BULGARGAZ EAD

ANNUAL MANAGEMENT REPORT
ANNUAL FINANCIAL STATEMENTS
INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2019

CONTENTS

This Company Management Report for 31.12.2019 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 – 31 December 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 100н, Paragraph 7, item 2 of the Public Offering of Securities Act.

I. COMPANY OVERVIEW

Bulgargaz EAD is a sole shareholder joint stock 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 main 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. Л-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 of 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 ordinary, registered, unprivileged and voting shares with a nominal value of BGN 1. The total amount of the Company share capital is subscribed and entirely paid in by the sole shareholder Bulgarian Energy Holding EAD.

The state owns 100% of the registered capital in BEH EAD through the Minister of Energy.

COMPANY STRUCTURE

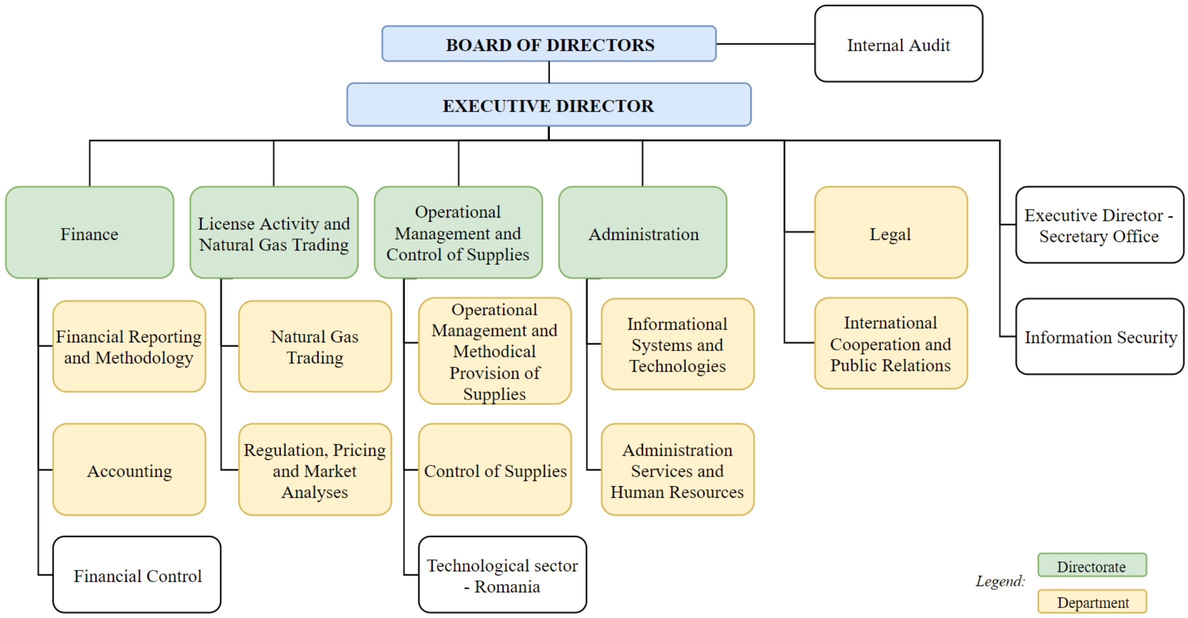
Bulgargaz EAD has one-tier system of management. The Company management bodies are:

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

On September 1, 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 31.12.2019 the composition of the Board of Directors is as follows:

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

BULGARGAZ EAD`S ORGANISATIONAL STRUCTURE



RESPONSIBILITY OF COMPANY'S MANAGEMENT

The Management confirms that adequate accounting policy is applied during preparation of the financial statements for 2019, and that the latter are prepared based on a going concern principle.

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

1. INFORMATION REGARDING THE REMUNERATION OF THE BOARD OF DIRECTORS UNDER MANAGEMENT AND CONTROL CONTRACTS

In 2019 and 2018, the BoD members received the following remuneration:

In thousand BGN

	For year 2019	For year 2018
BoD remunerations	180	184
Social security expenses	18	18
Total:	**198**	**202**

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

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

The information regarding 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) is as follows:

Petyo Angelov Ivanov – Chairman of the Board of Directors, member of the BoD from 01.09.2018:

- does not participate as an unlimited liability partner in trade companies;
- does not own more than 25% of trade companies' equity;
- participates in the management of South Stream Bulgaria AD

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

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

Nikolay Angelov Pavlov – CEO, 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.

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

In 2019, the Board of Directors or other persons related to them have not entered into any contracts pursuant to Article 240B of the Commercial Act on behalf of the Company which go beyond its normal business or substantially deviate from the market conditions.

<u>II. COMPANY ACTIVITY RESULTS FOR YEAR 2019</u>

In 2019 Bulgargaz EAD carries out its activities in compliance with all regulatory provisions. The Company's result after taxation is profit in the amount of BGN 34 429 thousand (as of 31 December 2018: loss amounting to BGN 31 978 thousand).

The net loss for 2018 in the amount of BGN 31 978 thousand is a result of an accrued provision for a fine in Case COMP/ B1/AT.39849 - BEH gas in the amount of BGN 50 244 thousand, based on a Decision of the European Commission dated 17 December 2018. The Company recognized an expense for provision in the amount of 1/3 (one third) of the amount of the fine imposed on BEH EAD, Bulgargaz EAD and Bulgartransgaz EAD, in a total amount of EUR 77 068 thousand. The European Commission's Decision sets out allegations of infringement by BEH EAD, Bulgargaz EAD and Bulgartransgaz EAD for the reporting periods from 2010 to 2014. Prior to accrual of the provision for the fine in the case, as of 31 December 2018, Bulgargaz EAD has an operating profit of BGN 25 421 thousand and profit before tax in the amount of BGN 20 296 thousand.

As at 31 December 2019, the registered share capital of Bulgargaz EAD is in the amount of BGN 231 698 thousand, which exceeded the net assets of the Company at that date by BGN 26 455 thousand, which is in the hypothesis of Article 252, paragraph 1, item 5 of the Commercial Act.

In 2019, the management of Bulgargaz EAD undertook actions to bring the activity of the Company in compliance with Art. 252 of the Commercial Law. As a result, the net profit as of 31.12.2019, in the amount of BGN 34 429 thousand covers the difference between the value of the subscribed shareholder capital and the net assets of the Company in the amount of BGN 26 455 thousand as of 31.12.2018.

GENERAL FACTORS AFFECTING COMPANY'S ACTIVITIES

The normative acts specific to the Company's activities are: the Energy Act; the Energy Efficiency Act; Ordinance No. 3 of 2013 for the licensing of the activities in the energy sector; Ordinance amending and supplementing Ordinance No. 2 of 2013 on Natural Gas Price Regulation; Rules for trade in natural gas; Ordinance No. 4 of 2013 on the connection to gas transmission and gas distribution networks; Rules on the provision of access to the natural gas transmission and/or distribution networks and access to the natural gas storage facilities; Ordinance on the structure and safe operation of gas transmission and gas distribution pipelines, of equipment, installations and appliances for natural gas; Rules for balancing the natural gas market; Methodology for determining the daily imbalance charge; Regulation (EC) No 715/2009 of the European Parliament and of the Council on conditions for access to the natural gas transmission networks and repealing Regulation (EC) 1775/2005; Regulation (EC) No 713/2009 of the European Parliament and of the Council establishing an Agency for the Cooperation of Energy Regulators; Regulation (EU) No 994/2010 of the European Parliament and of the Council concerning measures to safeguard security of gas supply and repealing Council Directive 2004/64/EC; Directive 2009/73/EC of the European Parliament and of the Council concerning common rules for the internal market in natural gas and repealing Directive 2003/55/ EC.

Natural gas public supply is a regulated activity by EWRC. Bulgargaz EAD natural gas purchasing prices are market based, while Company's natural gas selling prices are regulated. The Company has no branch network and does not develop research and development activity.

1. QUANTITATIVE INDICATORS IMPLEMENTATION

Delivered and sold natural gas volumes

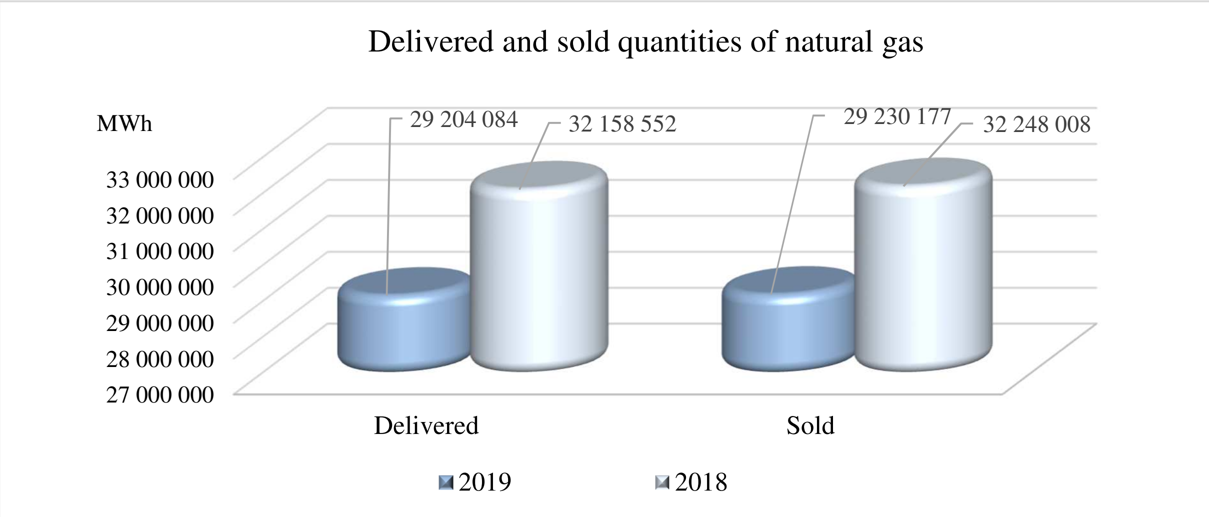
The main natural gas deliveries that guarantee the needs of the Company's clients are ensured through a long-term contract with Gazprom Export LLC.

In 2019, Bulgargaz EAD also concluded short-term contracts for alternative supplies of natural gas from imports, in fulfillment of which 4 250 037 MWh were delivered.

The delivered and sold quantities of natural gas as of 31.12.2019, compared to 31.12.2018 are presented in table № 1:

Table No. 1:

Type of delivery	Unit	31.12.2019	31.12.2018	Volume change	% Change
Delivered	MWh	29 204 084	32 158 552	(2 954 468)	(9,19%)
Sold	MWh	29 230 177	32 248 008	(3 017 831)	(9,36%)



During the reporting period, deliveries totaled 29 204 084 MWh (for 2018: 32 158 552 MWh), which is a decrease of 2 954 468 MWh or 9.19%.

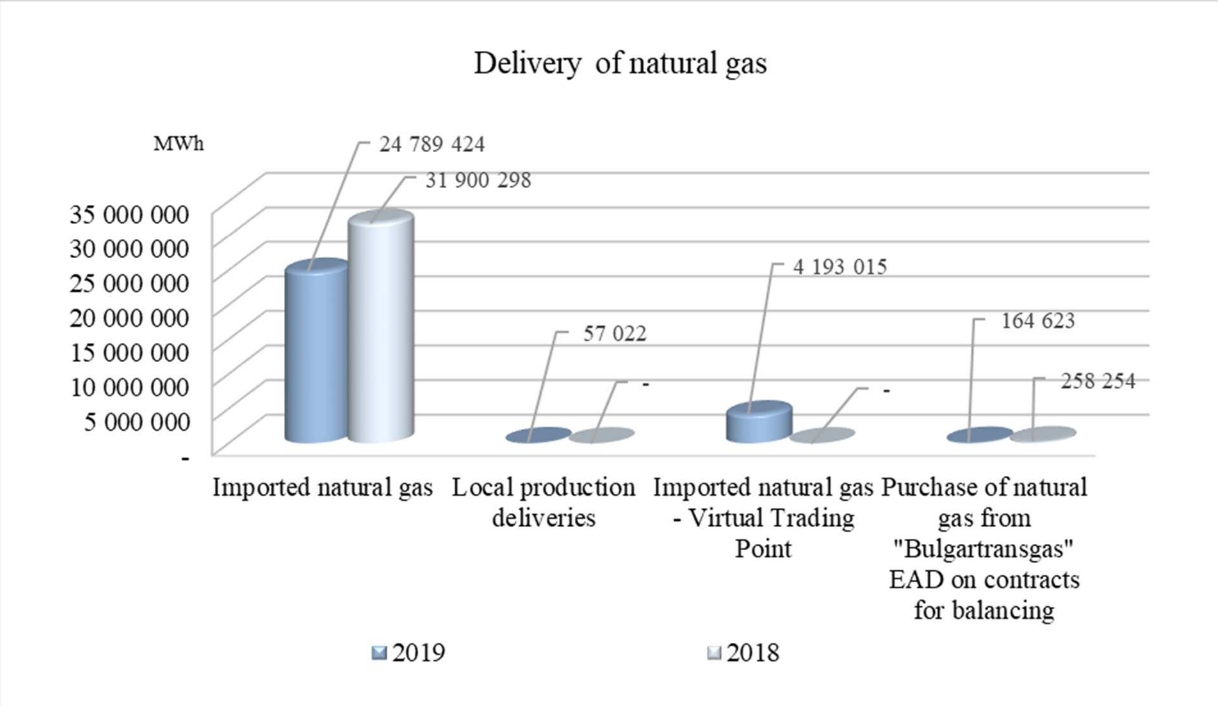
29 230 177 MWh of natural gas was sold, compared to 32 248 008 MWh for 2018, which is a decrease of 3 017 831MWh or 9.36%. The decrease is mainly due to the lower consumption of customers in the Chemistry, Glass and Porcelain, and the Energy sector and of the distribution companies.

1.1. DELIVERED NATURAL GAS VOLUMES

The delivered natural gas volumes in 2019 and 2018 are presented in Table 2.

Table No. 2: *MWh*

No	Type of delivery	31.12.2019	31.12.2018	Relative Share		% Change
				31.12.2019	31.12.2018	
1	Imported natural gas	24 789 424	31 900 298	84.88%	99.20%	(22.29%)
2	Local production deliveries	57 022	-	0.20%	0.00%	
3	Delivered natural gas from imports from virtual trading point	4 193 015	-	14.36%	0.00%	
4	Purchase of natural gas from Bulgartransgaz EAD on contracts for balancing	164 623	258 254	0.56%	0.80%	(36.26%)
	Total	**29 204 084**	**32 158 552**	**100.00%**	**100.00%**	**(9.19%)**



To ensure the needs of natural gas to its customers, in 2019, Bulgargaz EAD delivered 28 982 439 MWh of imported natural gas, which is 99.24% of the total supply, of which 4 193 015 MWh is natural gas at virtual trading point; local supply of 57 022 MWH, as well as the purchase of natural gas by Bulgartransgaz EAD under system balancing contracts of 164 623 MWh.

1.2 NATURAL GAS PRODUCTION AND INJECTION

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

Natural gas volumes produced and injected in Chiren UGS in 2019 and 2018 are presented in Table No. 3.

Table No. 3

	2019	2018
	Summary figures	**Summary figures**
Production	**3 403 640**	**3 226 782**
Injection	**3 449 373**	**3 280 921**
Quantities available at the end of the period	**2 329 477**	**2 284 130**
1st quarter		
Production	2 236 139	2 229 990
Injection	-	-
Quantities available at the end of the period	**48 079**	**-**
2nd quarter		
Production	-	-
Injection	1 814 352	1 686 632
Quantities available at the end of the period	**-**	**1 686 632**
3rd quarter		
Production	-	-
Injection	1 635 021	1 594 289
Quantities available at the end of the period	**3 497 451**	**3 280 922**
4th quarter		
Production	1 167 501	996 792
Injection	-	-
Quantities available at the end of the period	**2 329 477**	**2 284 130**

Natural gas production in 2019 is 3 403 640 MWh, up 176 858 MWh (5.48%) compared to 2018: 3 226 782 due to increased production in November and December 2019.

