)	0.00%	(1)	0.00%	(3)	300.00%
- fuels and lubricants	(12)	0.00%	(11)	0.00%	(1)	9.09%
- stationary and consumables	(5)	0.00%	(7)	0.00%	2	(28.57%)
- sanitary materials	(2)	0.00%	(3)	0.00%	1	(33.33%)
- advertising materials	(1)	0.00%	0	0.00%	(1)	
- other materials	(1)	0.00%	(2)	0.00%	1	(50.00%)
Hired services costs	(2 482)	0.31%	(2 271)	0.36%	(211)	9.29%
- natural gas storage costs	(1 204)	0.15%	(1 111)	0.18%	(93)	8.37%
- expenses on management contracts	(66)	0.01%	(46)	0.01%	(20)	43.48%
- license fees	(337)	0.04%	(292)	0.05%	(45)	15.41%
- insurances	(55)	0.01%	(51)	0.01%	(4)	7.84%
- rents	(7)	0.00%	(127)	0.02%	120	(94.49%)
- court charges and expenditures	(582)	0.07%	(459)	0.07%	(123)	26.80%
- communications	(51)	0.01%	(45)	0.01%	(6)	13.33%
- audit committee remuneration	(40)	0.01%	(35)	0.01%	(5)	14.29%
- consulting and audit services	(43)	0.01%	(27)	0.00%	(16)	59.26%
- repair and technical maintenance	(13)	0.00%	(7)	0.00%	(6)	85.71%
- building maintenance	0	0.00%	(3)	0.00%	3	(100.00%)
- public utilities	(13)	0.00%	(11)	0.00%	(2)	18.18%
- subscription service	(6)	0.00%	(13)	0.00%	7	(53.85%)
- parking expenses	(10)	0.00%	(10)	0.00%	-	0.00%
- translation services	(7)	0.00%	(2)	0.00%	(5)	250.00%
- security	(34)	0.00%	(23)	0.00%	(11)	47.83%
- labour medicine service	(1)	0.00%	(1)	0.00%	-	0.00%
- EWRC's fee – price approval	(3)	0.00%	(2)	0.00%	(1)	50.00%
- other charges	(10)	0.00%	(6)	0.00%	(4)	66.67%

	30.06.2019		30.06.2018, restated		Change	
	BGN thousands	% of the total	BGN thousands	% of the total	BGN thousands	% of the total
Depreciation/amortization expenses	(207)	0.03%	(92)	0.01%	(115)	125.00%
Employee benefit expenses	(1 339)	0.17%	(1 418)	0.23%	79	(5.57%)
- remuneration expenses	(1 161)	0.15%	(1 246)	0.20%	85	(6.82%)
- social security expenses	(178)	0.02%	(172)	0.03%	(6)	5.83%
Other expenses	(46)	0.01%	(134)	0.02%	88	(65.68%)
- penalties for overdue payments	0	0.00%	(103)	0.02%	103	(100.00%)
- business trips and entertainment expenses	(25)	0.00%	(13)	0.00%	(12)	92.31%
- training	0	0.00%	(3)	0.00%	3	(100.00%)
- one-off taxes	(6)	0.00%	(7)	0.00%	1	(14.29%)
- donations	(8)	0.00%	(3)	0.00%	(5)	166.67%
- membership fees	(2)	0.00%	(3)	0.00%	1	(33.33%)
- others	(4)	0.00%	(2)	0.00%	(2)	102.43%
Profit/ (loss) from operating activity	30 658		13 000		17 658	135.84%
Net financial income / (costs)	(2 648)		(2 579)		(69)	(2.71%)
Financial income	1 595	100.00%	12	100.00%	1 583	13183.33%
- interest income on long-term receivables	1 595	0.19%	12	0.00%	1 583	13183.33%
Financial costs	(4 243)	100.00%	(2 591)	100.00%	(1 652)	63.76%
- interest expenses under trade payables to related parties	(63)	(0.01%)	(384)	(0.06%)	321	(83.59%)
- interest expense on loans with banks	(1)	(0.00%)	0	0.00%	(1)	-
- interest expenses under repurchase agreements	0	0.00%	(61)	(0.01%)	61	(100.00%)
- interest expenses on overdue tax liabilities	(16)	(0.00%)	0	0.00%	(16)	-
- other interest expenses	(11)	(0.00%)	0	0.00%	(11)	-
- loss from foreign exchange rate differences	(3 960)	(0.48%)	(2 115)	(0.33%)	(1 845)	87.22%
- bank charges	(192)	(0.02%)	(31)	(0.00%)	(161)	519.35%
Profit/ (loss) before tax	28 010		10 421		17 589	168.78%
Income Tax (expense)/ revenue	(20)	(0.00%)	(1 042)	(0.16%)	1 022	(98.08%)
Net profit/ (loss) for the period	27 990		9 379		18 611	198.43%

REVENUE

The Company sold 17 248 562 MWh of natural gas worth BGN 816 066 thousand as at 30.06.2019 (30.06.2018: 17 243 452 MWh worth BGN 626 732 thousand). The net result from the sale of natural gas as at 30.06.2019 amounts to BGN 25 932 thousand (30.06.2018: BGN 17 041 thousand), which is an increase of BGN 8 891 thousand. During the reporting period, there is a positive difference between the weighted average selling price and the weighted average natural gas delivery price of BGN 0.57. As at 30.06.2018, the difference is also positive by BGN 0.17 (Table №7).

EXPENSES

Expenses by economic elements include: cost of natural gas sold, impairment costs, material costs, hired services costs, depreciation/amortization expenses, labour remunerations expenses, social security and allowance costs, expenses for provisions, etc. As at 30.06.2019 they amount to BGN 794 850 thousand (30.06.2018 – BGN 622 689 thousand), which represents an increase of BGN 172 161 thousand or 27.65%.

The largest relative share - 99.41% of the total expenses is the cost of the natural gas sold as at 30.06.2019 amounting to BGN 790 134 thousand (30.06.2018: BGN 609 691 thousand or 96.71 %). For the reporting period of 2019, compared to the previous year, the cost of gas sold is 29.60% higher.

As at 30.06.2019 impairment was recovered or accrued to:

- receivables in the amount of BGN 543 thousand (30.06.2018: BGN 13 030 thousand);

- cash and cash equivalents of BGN 58 thousand (30.06.2018: no impairment has been accrued);
- natural gas of BGN 17 thousand (30.06.2018: no impairment has been accrued:).

Hired services costs as at 30.06.2019 amounted to BGN 2 482 thousand (30.06.2018: BGN 2 271 thousand), which represents an increase of BGN 211 thousand or 9.29%. This is due to the increase in court fees and expenses, as well as the cost of gas storage.

Other expenses as at 30.06.2019 amount to BGN 46 thousand (30.06.2018: BGN 134 thousand), which is a decrease of BGN 88 thousand or 65.67% compared to the previous reporting period.

The operating result is a profit in the amount of BGN 30 658 thousand as at 30.06.2019 (30.06.2018: profit of BGN 13 000 thousand), which is an increase of BGN 17 658 thousand.

The net result of financial income and expenses as at 30.06.2019 is negative amounting to BGN 2 648 thousand (30.06.2018: negative of BGN 2 579 thousand), which represents an increase of BGN 69 thousand. For the reporting period, a loss from exchange rate changes amounted to BGN 3 960 thousand (30.06.2018: loss of BGN 2 115 thousand).

During the reporting period, interest expense on trade payables to related parties amounted to BGN 63 thousand (30.06.2018: BGN 384 thousand) or a decrease of BGN 321 thousand due to paid payables on trade agreements.

After reflecting the financial revenues and expenditures as at 30.06.2019, the financial result before taxes is a profit of BGN 28 010 thousand (30.06.2018: profit of BGN 10 421 thousand), which represents an increase of BGN 17 589 thousand.

