BULGARGAZ EAD

ANNUAL MANAGEMENT REPORT
ANNUAL FINANCIAL STATEMENTS
INDEPENDENT AUDITOR’S REPORT

31 DECEMBER 2018

CONTENTS

This Company Management Report for 2018 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 2018 – 31 December 2018.

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 trading company, registered under the requirements of the Commercial Act, with seat and registered office: the Republic of Bulgaria; Sofia Region; Stolichna Municipality; 1000 Sofia; Serdika District; 47, Petar Parchevich Str.

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

Bulgargaz EAD carries out its activities as regards to public supply of natural gas for the territory of the Republic of Bulgaria, in compliance with License No 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;

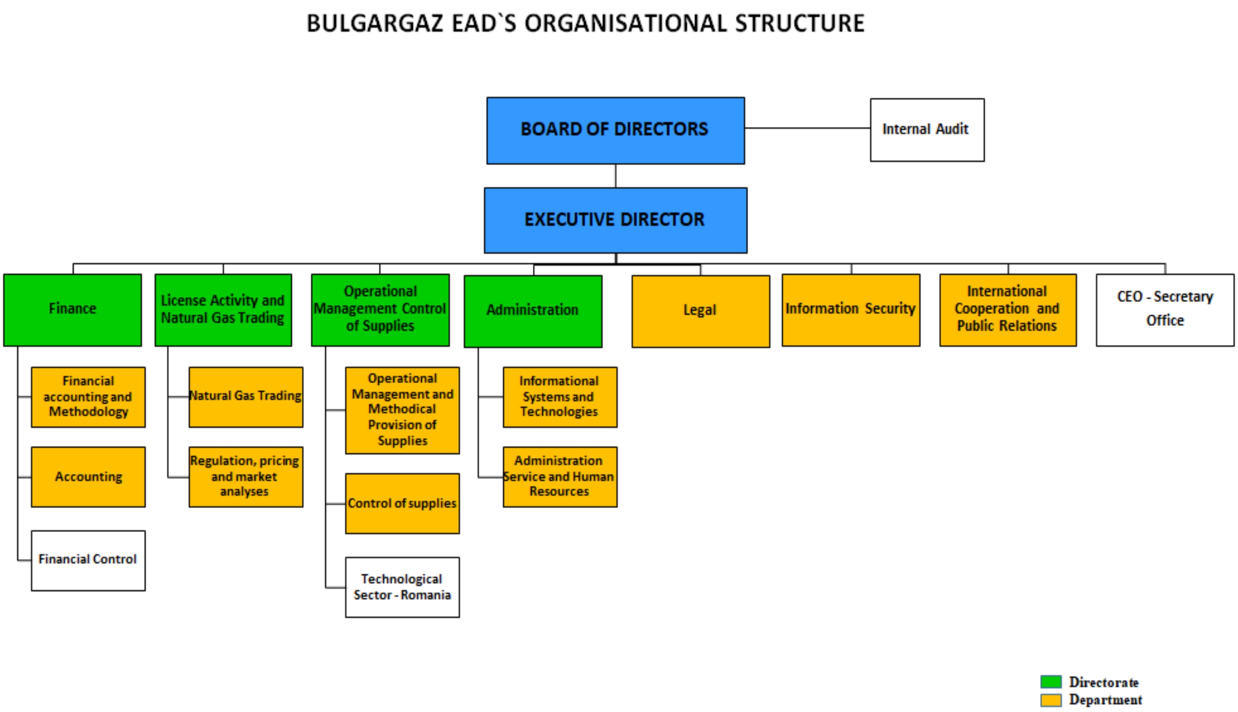
Board of Directors (BoD).

On 22 May 2017, in the Commercial Register a Decision of BEH EAD's BoD was registered, for appointing of a new CEO of Bulgargaz EAD. As at that date the composition of the Board of Directors is as follows:

Botyo Tomov Velinov	Chairman of the BoD
Iliyan Kirilov Dukov	Member of the BoD
Nikolay Angelov Pavlov	Member of the BoD and CEO

On 1 September 2018, in the Commercial Register a Decision of BEH EAD's BoD was registered, for the election of a new member of the Board of Directors. As at that date, and as at 31-12-2018, 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 CEO



COMPANY'S MANAGEMENT RESPONSIBILITY

The Management confirms that adequate accounting policy is applied during preparation of the financial statements for 2018, and that the latter are prepared based on a going concern principle.

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

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

In 2018 and 2017, the BoD members received remuneration, as follows:

In thousand BGN

	As at 31st December, 2018	As at 31st December, 2017
BoD remunerations	184	176
Social security expenses	18	19
Total:	**202**	**195**

2. INFORMATION ABOUT 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 100% of the shares.

Information about BoD members shares in trade companies, as unlimited liability partners; holding more than 25% of other companies' equity, as well as their participation in the management of other companies or co-operations as procurators, managers or Board members (pursuant to the requirements of Article 247, Paragraph 2, Item 4 of the Commercial Act).

Botyo Tomov Velinov – Member of the BoD from 03-10-2013; Chairman of BoD as of 12-12-2013 to 01-09-2018:

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

Petyo Angelov Ivanov – Chairman of the Board of Directors, member of the 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 Bulgarian Energy Holding EAD as a CEO and Member of the Board of Directors, of South Stream Bulgaria AD and of ContourGlobal Operations Bulgaria AD as a member of the Board of Directors.

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 19-02-2016 to 06-02-2017 and 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 2018, the Board of Directors or other persons related to them have not entered into any contracts pursuant to Article 240Б of the Commercial Act on behalf of the Company which go beyond its normal business or substantially deviate from the market conditions.

II. COMPANY ACTIVITY RESULTS FOR YEAR 2018

Just like in previous years, in 2018 Bulgargaz EAD carries out its activities in compliance with all regulatory provisions. The Company's result after taxation is a loss amounting to BGN 31 978 thousand (as at 31 December 2017: profit of BGN 9 466 thousand).

As at 31 December 2018, the registered share capital of Bulgargaz EAD amounted to 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.

For year 2018, the Company reported a net loss of BGN 31 978 thousand, which resulted from the accrued provision for a fine in Case COMP/B1/AT.39849 - BEH gas amounting to BGN 50 244 thousand, based on a Decision of the European Commission of 17 December 2018. The Company has recognized a expenses on provisions of 1/3 (one third) of the value of the fine imposed on BEH EAD, Bulgargaz EAD and Bulgartransgaz EAD, with total amount of EUR 77 068 thousand. The European Commission's Decision sets out alleged infringements by BEH EAD, Bulgargaz EAD and Bulgartransgaz EAD for past reporting periods from 2010 to 2014.

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 working with the users of

Bulgargaz EAD; 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.

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

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

Natural gas deliveries guaranteeing the needs of the Company's customers are provided through long-term contracts, mainly with OOO Gazprom Export.