The injected natural gas volumes as of 31.12.2019 are 3 449 373 MWh, which is more by 168 452 MWh (5.13%) compared to 31.12.2018 when they were 3 280 921 MWh. The increase of the injected quantities in 2019 is due to the increased volumes of injection at Chiren UGS envisaged by Bulgargaz EAD, in order to compensate for the uneven consumption and to minimize the risk of additional costs for the company when accepting quantities of gas exceeding the agreed maximum daily allowances in the winter of 2019/2020.

2. NATURAL GAS SALES

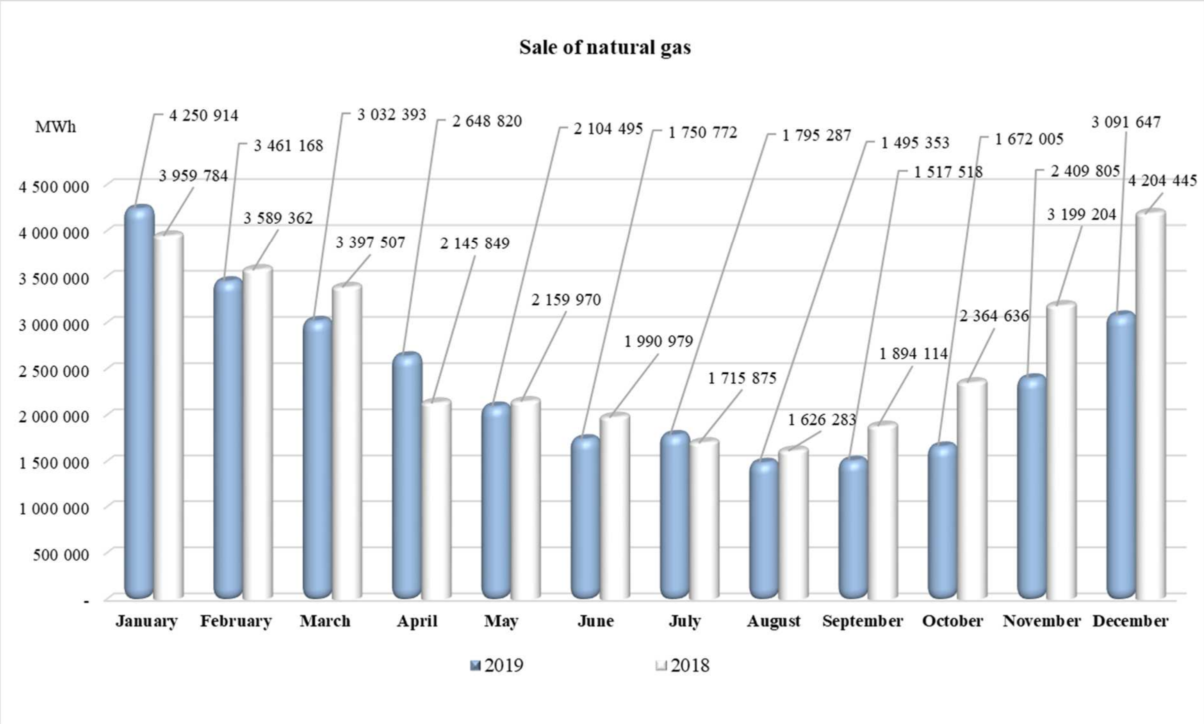
2.1. GENERAL CONSUMPTION

Bulgargaz EAD's ensures reliable supply of natural gas to its customers, in accordance with the quantity and quality contractual requirements. In 2019, 29 230 177 MWh of natural gas were sold, which is a decrease of 3 017 831 MWh or 9.36%, compared to the quantities sold for the same period of the previous year - 32 248 008 MWh.

Sales per months to the total sold volumes for the period are represented in Table No. 4.

Table No. 4: *MWh*

Reporting period	31.12.2019		31.12.2018		Change	
	MWh	Share in %	MWh	Share in %	MWh	%
January	4 250 914	14.55%	3 959 784	12.28%	291 130	7.35%
February	3 461 168	11.84%	3 589 362	11.13%	(128 194)	(3.57%)
March	3 032 393	10.37%	3 397 507	10.55%	(365 114)	(10.75%)
April	2 648 820	9.06%	2 145 849	6.65%	502 971	23.44%
May	2 104 495	7.20%	2 159 970	6.70%	(55 475)	(2.57%)
June	1 750 772	5.99%	1 990 979	6.17%	(240 207)	(12.06%)
July	1 795 287	6.14%	1 715 875	5.32%	79 412	4.63%
August	1 495 353	5.12%	1 626 283	5.04%	(130 930)	(8.05%)
September	1 517 518	5.19%	1 894 114	5.87%	(376 596)	(19.88%)
October	1 672 005	5.72%	2 364 636	7.33%	(692 631)	(29.29%)
November	2 409 805	8.24%	3 199 204	9.92%	(789 399)	(24.67%)
December	3 091 647	10.58%	4 204 445	13.04%	(1 112 798)	(26.47%)
Total	**29 230 177**	**100.00%**	**32 248 008**	**100.00%**	**(3 017 831)**	**(9.36%)**



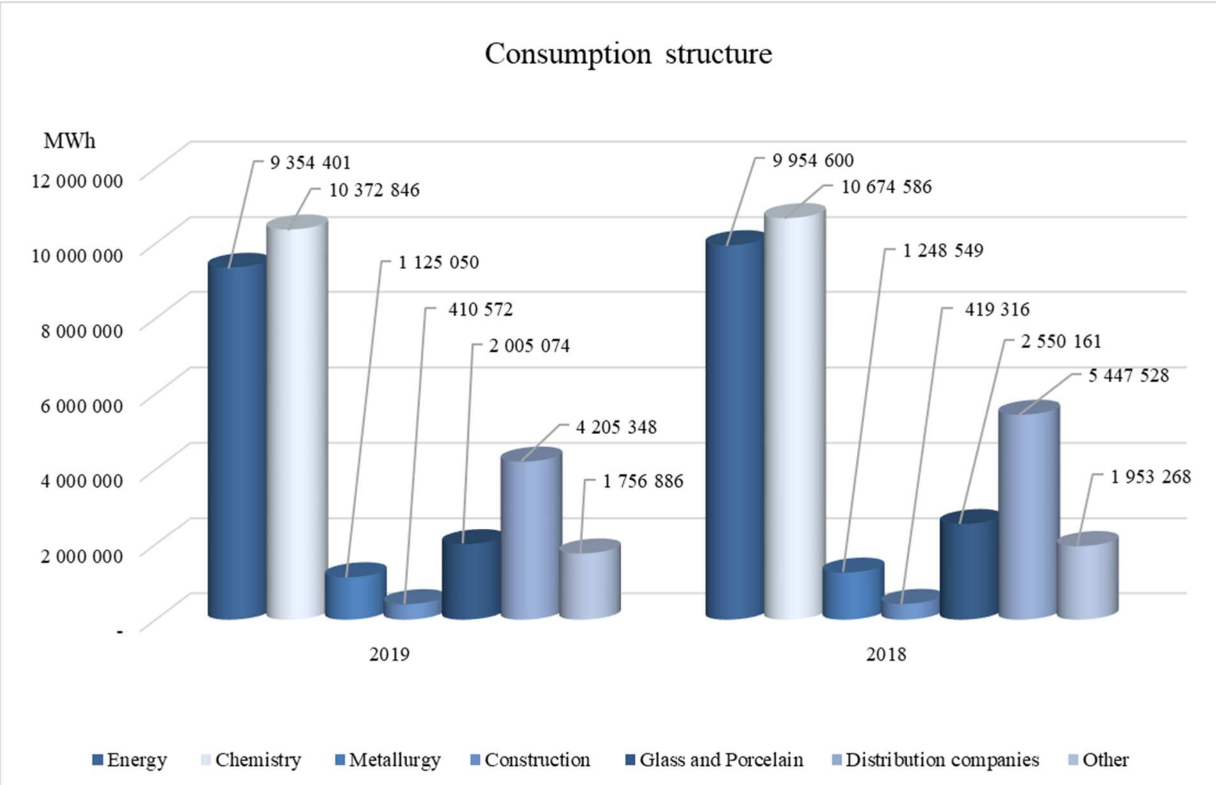
2.2. CONSUMPTION STRUCTURE

A comparison of the natural gas sales by main economic sectors in 2019 and 2018, allocated by main industry sectors, is presented in Table No. 5.

Table No. 5:

Sector	31.12.2019		31.12.2018		Change	
	MWh	Share in %	MWh	Share in %	MWh	%
Energy	9 354 401	32.00%	9 954 600	30.87%	(600 199)	(6,03%)
Chemistry	10 372 846	35.49%	10 674 586	33.10%	(301 740)	(2,83%)
Metallurgy	1 125 050	3.85%	1 248 549	3.87%	(123 499)	(9,89%)
Construction	410 572	1.40%	412 515	1.28%	(1 943)	(0,47%)
Glass and Porcelain	2 005 074	6.86%	2 550 161	7,91%	(545 087)	(21,37%)
Distribution companies	4 205 348	14.39%	5 447 528	16,89%	(1 242 180)	(22,80%)
Other	1 756 886	6.01%	1 960 070	6,08%	(203 184)	(10,37%)
Total	**29 230 177**	**100.00%**	**32 248 009**	**100,00%**	**(3 017 832)**	**(9,36%)**

As of 31 December 2019, the sales, compared to December 31, 2018, decreased by 3 017 832 MWh or by 9.36%. This is the result of lower consumption by customers mainly in the Chemistry, Glass and Porcelain, and the Energy sector and from the distribution companies.



The data disclosed in Table No. 5, 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 energy and chemical industries;
- ✓ decreased natural gas consumption compared to 2018.

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 marginal price set by the EWRC for each regulatory period is determined at a fixed USD-BGN exchange rate, averaged over the 45 day period preceding the month of submission of the application for approval of the EWRC sale price for the next price period.

The Company is exposed to a 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 of are heating companies, having difficulties in collecting their receivables and experiencing serious obstacles to discharge their liabilities on due dates. The Company conducts continuous monitoring 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 discharge their current liabilities. As an extreme measure to resort to is natural gas delivery suspension. Bulgargaz EAD 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 endeavours 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. In 2019, for the first time in its history, Bulgargaz EAD purchased natural gas from alternative suppliers at economically more favorable prices compared to the price under the current long-term contract;

- Maintaining stable financial stability and increasing the economic efficiency of the Company's activity;
- Entering the gas market of neighbouring countries.

2. OPERATIONAL OBJECTIVES:

- Maintaining Company's financial stability;
- Providing more flexible customer services in connection with changes in the Natural Gas Trading Rules and the Balancing Rules.

In the short-run, Company's major objective is securing Bulgargaz EAD 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 loans.

V. FINANCIAL AND ECONOMIC POSITION

The financial and economic position 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 for the year 2019 compared to the same period in 2018, as well as a statement of the financial position of the Company as of 31.12.2019, compared with the previous period as of 31.12.2018.

MAIN FINANCIAL INDICATORS

The main financial and economic results of the Company's activities for 2019 and 2018 are presented as follows:

In thousand BGN

Indicators	31.12.2019	31.12.2018	Change	Change (%)
Total revenues	1 404 739	1 303 861	100 878	7.74%
Total expenses	(1 364 297)	(1 328 684)	(35 613)	2.68%
EBITDA	**40 872**	**(24 650)**	**65 522**	**265.81%**
EBIT	**40 442**	**(24 823)**	**65 265**	**262.92%**
EBT	**38 345**	**(29 948)**	**68 293**	**228.04%**
Non-current fixed assets	88	100	(12)	(12.00%)
Total assets	426 723	339 742	86 981	25.60%
Current assets	405 267	325 711	79 556	24.43%
Current liabilities	136 096	84 183	51 913	61.67%
Cash	80	100	(20)	(20.00%)
Working capital	269 171	241 528	27 643	11.45%
Equity	239 664	205 243	34 421	16.77%
Share capital	231 698	231 698	-	0.00%
Reserves	7 404	7 412	(8)	(0.11%)
Retained profit /(unrecoverable loss)	(33 867)	3 318	(37 185)	(1 120.71%)
Profit/loss for the current period	**34 429**	**(31 978)**	**66 407**	**207.66%**
Number of personnel	53	54	(1)	(1.85%)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In thousands BGN

	31.12.2019		31.12.2018		Change	
	TBGN	% of the total	TBGN	% of the total	TBGN	%
Revenues	**1 404 739**	**100.00%**	**1 303 861**	**100,00%**	**100 878**	**7,74%**
Revenues from sale of natural gas	**1 383 428**	**98.48%**	**1 286 429**	**98.66%**	**96 999**	**7.54%**
Other income	**21 311**	**1.52%**	**17 432**	**1.34%**	**3 879**	**22.25%**
- penalties under overdue receivables	14 055	1.00%	12 700	0.97%	1 355	10.67%
- other penalties	7 151	0.51%	4 679	0.36%	2 472	52.83%
- recovered legal expenses	100	0.01%	51	0.00%	49	96.08%
- other expenses	5	0.00%	2	0.00%	3	150%
Expenses as per economic elements	**(1 364 297)**	**100.00%**	**(1 328 684)**	**100.00%**	**(35 613)**	**2.68%**
Cost of sold natural gas	(1 353 232)	**99.19%**	(1 272 999)	**95.81%**	**(80 233)**	**6.30%**
Recovered/ (accrued) impairment	**629**	**(0.05%)**	**5 706**	**(0.43%)**	**(5 077)**	(88.98%)
Costs of materials	**(64)**	**0.00%**	**(82)**	**0.01%**	**18**	**(21.95%)**
- fuel gas	-	0.00%	(27)	0.00%	27	(100.00%)
- main materials	(15)	0.00%	(6)	0.00%	(9)	150.00%
- fuels and lubricants	(26)	0.00%	(22)	0.00%	(4)	18.18%
- stationary and consumables	(10)	0.00%	(11)	0.00%	1	(9.09%)
- sanitary materials	(4)	0.00%	(5)	0.00%	1	(20.00%)
- advertising materials	(6)	0.00%	(5)	0.00%	(1)	20.00%
- other materials	(3)	0.00%	(6)	0.00%	3	(50.00%)
Costs of hired services	**(7 151)**	**0.52%**	**(7 874)**	**0.59%**	**723**	**(9.18%)**
- natural gas storage costs	(5 497)	0.40%	(5 062)	0.38%	(435)	8.59%
- expenses on management contracts	(121)	0.01%	(98)	0.01%	(23)	23.47%
- license fees	(673)	0.05%	(584)	0.04%	(89)	15.24%
- insurances	(111)	0.01%	(105)	0.01%	(6)	5.71%
- rents	(14)	0.00%	(253)	0.02%	239	(94.47%)
- court charges and expenditures	(279)	0.02%	(1 366)	0.10%	1 087	(79.58%)
- communications	(108)	0.01%	(99)	0.01%	(9)	9.09%
- audit committee remuneration	(88)	0.01%	(75)	0.01%	(13)	17.33%
- consulting and audit services	(68)	0.00%	(55)	0.00%	(13)	23.64%
- repair and technical maintenance	(19)	0.00%	(17)	0.00%	(2)	11.76%
- office maintenance	(1)	0.00%	(4)	0.00%	3	(75.00%)
- public utility	(26)	0.00%	(24)	0.00%	(2)	8.33%
- subscription service	(13)	0.00%	(24)	0.00%	11	(45.83%)
- parking expenses	(20)	0.00%	(20)	0.00%	-	0.00%
- translation services	(12)	0.00%	(6)	0.00%	(6)	100.00%
- security	(69)	0.01%	(62)	0.00%	(7)	11.29%
- labour medicine service	(3)	0.00%	(3)	0.00%	-	0.00%
- EWRC's fee - price approval	(5)	0.00%	(4)	0.00%	(1)	25.00%
- other charges	(24)	0.00%	(13)	0.00%	(11)	84.62%
Depreciation/amortization expenses	**(430)**	**0.03%**	**(173)**	**0.01%**	**(257)**	**148.55%**
Employee benefit expenses	**(2 981)**	**0.22%**	**(2 793)**	**0.21%**	**(188)**	**6.73%**
- remuneration expenses	(2 521)	0.18%	(2 365)	0.18%	(156)	6.60%
- compensated leaves expenses	(91)	0.01%	(81)	0.01%	(10)	12.35%
- current service costs (retirement benefits)	(11)	0.00%	(9)	0.00%	(2)	22.22%
- social security expenses	(358)	0.03%	(338)	0.03%	(20)	5.92%
Expenses on provisions	**(593)**	0.04%	**(50 244)**	3.78%	49 651	(98.82%)
Other expenses	**(475)**	**0.03%**	**(225)**	**0.02%**	**(250)**	111.11%
- penalties for overdue payments	(371)	0.03%	(135)	0.01%	(236)	174.81%
- business trips and representation expenses	(66)	0.00%	(52)	0.00%	(14)	26.92%
- training	(7)	0.00%	(3)	0.00%	(4)	133.33%
- one-off taxes	(11)	0.00%	(14)	0.00%	3	(21.43%)
- donations	(13)	0.00%	(7)	0.00%	(6)	85.71%
- membership in organization	(4)	0.00%	(5)	0.00%	1	(20.00%)