STATEMENT ON FINANCIAL POSITION

As at 30.06.2019 the assets of the Company amount to BGN 405 340 thousand (31.12.2018: BGN 339 742 thousand). Changes in the structure of assets for the two periods are shown in the table below:

BGN thousands

	30.06.2019		31.12.2018		Change	
	BGN thousands	% of the total	BGN thousands	% of the total	BGN thousands	% of the total
<i>Assets</i>						
Non-current assets						
Plant and equipment	104	0.37%	100	0.71%	4	4.00%
Intangible assets	739	2.63%	117	0.83%	622	531.62%
Trade and other receivables	13 317	47.43%	-	0.00%	13 317	
- trade receivables from natural gas sales	13 317	47.43%	-	0.00%	13 317	
Deferred tax assets	13 916	49.57%	13 814	98.45%	102	0.74%
Total non-current assets	28 076	100.00%	14 031	100.00%	14 045	100.10%
Current assets						
Inventories	84 804	22.48%	90 943	27.92%	(6 139)	(6.75%)
- natural gas	84 781	22.47%	90 923	27.92%	(6 142)	(6.76%)
- materials	23	0.01%	20	0.01%	3	15.00%
Trade and other receivables	282 586	74.90%	234 668	72.05%	47 918	20.42%
-trade receivables from natural gas sales	147 803	39.18%	143 292	43.99%	4 511	3.15%
- court and awarded receivables	1 275	0.34%	-	0.00%	1 275	
- prepaid advances for supply of natural gas	119 957	31.80%	75 030	23.04%	44 927	59.88%
- court Corporate Commercial Bank AD	-	0.00%	365	0.11%	(365)	(100.00%)
- receivables from related parties (deposits and guarantees)	11 599	3.07%	11 865	3.64%	(266)	(2.24%)
- other receivables	1 952	0.52%	4 116	1.26%	(2 164)	(52.58%)
Cash and cash equivalents	9 874	2.62%	100	0.03%	9 774	9774.00%
Total current assets	377 264	100.00%	325 711	100.00%	51 553	15.83%
Total assets	405 340		339 742		65 598	19.31%

NON-CURRENT ASSETS

Non-current assets as at 30.06.2019 amount to BGN 28 076 thousand (31.12.2018: BGN 14 031 thousand), which is an increase of BGN 14 045 thousand or 100.10%. Non-current assets during the reporting period are formed by trade receivables from the sale of natural gas in the amount of BGN 13 317 thousand, non-current tangible and intangible assets in the amount of BGN 843 thousand and deferred tax assets for BGN 13 916 thousand.

As at 1 January 2019, in accordance with IFRS 16, a one-model accounting treatment of a contract for a leased asset - office building – has been applied. A “right-of-use” asset is recognized, amounting to BGN 546 thousand, which will be amortized over the period of the contract and the lease payable under this contract reported, respectively. As at 30.06.2019, the lease payable is BGN 434 thousand, total current and non-current portion.

CURRENT ASSETS

The current assets of the Company as at 30.06.2019 amount to BGN 377 264 thousand (31.12.2018: BGN 325 711 thousand), which is an increase of BGN 51 553 thousand or 15.83% as a result of increase cash and prepaid advances.

Inventories as at 30.06.2019 amount to BGN 84 804 thousand (31.12.2018: BGN 90 943 thousand), which is a decrease of BGN 6 139 thousand or 6.75%.

Trade and other receivables as at 30.06.2019 amount to BGN 282 586 thousand (31.12.2018: BGN 234 668 thousand), which represents an increase of BGN 47 918 thousand or 20.42% compared to 2018.

The prepaid advance for the supply of natural gas as at 30.06.2019 amounts to BGN 119 957 thousand (31.12.2018: BGN 75 030 thousand), which is an increase of BGN 44 927 thousand or 59.88%.

The largest commercial receivables for natural gas but unpaid as at 30 June 2019 are from the following companies:

Counterparty	Receivables on deferred payment agreements	Receivables with no maturity date	Overdue receivables	Total
Toplofikacia Sofia EAD	-		110 151	110 151
Toplofikacia Pleven EAD	19 359			19 359
Lukoil Neftochim Burgas AD	-	14 332		14 332
TPP Varna EAD	-	-	6 533	6 533
Citygas Bulgaria EAD	-	2 911		2 911
Toplofikacia Burgas EAD	3 126			3 126
Toplofikacia Vratsa EAD	2 153			2 153
Other	-	95	2 551	2 646
Total	24 637	17 338	119 235	161 210

Long-term receivables are the result of additional agreements for deferred payment of overdue payables.

The Company's cash in current accounts and cash on hand at the end of the reporting period amounted to BGN 9 874 thousand (31.12.2018: BGN 100 thousand), which represents an increase of BGN 9 774 thousand.

CHANGES IN THE EQUITY AND LIABILITIES STRUCTURE:

BGN thousands

	30.06.2019		31.12.2018		Change	
	BGN thousands	% of the total	BGN thousands	% of the total	BGN thousands	% of the total
<i>Equity and liabilities</i>						
Equity						
Share capital	231 698	99.34%	231 698	112.89%	0	0.00%
Statutory reserves	7 366	3.16%	7 367	3.59%	(1)	(0.01%)
Other reserves	46	0.02%	45	0.02%	1	2.22%
Retained earnings /(accumulated loss)	(5 877)	(2.52%)	(33 867)	(16.50%)	27 990	82.65%
Total equity	233 233	100%	205 243	100%	27 990	13.64%
Liabilities						
Non-current liabilities						
Lease payables	313	0.62%	0	0.00%	313	
Provisions	50 244	99.24%	50 244	99.86%	0	0.00%
Liabilities for retirement employee benefits	72	0.14%	72	0.14%	(0)	(0.33%)
Total non-current liabilities	50 629	100.00%	50 316	100.00%	313	0.62%
Current liabilities						
Loans	3	0.00%	3 687	4.38%	(3 684)	(99.92%)
- liabilities on received bank loans	3	0.00%	3 687	4.38%	(3 684)	(99.92%)
Trade and other payables	121 274	99.83%	80 197	95.27%	41 077	51.22%
- Trade payables	64 192	52.84%	11 957	14.20%	52 235	436.86%
- Payables to related parties	1 562	1.29%	13 469	16.00%	(11 907)	(88.41%)
- Received advances from clients for sale of natural gas	36 562	30.10%	15 113	17.95%	21 449	141.92%
- VAT to be paid	17 793	14.65%	37 599	44.66%	(19 806)	(52.68%)
- Excise duty to be paid	439	0.36%	1 762	2.09%	(1 323)	(75.09%)
- Payables to personnel	90	0.07%	131	0.16%	(41)	(31.30%)
- Liabilities to insurance companies	67	0.06%	74	0.09%	(7)	(9.46%)
- Lease payable, current portion	120	0.10%	0	0.00%	120	
- Other liabilities	450	0.37%	92	0.11%	358	388.80%
Corporate tax payables	122	0.10%	220	0.26%	(98)	(44.55%)
Provision for court payables		0.00%	0	0.00%	0	
Liabilities for retirement employee benefit	79	0.07%	79	0.09%	0	0.00%
Total current liabilities	121 478	100.00%	84 183	100.00%	37 295	44.30%
Total liabilities	172 107		134 499		37 608	27.96%
Total equity and liabilities	405 340		339 742		65 598	19.31%

SHARE CAPITAL STRUCTURE

The registered share capital as at 30.06.2019 amounts to BGN 231 698 thousand (31.12.2018: BGN 231 698 thousand) and is unchanged during the reporting period.

As at 30 June 2019, the cumulative loss amounted to BGN 5,877 thousand (31.12.2018: accumulated loss of BGN 33,867 thousand). The change as at 30 June 2019 is BGN 27 990 thousand, representing the net profit for the reporting period of 2019.