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

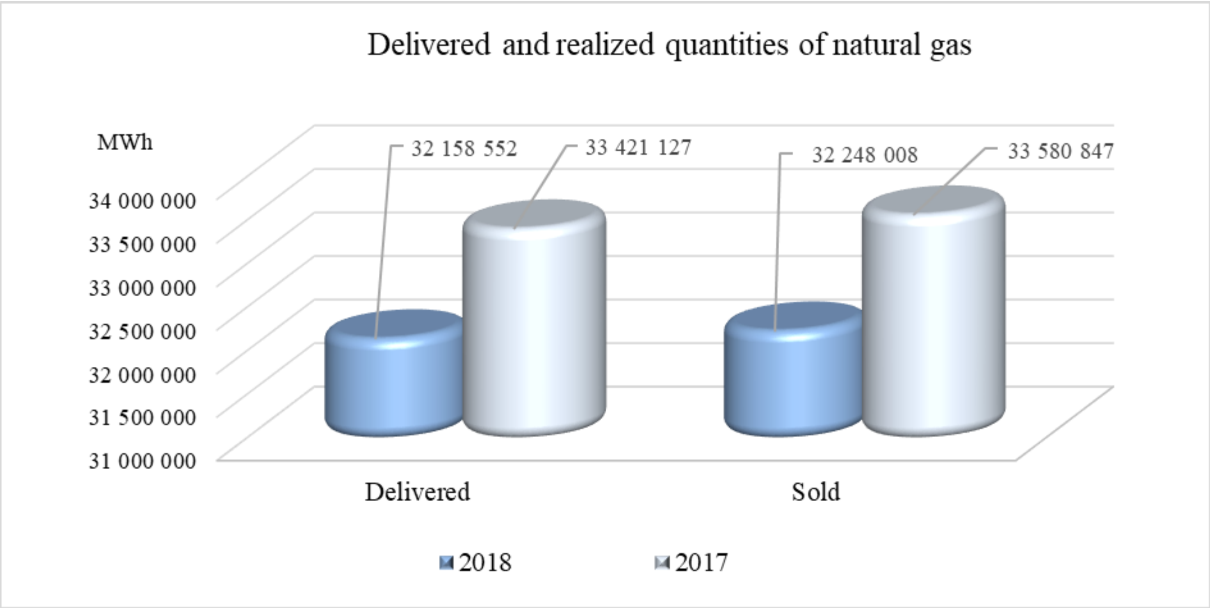
The transmission of natural gas through the territory of the Republic of Bulgaria is carried out by the combined operator Bulgartransgaz EAD.

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

The quantities of natural gas delivered and sold in 2018 compared to 2017 are presented in Table 1 below.

Table No. 1:

Type of delivery	Unit	2018	2017	Volume change	% Change
Delivered	MWh	32 158 552	33 421 127	(1 262 575)	(3.78%)
Sold	MWh	32 248 008	33 580 847	(1 332 839)	(3.97%)



During the reporting period, deliveries totalled 32 158 552 MWh natural gas (2017: 33 421 127 MWh), which is a decrease of 1 262 575 MWh, or 3.78%.

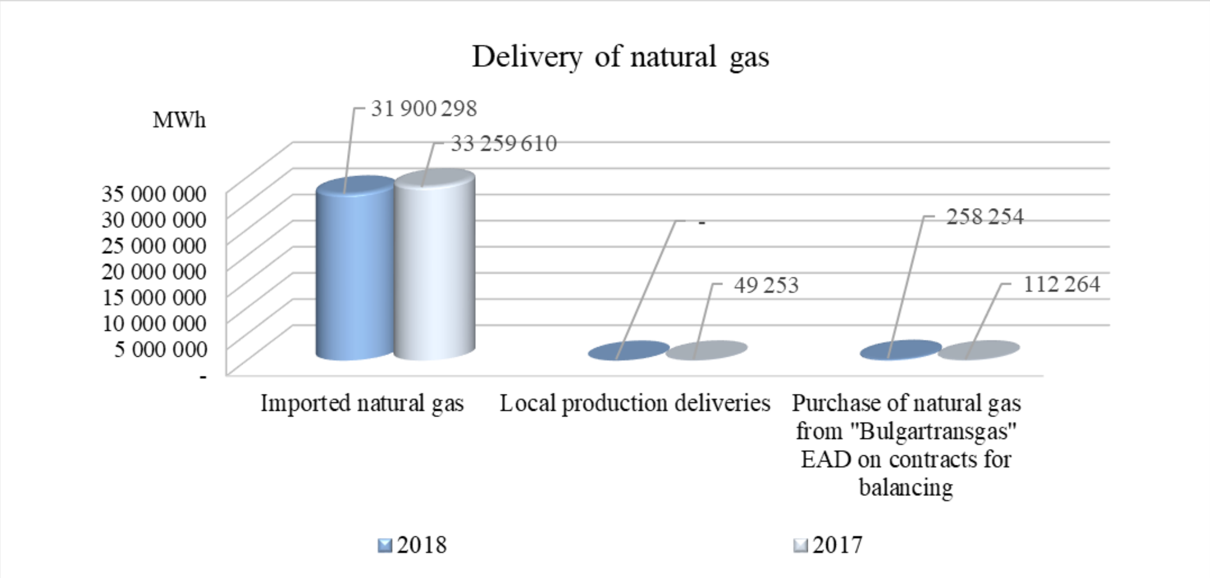
During the reporting period 32 248 008 MWh natural gas was sold, compared to 33 580 847 MWh in 2017, which is a decrease of 1 332 839 MWh, or 3.97%. The decrease is mainly due to the lower consumption of customers in the Energy and Chemistry sector.

1.1. DELIVERED NATURAL GAS VOLUMES

The delivered natural gas volumes in 2018 and 2017 are presented in Table 2.

Table No. 2: *MWh*

No	Type of delivery	2018	2017	Relative Share		% Change
				2018	2017	
1	Imported natural gas	31 900 298	33 259 610	99.20%	99.52%	(4.09%)
2	Local production deliveries	-	49 253	-	0.15%	(100%)
3	Purchase of natural gas from Bulgartransgaz EAD on contracts for balancing	258 254	112 264	0.80%	0.33%	130.04%
	Total:	**32 158 552**	**33 421 127**	**100%**	**100%**	**(3.78%)**



To ensure the needs of natural gas to its customers in 2018 Bulgargaz EAD delivered 31 900 298 MWh of natural gas from import, which is 99.20% of the total supply, which is 99.20% of the total supply, as well as the purchase of natural gas from Bulgartransgaz EAD under contracts for balancing the system of 258 254 MWh.