	31.12.2019		31.12.2018		Change	
	TBGN	% of the total	TBGN	% of the total	TBGN	%
- others	(3)	0.00%	(9)	0.00%	6	(66.67%)
Profit/ (loss) from operating activity	**40 442**		**(24 823)**		**65 265**	**262.92%**
Net financial income / (costs)	**(2 097)**		**(5 125)**		**3 028**	**(59.08%)**
Financial income	**2 928**	**100.00%**	**13**	**100.00%**	**2 915**	**22 423.08%**
- effect of discounting financial assets	-	0.00%	-	0.00%	-	-
- interest income on long-term receivables	2 928	100.00%	13	100.00%	2 915	22 423.08%
Financial costs	**(5 025)**	**100.00%**	**(5 138)**	**100.00%**	**113**	**(2.20%)**
- expenses under overdue payables – related parties	(177)	3.52%	(621)	(12.09%)	444	(71.50%)
- interest expenses under overdrafts from banks	(20)	0.40%	(35)	(0.00%)	15	(42.86%)
- interest expenses under repurchase agreements	0	0.00%	(61)	(0.00%)	61	(100.00%)
- interest expenses under overdue tax liabilities	(221)	4.40%	-	0.00%	(221)	-
- Bank guarantee commission fee in Case COMP/B1/AT.39849 – BEH gas	(396)	7.88%	0	0.00%	(396)	-
- other interest expense	(2)	0.04%	(2)	(0.00%)	-	0.00%
- loss from foreign exchange rate differences	(4 088)	81.35%	(4 339)	84.45%	251	(5.78%)
- bank charges	(121)	2.41%	(80)	1.56%	(41)	51.25%
Profit/ (loss) before tax	**38 345**		**(29 948)**		**68 293**	**228.04%**
Income Tax (expense)/ revenue	(3 916)		(2 030)		**(1 886)**	**92.91%**
Net profit/ (loss) for the period	**34 429**		**(31 978)**		**66 407**	**207.66%**

REVENUE

In 2019, the Company sold 29 204 084 MWh of natural gas worth BGN 1 383 428 thousand (in 2018: BGN 32 248 008 MWh worth BGN 1 286 429 thousand). The net result from the sale of natural gas for 2019 amounts to BGN 30 196 thousand (in 2018: BGN 13 430 thousand), which represents an increase of BGN 16 766 thousand.

EXPENSES

Expenses by economic elements include: cost of natural gas as sold, impairment costs, cost of materials, cost of hired services, depreciation/amortization expenses, labour remunerations expenses, social security and allowances expenses, expenses on provisions, etc. In 2019 they amounted to BGN 1 364 297 thousand (2018: BGN 1 328 684 thousand), which represents an increase of BGN 35 613 thousand or 2.68%.

The largest relative share of total expenses is the cost of natural gas as sold for 2019 in the amount of BGN 1 353 232 thousand (2018: BGN 1 272 999 thousand).

In 2019 there is a reversed impairment of receivables in the amount of BGN 629 thousand (2018: BGN 5 706 thousand).

The cost of hired services in 2019 amounted to BGN 7 151 thousand (2018: BGN 7 874 thousand), which represents a decrease of BGN 723 thousand or 9.18%. This is due to a reduction in the costs of legal fees and costs.

In 2018 the Company charged expenses on provisions in case COMP/B1/ AT.39849 - BEH gas, whereby the European Commission (EC) 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") on Commission allegations of past infringements - from 2010 to 2014. The company has charged 1/3 of the amount of the fine amounting to BGN 50 244 thousand. The fine imposed by the EC is being appealed by BEH. As of 31 December 2019, Bulgargaz EAD has charged expenses on provisions in the amount of BGN 593 thousand.

Other expenses for 2019 amount to BGN 475 thousand (2018: BGN 225 thousand), which is an increase of BGN 250 thousand or 111.11% compared to the previous reporting period. Of these, the largest relative share is the penalties for delayed payments to Bulgartransgaz EAD.

The operating result amounted to BGN 40 442 thousand for 2019 (2018: negative BGN 24 823 thousand).

The net result of financial income and expenses for 2019 is negative amounting to BGN 2 097 thousand (2018: negative BGN 5 125 thousand.)

During the reporting period, there was a decrease of interest expenses on trade payables to related parties by BGN 444 thousand.

After accounting for the financial income and expenses for 2019, the financial result before taxes is a profit of BGN 38 345 thousand (2018: loss of BGN 29 948 thousand), which represents an increase of 68 293 thousand.

STATEMENT ON FINANCIAL POSITION

As of 31 December 2019, the assets of the Company amount to BGN 426 723 thousand (31 December 2018: BGN 339 742 thousand). Changes in the structure of assets for the two periods are shown in the following table.

In thousand BGN

	31.12.2019		31.12.2018		Change	
	Amount	Share	Amount	Share	Amount	Share
Assets						
Non-current assets						
Plant and equipment	88	0.41%	100	0.71%	(12)	(12.00%)
Intangible assets	548	2.55%	117	0.83%	431	368.38%
Trade and other receivables	7 046	32.84%	-	0.00%	7 046	100.00%
Deferred tax assets	13 774	64.20%	13 814	98.46%	(40)	(0.29%)
Total non-current assets	**21 456**	**100.00%**	**14 031**	**100.00%**	**7 425**	**52.92%**
Current assets						
Inventories	**106 201**	**26.21%**	**90 943**	**27.92%**	**15 258**	**16.78%**
- natural gas	106 179	26.20%	90 923	27.91%	15 256	16.78%
- materials	22	0.01%	20	0.01%	2	10.00%
Trade and other receivables	**298 986**	**73.78%**	**234 668**	**72.05%**	**64 318**	**27.41%**
- trade receivables from natural gas sales	203 893	50.31%	143 292	43.99%	60 601	42.29%
- court and awarded receivables	526	0.13%	-	0.00%	526	100.00%
- prepaid advances for natural gas deliveries	80 263	19.80%	75 030	23.04%	5 233	6.97%
- Court, Corporate commercial Bank	-	0.00%	365	0.12%	(365)	(100.00%)
- receivables from related parties (natural gas deposits and guarantees)	10 728	2.65%	11 865	3.64%	(1 137)	(9.58%)
- others	3 576	0.88%	4 116	1.26%	(540)	(13.12%)
Cash and cash equivalents	**80**	**0.02%**	**100**	**0.03%**	**(20)**	**(20.00%)**
Total current assets	**405 267**	**100.00%**	**325 711**	**100.00%**	**79 556**	**24.43%**
Total assets	**426 723**		**339 742**		**86 981**	**25.60%**

NON-CURRENT ASSETS

Non-current assets as of 31 December 2019 amount to BGN 21 456 thousand (31 December 2018: BGN 14 031 thousand), which is an increase of BGN 7 425 thousand or 52.92%. Non-current assets during the reporting period are formed by trade receivables from the sale of natural gas in the amount of BGN 7 046 thousand, non-current tangible and intangible assets in the amount of BGN 636 thousand and deferred tax assets for BGN 13 774 thousand.

As of 1 January 2019, in accordance with IFRS 16, the Company has applied a one-model accounting treatment for a contract for leased asset - office building. The Company recognized an asset with a right to use, amounting to BGN 546 thousand, which will be depreciated over the period of the contract and the lease liability under this contract, respectively.

CURRENT ASSETS

The current assets of the Company as at 31 December 2019 amount to BGN 405 267 thousand (31 December 2018: BGN 325 711 thousand), which is an increase of BGN 79 556 thousand or 24.43% as a result of increase of trade and other receivables and inventories.

Inventories as of 31 December 2019 amounted to BGN 106 201 thousand (31 December 2018: BGN 90 943 thousand), which represents an increase of BGN 15 258 thousand or 16.78%.

Trade and other receivables as of 31 December 2019 amounted to BGN 298 986 thousand (31 December 2018: BGN 234 668 thousand), which represents an increase of BGN 64 318 thousand or 27.41% compared to the end of 2018.

The prepaid advance for the delivery of natural gas as of 31.12.2019 is in the amount of BGN 80 263 thousand (31.12.2018: BGN 75 030 thousand), which is an increase by BGN 5 233 thousand or 6.97 %.

The largest gross trade receivables for delivered but unpaid natural gas as of 31.12.2019 are from the following companies:

Counterparty	Receivables on deferred payment agreements	Overdue receivables	Total
Toplofikatsia Sofia EAD	-	170 864	**170 864**
Toplofikatsia Pleven EAD	20 366	-	**20 366**
Other	-	4 881	**4881**
Total	**20 366**	**175 745**	**196 111**

Long-term receivables include receivables from clients under concluded agreements for deferred payment of overdue liabilities against financial collateral provided in favor of Bulgargaz EAD.

The cash of the Company on current accounts and in cash at the end of the reporting period amounted to BGN 80 thousand (31.12.2018: BGN 100 thousand), which represents a decrease of BGN 20 thousand.

CHANGES IN THE EQUITY AND LIABILITIES STRUCTURE

In thousand BGN

	31.12.2019		31.12.2018		Change	
	TBGN	**% of the total**	**TBGN**	**% of the total**	**TBGN**	**% of the total**
Equity and liabilities						
Equity						
Share capital	231 698	96.68%	231 698	112.89%	-	0.00%
Statutory reserves	7 367	3.07%	7 367	3.59%	-	0.00%
Other reserves	37	0.02%	45	0.02%	(8)	(17.78%)
Retained earnings /(accumulated loss)	562	0.23%	(33 867)	(16.50%)	34 429	(101.66%)
Total equity	**239 664**	**100%**	**205 243**	**100%**	**34 421**	**16.77%**
Liabilities						
Non-current liabilities						
Lease payable	64	0.13%	-	0.00%	64	100%
Provisions	50 837	99.75%	50 244	99.86%	593	1.18%
Liabilities for retirement employee benefits	62	0.12%	72	0.14%	(10)	(13.89%)
Total non-current liabilities	**50 963**	**100.00%**	**50 316**	**100.00%**	**647**	**1.29%**
Current liabilities						
Loans	**52 386**	**38.49%**	**3 687**	**4.38%**	**48 699**	**1320.83%**
-payables on bank overdrafts	52 386	38.49%	3 687	4.38%	48 699	1320.83%
Lease payable – current	**249**	**0.18%**	**-**	**0.00%**	**249**	**100.00%**
Trade and other payables	**82 475**	**60.60%**	**80 197**	**95.27%**	**2 278**	**2.84%**
- trade payables	35 940	26.41%	11 957	14.20%	23 983	200.58%
- payables to related parties	3 159	2.32%	13 469	16.00%	(10 310)	(76.55%)
- received advances from clients for sale of natural gas	17 654	12.97%	15 113	17.95%	2 541	16.81%
- VAT to be paid	24 048	17.67%	37 599	44.66%	(13 551)	(36.04%)
- excise duty to be paid	1 211	0.89%	1 762	2.09%	(551)	(31.27%)
- Payables to personnel	134	0.10%	131	0.16%	3	2.29%
- Liabilities to insurance companies	82	0.06%	74	0.09%	8	10.81%
-Other liabilities	247	0.18%	92	0.11%	155	168.48%
Corporate tax	**875**	**0.64%**	**220**	**0.26%**	**655**	**297.73%**
Liabilities for retirement employee benefit	**111**	**0.08%**	**79**	**0.09%**	**32**	**40.51%**
Total current liabilities	**136 096**	**100.00%**	**84 183**	**100.00%**	**51 913**	**61.67%**
Total liabilities	**187 059**		**134 499**		**52 560**	**39.08%**
Total equity and liabilities	**426 723**		**339 742**		**86 981**	**25.60%**

SHARE CAPITAL STRUCTURE

The registered share capital as of 31.12.2019 amounts to BGN 231 698 thousand and is unchanged from the previous reporting period.

As of 31.12.2019, retained earnings amounts to BGN 562 thousand (31.12.2018: accumulated loss of BGN 33 867 thousand). The change as of 31.12.2019 is BGN 34 429 thousand

NON-CURRENT LIABILITIES

The non-current liabilities of the Company as of 31.12.2019 are BGN 50 963 thousand (31.12.2018, BGN 50 316 thousand), which is an increase of BGN 647 thousand or 1.29%. The main part of the non-current liabilities is formed by an accrued provision related to the fine imposed by the European Commission in *Case COMP/B1/AT.39849 - BEH gas.*

CURRENT LIABILITIES

As of 31.12.2019, the Company's current liabilities amount to BGN 136 096 thousand (31.12.2018: BGN 84 183 thousand), which is an increase of BGN 51 913 thousand or 61.67%.

As of 31.12.2019, trade and other payables increased by BGN 2 278 thousand or by 2.84% compared to 2018.

As of 31.12.2019, payables to related parties amounted to BGN 10 310 thousand, or 76.55% less than in 2018 due to repayment of liabilities to Bulgartransgaz EAD.

Current VAT payables to the National Revenue Agency amount to BGN 24 048 thousand (31.12.2018: BGN 37 599 thousand).

An increase was marked in trade payables on advances received from natural gas customers by BGN 2 541 thousand and in trade payables by BGN 23 983 thousand.

STATEMENT OF CASH FLOWS

The table below presents data on changes in cash flows as at 31.12.2019 compared to 31.12.2018.

In thousand BGN

	31.12.2019	**31.12.2018**	**Change**	
Net cash flows from operating activity	(50 790)	24 355	(75 145)	(308.54%)
Net cash flows from investing activity	2 503	(162)	2 665	1645.06%
Net cash flows from financing activity	48 267	(26 238)	74 505	283.96%
Net change in cash and cash equivalents during the year	**(20)**	**(2 045)**	2 025	**99.02%**
Cash and cash equivalents at the beginning of the period	**100**	2 145	(2 045)	(95.34%)
Cash and cash equivalents at the end of the period	**80**	**100**	(20)	**(20.00%)**

The net cash flow from operating activities of the Company in 2019 is negative in the amount of BGN 50 790 thousand (2018: in the amount of BGN 24 355 thousand) – a decrease of BGN 75 145 thousand is marked. It is formed by the difference between receipts from customers for natural gas sold and payments to suppliers for purchased natural gas.

Net cash flows from investing activities amount to BGN 2 503 thousand, which is an increase of BGN 2 503 thousand compared to 2018 due to interest received on deferred trade receivables.

Net cash flows from financing activities increased by BGN 74 505 thousand; as of 31.12.2018 Bulgargaz EAD paid a dividend to Bulgarian Energy Holding EAD in the amount of BGN 19 252 thousand and made payments under financing agreements in the amount of BGN 9 924 thousand.

EVENTS AFTER THE REPORTING PERIOD

The events are described in Note 35 “Events after the reporting period” of the financial statements as at 31.12.2019.

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.

In 2019, the financial ratios for liquidity and independence show the stability of the Company, being optimal to market levels.

LIQUIDITY

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

Indicators	**2019**	**2018**
Current liquidity ratio	2.98	3.87
Quick liquidity ratio	2.20	2.79

The current liquidity ratio as of 31.12.2019 is 2.98, which shows that the available current assets can cover almost 3 times the current liabilities of the Company (31.12.2018: 3.87).

The quick liquidity ratio is above 2, which indicates that current assets reduced by inventories can cover more than 2.20 times the current liabilities of the Company.

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	**2019**	**2018**
Financial autonomy ratio	1.28	1.53
Indebtedness ratio	0.78	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. The financial autonomy ratio as at 31.12.2019 is 1.28 (31.12.2018: 1.53).

The indebtedness ratio expresses the degree of dependence of the Company on creditors. When the ratio is greater than 1 (one), the company's dependence on external sources of funds is greater. This indicator as at 31.12.2019 is is 0.78 (31.12.2018: 0.66).