NON-CURRENT LIABILITIES

The non-current liabilities of the Company as at 30.06.2019 amount to BGN 50 629 thousand (31.12.2018: BGN 50 316 thousand), which represents an increase of BGN 313 thousand or 0.62%, formed by lease payables, provision for court payables related to *Case COMP/B1/AT.39849 - BEH gas* and retirement employee benefit.

CURRENT LIABILITIES

As at 30.06.2019, the Company's current liabilities amount to BGN 121 478 thousand (31.12.2018: BGN 84 183 thousand), which is an increase of BGN 37 295 thousand or 44.30%.

As at 30.06.2019, the Company has undrawn loans (overdrafts) as follows: overdraft limit of BGN 10 900 thousand from Citibank Europe AD - Branch Bulgaria, overdraft limit of BGN 12 000 thousand from CCB AD, as well as an overdraft limit of BGN 10,000 thousand from Expressbank AD.

Trade and other payables increased by BGN 41,077 thousand or 51.22%, compared to 2018, due to current payables to suppliers. Current VAT liabilities to the National Revenue Agency amount to BGN 17 793 thousand (31.12.2018: BGN 37 599 thousand).

As at 30.06.2019 liabilities to related parties have decreased.

An increase was observed in the trade payables for received advances from natural gas customers BGN 21 449 thousand.

STATEMENT OF CASH FLOWS

The table presents data on changes in the cash flows as at 30.06.2019 compared to 30.06.2018.

BGN thousands

	1st half of 2019	1st half of 2018	Change	
	BGN thousands	BGN thousands	BGN thousands	%
Net cash flows from operating activity	12 289	28 030	(15 741)	(56.16%)
Net cash flows from investing activity	1 294	(89)	1 383	1553.93%
Net cash flows from financing activity	(64)	(29 653)	29 589	99.78%
Net change in cash and cash equivalents during the period	13 519	(1 712)	15 231	889.66%
Cash and cash equivalents at the beginning of the period	(3 587)	2 145	(5 732)	(267.23%)
Cash and cash equivalents at the end of the period	9 932	433	9 499	2193.76%

The net cash flow from operating activities of the Company as at 30.06.2019 is positive and amounts to BGN 12 289 thousand (30.06.2018: positive to BGN 28 030 thousand) – there is a decrease of BGN 15 741 thousand or 56.16%. It is formed by the difference between receipts from customers for natural gas sold and payments to suppliers for purchased natural gas.

During the reporting period Bulgargaz EAD paid the amount of BGN 191 239 thousand for tax liabilities (2018: BGN 136 363 thousand).

POST-REPORTING DATE EVENTS

The events described in Note 21 “Post-Reporting Date Events” in the interim condensed financial statements.

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 utilising its assets to achieve its operational objectives.

As at 30.06.2019 the financial ratios show financial stability of the Company and are optimal compared to market levels.

PROFITABILITY

Indicators	30.06.2019	31.12.2018
Sales profitability	3.43%	(5.10%)
Return on equity	12.01%	(9.82%)
Return on assets	6.91%	(9.41%)

RETURN ON EQUITY

This indicator reveals the equity profitability level. As at 30.06.2019, the return on equity ratio is 12.01% (31.12.2018: -9.82%).

RETURN ON ASSETS

It reveals the rate of return on the capital of the Company – own capital and attracted funds. It is expressed via ratio of the achieved financial result and assets used therein.

As at 30th June, 2019 the return on assets is 6.91% (31.12.2018: -9.41).

LIQUIDITY

The indicators for liquidity reveal Company's ability to repay its current liabilities, with its current short-term assets.

Indicators	30.06.2019	31.12.2018
Current liquidity ratio	3.11	3.87
Quick liquidity ratio	2.41	2.79
Immediate liquidity ratio	0.08	0.00

As at 30.06.2019 the current liquidity ratio is 3.11, therefore, the current liabilities of the Company may be covered, more than 3 times, by the available current assets (30.06.2018: 3.87).

The quick liquidity ratio is 2.41, therefore, with the available current assets, decreased by the inventories, the current liabilities of the Company can be covered more than 2 times.

The immediate liquidity ratio reveals the monetary means that cover Company's short-terms liabilities. As at 30.06.2019 the immediate liquidity ratio is 0.08 (30.06.2018: 0.00).

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	30.06.2019	30.06.2018
Financial autonomy ratio	1.36	1.53
Gearing ratio	0.74	0.66

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. As at 30.06.2019 the indicator for financial autonomy ratio is 1.36 (30.06.2018: 1.53).

The gearing 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 30.06.2019 is 0.74 (30.06.2018: 0.66).

The information presented and analyzed in the Management Report of Bulgargaz EAD for the first half of 2019 shows that the Company fulfills its licensing obligations as a public supplier of natural gas in the Republic of Bulgaria in full compliance with the requirements of the legal framework. 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.

30.07.2019



Stanimir Kostov
*Head of Financial Reporting and
Methodology Department*



Nikolay Pavlov
Executive Director



BULGARGAZ EAD
CONDENSED STATEMENT OF FINANCIAL POSITION
30 JUNE 2019

(All amounts are presented in BGN '000)

	NOTE	AS AT 30 JUNE 2019	AS AT 31 DECEMBER 2018
ASSETS			
Non-current assets			
Plant and equipment	7	104	100
Intangible assets	8	739	117
Long-term trade receivables	10	13 317	-
Deferred tax assets	12	13 916	13 814
		28 076	14 031
Current assets			
Inventories	9	84 804	90 943
Trade and other receivables	10	282 586	234 668
Cash and cash equivalents	11	9 874	100
		377 264	325 711
TOTAL ASSETS		405 340	339 742
EQUITY AND LIABILITIES			
Equity			
Share capital	13	231 698	231 698
Reserves	14	7 412	7 412
Accumulated loss		(5 877)	(33 867)
		233 233	205 243
Non-current liabilities			
Finance lease liabilities	15	313	-
Pension and other employee obligations		72	72
Provisions	19	50 244	50 244
		50 629	50 316
Current liabilities			
Borrowings		3	3 687
Finance lease liabilities	15	121	-
Trade and other payables	15	121 153	80 197
Income tax liabilities		122	220
Pension and other employee obligations		79	79
		121 478	84 183
TOTAL LIABILITIES		172 107	134 499
TOTAL EQUITY AND LIABILITIES		405 340	339 742

The interim condensed financial statements were approved by the Board of Directors on 30 July 2019.

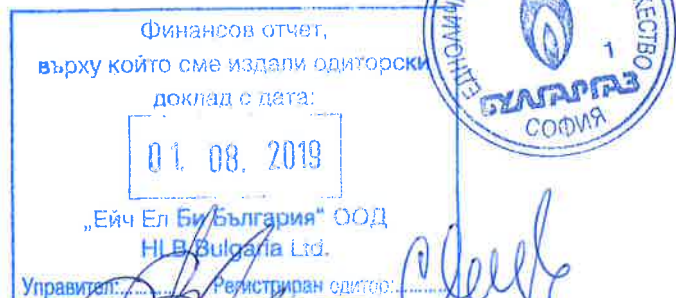
Liliya Ivanova
Head of Accounting Department

Date: 23 July 2019

Audit firm
HLB Bulgaria Ltd.



Nikolay Pavlov
Executive Director



The accompanying notes on pages from 5 to 20 form an integral part of the interim condensed financial statements.

BULGARGAZ EAD
CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
30 JUNE 2019

(All amounts are presented in BGN '000)

	NOTE	6-MONTH PERIOD, ENDED 30 JUNE	
		2019	2018 Restated
Revenue from sale of natural gas		816 066	626 732
Cost of natural gas as sold		(790 134)	(609 691)
Recovered/(accrued) impairment losses	17	(617)	(9 045)
Hired services expenses		(2 482)	(2 271)
Employee benefits and social security expenses		(1 339)	(1 418)
Cost of materials		(25)	(38)
Depreciation and amortization expenses	7, 8	(207)	(92)
Other income		9 442	8 957
Other expenses		(46)	(134)
Operating profit/(loss)		30 658	13 000
Financial income		1 595	12
Financial costs		(4 243)	(2 591)
Financial income/(costs) – net		(2 648)	(2 579)
Profit/(loss) before tax		28 010	10 421
Income tax expense	18	(20)	(1 042)
Profit/(loss) for the period		27 990	9 379
Total comprehensive income/(loss) for the period		27 990	9 379

The interim condensed financial statements were approved by the Board of Directors on 30 July 2019.