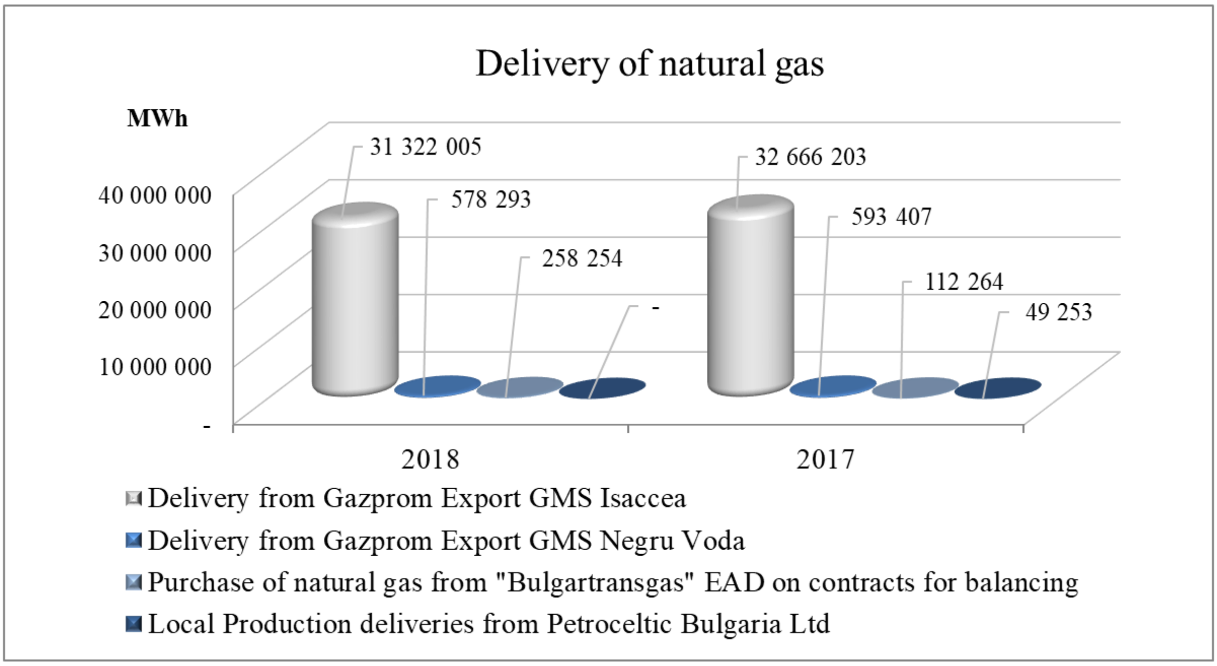
In March 2018, the quantity of natural gas subject to a repurchase contract with Commercial Bank D, concluded in the end of 2017, is repurchased.

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

Table No.3:

MWh

No	Type of delivery	2018	2017	Relative share 2018	Relative share 2017	Change (%)
1	**Imported natural gas**	**31 900 298**	**33 259 610**	**99.20%**	**99.52%**	**(4.09%)**
1.1.	Gazprom Export:	31 900 298	33 259 610	99.20%	99.52%	(4.09%)
1.1.1	GMS Isaccea	31 322 005	32 666 203	97.40%	97.74%	(4.11%)
1.1.2	GMS Negru Voda	578 293	593 407	1.80%	1.78%	(2.55%)
2	**Local production deliveries**	**-**	**49 253**	**-**	**0.15%**	**(100%)**
2.1.	Petroceltic Bulgaria EOOD	-	49 253	-	0.15%	(100%)
3	**Purchase of natural gas by Bulgartransgaz EAD on contracts for balancing**	**258 254**	**112 264**	**0.80%**	**0.33%**	**130.04%**
	Total	**32 158 552**	**33 421 127**	**100%**	**100%**	**(3.78%)**



In 2018, no quantities of natural gas have been purchased from Petroceltic Bulgaria EOOD (2017: 49 253 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 2018 and 2017 are presented in Table No. 4.

Table No. 4: *MWh*

Period	2018		2017			Change in production		Change in injection	
	Production	Injection	Production	Sale to Kostinbrod Gaz	Injection	MWh	%	MWh	%
January	955 710	-	949 050	-	-	6 660	0.70%	-	-
February	764 090	-	738 150	-	-	25 940	3.51%	-	-
March	510 190	-	527 250	-	-	(17 060)	(3.24%)	-	-
April	-	263 225	-	-	178 322	-	-	84 903	47.61%
May	-	547 508	-	-	542 268	-	-	5 240	0.97%
June	-	875 899	-	17 891	653 170	-	-	222 729	34.10%
July	-	574 344	-	-	912 202	-		(337 858)	(37.04%)
August	-	567 666	87 833	-	459 999	(87 833)	(100%)	107 667	23.41%
September	-	452 279	31 782	-	574 949	(31 782)	(100%)	(122 670)	(21.34%)
October	-	-	-	-	-	-	-	-	-
November	158 745	-	212 380	-	-	(53 635)	(25.25%)	-	-
December	838 047	-	743 330	-	-	94 717	12.74%	-	-
Total	**3 226 782**	**3 280 921**	**3 289 775**	**17 891**	**3 320 910**	**(62 993)**	**(1.91%)**	**(39 989)**	**(1.20%)**

The natural gas volumes produced in 2018 totalled 3 226 782 MWh or a decrease of 62 993 MWh (by 1.91%) compared to 2017: 3 289 775 MWh, due to Bulgartransgaz EAD's application of a different conversion factor from volume in energy of the produced quantities.

The natural gas injection in 2018 is 3 280 921 MWh (2017: 3 320 910 MWh), a reduction of 39 989 MWh (1.20%).