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

Date: 14.04.2020

2016/679

Stanimir Kostov
Head of Financial Reporting and
Methodology Department

2016/679

Nikolay Pavlov
Executive Director

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

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

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

During the reporting period the Company generated revenues from the sale of natural gas in the amount of BGN 1 383 428 thousand. Natural gas sales represent 98.48% of the Company's 2019 sales.

Company's income structure for 2019 and 2018 and their change are represented in **Section V "Financial and Economic Position"**, Table "Statement of profit or loss and other comprehensive income" herein above.

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

The income structure for 2019 compared to 2018 and their relative share of total revenue are presented above in in Section V. "Financial and Economic Position", Table "Statement of profit or loss and other comprehensive income" herein above.

Regarding the revenues from the sale of natural gas, representing 98.48% of the total income for 2019, the sales on the territory of Bulgaria amount to BGN 1 280 113 thousand (32 078 243 MWh of natural gas), and to the while on the territory of the Republic of Romania amount to BGN 6 130 thousand. (169 765 MWh of natural gas).

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

Customer	Natural gas sales		
	Quantity *MWh*	Thousand BGN	% of the total sold quantity
Toplofikatsia Sofia EAD	6 961 850	312 516	23,92
Neochim AD	3 397 965	152 675	11,67
Lukoil Neftohim Burgas AD	3 461 019	155 513	11,89

Bulgargaz EAD's main supplier of natural gas is Gazprom Export LLC. For 2019 its share of the total volumes of gas delivery amounted to 84.88%. Apart from it, in 2019 there was no other counterparty to exceed 10% of Bulgargaz EAD's total expenses.

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

Information given in value terms regarding related parties transactions' has been provided in details in the financial statements for year 2019, Note 34 "Related parties' transactions". Related parties transactions do not deviate from normal market conditions.

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

In 2019 there were no events and indicators with an unusual nature having significant influence on the activity of Bulgargaz EAD, income as realized and expenses as made.

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

Bulgargaz EAD has not disclosed financial result forecasts.

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

The Company has no off-balance transactions.

7. ASSESSMENT OF THE POSSIBILITIES OF IMPLEMENTATION OF THE INVESTMENTS WITH THE MEASUREMENT OF THE AVAILABLE MEANS

Not applicable to the Company.

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

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

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

The Company has concluded overdraft loans with four banking institutions in the total amount of BGN 69 900 thousand.

Undrawn loans

As of 31.12.2019, the Company has undrawn overdrafts in the total amount of BGN 17 528 thousand.

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

Bulgargaz EAD did not conclude loan contract in the capacity of a lender in 2019.

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

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

The main risk factors in the Company's activity are the decisions of EWRC in approving the limit prices of natural gas for the domestic market, trade and other receivables and liabilities, as well as currency risk.

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

In 2019 there were no changes in the Company's management major principles.

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

Not applicable to the Company.

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

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

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

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

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

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

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

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

In 2019 the Company paid the follows remunerations to the BoD members:

In thousand BGN

	For year 2019	For year 2018
BoD remuneration	180	184
Social security payments	18	18
Total	**198**	**202**

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

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

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

Case COMP/B1/AT.39849 – BEH Gas

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

- preventing their competitors from getting access to key gas infrastructure (gas transmission network and the gas storage facility) in Bulgaria, such as explicitly or tacitly refusing third party access or delaying;
- preventing competitors from getting access to a major gas import pipeline via booking a capacity, which remains unused. The proceedings were instigated in 2013 with view of adopting a decision under Chapter 3 (Art.7 and 10) of Regulation 1/2003. On 23 March, 2015 the European Commission (EC) issued a Statement of Objections (SO). Bulgarian Energy Holding EAD and its gas subsidiaries presented their respective replies to the European Commission on 9 July 2015 (Bulgargaz EAD), 10 July 2015 ("Bulgarian Energy Holding" EAD) and 17 July 2015 ("Bulgartransgaz" EAD).

On 24 November 2017, a decision was taken by the 44th National Assembly of the Republic of Bulgaria to take the necessary action for the closing of Case COMP/B1/AT.39849 – BEH Gas, by which the National Assembly supports the closing of the case under Article 7 of Regulation (EC) No 1/2003 without admitting the alleged infringements and without assuming liability for them, by fulfilling the obligations arising from a possible prohibitive decision, including a possible financial sanction.

On 26 July 2018, a decision was taken by the 44th National Assembly (NA) of the Republic of Bulgaria to take action for the closing of COMP/B1/AT.39849 – BEH Gas pursuant to Article 9 of Regulation (EC) No 1/2003 by entering into commitments on the part of the Bulgarian party and reaching an agreement with the European Commission. The second decision of the NA is motivated by the development of case COMP/B1/AT.39816 between the EC and PJSC Gazprom and Gazprom Export LLC, in which, on 24 May 2018, the Commission announced that an agreement had been reached and the same was closed under Article 9 of Regulation (EC) No 1/2003 without a financial penalty for PJSC Gazprom and Gazprom Export LLC.

On 17 December 2018, the European Commission notified Decision C (2018) 8806 in case AT.39849 BEH-Gas, by which the European Commission imposed a fine on Bulgarian Energy Holding EAD (BEH), its subsidiary for gas supply Bulgargaz EAD and its subsidiary for gas infrastructure Bulgartransgaz EAD (the BEH group) amounting to EUR 77 068 000 for allegedly blocking competitors' access to key gas infrastructure in Bulgaria in violation of EU antitrust rules. The decision was received in the offices of the three companies on 19.12.2018, which set the start of the appeal period of the EC Decision (two months and ten days after notification of the Decision to the parties) and payment of the fine (three months after the notification of the decision to the Parties), defined in the same.

The appeal against the decision does not delay the payment of the fine. On 18 March 2019, a bank guarantee was issued by a selected bank through a procedure conducted by BEH EAD. The bank guarantee covers 2/3 of the total amount of the fine amounting to EUR 77 068 000. The bank guarantee secures obligations of BEH EAD and Bulgargaz EAD on the imposed fine.

On 4 July 2019, the Bulgarian State, through the Ministry of Foreign Affairs, filed an application to intervene in support of Bulgarian Energy Holding EAD and its subsidiaries.

On 26 August 2019, the European Commission presented to the General Court its defense in response to the Application lodged by Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD.

On 29 November 2019, a response was filed by the Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD against the defense of the European Commission.

On 20 February 2020, within the deadline set by the General Court of the European Union, the Republic of Bulgaria, through the Ministry of Foreign Affairs (MFA), deposited the official position of the Republic of Bulgaria in Case T-136/19, submitted by the Ministry of Energy of the Ministry of Foreign Affairs, with which the State intervenes in support of Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD against the European Commission before the General Court of the European Union. It should be borne in mind that, if the General Court decides to open the oral procedure, the President sets the date for the oral hearing, most probably in 2021.

As of 31 December 2019, the Company has accrued a provision in the amount of BGN 50 244 thousand, representing 1/3 of the total amount of the imposed fine and interest thereon in the amount of BGN 593 thousand.

18. OTHER INFORMATION AT COMPANY'S DISCRETION

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

Date: 14.04.2020

2016/679

Stanimir Kostov
Head of Financial Reporting and
Methodology Department

2016/679

Nikolay Pavlov
Executive Director

HLB BULGARIA

INDEPENDENT AUDITOR'S REPORT

TO THE SOLE SHAREHOLDER OF

BULGARGAZ EAD

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of BULGARGAZ EAD (the Company), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effect of the matter described in the "Basis for Qualified Opinion" section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Basis for Qualified Opinion

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 31 December 2019 with respect to part of short-term trade receivables from Toplofikacia Sofia EAD 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 in the amount of BGN 14 502 thousand accrued less expenses for impairment of trade receivables for 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 31 December 2019 should be reduced by BGN 14 502 thousand, accrued losses from impairment for 2019 should be increased by BGN 14 502 thousand, deferred tax assets as at 31 December 2019 should be increased by BGN 1 450 thousand and the financial result for the period from 1 January to 31 December 2019 should be reduced by BGN 13 052 thousand.

In case of consistent application of the accounting policies the equity of the Company as at 31 December 2019 presented in the accompanying financial statements should be reduced from BGN 239 664 thousand to BGN 226 612 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 5 086 thousand, which is not in accordance with the requirements of Art. 252, para.1 p.5 in connection with Art. 247a para. 2 of the Commercial Law and amendment of the disclosed information in Note 2 "Basis for preparation of the annual 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 Separate Financial Statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements of Bulgarian Independent Financial Audit Act, and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter

We draw attention to note 35 "Events after the end of the reporting period" of the financial statements, which discloses a material non-adjusting event related to the renegotiation of the natural gas supply price. Due to the lack of a regulated compensation mechanism in the Energy Law, no reliable assessment and measurement of the potential effect of the transaction can be made at this stage. The note contains information about the nature of the event.

Our opinion is not modified in respect of this matter.

Key Audit Matters

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

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

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or 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 31 December 2019. We reached the conclusion that the other information contains material misstatement due to the impact of the effect of this material misstatement on the financial performance and related disclosures for that item included in the other information.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, as adopted by the EU, and for such internal control as management determines

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is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

Based on the procedures performed, our opinion is that:

a) The information included in the management report referring to the financial year for which the financial statements have been prepared is consistent with those financial statements.
b) With the exception of the following, the management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100(m), paragraph 7 (2) of the Public Offering of Securities Act.

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

Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

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

— Audit firm HLB BULGARIA OOD was appointed as a statutory auditor of the financial statements of BULGARGAZ EAD (the Company) for the year ended 31 December 2019 by the Minutes № Е-РД-21-16 of the Minister of Energy dated from 15 June 2018 for a period of three years.
— The audit of the financial statements of the Company for the year ended 31 December 2019 represents fifth total uninterrupted statutory audit engagement for that entity carried out by us.

HLB BULGARIA

- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to Company's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Company.

Audit firm

HLB BULGARIA OOD

Manager:

Veronika Revalska

2016/679

Registered auditor, responsible for the audit:

Svetlana Pavlova

2016/679

21 April 2020

BULGARGAZ EAD

STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2019

(All amounts are in thousands BGN)

	Note	AS AT 31 DECEMBER 2019	2018
ASSETS			
Non-current assets			
Plant and equipment	7	88	100
Intangible assets	8	548	117
Long-term trade receivables	11	7 046	-
Deferred tax assets	10	13 774	13 814
		21 456	**14 031**
Current assets			
Inventories	12	106 201	90 943
Trade and other receivables	11	298 986	234 668
Cash and cash equivalents	13	80	100
		405 267	**325 711**
TOTAL ASSETS		**426 723**	**339 742**
EQUITY AND LIABILITIES			
Equity			
Share capital	15	231 698	231 698
Reserves	16	7 404	7 412
Retained earnings /(accumulated) loss		562	(33 867)
		239 664	**205 243**
Non-current liabilities			
Lease payables	9	64	-
Provisions	33	50 837	50 244
Liabilities for retirement employee benefits	19	62	72
		50 963	**50 316**
Current liabilities			
Borrowings	17	52 386	3687
Trade and other payables	18	82 475	80 197
Lease payable	9	249	-
Income tax payables		875	220
Liabilities for retirement employee benefits	19	111	79
		136 096	**84 183**
TOTAL LIABILITIES		**187 059**	**134 499**
TOTAL EQUITY AND LIABILITIES		**426 723**	**339 742**

The annual financial statements were authorized for issue by the Board of Directors on 14 April 2020.

Compiled on: 14 April 2020

2016/679

Head of Accounting Department

2016/679

Nikolay Pavlov

Executive Director

Audit Firm
HLB Bulgaria OOD

Одиторско дружество София Рег. № 017 Ейч Ел Би България ООД

Финансов отчет, върху който сме издали одиторски доклад с дата: 21.04.2020

2016/679

2016/679

BULGARGAZ EAD

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
31 DECEMBER 2019

(All amounts are in thousands BGN)	**Note**	**YEAR ENDED 31 DECEMBER 2019**	**2018**
Revenues from sale of natural gas	27	1 383 428	1 286 429
Other revenue and income	26	21 311	17 432
Cost of natural gas as sold		(1 353 232)	(1 272 999)
Recovered/(accrued) impairment losses on financial assets - net	20	629	5 706
Cost of hired services	21	(7 151)	(7 874)
Employee benefits and social security expenses	22	(2 981)	(2 793)
Cost of materials	23	(64)	(82)
Non-financial assets depreciation/amortization expenses	7,8	(430)	(173)
Expenses on provisions	24	(593)	(50 244)
Other expenses	25	(475)	(225)
Operating activity profit (loss)		**40 442**	**(24 823)**
Financial income	28	2 928	13
Financial costs	28	(937)	(799)
Other financial income/costs, net	29	(4 088)	(4 339)
Financial income/(costs) – net		**(2 097)**	**(5 125)**
Profit (loss) before tax		**38 345**	**(29 948)**
Income tax (expense)/revenue	30	(3 916)	(2 030)
Net profit (loss) for the period		**34 429**	**(31 978)**
Other items of the comprehensive income:			
Items that will not be reclassified in profit or loss:			
Remeasurement of retirement defined benefit plans	19	(8)	(10)
Income tax related to items that will not be reclassified in profit or loss	10	1	1
Other comprehensive income for the year, net of tax		**(7)**	**(9)**
Total comprehensive income for the period		**34 422**	**(31 987)**

The annual financial statements were authorized for issue by the Board of Directors on 14 April 2020.

Compiled on: 14 April 2020

[redacted]

[redacted]

Nikolay Pavlov

Executive Director

Audit Firm
HLB Bulgaria OOD

Одиторско дружество
София
Рег. № 017
Ейч Ел Би България ООД

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

[redacted]

[redacted]

BULGARGAZ EAD

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME 31 DECEMBER 2019

All amounts are in thousands BGN

	Note	Share capital	Reserves	Retained earnings / accumulated loss	Total
AS AT 1 JANUARY 2019		**231 698**	**7 412**	**(33 867)**	**205 243**
Total comprehensive income for the year, of which:					
Net loss for the year		-	-	34 429	34 429
Other items of the comprehensive income, net of tax		-	(8)	-	(8)
Total comprehensive income		**-**	**(8)**	**34 429**	**34 421**
AS AT 31 DECEMBER 2019		**231 698**	**7 404**	**562**	**239 664**
AS AT 31 DECEMBER 2017		**231 698**	**6 474**	**9 468**	**247 640**
Correction from initial application of IFRS 9, net of tax		-	-	(6 150)	(6 150)
AS AT 1 JANUARY 2018 (recalculated)		**231 698**	**6 474**	**3 318**	**241 490**
Total comprehensive income for the year, of which:					
Net loss for the year		-	-	(31 978)	(31 978)
Other items of the comprehensive income, net of tax		-	(9)	-	(9)
Total comprehensive income		**-**	**(9)**	**(31 978)**	**(31 987)**
Transactions with the Sole Shareholder					
Transfer to reserve fund	16	-	947	(947)	-
Dividend distribution	31	-	-	(4 260)	(4 260)
Total transactions with the Sole Shareholder		**-**	**947**	**(5 207)**	**(4 260)**
AS AT 31 DECEMBER 2018		**231 698**	**7 412**	**(33 867)**	**205 243**

The annual financial statements were authorized for issue by the Board of Directors on 14 April 2020.