Liliya Ivanova
Head of Accounting Department

Nikolay Pavlov
Executive Director

Date: 23 July 2019

Audit firm
HLB Bulgaria Ltd.



The accompanying notes on pages from 5 to 20 form an integral part of the interim condensed financial statements.

BULGARGAZ EAD
CONDENSED STATEMENT OF CHANGES IN EQUITY
30 JUNE 2019

(All amounts are presented in BGN '000)

	Note	Share capital	Reserves	Retained earnings/ accumulated loss	Total
AS AT 1 JANUARY 2019	13,14	231 698	7 412	(33 867)	205 243
Comprehensive income					
Profit for the period		-	-	27 990	27 990
Total comprehensive income		-	-	27 990	27 990
AS AT 30 JUNE 2019		231 698	7 412	(5 877)	233 233
AS AT 31 DECEMBER 2017		231 698	6 474	9 468	247 640
Adjustments from the adoption of IFRS 9, net of tax		-	-	(6 150)	(6 150)
AS AT 1 JANUARY 2018 (restated)		231 698	6 474	3 318	241 490
Comprehensive income					
Profit for the period (restated)		-	-	9 379	9 379
Total comprehensive income		-	-	9 379	9 379
Transactions with sole owner					
Transfer of retained earnings to reserves		-	948	(948)	-
Dividends		-	-	(4 259)	(4 259)
Total transactions with sole owner		-	948	(5 207)	(4 259)
AS AT 30 JUNE 2018		231 698	7 422	7 490	246 610

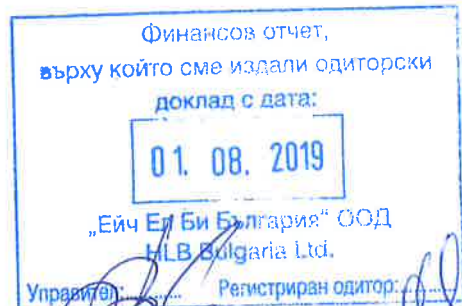
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Liliya Ivanova
Head of Accounting Department

Nikolay Pavlov
Executive Director

Date: 23 July 2019

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BULGARGAZ EAD
CONDENSED STATEMENT OF CASH FLOWS
30 JUNE 2019

(All amounts are presented in BGN '000)

	NOTE	6-MONTH PERIOD, ENDED 30 JUNE	
		2019	2018
CASH FLOWS FROM OPERATING ACTIVITY			
Cash receipts from customers		1 004 067	793 492
Cash paid to suppliers		(796 955)	(624 762)
Cash paid to employees and social security institutions		(1 433)	(1 486)
Income taxes paid		(220)	-
Taxes paid, different from income taxes		(191 019)	(136 363)
Exchange gains/(losses) on cash and cash equivalents		(2 382)	(2 151)
Other cash receipt/paid from operating activity		231	(700)
Net cash flow from operating activities		12 289	28 030
CASH FLOWS FROM INVESTING ACTIVITY			
Purchase of property and equipment		(26)	(19)
Purchase of intangible assets		(274)	(70)
Interest received on deferred trade receivables		1 594	-
Net cash flow from investing activities		1 294	(89)
CASH FLOWS FROM FINANCING ACTIVITY			
Dividends paid		-	(19 252)
Repayments of borrowings and financing agreements		-	(9 924)
Payments of interest on borrowings and financing agreements		(1)	(93)
Payments of interest on deferred trade payables		(63)	(384)
Net cash flow from financing activity		(64)	(29 653)
Net change in cash and cash equivalents during the period		13 519	(1 712)
Cash and cash equivalents, beginning of the year, net of overdrafts		(3 587)	2 145
Cash and cash equivalents, end of the period	11	9 932	433

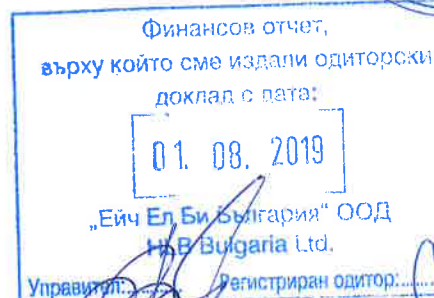
The interim condensed financial statements were approved by the Board of Directors on 30 July 2019.

Liliya Ivanova
 Head of Accounting Department

Nikolay Pavlov
 Executive Director

Date: 23 July 2019

Audit firm
 HLB Bulgaria Ltd.



The accompanying notes on pages from 5 to 20 form an integral part of the interim condensed financial statements.

BULGARGAZ EAD
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 JUNE 2019

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

1. GENERAL INFORMATION

BULGARGAZ EAD (the Company), UIC 175203485, is a sole shareholder joint stock company, registered under the Commercial Act, with seat and address of management 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; purchases of natural gas to be stored in an underground gas storage; marketing studies and natural gas market analyses.

The major strategic goal of BULGARGAZ EAD, as a public gas supplier, is to ensure the public interests by providing long-term supplies of natural gas to Bulgaria. The Company has entered into a contract for the supply of natural gas with its major supplier Gazprom Export LLC. The Company is considering and assessing the opportunities for providing alternative sources and routes for natural gas.

The Company operates under an individual licence for public supply of natural gas on the territory of Republic of Bulgaria – licence No. JI-214-14 of 29th November 2006, issued by the State Energy and Water Regulatory Commission for a period of 35 years.

BULGARGAZ EAD is a sole shareholder joint stock company whose ultimate parent company is Bulgarian Energy Holding EAD. The ultimate owner of the Company is the Bulgarian Republic, through the Minister of Energy.

The organizational structure of BULGARGAZ EAD includes a headquarters office and one technological unit in the Republic of Romania.

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

The current condensed interim financial statements were approved for publication by the Board of Directors on 30 July 2019.

2. BASIS OF PREPARATION

These condensed interim financial statements for the six-month period ended 30 June 2019 have been prepared in accordance with IAS 34 Interim Financial Reporting. Same do not contain all the information required for the preparation of full annual financial statements under the International Financial Reporting Standards (IFRS) and should be read in conjunction with the annual financial statements of the Company for the year ended 31 December 2018 prepared in accordance with IFRS, developed and published by the International Accounting Standards Board ("IASB") and adopted for application in the European Union ("EU").

The condensed interim financial statements are presented in Bulgarian lev (BGN), which is also the functional currency of the Company. All amounts are presented in thousand Bulgarian leva (BGN'000), (including comparative information for 2018), unless otherwise stated.

The interim condensed financial statements are prepared under the going concern principle.

For the period ending 30 June 2019, the Company reported an accounting profit after tax of BGN 27 990 thousand, a positive cash flow from operating activities amounting to BGN 12 289 thousand, and the current assets exceed current liabilities by BGN 255 786 thousand.

As of 30 June 2019, the financial statements are prepared on a going concern basis, implying that the Company will continue its operations for the foreseeable future.

BULGARGAZ EAD
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 JUNE 2019

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

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, contracts for natural gas sales to the clients of the Company, as well as from ensuring the financing on the part of the principal company – Bulgarian Energy Holding EAD, in case of necessity. 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 the condensed interim financial statements be prepared on the going concern principle.

3. ACCOUNTING POLICIES

The present condensed interim financial statements have been prepared in accordance with the accounting policies adopted in the last annual financial statements of the Company for the year ended 31 December 2018, except for the application of the new standards, amendments to standards and interpretations that are mandatory for application for the first time from the financial year starting 1 January 2019 described below.