2. NATURAL GAS SALES

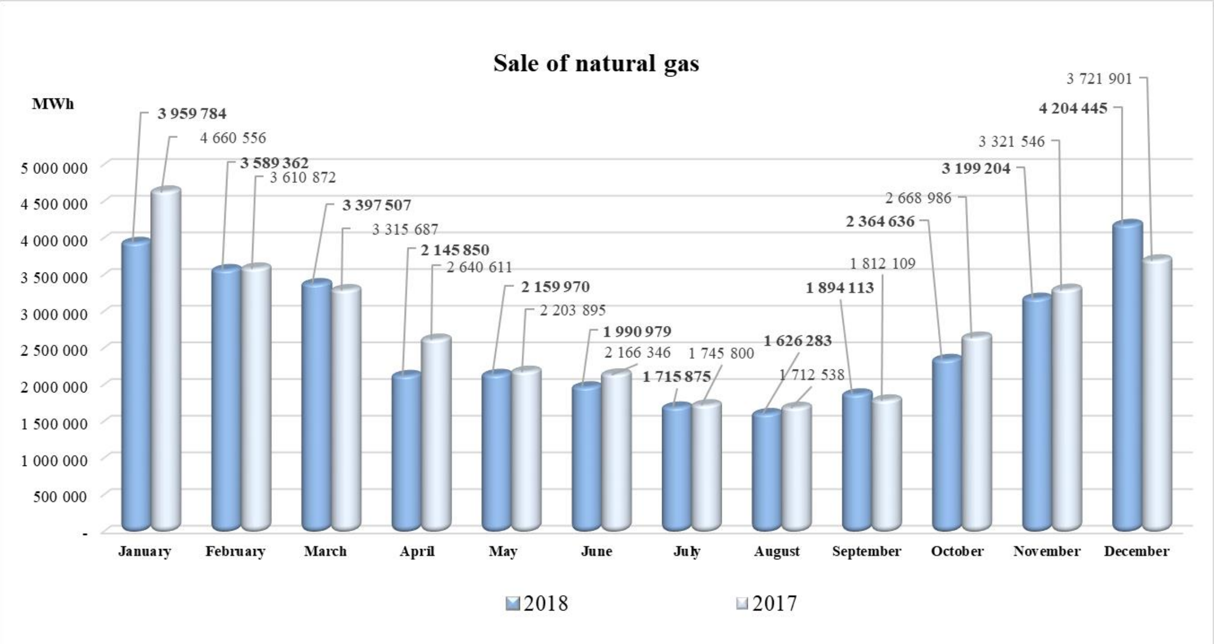
2.1. GENERAL CONSUMPTION

Bulgargaz EAD's ensures reliable supply of natural gas to its customers, in accordance with the quantity and quality contractual requirements. In 2018, the Company sold to its clients 32 248 008 MWh natural gas, which is a decrease of 1 332 839 MWh, or 3.97%% compared to the gas sold during the same period in the preceding year – 33 580 847 MWh. The decrease is due to the lower consumption of companies in the Energy and Construction sector.

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

Table No. 5:

Reporting period	2018		2017		Change	
	MWh	Share in %	MWh	Share in %	MWh	%
January	3 959 784	12.28%	4 660 556	13.88%	(700 772)	(15.04%)
February	3 589 362	11.13%	3 610 872	10.75%	(21 510)	(0.60%)
March	3 397 507	10.55%	3 315 687	9.88%	81 820	2.47%
April	2 145 850	6.65%	2 640 611	7.86%	(494 761)	(18.74%)
May	2 159 970	6.70%	2 203 895	6.56%	(43 925)	(1.99%)
June	1 990 979	6.17%	2 166 346	6.45%	(175 367)	(8.10%)
July	1 715 875	5.32%	1 745 800	5.20%	(29 925)	(1.71%)
August	1 626 283	5.04%	1 712 538	5.10%	(86 255)	(5.04%)
September	1 894 113	5.87%	1 812 109	5.40%	82 004	4.53%
October	2 364 636	7.33%	2 668 986	7.95%	(304 350)	(11.40%)
November	3 199 204	9.92%	3 321 546	9.89%	(122 342)	(3.68%)
December	4 204 445	13.04%	3 721 901	11.08%	482 544	12.96%
Total	**32 248 008**	**100%**	**33 580 847**	**100%**	**(1 332 839)**	**(3.97%)**



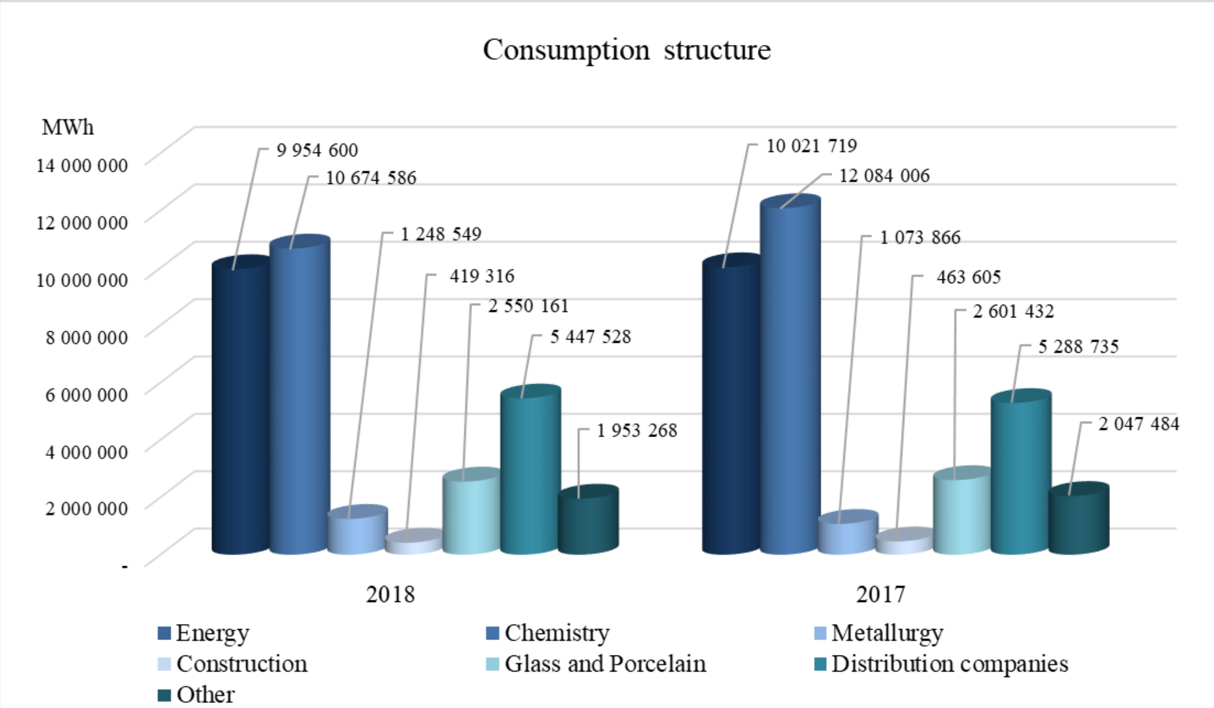
2.2. CONSUMPTION STRUCTURE

Table 6 presents the natural gas sales of Bulgargaz EAD in 2018 and 2017 allocated by main economic sectors.

Table No. 6:

Sector	2018		2017		Change	
	MWh	Share in %	MWh	Share in %	MWh	%
Energy	9 954 600	30.87%	10 021 719	29.84%	(67 119)	(0.67%)
Chemistry	10 674 586	33.10%	12 084 006	35.98%	(1 409 420)	(11.66%)
Metallurgy	1 248 549	3.87%	1 073 866	3.20%	174 683	16.27%
Construction	419 316	1.30%	463 605	1.38%	(44 289)	(9.55%)
Glass and Porcelain	2 550 161	7.91%	2 601 432	7.75%	(51 271)	(1.97%)
Distribution companies	5 447 528	16.89%	5 288 735	15.75%	158 793	3.00%
Other	1 953 268	6.06%	2 047 484	6.10%	(94 216)	(4.60%)
Total	**32 248 008**	**100%**	**33 580 847**	**100%**	**(1 332 839)**	**(3.97%)**

For 2018, compared to the same period in 2017, the sales decreased by 1 332 839 MWh (or 3.97%). This is a result of lower consumption of customers in the Chemistry and Construction sectors. The decreased consumption by the district heating companies in 2018 is due to the higher temperatures during the winter months of 2018 compared to the same period in 2017 as well as to failure events to large consumers in the chemical industry.



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

- ✓ the major consumers of natural gas remain the companies in the field of energy and chemical industries;

- ✓ there is an increase in natural gas consumption in the enterprises in the Metallurgy and Distribution companies industry.
- ✓ in all other sectors there is a decrease in consumption.