[redacted]

Liliya Ivanova

Head of Accounting Department

[redacted]

Nikolay Pavlov

Executive Director

Audit Firm

HLB Bulgaria OOD

Одиторско дружество София Рег. № 017 Ейч Ел Би България ООД

Финансов отчет, върху който сме издали одиторски доклад с дата: 21.04.2020

[redacted]

BULGARGAZ EAD

STATEMENT OF CASH FLOWS

31 DECEMBER 2019

(All amounts are in thousands BGN)

	Note	YEAR ENDED 31 DECEMBER 2019	2018
CASH FLOWS FROM OPERATING ACTIVITY			
Proceeds from clients from sales of natural gas		1 627 112	1 361 408
Proceeds from transactions with related parties		7 726	238 891
Proceeds from interest and penalties		(3 220)	-
Payments to suppliers, including:		(1 389 115)	(1 330 670)
Purchase of natural gas		*(1 271 788)*	*(1 196 235)*
Transactions with related parties		*(115 475)*	*(131 579)*
Payments to other counterparties		*(1 852)*	*(2 856)*
Taxes paid, different from corporate income tax		(286 891)	(237 568)
Payments to personnel and social security institutions		(2 899)	(2 846)
Profit/(loss) of exchange rate revaluation of cash and cash equivalents		(2 990)	(4 112)
Other proceeds/payments from operating activity		(513)	(748)
Net cash flow from operating activities		**(50 790)**	**24 355**
CASH FLOWS FROM INVESTING ACTIVITY			
Acquisition of intangible assets		(320)	(74)
Acquisition of plant and equipment		(33)	(31)
Interest on deferred trade receivables		2 856	-
Payments for vehicles and non-current tangible assets from related parties		-	(57)
Net cash flow from investing activity		**2 503**	**(162)**
CASH FLOWS FROM FINANCING ACTIVITY			
Dividends paid		-	(19 252)
Principal payments on lease contracts	9	(232)	-
Interest payments on lease contracts	9	(20)	-
Proceeds and payments of overdraft, net		48 685	3 687
Proceeds and payments on borrowings and financing agreements		(4)	(9 924)
Interest payments on borrowings and deferred trade payables		(162)	(749)
Net cash flow from financing activity		**48 267**	**(26 238)**
Net decrease of cash and cash equivalents during the year		**(20)**	**(2 045)**
Cash and cash equivalents at the beginning of the year, net of overdrafts		100	2 145
Cash and cash equivalents at the end of the year	13	**80**	**100**

The annual financial statements were authorized for issue by the Board of Directors on 14 April 2020.

Co[redacted]

[redacted]

Head of Accounting Department

[redacted]

Nikolay Pavlov

Executive Director

Audit Firm
HLB Bulgaria OOD

[redacted]

[redacted]

Финансов отчет, върху който сме издали одиторски доклад с дата: 2020

Одитор Софиия Рег. № 017 Ейч Ел Би България ООД

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

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 stored in 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 license for public supply of natural gas on the territory of Republic of Bulgaria – license No Л-214-14 of 29th November 2006, issued by the State Energy and Water Regulatory Commission for a period of 35 years.

BULGARGAZ EAD is a sole-owned 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.

2. BASIS OF PREPARATION OF THE ANNUAL FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and adopted for use in the European Union by the European Commission ("European Commission"). The financial statements have been prepared on a historical cost basis, modified with respect to the valuation of items of plant and equipment at revalued amount.

The annual financial statements are presented in Bulgarian lev (BGN), which is also the functional currency of the Company. Unless otherwise stated, all amounts are presented in thousand Bulgarian lev (BGN thousand), including comparative information for 2019.

As of 31 December 2019, the registered share capital of Bulgargaz EAD amounts to BGN 231 698 thousand, which exceeds the net assets of the Company at that date by BGN 7 966 thousand.

For 2019 the Company reports a net profit of BGN 34 429 thousand.

As at 31 December 2019, the financial statements are prepared on a going concern principle, which assumes that the Company will continue its operations in the foreseeable future. As disclosed in Note 1 "General information", the Company has an individual license for public supply of natural gas in the Republic of Bulgaria, issued by the State Energy and Water Regulatory Commission for a period of 35 years. The future operations of the Company as a public supplier of natural gas depend on the business environment, the regulatory requirements, contracts for ensuring natural gas supplies in place, the contracts for natural gas sales to the clients of the Company, as well as maintaining the necessary financial resources for implementation of its activity. Given the assessment of the expected future cash flows and the group strategy for the activity development in Bulgaria, the Company's management believes that it is appropriate financial statements to be prepared on the going concern principle.

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

3. ACCOUNTING POLICY AND CHANGES DURING THE PERIOD

3.1. CHANGES IN THE ACCOUNTING POLICY

3.1.1. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS EFFECTIVE FROM 1 JANUARY 2019

The Company applies the following new standards, amendments and interpretations to IFRSs, developed and published by the International Accounting Standards Board, which have an effect on the Company's financial statements and are required to be applied from the annual period beginning on or after 1 January 2019:

- **IFRS 16 Leases** - (issued on January 13, 2016 and effective for annual periods beginning on or after January 1, 2019)

This standard supersedes the guidance in IAS 17 Leases along with three interpretations (IFRIC Interpretation 4 Determining whether an Arrangement Contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease) and introduces significant changes in the reporting of leases, especially by lessees.

Under IAS 17, lessees were required to differentiate between finance leases (recognized in the balance sheet) and operating leases (recognized in the off-balance sheet). IFRS 16 requires lessees to recognize a lease payable reflecting future lease payments and a “right-of-use asset” for almost all leases. The IASB has included the right to choose certain short-term and low-value asset leases; this exemption can only be applied by lessees.

Accounting for lessors remains virtually unchanged.

In accordance with IFRS 16, a contract that is or includes a lease is a contract that grants the right to control the use of the asset for a specified period of time for consideration.

The Company has adopted IFRS 16 Leases retroactively as of January 1, 2019, but has not restated comparative data for the 2018 reporting period as permitted by the specific transitional provisions in the standard. The reclassifications and adjustments resulting from the new leasing rules are therefore recognized in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in the Lease Note.

Following the adoption of IFRS 16, the Company recognizes lease payables in relation to leases that were previously classified as 'operating leases' in accordance with the principles of IAS 17 Leases. These liabilities are measured at the present value of the remaining lease payments discounted at the differential interest rate as of January 1, 2019, using the Group-specific interest rate. The weighted average differential interest rate applied to leasing liabilities as of 1 January 2019 is 4.24%.

For leases previously classified as finance leases, the Company recognizes the carrying amount of the leased asset and the lease liability immediately before the transition as the carrying amount of the right-of-use asset and the lease obligation at the date of initial application. The IFRS 16 measurement principles only apply after that date.

The Company has decided to apply a simplified transitional approach from January 1, 2019, without recalculating the comparative data for the previous period. All usable assets are valued at the value of the lease liability, adjusted for the amount of any prepaid or accrued related shipments recognized in the balance sheet as at December 31, 2018. This means that 2018 and 2019 data do not are comparable in that they are prepared on the basis of the different accounting policies described in the notes. The adoption of IFRS 16 had no effect on equity (retained earnings) as of 1 January 2019.

For the first time in applying IFRS 16, the Company uses the following practical benefits, permitted by the standard:

- the application of a flat discount rate to a leasing portfolio with relatively similar characteristics;
- relying on previous assessments of whether the lease is burdensome as an alternative to performing a review of impairment - there are no such contracts as of January 1, 2019;
- accounting for operating leases with a remaining term of less than 12 months as of 01.01.2019. as short-term leasing;
- exclusion of initial direct costs for the valuation of the usable asset at the date of initial use, and
- use of previous valuations when determining the lease term when the contract contains options for extending or terminating the lease.

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

The Company has also chosen not to reassess whether the contract is or is leasing at the date of initial application.

For contracts concluded before the date of implementation of IFRS 16, the entity relies on its assessment made in applying IAS 17 and Interpretation 4 Determining whether an Arrangement Contains a Lease.

Effect of initial application of IFRS 16

	1 January 2019
	TBGN
Assets with right to use – rent of an office	546
Lease payables	546

Measuring payables on lease contracts:

	1 January 2019
	TBGN
Operating lease payables under IAS 17 as at 31 December 2018	575
Discounted lease payables with differential interest rate as of 01.01.2019	546
Finance lease payables recognized as of 31 December 2018	-
Lease payable recognized as of 1 January 2019	**546**
Current portion	233
Non-current portion	313
	546

Measuring assets with right to use

Assets with right to use are valued at an amount equal to the lease payable adjusted by the amount of any prepaid or accrued lease payments related to that lease recognized in the balance sheet as at 31 December 2018. There are no burdensome leases that would require adjustment of the rights to use assets at the date of initial application.

The initial value of the usable assets is determined as follows:

	1 January 2019
	TBGN
Lease liability recognized as of 1 January 2019 under IFRS 16	546
Adjustment for:	
Advance lease payments recognized as of 31 December 2018	-
Accrued lease payments as of 31 December 2018	-
Asset with right to use as of 1 January 2019	546

The Company has applied the following new standards, amendments and interpretations to IFRSs, developed and published by the International Accounting Standards Board, which are mandatory for annual periods beginning on or after 1 January 2019 but do not have a material effect on their financial results and the financial position of the Company:

- **IFRS 9 Financial Instruments** (amended) – Prepayment Features with Negative Compensation (issued on 12 October 2017 – effective for annual periods beginning on or after 1 January 2019);
- **IAS 28 Investments in Associates and Joint Ventures** (amended) – Long-term Interests in Associates and Joint Ventures – effective 1 January 2019, not yet adopted by the EU;
- **IAS 19 Employee Benefits** (amended) **–** Plan Amendment, Curtailment or Settlement – effective 1 January 2019, not yet adopted by the EU;

- **IFRIC 23 Uncertainty over Income Tax Treatments** (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- **Annual Improvements to IFRS Standards 2015–2017 –** effective 1 January 2019, not yet adopted by the EU

These changes include minor changes to:

  - **IFRS 3 Business Combinations** – the Company revaluates its previous interest in a jointly controlled operations when it acquires control of the operations.
  - **IFRS 11 Joint Arrangements** – the Company does not revaluate its previous interest in a jointly controlled operations when it acquires joint control over the operations.
  - **IAS 12 Income Taxes** – the Company accounts for all tax consequences of dividend payments in the same way as they do.
  - **IAS 23 Borrowing Costs** – the Company treats as part of its total loans any loan initially taken to develop an asset when the asset is ready for its intended use or sale.

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

As of the date of approval of these financial statements, new standards, amendments and interpretations have been published to existing standards but have not entered into force or been adopted by the EU for the financial year beginning 1 January 2019 and have not been applied from an earlier date by the Company. They are not expected to have a material effect on the financial statements of the Company. The management expects that all standards and amendments will be adopted in the accounting policy of the Company in the first period beginning after their effective date.

The changes are related to the following standards:

- **Changes in the Conceptual Financial Reporting Framework** (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020)
- **Amendments to IAS 1 and IAS 8: Definition of Material** (issued on 31 October 2018 and effective as of 1 January 2020.
- **Interest Rate Benchmark Reform** (Amendments to IFRS 9, IAS 39 and IFRS 7) (issued on 26 September 2019 and effective as of 1 January 2020.

New standards, clarifications and amendments not yet adopted by the EU

- **IFRS 14 Regulatory Deferral Accounts** (issued on 30 January 2014 and effective for annual periods beginning on or after 1 January 2016).
- **Sale or contributions of assets between an investor and its associate or joint venture** – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date designated by the IASB)
- **IFRS 17 Insurance Contracts** (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021)
- **Definition of a Business – Amendments to IFRS 3** (issued on 22 October 2018 and effective for acquisitions from the beginning of the annual reporting period beginning on or after 1 January 2020)
- **Amendments to IAS 1 Presentation of Financial Statements**: Classification of Current and Non-current Liabilities (effective for annual periods beginning on or after 1 January 2020).

3.2. GENERAL

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

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

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

3.3. PRESENTATION OF FINANCIAL STATEMENTS

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

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

3.4. FOREIGN CURRENCY TRANSACTIONS

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

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

3.5. REVENUE

RECOGNITION AND MEASUREMENT OF REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

1 Identify the contract(s) with a customer

2 Identify the performance obligations in the contract

3 Determine the transaction price

4 Allocate the transaction price to the performance obligations in the contract

5 Recognise revenue when (or as) the entity satisfies a performance obligation.

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

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

MEASUREMENT

Revenue is measured on the basis of a transaction price approved by EWRC.

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

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

A. REVENUE FROM SALES OF NATURAL GAS

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

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

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

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

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

The transaction price is the amount of the consideration the entity expects to have the right to in exchange for the customer's transfer of the promised goods or services, except for amounts collected on behalf of third parties (VAT, excise duty).

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

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

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

The variable consideration is related to:

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

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

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

B. REVENUE FROM SALES OF NATURAL GAS FOR BALANCING

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

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

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

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

C. PENALTIES FOR OVERDUE RECEIVABLES

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

D. INTEREST INCOME

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

Determining whether the Company acts as a principal or an agent

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

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

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

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

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

Contractual balances

Trade receivables and assets under contracts

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

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

Contract liabilities

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

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

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

3.6. OPERATING EXPENSES

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

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

DIFFERENCES WITHIN THE CLASS “UNCERTAINTY” OF MEASUREMENT SYSTEMS

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

3.7. INTEREST EXPENSES AND BORROWING COSTS

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

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

3.8. PLANT AND EQUIPMENT

Plant and equipment are initially recognised at cost, including purchase price and any directly attributable costs of bringing the asset to working condition. Subsequent measurement after initial recognition is applied to a whole class of identical assets as follows:

No	Class of Plant and equipment	Subsequent evaluation method
1	Plant and equipment	Revaluation model
2	Computers	Purchase price
3	Vehicles	
	• trucks	Revaluation model
	• cars	Purchase price
	• special vehicles	Revaluation model
4	Office equipment and inventory	Purchase price

No	Class of Plant and equipment	Subsequent evaluation method
5	Spare parts, recognized as plant and equipment	Revaluation model
6	Other machinery and equipment	Purchase price

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

Revaluations are carried out according to the following frequency:

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

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

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

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

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

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

Plant and equipment	2-7 years
Vehicles	2-12 years
Computers	2 years

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

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

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

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

3.9. INTANGIBLE ASSETS

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

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

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

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

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

License	35 years
Software	10 years

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

The recognition of materiality threshold as adopted by the Company for the intangible assets amounts to BGN 500.

3.10. REPORTING OF LEASES

A. THE COMPANY AS A LESSEE

ACCOUNTING POLICY APPLICABLE FROM 1 JANUARY 2019

For all new contracts entered into on or after 1 January 2019, the Company assesses whether the contract is or is a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Company evaluates whether the contract meets three key evaluations that it has given:

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

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

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

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

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

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

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

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

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

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

B. THE COMPANY AS A LESSOR

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

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

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

ACCOUNTING POLICY APPLICABLE BEFORE 1 JANUARY 2019

A. THE COMPANY AS A LESSEE

Finance lease

Management assesses when considering the nature of the lease and whether it transfers substantially all the risks and rewards of ownership of the leased asset. The main factors considered include the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the fair value of the asset, and whether the Company obtains ownership of the asset at the end of the lease term.

Operating lease

All other leases are treated as operating leases. When the Company is a lessee, payments under operating leases are recognized as an expense on a straight-line basis over the lease term. The associated costs, such as maintenance and insurance, are deducted when incurred.

B. THE COMPANY AS A LESSOR

Lessors present in their statements of financial position assets subject to operating leases in accordance with their nature.

Rental income from operating leases is recognized as income on a straight-line basis over the term of the lease, unless another systematic basis reflects more accurately the time model, which utilizes the rewards of the leased asset. The initial direct costs incurred by the lessor in contracting and arranging an operating lease are added to the carrying amount of the leased asset and are recognized as an expense throughout the lease term on the same basis as the lease income.

The lessor must recognize the total amount of the lease incentive cost provided by the lessor as a decrease in the lease income over the lease term on a straight-line basis, unless another systematic basis is representative of the allocation over the time that the lease asset benefits decreases.

3.11. NON-CURRENT ASSETS IMPAIRMENT TESTS

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

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

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

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

3.12. FINANCIAL INSTRUMENTS

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

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

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

3.12.1. FINANCIAL ASSETS

Initial recognition and qualification

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

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

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

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

Initial measurement

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

Subsequent measurement and presentation

For the purposes of subsequent measurement and presentation, financial assets are classified in one of the following categories: "financial assets measured at amortized cost" (debt instruments), "financial assets measured at fair value through other comprehensive income with reclassification of accrued earnings and losses" (debt instruments), "financial assets designated at fair value through other comprehensive income, without reclassifying accumulated profits or write-offs" (equity instruments) or "financial assets measured at fair value through other comprehensive income, assets at fair value through profit or loss' (debt and equity).

Financial assets at amortized cost (debt instruments)

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

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

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

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

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

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

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

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

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

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

Financial assets at fair value through profit or loss

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

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

Derecognition

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

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

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

Impairment of financial assets

The Company recognizes provisions for expected credit losses for all debt instruments that are not carried at fair value through profit or loss using the approach presented in the table below:

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

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

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

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

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

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

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

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

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

3.12.2. FINANCIAL LIABILITIES

Initial recognition, classification and measurement

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

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

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

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

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

Financial liabilities measured at amortized cost

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

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

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

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

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

Derecognition

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

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

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

Compensation of financial instruments

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

3.13. INVENTORIES

Inventories include materials and commodities – natural gas.