The Company has not made changes in its accounting policy regarding the application of all new and/or revised IFRSs effective for the current reporting period beginning on 1 January 2019, as there were no entities or operations during the period affected by changes and amendments to IFRSs. As at the date of approval for publication of these condensed interim financial statements, amendments and improvements to existing standards have been made as described in item 3.1 below.

Recalculation of comparative information

At the date of issuance of the interim condensed financial statements as of 30 June 2018, the Company has not been able to determine the specific effects of applying the accounting standards effective from 1 January 2018, their application to current operations and the calculation of the effects of the necessary adjustments arising from the initial implementation of the changes.

At the date of issuance of these interim condensed financial statements, the Company presents restated information for the previous comparable period. Classifications, presentation and disclosure of comparative information in these interim condensed statements pursuant to the policies adopted by the Company effective as of January 1 2018 on and applied to the financial statements prepared at 31 December 2018.

The Board of Directors of Bulgargaz EAD has determined that the application of the requirements for impairment of IFRS 9, effective from 1 January 2018 resulted in the recognition of an initial effect and impairment at 30.06.2018 as follows:

Effect on:	Effect on undistributed profit at of 01.01.2018	Effect on the statement of profit and loss at of 30.06.2018	Effect on undistributed profit at of 30.06.2018
	(BGN thousands)	(BGN thousands)	(BGN thousands)
Recognition of expected credit losses under IFRS 9 from impairment of trade receivables	(6 510)	7 820	1 310
Recognition of expected credit losses under IFRS 9 from impairment of other receivables	(159)	(19)	(178)
Recognition of expected credit losses under IFRS 9 from impairment of court and awarded receivables	(160)	(81)	(241)
Recognition of expected credit losses under IFRS 9 from impairment of cash and cash equivalents	(4)	3	(1)
Impairment Deferred taxes	683	(772)	(89)
Net effect	(6 150)	6 951	801

BULGARGAZ EAD
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 JUNE 2019

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

The effect on the financial result as of 1 January 2018 is presented in the following table:

Effect on:	(BGN thousands)
Retained earnings/(uncovered loss) 31.12.2017	9 468
Additional impairment adjustment for expected credit losses	(6 833)
Deferred taxes	683
Retained earnings/(uncovered loss) 01.01.2018	3 318

The effect on the financial result as of 30 June 2018 is presented in the following table:

Effect on:	(BGN thousands)
Retained earnings/(uncovered loss) 30.06.2018	2 428
Additional impairment adjustment for expected credit losses on initial application of IFRS 9	7 723
Deferred taxes	(772)
Retained earnings/(uncovered loss) recalculated as of 30.06.2018	(9 379)

3.1. NEW STANDARDS, AMENDMENTS TO EXISTING STANDARDS AND INTERPRETATIONS IN FORCE FOR THE FIRST TIME SINCE 1 JANUARY 2019

As at the date of approval for publication of these interim condensed financial statements, amendments and improvements are made to current standards issued by the IASB and adopted by the EU, which are mandatory for the first time from 1 January 2019, as follows:

IFRS 16 "Leasing" – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019);

This standard has a completely changed concept and introduces significant changes in the reporting of leases, especially on the part of lessees. It introduces new principles for the recognition, measurement and presentation of leases in order to better represent these transactions. The Standard will replace the current IAS 17 "Leases", IFRIC 4 "Determining whether an arrangement contains a lease", SIC-15 "Operating leases - incentives" and SIC-27 "Assessing the content of transactions involving the legal form of a lease". The guiding principle of the new standard is the introduction of a one-size-fits-all model of lease accounting for lessees for all lease contracts with a duration of more than 12 months, recognizing a "right of use" asset that will be amortized over the term of the contract; respectively, the obligation under these contracts will be taken into account. Under IFRS 16, a contract that is or contains a lease is deemed to be a contract that confers the right to control the use of the asset for a certain period of time against consideration. IASB has included a right of option for some short-term leases and leases of underprivileged assets, and this exception can only be applied by lessees.

The Company has reviewed all agreements in the light of the new IFRS 16. The standard mainly addresses the operating leases of the company as a lessee. As at the date of the interim condensed financial statements, irrevocable commitments under operating lease contracts amount to BGN 434 thousand.

Amendment to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation - (adopted by the EU on 22 March 2018, effective for annual periods beginning on or after 1 January 2019);

Amends the existing requirements the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

IFRIC 23 "Uncertainty Related to Income Taxes Tax Treatment" - (effective for annual periods beginning on 1 January 2019).

Guidelines are given for applying the requirements for recognizing and evaluating IAS 12 Income Taxes when there is uncertainty related to income tax treatment (i.e. uncertainty whether the entity's tax treatment will be accepted by the tax authorities in accordance with tax legislation).

BULGARGAZ EAD
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 JUNE 2019

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

Amendment to IAS 28 "Investments in Associates and Jointly Controlled Undertakings" - Long-term investments in associates or jointly controlled undertakings. Approved by the EU on 8 March 2019, published in the Official Journal on 11 March 2019 - (effective for annual periods beginning on 1 January 2019).

An entity shall apply IFRS 9 when accounting for a long-term investment in an associate or jointly controlled undertaking that is part of the net investment in that associate or jointly controlled undertaking and to which the equity method does not apply, however.

Amendments to Different Standards Improvements to IFRS (Cycle 2015-2017) - (effective for annual periods beginning on or after 1 January 2019);

Amendments to IAS 19 Employee Benefits - Amendment, Reducing or Settlement of the Plan - (effective for annual periods beginning on or after 1 January 2019), approved by the EU on 13 March 2019, published in the Official Journal on 15 March 2019);

3.2. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BY IASB AND ENDORSED BY THE EU THAT ARE NOT EFFECTIVE YET

As at the date of approval for publication of these interim condensed financial statements, new standards, revised standards and interpretations have been issued but are not yet in force (and/or not adopted by the EC) for annual periods beginning on 1 January 2019, which were not accepted for earlier application by the company. Of these, the Company's management has estimated that the following could have a potential effect in the future on changes in accounting policies and the classification and values of reporting items in the financial statements for the following periods, and it is hereunder disclosed how the disclosures, the financial position and results of operations can be expected to be affected when the Company first adopts these standards.

Changes in the Financial Framework Conceptual Framework - (effective for annual periods beginning on or after 1 January 2020);

IFRS 17 Insurance Contracts - (effective for annual periods beginning on or after 1 January 2021 not adopted by EC). In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Upon its entry into force, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4), which was published in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life insurance, non-life insurance, direct insurance and reinsurance), regardless of the type of entity that issues them, and with respect to certain guarantees and financial instruments with additional, non-guaranteed income (discretionary participation). Few exceptions to the scope will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers.

Amendments to IFRS 3 Business Combinations - (effective for annual periods beginning on or after 1 January 2020 not adopted by EC);

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - (effective for annual periods beginning on or after 1 January 2020 not adopted by the EC).

4. ESTIMATES

In the preparation of interim financial statements, the management makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

The actual results may differ from management's estimates, judgements and assumptions, and in rare cases fully correspond to the previously assessed results.

In preparing the presented interim condensed financial statements, the management's significant judgments in applying the Company's accounting policies and the main sources of uncertainty of the accounting estimates do not differ from those disclosed in the annual financial statements of the Company as at 31 December 2018.

For the purpose of presenting these interim condensed financial statements, the Company recognizes and

BULGARGAZ EAD
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 JUNE 2019

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

estimates the expected credit losses of debt instruments measured at amortized cost, does not carry out a review for impairment to net realizable value of inventories, review for impairment of property, plant and equipment.

5. FINANCIAL RISK MANAGEMENT

5.1. FINANCIAL RISK FACTORS

The Company is exposed to various types of risks with respect to its financial instruments. The most significant financial risks to which the Company is exposed are market risk, credit risk and liquidity risk.

The interim condensed financial statements do not include all the information on risk management and disclosures required in the preparation of the annual financial statements and should be read in conjunction with the annual financial statements of the Company as of 31 December 2018. There were no changes to the risk management policy during the period.