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

The comparison between the weighted average delivery and sales prices for 2018 per quarter, excluding the costs of access and transmission, is shown in Table 7. The negative difference between the weighted average delivery price and the weighted average selling price for the second, third and fourth quarters of 2018 is due to the fact that during this period the selling price established by the Energy and Water Regulatory Commission is lower than the cost of supplying natural gas. This is also the main reason for the negative difference for the year between the weighted average delivery and sales prices compared to the previous reporting period.

Table No. 7

Period	Weighted average delivery price up to the entry of gas transmission system (BGN/MWh)	Weighted average sale price excluding access and transmission fee (BGN/MWh)	Change	
			BGN	%
First quarter of 2018	31.80	33.40	1.60	5.03%
Second quarter of 2018	35.24	34.07	(1.17)	(3.32%)
6-month period of 2018	**33.45**	**33.64**	**0.19**	**0.57%**
Third quarter of 2018	39.97	37.79	(2.18)	(5.45%)
9-month period of 2018	**35.34**	**34.61**	**(0.73)**	**(2.07%)**
Fourth quarter of 2018	43.83	43.29	(0.54)	(1.23%)
Total for the year 2018	**37.64**	**37.24**	**(0.40)**	**(1.06%)**
Total for the year 2017	**31.08**	**31.16**	**0.08**	**0.26%**

The delivery price at the entry of the gas pipeline network (to the Bulgarian border) includes the cost of purchasing natural gas under the contract with OOO Gazprom Export and the cost of transmission through the territory of Romania.

The weighted average selling price refers to the sales of natural gas to customers in the country during the respective period under a price regulated by the Energy and Water Regulatory Commission, including sales under a contract for the purchase and sale of natural gas for balancing.

III. RISK FACTORS

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

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

1. REGULATORY/ PRICE RISK

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

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

2. CURRENCY RISK

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

The main risk for Bulgargaz EAD arises out from the necessity to purchase natural gas in USD and sell it in BGN. Thus, the Company is exposed at risk of exchange rate fluctuations. The approved by EWRC marginal price for each regulatory period is determined at a fixed USD-BGN exchange rate.

The Company is exposed at risk of loss of continuous increase of USD exchange rate within the period of prices' application, compared to the exchange rate, as applied at the time of their approval. The Company is also at risk of realizing a revaluation loss on its currency exposures due to the dynamic movement of the USD exchange rate.

3. CREDIT RISK

The credit risk for the Company represents a risk of financial loss, if a customer fails to meet its contractual obligations. That risk arises out of Company's receivables from customers. The Company's customers 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. At present, the supply of natural gas from import is still made from a single entry point, while the extraction of gas from local deposits in the country is extremely insufficient. The same can be extremely risky, given the conflict between Ukraine and the Russian Federation;
- Maintaining stable financial stability and increasing the economic efficiency of the Company's activity;
- Entering the gas market of 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 loan.

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 2018 compared to the same period in 2017, as well as a statement of the financial position of the Company as of 31-12-2018, compared with the previous period as of 31-12-2017.

MAIN FINANCIAL INDICATORS

The main financial-economic results of the company's activity for 2018 and 2017 are presented herein below as follows:

In thousand BGN

Indicators	31-12-2018	31-12-2017	Change	Change (%)
Total revenues	1 303 861	1 126 903	176 958	15.70%
Total expenses	(1 328 684)	(1 093 832)	(234 852)	**21.47%**
EBITDA	**(24 650)**	**33 226**	**(57 876)**	**(174.19%)**
EBIT	**(24 823)**	**33 071**	**(57 894)**	**(175.06%)**
EBT	**(29 948)**	**9 766**	**(39 714)**	**(406.66%)**
Non-current fixed assets	100	90	10	11.11%
Total assets	339 742	329 164	10 578	3.21%
Current assets	325 711	313 945	11 766	3.75%
Current liabilities	84 183	73 104	11 079	15.16%
Cash	**100**	**2 145**	**(2 045)**	**(95.34%)**
Working capital	**241 528**	**240 841**	**687**	**0.29%**
Equity	**205 243**	**247 640**	**(42 397)**	**(17.12%)**
Share capital	231 698	231 698	-	-
Reserves	7 412	6 474	938	14.49%
Retained profit /(accumulated loss)	(1 889)	2	(1 891)	-94550%
Profit/loss for the period	(31 978)	9 466	(41 444)	(437.82%)
Number of personnel	**54**	**54**	**-**	**-**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In thousands BGN

	2018		2017		Change	
	Amount	% of the total	Amount	% of the total	Amount	%
Revenues	**1 303 861**	**100%**	**1 126 903**	**100%**	**176 958**	**15.70%**
Revenues from sale of natural gas	**1 286 429**	**98.66%**	**1 112 151**	**98.69%**	**174 278**	**15.67%**
Other income	**17 432**	**1.34%**	**14 752**	**1.31%**	**2 680**	**18.17%**
- penalties under overdue receivables	12 700	0.98%	11 741	1.04%	959	8.17%
- sanctions for 105% volume	3 887	0.30%	2 332	0.21%	1 555	66.68%
- penalties for volumes not taken under Art.7.4 and 7.5	792	0.06%	560	0.05%	232	41.43%
- recovered legal expenses	51	-	113	0.01%	(62)	(54.87%)
- other income	2	-	6	-	(4)	(66.67%)
Expenses as per economic elements	**(1 328 684)**	**100%**	**(1 093 832)**	**100%**	**(234 852)**	**21.47%**
Cost of sold natural gas	**(1 272 999)**	**95.81%**	**(1 086 844)**	**99.36%**	**(186 155)**	**17.13%**
Recovered/ (accrued) impairment	**5 706**	**(0.43%)**	**2 717**	**(0.24%)**	**2 989**	110.01%
- recovered/ (accrued) impairment of receivables	5 702	(0.43%)	2 717	(0.24%)	2 985	109.86%
- recovered/ (accrued) impairment of cash in banks	4	-	-	-	4	-
Costs of materials	**(82)**	**0.01%**	**(85)**	**0.01%**	**3**	**(3.53%)**
- fuel gas	(27)	0.01%	(25)	0.01%	(2)	8%
- main materials	(6)	-	(11)	-	5	(45.45%)
- fuels and lubricants	(22)	-	(20)	-	(2)	10%
- stationary and consumables	(11)	-	(12)	-	1	(8.33%)