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

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

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

GAS IN UNDERGROUND GAS STORAGES

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

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

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

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

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

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

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

3.14. INCOME TAXES

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

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

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

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

Deferred tax liabilities are recognized in full.

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

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

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

3.15. CASH AND CASH EQUIVALENTS

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

3.16. EQUITY AND RESERVES

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

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

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

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

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

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

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

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

Actuarial gains or losses are recognized in other comprehensive income.

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

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

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

3.18. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

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

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

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

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

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

4. FINANCIAL RISK MANAGEMENT

4.1. FINANCIAL RISK FACTORS

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

Risk management of the Company is carried out by the headquarters of the Company, in cooperation with the Board of Directors and Bulgarian Energy Holding EAD. A priority of management is to provide short and medium term cash flows by minimizing the exposure to financial markets. The Company is not trading with financial assets for speculative purposes, does not issue options and does not take speculative or hedging positions in financial markets.

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

4.1.1. MARKET RISK

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

(A) FOREIGN CURRENCY RISK

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

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

	Exposure to short-term risk	
	US dollars	**Romanian leu**
31 December 2019		
Financial assets	80 263	1 115
Financial liabilities	-	(1)
Total exposure to risk	**80 263**	**1 114**
31 December 2018		

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

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

The tables below show the sensitivity of the annual net financial result after taxes and equity to a probable change in the exchange rates of the Bulgarian lev against the following foreign currencies:

- US dollar +/- 1.1% (for 2018 +/- 3%)
- Romanian Leu (+/- 0.4%) (for 2017 +/- 0.2%)

All other parameters are considered constant.

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

31 December 2019	**Increase of the exchange rate of BGN**		**Decrease of the exchange rate of BGN**	
	Net financial result	**Equity**	**Net financial result**	**Equity**
US dollars (+/- 1.1%)	(804)	(804)	804	804
Romanian Leu (+/- 0.4%)	(5)	(5)	5	5

31 December 2018	**Increase of the exchange rate of BGN**		**Decrease of the exchange rate of BGN**	
	Net financial result	**Equity**	**Net financial result**	**Equity**
US dollars (+/- 3%)	(1 639)	(1 639)	1 639	1 639
British pounds (+/- 0.2%)	(3)	(3)	3	3

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

(B) INTEREST RATE RISK

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

(C) OTHER PRICE RISKS

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

The marginal cost of the public supplier Bulgargaz EAD for sale to end suppliers and consumers connected to the transmission network is determined by the EWRC according to the order and methods as set out in the Energy Act and the Price Regulation Ordinance.

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

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

4.1.2. CREDIT RISK

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

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

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

	AS AT 31 DECEMBER	
	2019	**2018**
Classes of financial assets – carrying amounts (Note 6):		
Debt instruments at amortized cost		
Trade and other receivables (including Related party receivables Note 34)	211 942	156 461
Cash and cash equivalents	80	100
Carrying amount	**212 022**	**156 561**

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

As of 31 December 2019 and 31 December 2018, the Company is exposed to concentrations of credit risk with respect to receivables from Toplofikatsia Sofia EAD that comprise more than 10% of the short-and long-term net receivables:

	AS AT 31 DECEMBER	
	2019	**2018**
Receivables from Toplofikatsia Sofia EAD	170 864	61 200
Total trade and other receivables	**211 942**	**156 461**

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

4.1.3. LIQUIDITY RISK

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

Non-derivative financial liabilities have the following contractual maturities as summarized below. The amounts presented are undiscounted contractual cash flows:

AS AT 31 DECEMBER 2019	**Current**		**Non-current**		**Total**
	Within 6 months	**6 to 12 months**	**1 to 5 years**	**More than 5 years**	
Borrowings	52 386	-	-	-	52 386
Leases	124	125	64	-	313
Trade and other payables	39 098	-	-	-	39 098
Total	**91 608**	**125**	**64**	**-**	**91 797**

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

AS AT 31 DECEMBER 2018	Current		Non-current		
	Within 6 months	6 to 12 months	1 to 5 years	More than 5 years	Total
Borrowings	3 687	-	-	-	3 687
Trade and other payables	25 496	-	-	-	25 496
Total	**29 183**	**-**	**-**	**-**	**29 183**

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

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

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

Financial assets used for managing liquidity risk

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

4.2. CAPITAL MANAGEMENT

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

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

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

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

For the presented accounting periods, capital is analysed as follows:

	AS AT 31 DECEMBER	
	2019	2018
Equity (Net assets)	239 664	205 243
+ Subordinated debt	-	-
Adjusted capital	**239 664**	**205 243**
Total liabilities less subordinated debt	187 059	134 499
- Cash and cash equivalents	(80)	(100)
Net debt	**186 979**	**134 399**
Adjusted capital to net debt	**1:0.78**	**1:0.65**

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

4.3. FAIR VALUE MEASUREMENT

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

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

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

5.1. IMPAIRMENT OF FINANCIAL ASSETS

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

Approach for impairment of cash in banks

Cash and cash equivalents are the most liquid financial instruments. They do not carry any settlement risk, and the liquidity risk they carry is limited to the technical possibility for their disposal not to be fulfilled. However, cash deposited with banks carry a counterparty credit risk (risk of default). Counterparty risk is the likelihood that the counterparty in a financial transaction will not fulfil its contractual obligations. The Company applies the standardized approach for calculating the expected credit losses of cash in banks and the credit rating of the financial institutions in which the Company has deposited its cash is used to determine the loss given default in the model parameters. As of 31 December 2019, management's best estimate of expected credit losses on cash in banks amounts to BGN 0 thousand (31 December 2018: BGN 0 thousand) (Note 3.12.1 and Note 13).

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

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

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

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

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

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

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

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

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

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

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

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

In 2019, the Company reviewed the methodology and assumptions used to estimate the estimated credit losses during the previous reporting period to reduce the differences between the estimates and actual credit losses. In connection with the review, the Company has changed its impairment model in calculating expected credit losses on long-term trade and other receivables and receivables from related parties with a financial component.

Approach for impairment of court and awarded receivables

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

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

5.2. INVENTORIES

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

5.3. USEFUL LIFE OF DEPRECIABLE ASSETS

The financial reporting of plant and equipment and intangible assets includes the use of comparative estimates for their future useful lives and residual values which are based on the judgements made by the Management of the Company. The Management reviews the useful lives of depreciable assets at the end of each reporting period.

As at 31 December 2019 management assesses the useful life of assets that represents the expected term of their use. The carrying amounts of the assets are analyzed in Notes 7 and 8. Actual results, however, may vary due to technical obsolescence, particularly relating to software and IT equipment.

5.4. REVENUE FROM CONTRACTS WITH CUSTOMERS

On recognizing revenue from contracts with customers the management makes various judgments, estimates and assumptions that affect the reported revenue, expense, assets and contingent liabilities. Key appraisals and assumptions that have a material impact on the amount and timing of recognizing revenue from contracts with customers are disclosed in Note 27.

5.5. DEFINED BENEFIT OBLIGATIONS

Management estimates the defined benefit obligations once annually with the assistance of independent actuaries; however, the actual outcome of the obligation may differ from the preliminary estimate due to its uncertainty. The estimate of its defined benefit obligation amounting to BGN 173 thousand (31.12.2018: BGN 151 thousand) is based on standard rates of inflation, medical cost and mortality. It also takes into account the Company's specific anticipation of future salary increases. Discount factors are determined at the end of each year to the yield on long-term government securities with 10-year maturity, denominated in the currency in which the defined benefits will be paid. There is uncertainty in the estimate particularly in terms of the tendency to change healthcare costs, which may vary significantly in future assessments of the value of the obligations for defined benefit.

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

5.6. IMPAIRMENT OF PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

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

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

5.7. PROVISIONS

Currently, the Company is a defendant in several lawsuits, whose outcome could lead to obligations of value other than the amount, recognized in the financial statements provisions. Provisions will not be considered here in detail, to avoid biases associated with the position of the Company in the above disputes.

As of 31 December 2019, the best estimate of the required provision for claims against the Company amounted to BGN 50 837 thousand (31 December 2018: BGN 50 244). Further information is provided in Note 32.

5.8. DEFERRED TAX ASSETS

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

6. CATEGORIES OF FINANCIAL INSTRUMENTS

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

AS AT 31 DECEMBER 2019

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

Financial liabilities	**Financial liabilities carried at amortized cost**
Borrowings (Note 17)	52 386
Leases (Note 18)	313
Trade and other receivables (Note 18)	39 098
Total financial liabilities in the statement of financial position	**91 797**

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

AS AT 31 DECEMBER 2018	
	Receivables and cash
Financial assets	
Trade and other receivables (Note 11)	156 461
Cash and cash equivalents (Note 13)	100
Total financial assets in the statement of financial position	**156 561**
Financial liabilities	**Financial liabilities carried at amortized cost**
Borrowings (Note 17)	3 687
Trade and other receivables (Note 18)	25 496
Total financial liabilities in the statement of financial position	**29 183**

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

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

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

7. PLANT AND EQUIPMENT

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

	Plant and equipment	Vehicles	Office equipment	Total
AS AT 1 JANUARY 2018				
Gross carrying amount	86	441	284	**811**
Depreciation	(47)	(420)	(254)	**(721)**
Carrying amount	**39**	**21**	**30**	**90**
YEAR ENDED 31 DECEMBER 2018				
Additions	5	27	20	**52**
Depreciation	(5)	(9)	(28)	**(42)**
Ending carrying amount	**39**	**39**	**22**	**100**
AS AT 31 DECEMBER 2018				
Gross carrying amount	91	468	304	**863**
Depreciation	(52)	(429)	(282)	**(763)**
Carrying amount	**39**	**39**	**22**	**100**
YEAR ENDED 31 DECEMBER 2019				
Additions	-	-	30	**30**
Depreciation	(5)	(15)	(22)	**(42)**
Ending carrying amount	**34**	**24**	**30**	**88**
AS AT 31 DECEMBER 2019				
Gross carrying amount	91	468	334	**893**
Depreciation	(57)	(444)	(304)	**(805)**
Carrying amount	**34**	**24**	**30**	**88**

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

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

Rent payments amounting to BGN 0 thousand (2018: BGN 240 thousand) of renting office and a motor vehicle under operating leases are included in the hired services expenses in the Statement of profit or loss and other comprehensive income (Note 21).

As at 31 December 2019 no plant and equipment are pledged as collateral of Company's liabilities.

As at 31 December 2019, the plant and equipment were evaluated and the outcome from these tests and evaluations show that there are no significant fluctuations in their market values and therefore there is no need of correcting their carrying values.

8. INTANGIBLE ASSETS

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

	Software	Licenses	Right-of-use assets	Total
AS AT 1 JANUARY 2018				
Gross carrying amount	853	15	-	**868**
Amortization	(674)	(5)	-	**(679)**
Carrying amount	**179**	**10**	**-**	**189**
YEAR ENDED 31 DECEMBER 2018				
Additions	34	25	-	**59**
Depreciation	(129)	(2)	-	**(131)**
Ending carrying amount	**84**	**33**	**-**	**117**
AS AT 31 DECEMBER 2018				
Gross carrying amount	887	40	-	**927**
Amortization	(803)	(7)	-	**(810)**
Carrying amount	**84**	**33**	**-**	**117**
YEAR ENDED 31 DECEMBER 2019				
Additions	272	1	546	**819**
Depreciation	(142)	(3)	(243)	**(388)**
Ending carrying amount	**214**	**31**	**303**	**548**
AS AT 31 DECEMBER 2019				
Gross carrying amount	1 159	41	546	**1 746**
Amortization	(945)	(10)	(243)	**(1 198)**
Carrying amount	**214**	**31**	**303**	**548**

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

Intangible assets acquired in 2019 represent a change in functionality of the Supplies and Sales Management modules and software licenses for the Company's server equipment.

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

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

9. LEASES

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

9.1. AMOUNTS RECOGNIZED IN THE FINANCIAL STATEMENTS

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

	Note	2019	1 January 2019
Right-of-use assets			
Intangible assets	8	303	546
		303	**546**
Lease payables			
Current		249	233
Non-current		64	313
		313	**546**

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

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

	Note	2019	2018
Depreciation of right-of-use assets			
Intangible assets	8	(243)	-
		(243)	**-**
Interest expenses (included in financial expenses)	28	(20)	-
Operating lease expense (IAS 17) (included in the cost of hired services)	21	-	253

The total cash flow for leasing in 2019 amounts to BGN 252 thousand.

10. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are recognized for all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, at a tax rate of 10% (2018: 10%), applicable for the year, when they are expected to occur retroactively.

	AS AT 31 DECEMBER	
	2019	**2018**
Deferred tax assets		
– Deferred tax assets for recovery in more than 12 months	13 778	13 817
Total deferred tax assets	**13 778**	**13 817**
Deferred tax liabilities		
– Deferred tax liabilities for recovery in more than 12 months	(4)	(3)
Total deferred tax liabilities	**(4)**	(3)
Deferred tax assets, net	**13 774**	**13 814**

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

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

	YEAR ENDED 31 DECEMBER	
	2019	**2018**
AS AT 1 JANUARY	**13 814**	**14 940**
Adjustment from initial application of IFRS 9	-	683
AS AT 1 JANUARY (recalculated)	**13 814**	**15 623**
Recognized as expense in profit or loss (Note 29)	(41)	(1 810)
Tax expense relating to items of other comprehensive income (Note 29)	1	1
AS AT 31 DECEMBER	**13 774**	**13 814**

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

As of December 31, 2019 and 2018 the Company has no unused tax losses that can be used in subsequent reporting periods.

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

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

DEFERRED TAX ASSETS	**Impairment of inventory**	**Impairment of financial assets - receivables**	**Pension provisions and constructive obligations**	**Unused paid leaves**	**Plant and Equipment**	**Leases IFRS 16**	**Total**
AS AT 1 JANUARY 2018 (recalculated)	**-**	**(15 600)**	**(14)**	**(14)**	**-**	**-**	**(15 628)**
Expense/(Income) in profit or loss	-	1 814	-	(2)	-		1 812
Expense/(Income) in other comprehensive income	-	-	(1)	-			(1)
AS AT 31 DECEMBER 2018	**-**	**(13 786)**	**(15)**	**(16)**	**-**	**-**	**(13 817)**
AS AT 1 JANUARY 2019	-	**(13 786)**	**(15)**	**(16)**	**-**	**-**	**(13 817)**
Expense/(Income) in profit or loss	-	42	(2)	-	**-**	(1)	**39**
Expense/(Income) in other comprehensive income	-	-	-	-	**-**	-	-
AS AT 31 DECEMBER 2019	**-**	**(13 744)**	**(17)**	**(16)**	**-**	**(1)**	**(13 778)**
DEFERRED TAX LIABILITIES							
AS AT 1 JANUARY 2018	**-**	**-**	**-**	**-**	**5**		**5**
Expense in profit or loss	-	-	-	-	(2)		(2)
AS AT 31 DECEMBER 2018	**-**	**-**	**-**	**-**	**3**		**3**
Expense in profit or loss	-	-	-	-	1		1
AS AT 31 DECEMBER 2019	**-**	**-**	**-**	**-**	**4**		**4**
DEFERRED TAX ASSETS AS AT 31 DECEMBER 2019, NET	**-**	**(13 744)**	**(17)**	**(16)**	**4**	**(1)**	**(13 774)**

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

11. TRADE AND OTHER RECEIVABLES

	AS AT 31 DECEMBER 2019	2018
Trade receivables	218 104	151 299
Accumulated impairment of trade receivables	(7 165)	(8 007)
Trade receivables, net	**210 939**	**143 292**
Court and awarded receivables	202 335	201 389
Accumulated impairment of court and awarded receivables	(201 809)	(201 389)
Court and awarded receivables, net	**526**	**-**
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	80 263	75 030
Receivables from related parties (Note 31)	10 728	11 865
Other receivables - prepaid expenses, guarantees and deposits	3 576	4 116
Total trade and other receivables	**306 032**	**234 668**
Less non-current portion	**7 046**	**-**
Current trade and other receivables	**298 986**	**234 668**

The Company has receivables from the Corporate Commercial Bank AD (insolvent), amounting to BGN 17 463 thousand. Pursuant to the Decision No. ЗБН66-8, ЗБН66-39 of 28.12.2015 of the 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 accounting 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 recovered the amount of BGN 574 thousand.