5.2. FAIR VALUE MEASUREMENT

The Company has no financial instruments that are classified as such at fair value in the condensed statement of financial position. 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
- Long-term trade receivables
- Cash and cash equivalents
- Trade and other payables.

6. SEASONALITY OF OPERATIONS

The activity of the Company is characterized by seasonal fluctuation as part of the Company's customers (heat and gas distribution companies) that use natural gas for heat and electricity production or directly deliver it for heating. This is why the seasons have a significant impact on the Company's activities.

Highest gas consumption occurs during the winter months, particularly in the first quarter, and in the summer it falls.

The realization of natural gas in the first six months of 2019 is 17 248 526 MWh (first six months of 2018: 17 243 452 MWh).

The Company uses the possibilities of the underground gas storage in the village of Chiren, owned by BULGARTRANGAS EAD to compensate for this seasonal fluctuation on the natural gas market in the country. In the summer the Company buys natural gas, which is injected into the underground gas storage facility, and in winter, when gas consumption is very high, it withdraws it.

BULGARGAZ EAD
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 JUNE 2019

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

7. PLANT AND EQUIPMENT

	Plant and equipment	Vehicles	Office equipment	Total
AS AT 1 JANUARY 2019				
Gross carrying amount	91	468	304	863
Depreciation	(52)	(429)	(282)	(763)
Carrying amount	39	39	22	100
6-MONTH PERIOD ENDED				
30 JUNE 2019				
Additions	-	-	25	25
Depreciation	(3)	(7)	(11)	(21)
Ending carrying amount	36	32	36	104
AS AT 30 JUNE 2019				
Gross carrying amount	91	468	329	888
Depreciation	(55)	(436)	(293)	(784)
Carrying amount	36	32	36	104

The Company has no plant and equipment pledged as security for its liabilities.

8. INTANGIBLE ASSETS

	License	Software	Right-of-use assets, IFRS 16	Total
AS AT 1 JANUARY 2019				
Gross carrying amount	40	887	-	927
Amortization	(7)	(803)	-	(810)
Carrying amount	33	84	-	117
6-MONTH PERIOD ENDED				
30 JUNE 2019				
Additions	1	262	-	263
Right-of-use assets, IFRS 16	-	-	545	545
Amortization	(2)	(63)	(121)	(186)
Ending carrying amount	32	283	424	739
AS AT 30 JUNE 2019				
Gross carrying amount	41	1 149	545	1 735
Amortization	(9)	(866)	(121)	(996)
Carrying amount	32	283	424	739

No intangible assets have been pledged as security for liabilities.

9. INVENTORIES

	AS AT 30 JUNE 2019	AS AT 31 DECEMBER 2018
Natural gas at cost	84 798	90 923
Impairment to net realizable value	(17)	-
Natural gas – net realisable value	84 781	90 923
Materials	23	20
Total inventories	84 804	90 943

BULGARGAZ EAD
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 JUNE 2019

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

The accrued impairment movement of natural gas is the following:

	6-MONTH PERIOD ENDED	
	30 JUNE	
	2019	2018
At the beginning of period	-	-
Written-off impairment of natural gas sold (Note 17)	17	-
At the end of period	17	-

Reversals of impairment of inventories are recognized as an adjustment to cost of natural gas sold during the period.

Accrued new impairment losses are presented in the Condensed Statement of profit or loss and other comprehensive income.

At the date of the condensed statement of financial position, the Company has analysed the circumstances that would lead to the existence of impairment in the value of natural gas.

The main external source used as evidence of indications of impairment was issued Decision of EWRC No II-16/28.06.2019. On this basis, the value of the available quantity of natural gas in the gas pipeline in Romania is estimated to its net realizable value and an impairment loss of BGN 17 thousand was recognized for the period. Accrued impairment losses are presented as such in the Statement of Profit or Loss and Other Comprehensive Income (Note 17).

None of the inventories at 30 June 2019 are pledged as securities for liabilities.

10. TRADE AND OTHER RECEIVABLES

	AS AT	AS AT 31
	30 JUNE 2019	DECEMBER
		2018
Trade receivables	170 205	151 299
Accumulated impairment of trade receivables	(9 086)	(8 007)
Trade receivables, net	161 119	143 292
Court and awarded receivables	202 334	201 389
Accumulated impairment of court and awarded receivables	(201 059)	(201 389)
Court and awarded receivables, net	1 275	-
Receivable from Corporate Commercial Bank AD - insolvent	4 503	5 077
Accumulated impairment of receivable from Corporate Commercial Bank AD-insolvent	(4 503)	(4 712)
Receivable from Corporate Commercial Bank AD-insolvent, net	-	365
Prepaid advances for natural gas delivery	119 957	75 030
Receivables from related parties (Note 20)	11 599	11 865
Other receivables - prepaid expenses, guarantees and deposits	1 953	4 116
Total trade and other receivables	295 903	234 668
Less non-current portion: trade receivables	13 317	-
Current trade and other receivables	282 586	234 668

BULGARGAZ EAD
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 JUNE 2019

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

The movement in the allowance account for credit losses can be reconciled as follows:

	AS AT 30 JUNE 2019	AS AT 31 DECEMBER 2018
At the beginning of period	214 108	225 415
Adjustments from initial application of IFRS 9	-	6 828
Accrued losses from impairment of receivables	2 502	58 019
Written-off uncollectible receivables	(3)	(48)
Reversals of impairment losses	(1 751)	(63 757)
Accrued/(reintegrated) losses on impairment of Corporate Commercial Bank AD - insolvent	(208)	(12 349)
At the end of period	214 648	214 108

Impairment loss and recovery is recognized in the Statement of profit or loss and other comprehensive income (Note 17).

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.

The Company has receivables from Corporate Commercial Bank AD (CCB) at the amount of BGN 17 463 thousand, which are filed in the open bankruptcy proceedings of the Bank. Pursuant to the Decision No. 3BH66-8, 3BH66-39 of 28.12.2015 of the syndics 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, a statement from a partial distribution account was published in the Commercial Register for the distribution of the available amounts among the creditors of the bank by the syndics of the CCB AD (insolvent). According to the distribution of the syndics, in May 2019, Bulgargaz EAD was reimbursed an amount of BGN 574 thousand.

No trade and other receivables have been pledged as security for liabilities.

BULGARGAZ EAD
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 JUNE 2019

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

11. CASH AND CASH EQUIVALENTS

	AS AT 30 JUNE 2019	AS AT 31 DECEMBER 2018
Cash on hand	42	22
Cash in current bank accounts	9 890	78
Accumulated impairment of cash (Note 17)	(58)	-
Cash, net	9 874	100
Total cash and cash equivalents in the statement of financial position	9 874	100
Overdrafts	-	(3 687)
Total cash and cash equivalents in the statement of cash flows	9 932	(3 587)

The amount of cash and cash equivalents, inaccessible to the Company as at 30 June 2019, amounts to BGN 50 thousand.

RECONCILIATION BETWEEN INITIAL AND FINAL BALANCES IN THE CONDENSED FINANCIAL POSITION AS AT 30 JUNE 2019 OF LIABILITIES ARISING FROM FINANCIAL ACTIVITIES

Liabilities arising from financial activities	On 1 January	Cash flows from financial activities		Changes on non-cash nature - dematerialized	On 30 June
		Receipts	Payments	Additions (increases)	
Short-term bank loans	3 687	-	(3 688)	(1)	-
Commercial loans related parties	-	-	(63)	(63)	-
Total liabilities from financial activities:	3 687	-	(3 751)	(64)	-

12. 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% (2018: 10%), applicable for the year, when they are expected to occur retroactively.