	2018		2017		Change	
	Amount	**% of the total**	**Amount**	**% of the total**	**Amount**	**%**
- sanitary materials	(5)	-	(5)	-	-	-
- advertising materials	(5)	-	(9)	-	4	(44.44%)
- other materials	(6)	-	(3)	-	(3)	100%
Costs of hired services	**(7 874)**	**0.59%**	**(6 473)**	**0.59%**	**(1 401)**	**21.64%**
- natural gas storage costs	(5 062)	0.38%	(4 810)	0.44%	(252)	5.24%
- expenses on management contracts	(98)	0.01%	(145)	0.01%	47	(32.41%)
- license fees	(584)	0.04%	(525)	0.05%	(59)	11.24%
- insurances	(105)	0.01%	(88)	0.01%	(17)	19.32%
- rents	(253)	0.02%	(251)	0.02%	(2)	0.80%
- court charges and expenditures	(1 366)	0.10%	(292)	0.03%	(1 074)	367.81%
- communications	(99)	0.01%	(97)	0.01%	(2)	2.06%
- audit committee remuneration	(75)	0.01%	(57)	0.01%	(18)	31.58%
- consulting and audit services	(55)	0.01%	(59)	0.01%	4	(6.78%)
- repair and technical maintenance	(17)	-	(8)	-	(9)	112.50%
- office maintenance	(4)	-	(2)	-	(2)	100%
- public utility	(24)	-	(23)	-	(1)	4.35%
- subscription service	(24)	-	(22)	-	(2)	9.09%
- parking expenses	(20)	-	(19)	-	(1)	5.26%
- translation services	(6)	-	(5)	-	(1)	20%
- security	(62)	-	(47)	-	(15)	31.91%
- labour medicine service	(3)	-	(4)	-	1	(25%)
- EWRC's fee - price approval	(4)	-	(4)	-	-	-
- other charges	(13)	-	(15)	-	2	(13.33%)
Depreciation/amortization expenses	**(173)**	**0.01%**	**(155)**	**0.01%**	**(18)**	**11.61%**
Employee benefit expenses	**(2 793)**	**0.21%**	**(2 530)**	**0.23%**	**(263)**	**10.40%**
- remuneration expenses	(2 365)	0.18%	(2 106)	0.19%	(259)	12.30%
- compensated leaves expenses	(81)	0.01%	(94)	0.01%	13	(13.83%)
- current service costs (retirement benefits)	(9)	-	(10)	-	1	(10%)
- social security expenses	(338)	0.02%	(320)	0.03%	(18)	5.63%
Expenses on provisions	**(50 244)**	**3.78%**	**-**	**-**	**(50 244)**	**-**
Other expenses	**(225)**	**0.02%**	**(462)**	**0.04%**	**237**	(51.30%)
- penalties for overdue payments	(135)	0.01%	(382)	0.04%	247	(64.66%)
- business trips and representation expenses	(52)	0.01%	(36)	-	(16)	44.44%
- training	(3)	-	(2)	-	(1)	50.00%
- one-off taxes	(14)	-	(14)	-	-	-
- donations	(7)	-	(4)	-	(3)	75%
- membership in organization	(5)	-	-	-	(5)	-
- others	(9)	-	(24)	-	15	(62.50%)
Profit/ (loss) from operating activity	**(24 823)**		**33 071**		**(57 894)**	**(175.06%)**
Net financial income / (costs)	**(5 125)**		**(23 305)**		**18 180**	**(78.01%)**
Financial income	**13**	**100%**	**1**	**100%**	**12**	**1200%**
- interest income on long-term receivables	13	100%	1	100%	12	1200%
Financial costs	**(5 138)**	**100%**	**(23 306)**	**100%**	**18 168**	**(77.95%)**
- interest expenses under trade payables to related parties	(621)	12.08%	(1 196)	5.13%	575	(48.08%)
- interest expense on loans to banks	(35)	0.68%	(2)	0.01%	(33)	1650%
- interest expenses under repurchase agreements	(61)	1.19%	(32)	0.14%	(29)	90.63%
- interest expenses under overdue tax liabilities	-	-	(78)	0.33%	78	(100%)
- interest expenses for payment of liabilities under plans with defined incomes	(2)	0.04%	(4)	0.02%	2	(50%)
- loss from foreign exchange rate differences	(4 339)	84.45%	(21 984)	94.33%	17 645	(80.26%)
- bank charges	(80)	1.56%	(10)	0.04%	(70)	700%
Profit/ (loss) before tax	**(29 948)**		**9 766**		**(39 714)**	**(406.66%)**
Income Tax (expense)/ revenue	(2 030)		(300)		**(1 730)**	**576.67%**
Net profit/ (loss) for the period	**(31 978)**		**9 466**		**(41 444)**	**(437.82%)**

Revenue

In 2018, the Company sold 32 248 008 MWh of natural gas, amounting to BGN 1 286 429 thousand (in 2017: 33 580 847 MWh, BGN 1 112 151 thousand). The 2018 net revenue from natural gas sales amounts to BGN 13 430 thousand (in 2017: BGN 25 307 thousand), which is a decrease amounting to BGN 11 877 thousand. In 2018, there was a negative difference between natural gas average weighted sale price and average weighted delivery price, amounting to BGN 0.40, compared to the same one in 2017 when it is positive at the amount of BGN 0.08 (see Table No. 7).

Expenses

Expenses as per economic types include: cost of natural gas sold, impairment expenses, material costs, hired services expenses, depreciation/amortization expenses, labour remunerations expenses, social security and allowances expenses, expenses on provisions, etc. In 2018 they amounted to BGN 1 328 684 thousand (in 2017: BGN 1 093 832 thousand), which is an increase of BGN 234 852 thousand, or 21.47%.

The largest relative share in the total expenses represents the cost of natural gas sold for year 2018 amounting to BGN 1 272 999 thousand (2017: BGN 1 086 844 thousand). In 2018 compared to 2017, the cost of natural gas as sold was 17.13 % higher.

In 2018 there is a reversed impairment of receivables amounting to BGN 5 702 thousand (2017: BGN 2 717 thousand). The Company has charged impairment of cash in banks at the amount of BGN 4 thousand in 2018.

Hired services costs in 2018 amounted to BGN 7 874 thousand (in 2017: BGN 6 473 thousand), which is an increase of BGN 1 401 thousand, or 21.64%. This is due to an increase in the costs of court fees and costs, as well as the cost for natural gas storage.

In 2018, the Company charged expenses on provisions for fine for 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"). 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 the BEH Group.

In 2018 the other expenses amounted to BGN 225 thousand (in 2017: BGN 462 thousand), which is a decrease of BGN 237 thousand, or 51.30% compared to the previous reporting period. Of those with the largest relative share are the penalties for delayed payments by dividend due from profit for 2016 to Bulgarian Energy Holding EAD.

The operating result is negative, amounting to BGN 24 823 thousand for the year 2018 (2017: positive of BGN 33 071 thousand).

The net result of financial income and expenses for 2018 is negative at the amount of BGN 5 125 thousand (2017: negative BGN 23 305 thousand), a decrease of BGN 18 180 thousand. For the reporting period an exchange rate loss of BGN 4 339 thousand (2017: BGN 21 984 thousand) was realized.

During the reporting period there was a decrease in interest expense on trade payables to related parties by BGN 575 thousand.

During the reporting period, expenses were charged amounting to BGN 61 thousand for interest under repurchase agreements to D Commercial Bank, under a contract for purchase and sale of natural gas.

After accounting for the financial income and expenses for 2018, the financial result before tax is a loss of BGN 29 948 thousand (2017: profit 9 766 thousand BGN), a decrease of BGN 39 714 thousand.