Expected credit losses are calculated on the date of each reporting period. They are calculated as at 30 June 2019 and as at 31 December 2019.

The following table contains information about the exposure to credit risk arising from customer receivables from unrelated persons of the Company using the provision matrix for expected credit losses as of 31 December 2019 and 31 December 2018 respectively:

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

31 December 2019	Expected credit loss percentage	Gross amount of customer receivables	Impairment of expected credit loss	Net amount of receivables from customers
	%	TBGN	TBGN	TBGN
Unmatured	14%	99 987	(1 030)	98 957
30-90 days	75%	54 726	(5 361)	49 365
90 – 180 days	10%	42 180	(694)	41 486
180 – 360 days	0%	99	(9)	90
Over 360 days	1%	745	(71)	674
Under agreements	0%	20 367	-	20 367
		218 104	**(7 165)**	**210 939**

31 December 2018	Expected credit loss percentage	Gross amount of customer receivables	Impairment of expected credit loss	Net amount of receivables from customers
	%	TBGN	TBGN	TBGN
Unmatured	1%	110 128	(927)	109 201
30-90 days	6%	603	(36)	567
90 – 180 days	11%	237	(27)	210
180 – 360 days	55%	7 400	(4 080)	3 320
Over 360 days	9%	324	(30)	294
Under agreements	9%	32 607	(2 907)	29 700
		151 299	**(8 007)**	**143 292**

The age structure of current trade receivables is as follows:

As at 31 December 2019

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

As at 31 December 2018

	Not overdue	30-90 days	90-180 days	180-360 days	>360 days	Total
	TBGN	TBGN	TBGN	TBGN	TBGN	TBGN
Trade receivables	122 417	4 575	1 380	22 603	324	**151 299**
	122 417	**4 575**	**1 380**	**22 603**	**324**	**151 299**

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

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

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

Some of the information used, such as Risk by Country, Risk Free, T-Bonds, Cost of debt, etc., is based on ready data, and other – on the reporting data for the amount of the respective financial asset at the end of the period.

The calculations made include asset impairment tests based on several "models", depending on the above classification of the Company's accounting policies.

As at 31 December 2019, trade receivables with book value of BGN 172 293 thousand (31 December 2018: BGN 109 137 thousand) were impaired.

The aging analysis of trade receivables for which an impairment loss is recognized as at 31 December 2019 is as follows:

	AS AT 31 DECEMBER	
	2019	**2018**
Within 3 months	6 391	964
Between 3 and 6 months	694	27
Over 6 months	80	4 109
Under agreements	-	2 907
Total	**7 165**	**8 007**

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

	YEAR ENDED 31 DECEMBER	
	2019	**2018**
AS AT 1 JANUARY	**214 108**	**225 415**
Adjustment from initial application of IFRS 9	-	6 828
Accrued losses from impairment of receivables	6 928	58 019
Written-off uncollectible receivables	(3)	(48)
Reversals of impairment losses	(7 348)	(63 757)
Accrued losses from impairment of CCB AD-insolvent	(208)	(12 349)
AS AT 31 DECEMBER	**213 477**	**214 108**

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

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

As of 31 December 2019, the Company holds collateral as a security for trade receivables in the amount of BGN 62 thousand (2018 - BGN 55 thousand).

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

	AS AT 31 DECEMBER	
	2019	**2018**
Bulgarian Lev (BGN)	215 810	158 499
US Dollars (USD)	80 261	72 791
Romanian Leu (RON)	1 115	2 488
Euro (EUR)	1 800	890
Total trade and other receivables	**298 986**	**234 668**

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

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

12. INVENTORIES

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

	AS AT 31 DECEMBER	
	2019	**2018**
Natural gas at cost	106 179	90 923
Natural gas – net realizable value	106 179	90 923
Materials	22	20
Total inventories	**106 201**	**90 943**

In 2019 the value of the realized natural gas in the amount of BGN 1 353 232 thousand was reported as an expense in profit or loss (2018: BGN 1 272 999 thousand).

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

The main external source used as evidence for the indication of impairment are the decisions of EWRC № Ц-19/28.12.2018, № Ц-10/28.03.2019, № Ц-16/ 28.06.2019. and № Ц-31/30.09.2019 and № Ц -1/01.01.2020

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

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

13. CASH AND CASH EQUIVALENTS

	AS AT 31 DECEMBER	
	2019	**2018**
Cash in current bank accounts	76	78
Cash on hand	4	22
Total cash and cash equivalents in the statement of financial position	**80**	**100**

The amount of cash that has been apprehended in relation to a claim against a counterparty of the Company as at 31 December 2019 amounts to BGN 50 thousand (31 December 2018: BGN 50 thousand).

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

	AS AT 31 DECEMBER	
	2019	**2018**
Bulgarian Lev (BGN)	66	73
US Dollars (USD)	1	14
Euro (EUR)	13	11
Romanian Leu (RON)	-	2
Total cash and cash equivalents	**80**	**100**

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

14. RECONCILIATION OF INITIAL AND FINAL BALANCES IN THE STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2019 OF LIABILITIES ARISING FROM FINANCIAL ACTIVITIES

Liabilities arising from financial activities	On 1 January	Cash flows from financial activities		Changes of a non-monetary nature - dematerialized		On 31 December
		Receipts	Payments	Acquired (increases)	Other changes	
Short-term bank loans	3 687	52 372	(3 687)	-	14	52 386
Lease payables	-	-	(252)	546	19	313
Interest on borrowings and deferred trade liabilities	-	-	(166)	-	166	-
Total liabilities of financial activities:	**3 687**	**52 372**	**(4 105)**	**546**	**199**	**52 699**

RECONCILIATION BETWEEN THE OPENING AND CLOSING BALANCES IN THE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018 OF LIABILITIES ARISING FROM FINANCIAL ACTIVITIES

Liabilities arising from financial activities	On 1 January	Cash flows from financial activities		Changes of a non-monetary nature - dematerialized		On 31 December
		Receipts	Payments	Acquired (increases)	Other changes	
Short-term bank loans	9 956	3 687	(10 052)	96	-	3 687
Commercial loans related parties	-	-	(621)	621	-	-
Total liabilities of financial activities:	**9 956**	**3 687**	**(10 673)**	**717**	**-**	**3 687**

15. SHARE CAPITAL

As at 31 December 2019, the registered share capital of the Company consists of 231 698 584 ordinary shares with a par value of BGN 1 per share. All shares are entitled to dividend and liquidation share and represent one vote of the General Meeting of Shareholders of the Company.

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

	Number of shares	Amount TBGN
AS AT 1 JANUARY 2018	**231 698 584**	**231 698**
AS AT 31 DECEMBER 2018	**231 698 584**	**231 698**
AS AT 31 DECEMBER 2019	**231 698 584**	**231 698**

The sole shareholder of the Company's capital is Bulgarian Energy Holding EAD, which is 100% owned by the Ministry of Energy.

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

16. RESERVES

	Statutory reserves	Revaluation reserves of non-financial assets	Reserve of revaluations of defined benefit plans	Total
AS AT 1 JANUARY 2018	**6 420**	**53**	**1**	**6 474**
Transfer to “Reserve” Fund	947	-	-	**947**
Revaluation of defined benefit plans	-	-	(9)	**(9)**
AS AT 31 DECEMBER 2018	**7 367**	**53**	**(8)**	**7 412**
Transfer to “Reserve” Fund	-	-	-	-
Revaluation of defined benefit plans	-	-	(8)	(8)
AS AT 31 DECEMBER 2019	**7 367**	**53**	**(16)**	**7 404**

STATUTORY RESERVES

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

REVALUATION RESERVES OF NON-FINANCIAL ASSETS

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

RESERVE FROM REVALUATIONS OF DEFINED BENEFIT PLANS

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

17. BORROWINGS

	AS AT 31 DECEMBER	
	2019	**2018**
Current		
Borrowings (BGN)	52 372	3 687
Interest	14	-
Total current	**52 386**	**3 687**
Total borrowings	**52 386**	**3 687**

As of 31 December 2019, the Company has undrawn overdrafts granted by 4 /four/ banking institutions, totaling BGN 17 528 thousand. The agreed amount of the concluded loans is BGN 69 900 thousand. The loans are unsecured and have maturities in the period 07-11.2020.

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

Information on the most significant terms and conditions of loan and financing agreements:

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

18. TRADE AND OTHER PAYABLES

	AS AT 31 DECEMBER	
	2019	2018
Related party payables (Note 34)	3 159	13 469
VAT payable	24 048	37 599
Trade payables	35 940	11 957
Advances received from clients for sale of natural gas	17 654	15 113
Excise duty	1 211	1 762
Payables to employees	134	131
Liabilities to insurance companies	82	74
Other liabilities	247	92
Total trade and other payables	**82 475**	**80 197**

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

Payables to employees represent obligations to Company's employees, to be settled in 2020. They occur mainly in relation to accumulated unused leave at the end of the reporting period and amounted to BGN 134 thousand (31.12.2018: BGN 131 thousand).

Liabilities to insurance companies – BGN 82 thousand (31.12.2018: BGN 74 thousand) include the social security payables related to accrued unused compensation leaves in the amount and social security payables over remunerations for December 2019, paid during January 2020.

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

19. LIABILITIES FOR RETIREMENT EMPLOYEE BENEFITS

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

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

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

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

	AS AT 31 DECEMBER	
	2019	2018
Present value of liabilities	173	151
Liability at the end of the reporting period	**173**	**151**

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

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

	YEAR ENDED 31 DECEMBER	
	2019	**2018**
AS AT 1 JANUARY	**151**	**140**
Current length-of-service costs (Note 22)	11	9
Interest expenses (Note 28)	2	2
Total expenses in profit or loss	**13**	**11**
Revaluations:		
- Gains from changes in demographic assumptions	1	1
- Gains from changes in financial assumptions	3	2
- Profit/(loss) from the actual experience	5	7
Total other comprehensive income	**9**	**10**
Paid benefits	**-**	**(10)**
AS AT 31 DECEMBER	**173**	**151**

The main actuarial assumptions used are as follows:

	AS AT 31 DECEMBER	
	2019	**2018**
Discount percentage	0.6%	1%
Future salaries increase	2%	2%

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

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

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

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

The table below presents an analysis of the sensitivity and summarizes the effects of changes in these actuarial assumptions on the defined benefit liability as at 31 December 2019:

AS AT 31 DECEMBER 2019	**Change in the actuarial assumptions**	**Effect on the liability in BGN**	**Change in the actuarial assumptions**	**Effect on the liability in BGN**
Discount percentage	+ 1 %	(7 928)	– 1 %	9 529
Salary increase	+ 1 %	7 961	– 1 %	(6 743)
Staff turnover	+ 1 %	(7 024)	– 1 %	8 383
Average life expectancies	+1 year	600	-1 year	(569)

The sensitivity analysis shown above is based on a model estimating the potential change in the liability in case of a change in only one of the actuary assumptions, while others are deemed constant. In reality, this is unlikely to happen, as the changes in some of the assumptions are correlated. In determining sensitivity of liabilities under the defined benefit plan to the changes in the major actuarial assumptions is used the same method used to estimate recognized in the statement of financial position liability, namely an estimation of the present value of the liability under defined benefit plan by using the credit method of projected units.

As of 31 December 2019, the weighted average duration of the obligation to pay compensation upon retirement is 5 years.

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

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

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

	YEAR ENDED 31 DECEMBER 2019	2018
Accrued impairment loss on trade receivables, net	(843)	(5 858)
Accrued impairment loss on other receivables, net	-	37
Accrued impairment loss on court and awarded receivables, net	422	119
Accrued impairment loss on cash in banks, net	-	(4)
Accrued and recovered impairment loss on receivables from CCB (insolvent)	(208)	-
Total impairment loss on financial assets	**(629)**	**(5 706)**

In 2019, the Company reviewed the methodology and assumptions used to estimate the estimated credit losses during the previous reporting period to reduce the differences between the estimates and actual credit losses. In connection with the review, the Company has changed its impairment model in calculating expected credit losses on long-term trade and other receivables and receivables from related parties with a financial component and cash in banks.

21. COST OF HIRED SERVICES

The cost of hired services includes:

	YEAR ENDED 31 DECEMBER 2019	2018
Natural gas storage expenses	5 497	5 062
Court fees and legal advices	279	1 366
License fees	673	584
Rents	14	253
Other fees	179	153
Insurance	111	105
Management contract expenses	121	98
Communications	108	99
Remunerations of audit committee members	88	75
Subscription service	13	24
Consulting services	68	55
Total cost of hired services	**7 151**	**7 874**

22. EMPLOYEE BENEFITS AND SOCIAL SECURITY EXPENSES

Employee benefits and social security expenses of the Company include:

	YEAR ENDED 31 DECEMBER 2019	2018
Salary expenses	2 521	2 365
Social security expenses	358	338
Compensated leaves costs	91	81
Cost of defined retirement benefit obligations (Note 19)	11	9
Total employee benefit expenses	**2 981**	**2 793**

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

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

	YEAR ENDED 31 DECEMBER	
	2019	**2018**
Hired employees at the end of the period	53	52
Average number of hired employees throughout the year	53	54

23. COST OF MATERIALS

The cost of materials of the Company includes:

	YEAR ENDED 31 DECEMBER	
	2019	**2018**
Fuel gas	-	27
Fuel and lubricants	26	22
Stationery and consumables	10	11
Main materials	15	6
Other	13	16
Total cost of materials	**64**	**82**

24. EXPENSES ON PROVISIONS

	YEAR ENDED 31 DECEMBER	
	2019	**2018**
Provision for a fine in Case COMP/B1/AT.39849 - BEH gas (Note 32)	593	50 244
Total expenses on provisions	**593**	**50 244**

25. OTHER EXPENSES

Other expenses of the Company include:

	YEAR ENDED 31 DECEMBER	
	2019	**2018**
Penalties on delayed payments	371	135
Business trips and representation expenses	66	52
Trainings	7	3
One-off taxes	11	14
Others	20	21
Total other expenses	**475**	**225**

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

26. OTHER REVENUE AND INCOME

Other revenue and income of the Company include:

	YEAR ENDED 31 DECEMBER 2019	2018
Penalties on overdue receivables	14 055	12 700
Other sanctions and contract penalties	7 151	4 679
Recovered legal expenses	100	51
Other	5	2
Total other revenue	**21 311**	**17 432**

27. REVENUES FROM SALE OF NATURAL GAS

REVENUE UNDER CONTRACTS WITH CUSTOMERS

	YEAR ENDED 31 DECEMBER 2019	2018
Types of goods and services		
Revenues from sale of natural gas	1 383 428	1 286 429
	1 383 428	**1 286 429**

	YEAR ENDED 31 DECEMBER 2019	2018
Geographic markets		
- Domestic market	1 383 428	1 286 429
	1 383 428	**1 286 429**

	YEAR ENDED 31 DECEMBER 2019	2018
Timing of revenue recognition		
Goods passed at a given moment of time	1 383 428	1 286 429
	1 383 428	**1 286 429**

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

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

Type of product/ service	**Nature and timing of fulfilment of performance obligations, including essential payment terms**	**Recognition of revenue under IFRS 15**
Revenue from sale of natural gas	As a public supplier of natural gas, Bulgargaz EAD carries out the supply of natural gas all year round under a continuous routine of operation. The customer: • simultaneously receives and consumes all of the benefits; • receives control of the commodity (natural gas) by way of transfer of the legal title to the asset; • has the significant risks and rewards related to the ownership of the asset; • accepts the asset. As a result of the Company's activity, no asset with an alternative use is created for the Company and the Company has an enforceable right to payment for performance completed to date.	Sales revenue is recognized on each transfer of control over the assets sold when they are delivered to the buyer and there are no outstanding commitments that could affect the purchaser's acceptance of natural gas. Delivery occurs for each asset dispatch to the specific place (pick-up point) and when the risks of potential losses have been transferred to the buyer and he has accepted the assets in accordance with the sales contract. The quantity of natural gas delivered to the customer on each of the days of the respective month is reflected in a Monthly Report containing information about Bulgargaz's delivery obligations and the customer's acceptance obligations. The transaction price is the amount of the consideration the entity expects to have the right to in exchange for the customer's transfer of the promised goods or services, except for amounts collected on behalf of third parties (VAT, excise duty). Sales payments are payable within 12 days of the final invoice for the supply of natural gas, which is in line with market practice.
Revenue from sales of natural gas for balancing	In order to carry out the supply of natural gas to its customers, Bulgargaz has a contract for access and transmission of natural gas through the territory of Bulgaria with the combined operator Bulgartransgaz. An agreement for the purchase and sale of natural gas for balancing has been concluded and forms an inseparable part of the access and transmission agreement. Balancing is also of continuous nature and the customer receives and consumes the benefits at the same time. Revenue is recognized over time as in the sale of natural gas described above.	The consideration from the customer for the sale of natural gas for balancing includes fixed amounts and is based on the natural gas sales price for the current month + the cost component of balancing determined and fixed by the State Energy and Water Regulatory Commission for the gas year. There is no financing component in the sales of natural gas for balancing because the payment on sales is due within a period of up to 20 - 25 days from the issue of the invoice, which is in line with market practice.