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

	6-MONTH PERIOD, ENDED 30 JUNE	
	2019	2018 Restated
AS AT 1 JANUARY	13 814	14 940
Recognized as (expense)/ income in the condensed statement of profit or loss and other comprehensive income (Note 18)	102	905
AS AT 30 JUNE	13 916	15 845

BULGARGAZ EAD
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 JUNE 2019

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

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

DEFERRED TAX ASSETS	Impairment of inventories	Impairment of trade and other receivables	Pension provisions	Unused paid leaves	Plant and Equipment	Total
AS AT 1 JANUARY 2019	-	(13 786)	(15)	(16)	-	(13 817)
Expense/(Income) in profit or loss	(2)	(100)	-	-	-	(102)
AS AT 30 JUNE 2019	(2)	(13 886)	(15)	(16)	-	(13 919)
DEFERRED TAX LIABILITIES						
AS AT 1 JANUARY 2018	-	-	-	-	3	3
Expense/(Income) in profit or loss	-	-	-	-	-	-
AS AT 30 JUNE 2019	-	-	-	-	3	3
DEFERRED TAX ASSETS, NET	(2)	(13 886)	(15)	(16)	3	(13 916)

BULGARGAZ EAD
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
30 JUNE 2019

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

13. SHARE CAPITAL

	6-MONTH PERIOD ENDED 30 JUNE 2019	
	Number of shares	Amount
At the beginning of period	231 698 584	231 698
At the end of the period	231 698 584	231 698

14. RESERVES

	6-MONTH PERIOD ENDED 30 JUNE 2019			
	Legal reserves	Revaluation reserves of non- financial assets	Remeasurements of defined benefit liability	Total
At the beginning of period	7 367	53	(8)	7 412
At the end of the period	7 367	53	(8)	7 412

15. TRADE AND OTHER PAYABLES

	AS AT 30 JUNE 2019	AS AT 31 DECEMBER 2018
Related party payables (Note 20)	1 561	13 469
VAT payable	17 793	37 599
Advances received from clients for sale of natural gas	35 748	15 113
Trade payables	65 005	11 957
Lease payables	434	-
Excise duty	439	1 762
Payables to employees	90	131
Liabilities to insurance companies	67	74
Other liabilities	450	92
Total trade and other payables	121 587	80 197
Less non-current portion: lease payable	313	-
Non-current trade and other payables	313	-
Current trade and other payables	121 274	80 197

As of 1 January 2019, in accordance with IFRS 16, a one-model accounting treatment for a contract for a leased asset - office building - has been applied. A "right-of-use" asset is recognized, amounting to BGN 545 thousand, which will be amortized over the period of the contract and, respectively, the lease liability under this contract is reported. As at 30.06.2019, the amount of the lease liability is BGN 434 thousand, total current and non-current part.

16. UNUSUAL ITEMS

There are no expenses in the condensed statement of profit or loss and other comprehensive income as at 30 June 2019 treated as unusual items.

BULGARGAZ EAD
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
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(All amounts are presented in BGN '000, unless otherwise stated)

17. IMPAIRMENT LOSS	6-MONTH PERIOD ENDED 30	
	JUNE	
	2019	2018
		Restated
Accrued and recovered impairment losses on trade and other receivables (Note 10)	750	9 045
Accrued impairment loss on inventories (net)	17	-
Accrued and recovered impairment losses on receivables from Corporate Commercial Bank - insolvent (Note 10)	(208)	-
Accrued and recovered impairment losses on cash and cash equivalents	58	-
Total impairment losses of assets	617	9 045

18. INCOME TAX EXPENSE	6-MONTH PERIOD ENDED 30	
	JUNE	
	2019	2018
		Restated
Current corporate tax expense	(122)	(1 947)
Effect of the change in deferred taxes (Note 12)	102	905
Income (expense) tax revenues	(20)	(1 042)

Current tax expense is recognized on the basis of the Company's management's estimate of the weighted average annual profit tax expected for the full financial year, which is 10% (2018: 10%).

19. PROVISIONS, CONTIGENT ASSETS AND CONTIGENT LIABILITIES

European Commission procedures

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), July 10, 2015 ("Bulgarian Energy Holding" EAD) and July 17, 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 penalty.

On 26 July 2018, a decision was taken by the 44th National Assembly (NA) of the Republic of Bulgaria to

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

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 Gazprom, 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.

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 registry 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 28 February 2019, Bulgarian Energy Holding EAD and its subsidiaries Bulgargaz EAD and Bulgartransgaz EAD have filed an Application to the General Court of the European Union against the Decision of the European Commission dated 17 December 2018 concerning the proceedings pursuant to Article 102 of the Treaty on the Functioning of the European Union under Case AT.39849 - BEH Gas.

BEH and its subsidiaries do not accept the Commission's findings that they have abused a dominant position on the Bulgarian gas market.

The Appeal seeks annulment of the Decision of the European Commission and the fine imposed.

On 18 March 2019, ING Bank NV issued two unsecured bank guarantees to the EC for a total amount equal to the fine of EUR 77,068,000, as follows:

- bank guarantee in the amount of EUR 51,379 thousand, covering 2/3 of the total amount of the fine, securing the obligations of Bulgarian Energy Holding EAD and Bulgargaz EAD;
- bank guarantee in the amount of EUR 25,689 thousand, which guarantees the liability of Bulgartransgaz EAD for the imposed fine.

On 4 July 2019, the Republic of Bulgaria, through the Ministry of Foreign Affairs, filed an application to intervene in the case.

The European Commission is currently expected to present its defence by 26 August 2019 in response to the application filed to the General Court of the European Union.

Legal claims

There are no legal actions of significant material interest against the Company.

In 2018, the Company filed complaints with the Administrative Court - Sofia City, challenging the legality of the EWRC's decisions establishing the price of natural gas for the 1st and 2nd quarter of 2018.

By Administrative Court - Sofia City's Decisions of 11.10.2018 and 28.06.2019, the Company's complaints against the Decisions of EWRC have been the dismissed.

20. RELATED PARTY TRANSACTIONS

The Company announces the following related parties:

Sole shareholder of the Company, exercising control (Parent company)
BULGARIAN ENERGY HOLDING EAD

Sole shareholder of the Parent company
Republic of Bulgaria through the Minister of Energy

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Companies under mutual joint control with the Company (entities within the group)

Natsionalna Elektricheska Kompania EAD, TPP Maritsa East 2 EAD, Mini Maritsa Iztok EAD, Kozloduy NPP EAD, Kozloduy NPP – NB EAD, HPP Kozloduy EAD, Interpiborservice OOD, Bulgartel EAD, Bulgartransgaz EAD, Electricity System Operator EAD, TPP Maritsa East 2 (9 and 10) EAD, PFC Beroe – Stara Zagora EAD, Bulgartel-Skopje DOOEL, Energy Measurement and Information Technology Operator EAD (in liquidation), Independent Bulgarian Energy Exchange EAD until 15 February 2018, Energy Investment Company EAD until 26.04.2018.

Associated companies for BEH Group

Contur Global Maritsa Iztok 3 AD, Contur Global Operations Bulgaria AD, Energy Insurance JSC Allianz Bulgaria Pension AD, HEC Gorna Arda AD

Joint companies for BEH Group

ICGB AD, South Stream Bulgaria AD, Transbalkan Electric Power Trading S.A. – NECO S.A.

Others – all enterprises related to the State.

Key management of the Company

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

Key management of the Parent Company to 24.07.2019

Petar Asenov Iliev – Chairman of the BoD
 Zhivko Dimitrov Dinchev – Member of the BoD
 Petyo Angelov Ivanov – Member of the BoD and CEO

Key management of the Parent Company as of 25.07.2019

Andon Petrov Andonov – Chairman of the BoD
 Zhivko Dimitrov Dinchev – Member of the BoD
 Jacklen Yosif Cohen – Member of the BoD and CEO

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

(A) SALE OF GOODS AND SERVICES

	6-MONTH PERIOD ENDED 30	
	JUNE	
	2019	2018
Companies under common control		
Bulgartransgaz EAD	4 565	6 683
Total	4 565	6 683

Sales include natural gas sold for balancing.