STATEMENT ON FINANCIAL POSITION

As at 31 December 2018, the Company's assets amounted to BGN 339 742 thousand (31 December 2017: BGN 329 164 thousand). Changes in the asset structure for both periods are shown in the following table.

In thousand BGN

	31-12-2018		31-12-2017		Change	
	Amount	%	Amount	%	Amount	%
Assets						
Non-current assets						
Plant and equipment	100	0.71%	90	0.59%	10	11.11%
Intangible assets	117	0.83%	189	1.24%	(72)	(38.10%)
Deferred tax assets	13 814	98.46%	14 940	98.17%	(1 126)	(7.54%)
Total non-current assets	**14 031**	**100%**	**15 219**	**100%**	**(1 188)**	**(7.81%)**
Current assets						
Inventories	**90 943**	**27.92%**	**75 994**	**24.21%**	**14 949**	**19.67%**
- natural gas	90 923	27.91%	75 974	24.20%	14 949	19.68%
- materials	20	0.01%	20	0.01%	-	-
Trade and other receivables	**234 668**	**72.05%**	**235 806**	**75.11%**	**(1 138)**	**(0.48%)**
-trade receivables from natural gas sales	143 292	43.99%	153 736	48.97%	(10 444)	(6.79%)
- court and awarded receivables	-	-	160	0.05%	(160)	(100%)
- prepaid advances for natural gas deliveries	75 030	23.04%	68 492	21.81%	6 538	9.55%
- court Corporate Commercial Bank AD (insolvent)	365	0.11%	561	0.18%	(196)	(34.94%)
- receivables from related parties (natural gas, deposits and guarantees)	11 865	3.64%	10 826	3.45%	1 039	9.60%
- other receivables	4 116	1.27%	2 031	0.65%	2 085	102.66%
Cash and cash equivalents	**100**	**0.03%**	**2 145**	**0.68%**	**(2 045)**	**(95.34%)**
Total current assets	**325 711**	**100%**	**313 945**	**100%**	**11 766**	**3.75%**
Total assets	**339 742**		**329 164**		**10 578**	**3.21%**

Non-current assets

Non-current assets as at 31 December 2018 amounted to BGN 14 031 thousand (31 December 2017: BGN 15 219 thousand), a decrease of BGN 1 188 thousand or 7.81%. Non-current assets as at 31 December 2018 are formed from non-current tangible and intangible assets at the amount of BGN 217 thousand and deferred tax assets of BGN 13 814 thousand.

Current assets

The current assets of the Company as at 31 December 2018 amounted to BGN 325 711 thousand (31 December 2017: BGN 313 945 thousand), an increase of BGN 11 766 thousand or 3.75% as a result of an increase of inventories.

Inventories as at 31 December 2018 amounted to BGN 90 943 thousand (31 December 2017: BGN 75 994 thousand), an increase of BGN 14 949 thousand or 19.67%.

Trade and other receivables at 31 December 2018 amounted to BGN 234 668 thousand (31 December 2017: BGN 235 806 thousand), a decrease of BGN 1 138 thousand or 0.48% compared to the end of 2017. As at 31 December 2018, accumulated impairment losses on trade receivables amounted to BGN 8 007 thousand.

In 2018, the following assignment agreements were concluded, with receivables sold at face value:

ASSIGNEE	Counterparty	Principal	Interest	Total
NEK EAD	Toplofikatsia Sofia EAD	75 955	5 631	81 586
NEK EAD	Toplofikatsia Pleven EAD	24 180	1 246	25 426
NEK EAD	Toplofikatsia Burgas EAD	11 495	286	11 781
NEK EAD	Toplofikatsia Petrich EAD	1 415	4	1 419
Total NEK EAD		**113 045**	**7 167**	**120 212**
BEH EAD	Toplofikatsia Sofia EAD	94 967	4 226	**99 193**
Total BEH EAD		**94 967**	**4 226**	**99 193**
Total		**208 012**	**11 393**	**219 405**

The prepaid advance for the supply of natural gas as of 31-12-2018 amounts to BGN 75 030 thousand (31 December 2017: BGN 68 492 thousand), an increase of BGN 6 538 thousand or 9.55%.

The most significant trade receivables for consumed but unpaid natural gas as of 31-12-2018 came from the following companies:

In thousand BGN

Counterparty	Total receivables	Of which overdue receivables
Toplofikatsia Sofia EAD	58 218	556
Toplofikatsia Pleven EAD	25 829	19 557
Lukoil Neftohim Burgas AD	18 748	-
Toplofikatsia Burgas EAD	8 181	6 070
TPP Varna EAD	6 715	549
Aresgas AD	5 057	-
Toplofikatsia Vratsa EAD	5 964	3 155
Citygas Bulgaria EAD	4 717	-
Others	17 870	929
Total	**151 299**	**30 816**

The Company's cash and cash equivalents as at 31 December 2018 amounted to BGN 100 thousand (31 December 2017: BGN 2 145 thousand), a decrease of BGN 2 045 thousand.

CHANGES IN THE EQUITY AND LIABILITIES STRUCTURE

In thousand BGN

	31-12-2018		31-12-2017		Change	
	Amount	%	Amount	%	Amount	%
Equity and liabilities						
Equity						
Share capital	231 698	112.89%	231 698	93.56%	-	-
Statutory reserves	7 367	3.59%	6 420	2.59%	947	14.75%
Other reserves	45	0.02%	54	0.02%	(9)	(16.67%)
Retained earnings /(accumulated loss)	(33 867)	(16.50%)	9 468	3.83%	(43 335)	(457.70%)
Total equity	**205 243**	**100%**	**247 640**	**100%**	**(42 397)**	**(17.12%)**
Liabilities						
Non-current liabilities						
Trade and other payables	-	-	8 368	99.38%	(8 368)	(100%)
- Liabilities to related parties	-	-	8 368	99.38%	(8 368)	(100%)
Liabilities for retirement employee benefits	72	0.14%	52	0.62%	20	38.46%
Provision for liabilities	**50 244**	99.86%	-	-	50 244	-