BALANCES ON CONTRACTS WITH CUSTOMERS

	AS AT 31 DECEMBER 2019	**AS AT 31 DECEMBER 2018**
Trade receivables	210 939	143 292
Receivables from related parties	10 728	11 865
	221 667	**155 157**

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

28. FINANCIAL INCOME AND COSTS

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

	YEAR ENDED 31 DECEMBER	
	2019	**2018**
Financial income		
Interest income on long-term receivables	2 928	13
Finance income – interest income from financial assets carried at amortized cost	**2 928**	**13**
Total financial income	**2 928**	**13**
Financial costs		
Interest expense on trade payables to related parties	(177)	(621)
Interest expense on repurchase agreements	-	(61)
Interest expenses on leases	(20)	-
Interest expense on short-term loans	-	(35)
Interest expense on financial liabilities carried at amortized cost	**(197)**	**(717)**
Interest expense on overdue tax liabilities	(221)	-
Bank charges	(121)	(80)
Bank Guarantee commission fee in Case COMP/B1/AT.39849 - BEH gas	(396)	-
Interest expense on defined benefit obligations (Note 19)	(2)	(2)
Total financial costs	**(937)**	**(799)**
Financial income/(costs), net	**1 991**	**(786)**

29. OTHER FINANCIAL INCOME/COSTS, NET

	YEAR ENDED 31 DECEMBER	
	2019	**2018**
Loss from changes in exchange rates of receivables and payables and cash	(4 088)	(4 339)
Financial income/(costs), net	**(4 088)**	**(4 339)**

30. INCOME TAX EXPENSES

The relationship between the expected tax income/(expense) based on the applicable tax rate in Bulgaria of 10% (2018: 10%) and the tax expense/income actually recognized in profit or loss can be reconciled as follows:

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

	YEAR ENDED 31 DECEMBER 2019	2018
Profit before tax	(38 345)	(29 948)
Tax rate	10%	10%
Expected tax expense	(3 834)	(2 995)
Tax effect on income tax expense on:		
Expenses not recognized for tax purposes	(966)	(10 858)
Income not recognized for tax purposes	925	7 643
Tax loss carried forward	-	-
Income taxes expenses	**(3 875)**	**(220)**
Expenses on current corporate tax	(3 875)	(220)
Effect of the change in deferred taxes (Note 10)	(41)	(1 810)
Income (expense) tax revenues	**(3 916)**	**(2 030)**
Deferred tax income (expense) recognized directly in the other comprehensive income	**1**	**1**

31. NON-CASH TRANSACTIONS

In 2019 the Company did not enter into investing and financing transactions in which cash and cash equivalents were not used and which are not reflected in the cash flow statement.

32. DIVIDENDS

Profit distribution is carried out by a decision of the sole shareholder in the following order:

- At least 10% of the profit shall be set aside to fund "Reserve";
- by the proposal of the Board of Directors part of the profits attributable to certain funds of the Company may be set aside;
- the outstanding amount can be used to pay dividends.

Dividends obligations are determined annually by the State Budget Act.

33. PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

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

On 24 November 2017, a decision was taken by the 44th National Assembly of the Republic of Bulgaria to take the necessary action for the closing of Case COMP/B1/AT.39849 – BEH Gas, by which the National Assembly supports the closing of the case under Article 7 of Regulation (EC) No 1/2003 without admitting the alleged infringements and without assuming liability for them, by fulfilling the obligations arising from a possible prohibitive decision, including a possible financial sanction.

On 26 July 2018, a decision was taken by the 44th National Assembly (NA) of the Republic of Bulgaria to take action for the closing of COMP/B1/AT.39849 – BEH Gas pursuant to Article 9 of Regulation (EC) No 1/2003 by entering into commitments on the part of the Bulgarian party and reaching an agreement with the European Commission. The second decision of the NA is motivated by the development of case COMP/B1/AT.39816 between the EC and PJSC Gazprom and Gazprom Export LLC, in which, on 24 May 2018, the Commission announced that an agreement had been reached and the same was closed under Article 9 of Regulation (EC) No 1/2003 without a financial penalty for PJSC Gazprom and Gazprom Export LLC.

On 17 December 2018, the European Commission notified Decision C (2018) 8806 in case AT.39849 BEH-Gas, by which the European Commission imposed a fine on Bulgarian Energy Holding EAD (BEH), its subsidiary for gas supply Bulgargaz EAD and its subsidiary for gas infrastructure Bulgartransgaz EAD (the BEH group) amounting to EUR 77 068 000 for allegedly blocking competitors' access to key gas infrastructure in Bulgaria in violation of EU antitrust rules. The decision was received in the offices of the three companies on 19.12.2018, which set the start of the appeal period of the EC Decision (two months and ten days after notification of the Decision to the parties) and payment of the fine (three months after the notification of the decision to the Parties), defined in the same.

The appeal against the decision does not delay the payment of the fine. On 18 March 2019, a bank guarantee was issued by a selected bank through a procedure conducted by BEH EAD. The bank guarantee covers 2/3 of the total amount of the fine amounting to EUR 77 068 000. The bank guarantee secures obligations of BEH EAD and Bulgargaz EAD on the imposed fine.

On 4 July 2019, the Bulgarian State, through the Ministry of Foreign Affairs, filed an application to intervene in support of Bulgarian Energy Holding EAD and its subsidiaries. On 26 August 2019, the European Commission presented to the General Court its defense in response to the Application lodged by Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD. On 29 November 2019, a response was filed by the Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD against the defense of the European Commission. On 20 February 2020, within the deadline set by the General Court of the European Union, the Republic of Bulgaria, through the Ministry of Foreign Affairs (MFA), deposited the official position of the Republic of Bulgaria in Case T-136/19, submitted by the Ministry of Energy of the Ministry of Foreign Affairs, with which the State intervenes in support of Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD against the European Commission before the General Court of the European Union. It should be borne in mind that, if the General Court decides to open the oral procedure, the President sets the date for the oral hearing, most probably in 2021.

As of 31 December 2019, the Company has accrued a provision in the amount of BGN 50 244 thousand, representing 1/3 of the total amount of the imposed fine and interest thereon in the amount of BGN 593 thousand, with the estimate being that the settlement is expected to occur after more than 12 months.

Contingent asset

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

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

Contingent liabilities

There are legal claims against the Company, but they are not of considerable material interest. With the exception of those for which provisions have already been accrued, the management of the Company considers that the claims are unfounded and that they are unlikely to incur expenses for the Company in settling them. This judgment of the management is supported by the opinion of an independent legal consultant.

None of the aforementioned claims is set out in detail here, so as not to have a serious impact on the Company's position in dispute resolution.

Others

Tax authorities may at any time initiate tax inspection revision of the Company within 5 years after the end of the financial year and may impose additional tax liabilities and sanctions. The Company's management has no information about any circumstances, which may lead to potential effective additional tax liabilities in significant amount.

34. RELATED PARTY TRANSACTIONS AND BALANCES

The Company discloses the following related parties:

Entity	Country of incorporation	Main objects
Sole shareholder of the Company, exercising control (Parent company)		
Bulgarian Energy Holding EAD (BEH)		
Sole shareholder of the Parent company		
The Bulgarian State through the Minister of Energy		
Companies under mutual joint control with the Company (entities within the group)		
Kozloduy NPP EAD	Bulgaria	production of electricity and heat
HPP Kozloduy EAD	Bulgaria	generation and distribution of electricity from hydropower
Interpriborservice OOD	Bulgaria	installation and maintenance of automated systems
Kozloduy NPP – NB EAD	Bulgaria	operation of a nuclear power plant
Bulgargaz EAD	Bulgaria	public supply of natural gas
Bulgartransgaz EAD	Bulgaria	storage and transmission of natural gas
Balkan Gas Hub EAD	Bulgaria	building and operating an electronic platform for natural gas trading, energy products, green and white certificates, carbon emissions
Electricity System Operator EAD	Bulgaria	transmission of electricity
Bulgartel EAD	Bulgaria	implementation of telecommunications
Bulgartel-Skopje DOOEL	Macedonia	implementation of telecommunications
Maritsa East Mines EAD	Bulgaria	extraction and sale of coal
Natsionalna Elektricheska Kompania EAD	Bulgaria	generation of electricity and public electricity supplier
TPP Maritsa East 2 EAD	Bulgaria	production of electricity and heat
PFC Beroe – Stara Zagora EAD	Bulgaria	soccer club
TPP Maritsa East 2 (9 and 10) EAD	Bulgaria	production and trade in electricity

Jointly controlled entities

ICGB AD	Bulgaria	construction and operation of gas transmission system
South Stream Bulgaria AD	Bulgaria	construction and operation of gas transmission system
Transbalkan Electric Power Trading S.A. – NECO S.A.	Greece	sale of electricity

Associates

ContuourGlobal Maritsa Iztok 3 AD	Bulgaria	electricity production
ContourGlobal Operations Bulgaria AD	Bulgaria	operation and maintenance of a thermal power plant
Energy Insurance JSC	Bulgaria	insurance company
Allianz Bulgaria EAD	Bulgaria	pension insurance company
HEC “Gorna Arda” AD	Bulgaria	construction of hydroelectric power plants

Other related parties under common control

Public sector enterprises under common control of the Council of Ministers in the Republic of Bulgaria.

Key management of the Parent Company

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

Key management of the Company

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

Sales and purchases to related parties are carried out at agreed prices. Outstanding balances at the end of the reporting period are unsecured, interest free (excluding loans and deferred trade payables) and their settlement is done in cash. For receivables or liabilities to related parties guarantees were not given or received.

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

(A) SALE OF GOODS	**YEAR ENDED 31 DECEMBER**	
	2019	**2018**
Companies under common control		
Bulgartransgaz EAD	6 339	10 925
Total	**6 339**	**10 925**

Sales include natural gas sold for technology and balancing.

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

(B) PURCHASE OF ASSETS	YEAR ENDED 31 DECEMBER	
	2019	**2018**
Parent company		
Bulgarian Energy Holding EAD	-	**52**
Total	**-**	**52**

(C) PURCHASE OF GOODS AND SERVICES	YEAR ENDED 31 DECEMBER	
Parent company	**2019**	**2018**
Bulgarian Energy Holding EAD	122	103
Companies under common control		
Bulgartransgaz EAD	87 720	92 224
Bulgartel EAD	7	15
Total	**87 849**	**92 342**

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

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

Purchases of services from Bulgartel EAD include technical support

(D) ACCRUED PENALTY CHARGES	YEAR ENDED 31 DECEMBER	
	2019	**2018**
Companies under common control		
Bulgarian Energy Holding EAD	-	103
Bulgartransgaz EAD	117	653
Total	**117**	**756**

Accrued penalty charges relate to the obligation to pay dividends and transmission and storage of natural gas.

(E) RECEIVABLES FOR PURCHASES OF GOODS AND SERVICES

	AS AT 31 DECEMBER	
	2019	**2018**
Companies under common control		
Bulgartransgaz EAD	10 728	11 865
Total current	**10 728**	**11 865**

The receivables from Bulgartransgas EAD represent financial collateral in the form of a credit limit and guarantee granted in connection with a Contract for access and transmission of natural gas on the gas transmission network of Bulgartransgaz EAD and receivables for balancing services, settled in January 2020.

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

(F) PAYABLES FOR PURCHASES OF GOODS AND SERVICES	AS AT 31 DECEMBER	
Current		
Parent company		
Bulgarian Energy Holding EAD	32	25
Companies under common control		
Bulgartransgaz EAD	3 126	13 443
Bulgartel EAD	1	1
Total current	**3 159**	**13 469**
Total	**3 159**	**13 469**

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

As at 31 December 2019 the Company has an agreement, concluded on 15 July 2015, consolidating 3 previous agreements of 11 May 2012, 15 March 2013 and 1 April 2015. As at the signing date of the agreement until the date of final payment of the debt – 30 June 2019, in accordance with a payback schedule, the Company owes interest amounting to 3.6 per cent per year, based on a 360-year basis.

As at 31 December 2019 the long-term portion of rescheduled trade payables is estimated at BGN 0 thousand (31 December 2018: BGN 0 thousand) and the short-term part to BGN 0 thousand principal (31 December 2018: BGN 8 368 thousand).

In connection with this agreement, Bulgargaz EAD has an obligation to maintain a minimum balance of natural gas in Chiren UGS.

The rest of the current obligations to Bulgartransgaz EAD are related to current supply of transmission services and storage of natural gas amounting to BGN 3 126 thousand.

(G) KEY MANAGEMENT PERSONNEL REMUNERATIONS

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

	YEAR ENDED 31 DECEMBER	
	2019	**2018**
Short term benefits to key management personnel		
- Remunerations	180	184
- Social security costs	18	18
Total	**198**	**202**

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

35. EVENTS AFTER THE REPORTING PERIOD

Change of natural gas delivery point

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

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

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

Amendment and supplement to the Energy Act

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

From 01.12.2019 a new obligation is created for Bulgargaz EAD to annually offer for sale on the organized market certain quantities of natural gas in accordance with the release program, regulated in Art. 176a EA. The release shall respect the following conditions:

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

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

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

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

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

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

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

i. end suppliers of natural gas;

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

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

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

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

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

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

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

Renegotiation the natural gas supply price

On 2 March 2020, Bulgargaz EAD and Gazprom Export signed an ancillary agreement to Contract No. 01-12-13 of 15 November 2012 for the supply of natural gas.

The ancillary agreement sets out the new pricing method and the repayment of overpayments for the expired period of negotiations. The new price formula shall apply from 05.08.2019 - the date of the first request of Bulgargaz EAD for price review.

The signed ancillary agreement will have an effect on both the cost of the gas supplied, by reducing the delivery price, and on reported sales revenues, by reducing the sale price, for the period indicated.

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

A Bill was drafted to amend and supplement the Energy Act, which provides for Bulgargaz EAD:

- EWRC to adopt a decision to approve the prices of natural gas at which Bulgargaz EAD sells natural gas for each month for the period 05.08.2019 - 31.03.2020. The approved sale price takes into account the new pricing according to the Ancillary Agreement;
- Following the adoption of the relevant decisions of EWRC, Bulgargaz EAD calculates the amounts for repayment of each client under a contract at regulated prices, as the difference between the amounts paid for the delivered quantities, at prices approved by the decisions of EWR until the effective implementation of the AAS of the Energy Act, and at the prices approved by the relevant new EWRC decisions;
- Bulgargaz EAD is to enter into an agreement with customers and repay the amounts.

The Company is unable to assess the effect of the Ancillary Agreement due to the fact that the amounts repayable to the Company's clients depend on a change in the Energy Act and should be determined on the basis of prices approved by EWRC.

At the date these statements were adopted, no amendments to the Energy Act were adopted.

The Management considers this to be a non-adjusting event after the reporting period, although it affects deliveries made in 2019 because the financial parameters and terms of the Ancillary Agreement were agreed in 2020 and did not exist as of 31.12.2019.

Coronavirus

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

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

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

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

There are no other adjusting and non-adjusting events after the reporting period that would require additional disclosure or adjustments in the financial statements of Bulgargaz EAD as of 31 December 2019.

36. DISCLOSURE ACCORDING TO LEGAL REQUIREMENTS

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

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements at 31 December 2019 (including comparatives) were approved and adopted by the Board of Directors on 14 April 2020.