(B) PURCHASE OF GOODS AND SERVICES

	6-MONTH PERIOD ENDED 30	
	JUNE	
	2019	2018
Parent company		
Bulgarian Energy Holding EAD	208	74
Companies under common control		
Bulgartransgaz EAD	46 413	46 310
Bulgartel EAD	3	10
Total	46 624	46 394

BULGARGAZ EAD
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
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(All amounts are presented in BGN '000, unless otherwise stated)

The purchases of services from Bulgarian Energy Holding EAD include services under a Management and Control Agreement and a commission for maintaining a bank guarantee in connection with a property sanction in the BEH Gas case.

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

(C) ACCRUED PENALTY CHARGES

	6-MONTH PERIOD ENDED 30	
		JUNE
	2019	2018
Parent company		103
Bulgarian Energy Holding EAD	-	
Companies under common control		
Bulgartransgaz EAD	63	384
Total	63	487

Accrued penalty charges to BEH relate to the obligation for paying dividends, and to Bulgartransgaz EAD – interest under an Agreement.

(D) RECEIVABLES FOR PURCHASES OF GOODS AND SERVICES

	AS AT	AS AT 31
	30 JUNE 2019	DECEMBER
		2018
Companies under common control		
Bulgartransgaz EAD	11 599	11 865
Total	11 599	11 865

The receivables from Bulgartransgaz EAD represent financial collateral in the form of a credit limit and receivables for sale of natural gas for balancing.

(E) PAYABLES FOR PURCHASES OF GOODS AND SERVICES

	AS AT	AS AT 31
	30 JUNE 2019	DECEMBER
		2018
CURRENT		
Parent company		
Bulgarian Energy Holding EAD	28	25
Companies under common control		
Bulgartransgaz EAD	1 532	13 443
Bulgartel EAD	1	1
Total current	1 561	13 469
Total	1 561	13 469

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

As at 30 June 2019 the company has settled an Agreement concluded on 15 July 2015, consolidating 3 previous agreements of 11 May 2012, 15 March 2013 and 1 April 2015. From the date of signing the agreement to the date of the final repayment of the debt - 30.06.2019, in accordance with the repayment schedule, the Company owes interest at the amount of 3.6 points per year, based on a year of 360 days.

The current liabilities to Bulgartransgaz EAD are related to the current supply of gas transmission and storage services in the amount of BGN 1 532 thousand.

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(F) KEY MANAGEMENT PERSONNEL REMUNERATIONS

Key management personnel include the Executive Director and members of the Board of Directors.

Key management personnel remunerations are as follows:

	6-MONTH PERIOD ENDED	
	2019	30 JUNE 2018
Short term benefits to key management personnel		
- Remunerations	99	97
- Social security costs	8	10
Total	107	107

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

21. POST-REPORTING DATE EVENTS

No significant events have occurred after the end of the current reporting period that has effect on the condensed financial statements as at 30 June 2019, except for those mentioned below:

By decision of the Energy and Water Regulation Commission, the maximum prices for natural gas were approved, for sale by the Public Supplier to the end suppliers and customers connected to the gas transmission network for the third quarter of 2019 at the amount of BGN 44.90/MWh, excluding excise duty and VAT.

Key management of the Parent Company as of 25.07.2019

Andon Petrov Andonov – Chairman of the BoD

Zhivko Dimitrov Dinchev – Member of the BoD

Jacklen Yosif Cohen – Member of the BoD and CEO

22. APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements as at 30 June 2019 (including comparatives) were approved and endorsed by the Board of Directors on 30 July 2019.

**INDEPENDENT AUDITOR'S REPORT
TO THE SOLE SHAREHOLDER OF
BULGARGAZ EAD**

Report on the Audit of the Interim Condensed Financial Statements

Qualified Opinion

We have audited the interim condensed financial statements of **BULGARGAZ EAD** (the Company), which comprise the condensed statement of financial position as at 30 June 2019, and the condensed statement of profit or loss and other comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the period then ended, and selected explanatory notes and information to the interim condensed financial statements.

In our opinion, except for the effect of the matter described in point 1 and the incomplete disclosure described in point 2 in the "Basis for Qualified Opinion" section of our report the accompanying interim condensed financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2019, and its financial performance and its cash flows for the period then ended in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union (EU).

Basis for Qualified Opinion

1. The Company has adopted an accounting policy and methodology for assessing credit risk and determining expected credit losses in accordance with IFRS 9, which requires that the "specific risk" component be taken into account when calculating expected credit losses under the simplified model for customers in the Energy Industry, which is calculated as the ratio of the receivables from customers in the Energy Industry to the Company's total receivables. This policy was not consistently applied, in the impairment's review of trade receivables as of June 30, 2019 for short-term trade receivables from Toplofikacia Sofia EAD and TPP Varna for supplied natural gas. The Company did not include a „specific risk“ component in the calculation of their impairment. The recalculations made by us of the expected credit losses for these receivables in accordance with the adopted accounting policy of the Company and the reporting component "specific risk" was found a difference of BGN 19 947 thousand accrued less expenses for impairment of trade receivables for the period January 1 - June 30, 2019. In addition, when determining the expected credit losses for short-term trade receivables, the

Company did not include in the impairment test the receivables for penalties as of June 30, 2019. The recalculations of the expected credit losses of the receivables for penalties in accordance with the adopted accounting policy of the Company showed a difference amounted to BGN 862 thousand less impairment charges of the receivables for penalties for the period from January 1 to June 30, 2019.

According to the accounting records of the Company, if the management was reported impairment of trade receivables in accordance with the adopted accounting policy, the value of trade receivables as at 30 June 2019 should be reduced by BGN 20 809 thousand, recovered / (accrued) losses from impairment for the period from January 1 to June 30 should be increased by BGN 20 809 thousand, deferred tax assets to June 30, 2019 should be increased by BGN 2,081 thousand and the financial result for the period from January 1 to 30 June 2019 should be reduced by BGN 18 728 thousand.

2. In case of consistent application of the accounting policies the equity of the Company as at 30 June 2019 presented in the accompanying interim condensed financial statements should be reduced from BGN 233 233 thousand to BGN 214 505 thousand., this would result in excess of the share capital of the Company at the amount of BGN 231,698 thousand over its net assets by BGN 17 193 thousand, which is not in accordance with the requirements of Art. 252 of the Commerce Act and to any doubt regarding the application of the going concern principle in determining the basis for the preparation of the financial statements of the Company. This information was not disclosed in the accompanying condensed financial statements.

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

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

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

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

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

As described in the “Basis for Qualified Opinion” section above, the Company made a material misstatement in connection with the impairment of trade receivables as at 30 June 2019. We reached the conclusion that the other information contains material misstatement due to the impact of the effects of this material misstatement on the financial performance and related disclosures for that item included in the other information.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the interim condensed financial statements of the current period. These matters were addressed in the context of our audit of the interim condensed financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Except for the matters, described in the “Basis for Qualified Opinion” section, we have determined that there are no other key audit matters to communicate in our auditor’s report.

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

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the "Information Other than the Interim Condensed Financial Statements and Auditor's Report Thereon" section, in relation to the interim management report, we have also performed the procedures added to those required under ISAs in accordance with "Guidelines about new and expanded auditor's reports and communications from the auditor's side" of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming opinions about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act (Art. 100n, paragraph 4 (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 interim management report referring to the period for which the interim condensed financial statements have been prepared is consistent with those interim condensed financial statements on which we have expressed a qualified opinion in "Report on the Audit of the Interim Condensed Financial Statements" section above.

- b) The interim management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100(n), paragraph 4 (2) of the Public Offering of Securities Act.

Audit firm

HLB BULGARIA OOD

Manager:

Veronika Revalska

Registered auditor, responsible for the audit:

Svetlana Pavlova

1 August 2019



Handwritten signature of Veronika Revalska
Handwritten signature of Svetlana Pavlova