	31-12-2018		31-12-2017		Change	
	Amount	%	Amount	%	Amount	%
Total non-current liabilities	**50 316**	**100%**	**8 420**	**100%**	**41 896**	**497.58%**
Current liabilities						
Loans	**3 687**	**4.38%**	**9 956**	**13.62%**	**(6 269)**	**(62.97%)**
- Financing under repurchase contracts for natural gas	-	-	9 956	13.62%	(9 956)	(100%)
- Payables on received bank loans	3 687	4.38%	-	-	3 687	-
Trade and other payables	**80 197**	**95.27%**	**63 060**	**86.26%**	**17 137**	**27.18%**
- Trade payables	11 957	14.21%	567	0.78%	11 390	2008.82%
- Payables to related parties	13 469	16%	33 767	46.19%	(20 298)	(60.11%)
- Received advances from clients for sale of natural gas	15 113	17.95%	1 637	2.24%	13 476	823.21%
- VAT to be paid	37 599	44.66%	25 282	34.58%	12 317	48.72%
- Excise duty to be paid	1 762	2.09%	1 469	2.01%	293	19.95%
- Payables to personnel	131	0.16%	120	0.16%	11	9.17%
- Liabilities to insurance companies	74	0.09%	70	0.10%	4	5.71%
-Other liabilities	92	0.11%	148	0.20%	(56)	(37.84%)
Corporate tax	220	0.26%	-	-	220	-
Liabilities for retirement employee benefit	79	0.09%	88	0.12%	(9)	(10.23%)
Total current liabilities	**84 183**	**100%**	**73 104**	**100%**	**11 079**	**15.16%**
Total liabilities	**134 499**		**81 524**		**52 975**	**64.98%**
Total equity and liabilities	**339 742**		**329 164**		**10 578**	**3.21%**

SHARE CAPITAL STRUCTURE

The registered share capital as at 31-12-2018 amounts to BGN 231 698 thousand (31 December 2017: BGN 231 698 thousand) and is unchanged during the reporting period. In 2017, the share capital of the Company was increased by BGN 17 248 thousand from profit for 2016, by a decision of the Sole Shareholder (Minutes No. 41-2017/23-05-2017).

As at 31-12-2018, the cumulative loss amounted to BGN 33 867 thousand (31 December 2017: retained earnings 9 468 thousand). The change as at 31 December 2018 was BGN 43 335 thousand. The current loss for 2018 amounts to BGN 31 978 thousand.

Non-current liabilities

The Company's non-current liabilities as at 31-12-2018 amounted to BGN 50 316 thousand (31 December 2017: BGN 8 420 thousand), an increase of BGN 41 896 thousand, or 497.58%, consisting of paid deferred liabilities for the transmission and storage of natural gas to a related party, as well as a provision for a litigation liability related to Case COMP/B1/ AT.39849 - BEH gas.

Current Liabilities

The current liabilities have a greater relative share than the non-current liabilities. As at 31-12-2018, the current liabilities amounted to BGN 84 183 thousand (31-12-2017: BGN 73 104 thousand), which is an increase of BGN 11 079 thousand, or 15.16%.

As of 31-12-2018 the Company has paid current liabilities under a commercial loan – a transaction with "D Commerce Bank AD" for purchase and sale of natural gas with repurchase to the amount of BGN 9 956 thousand of principal and BGN 61 thousand contractual interest, maturing on 06-03-2018.

As of 31-12-2018, the Company has current borrowing liabilities – a loan (overdraft) of BGN 3 687 thousand from Societe Generale Expressbank AD.

As of December 31, 2018, the Company has undrawn loans (overdrafts) as follows: overdraft limit amounting to BGN 10 900 thousand from Citibank Europe AD – Bulgaria Branch, overdraft limit in the amount of BGN 12 000 thousand from CCB Plc, as well as an overdraft limit of BGN 6 313 thousand from Societe Generale Expressbank AD.

Trade and other payables increased by BGN 17 137 thousand or 27.18% compared to 2017. Payables to the NRA for VAT amounted to BGN 37 599 thousand (31-12-2017: BGN 25 282 thousand), which is due mainly to the higher selling price of natural gas for year 2018 compared to 2017.

In 2018, payable to related parties were reduced. An increase was marked in the trade payables for natural gas deliveries by BGN 11 390 thousand.

STATEMENT OF CASH FLOWS

The table below presents data on changes in cash flows as at 31-12-2018 compared to 31-12-2017.

In thousand BGN

	31-12-2018	31-12-2017	Change	
Net cash flows from operating activity	24 355	(71 410)	95 765	134.11%
Net cash flows from investing activity	(162)	(131)	(31)	(23.66%)
Net cash flows from financing activity	(29 925)	6 839	(36 764)	(537.56%)
Net change in cash and cash equivalents during the period	**(5 732)**	**(64 702)**	**58 970**	**91.14%**
Cash and cash equivalents at the beginning of the period	**2 145**	**66 847**	**(64 702)**	**(96.79%)**
Cash and cash equivalents at the end of the period	**(3 587)**	**2 145**	**(5 732)**	**(267.23%)**

The net cash flow from operating activities of the Company in 2018 amounts to BGN 24 355 thousand (2017: negative at the amount of BGN 71 410 thousand) – an increase of BGN 95 765 thousand or 134.11%. It is formed by the difference between the receipts from customers for natural gas sold and payments to suppliers of purchased natural gas.

In 2018 Bulgargaz EAD paid for VAT and excise duty tax amounting to BGN 237 568 thousand (2017: BGN 215 791 thousand).

At the end of the period due to a shortage of cash, the Company utilized BGN 3 687 thousand under an overdraft agreement with Societe Generale Expressbank AD.

POST-REPORTING DATE EVENTS

The events are described in Note 35 "Post-Reporting Date Events" of the financial statements s at 31-12-2018.

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 2018, 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	2018	2017
Current liquidity ratio	3.87	4.29
Quick liquidity ratio	2.79	3.25
Immediate liquidity ratio	0.00	0.03

The current liquidity ratio as of 31-12-2018 is 3.87, indicating that current assets can cover over 2 times the current liabilities of the Company (31-12-2017: 4.29).

The quick liquidity ratio is above 2, indicating that current assets decreased by the inventories can cover over 2.79 times the current liabilities of the Company.

The absolute (immediate) liquidity ratio reveals the monetary means that cover the short-term liabilities of the Company. As of 31-12-2018, the immediate liquidity ratio is 0.00 (31-12-2017: 0.03).

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	2018	2017
Financial autonomy ratio	1.53	3.04
Indebtedness ratio	0.66	0.33

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 31-12-2018 is 1.53 (31-12-2017: 3.04).

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 of the end of 2018 is 0.66 (31-12-2017: 0.33).

From the data presented and analyzed information in the Annual Management Report of Bulgargaz EAD for year 2018 it is evident 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.

29-03-2019

Nikolay Pavlov
Executive Director

ЕДНОЛИЧНО АКЦИОНЕРНО ДРУЖЕСТВО
БУЛГАРГАЗ
СОФИЯ
1

Stanimir Kostov
Head of Financial Reporting and Methodology Department

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 reported period the Company realized revenue from sale of natural gas amounting to BGN 1 286 429 thousand. Revenue from sales of natural gas represents 98.66% of Company's sales for 2018.

Company's income structure for 2018 and 2017 and their change are represented in **Section V "Financial and Economic Status"**, 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;

Company's income structure for 2018 and comparison period, and their relative share of the total amount of income are represented in Section V "Financial and Economic Status", Table "Statement of profit or loss and other comprehensive income" herein above herein above.

As regards revenue from sales of natural gas, which represent 98.66% of the total income amount for 2018, the sales on the territory of the Republic of Bulgaria amount to BGN 1 280 113 thousand (32 078 243 MWh of natural gas), 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:

	Natural gas sales		
Customer	**Quantity** *MWh*	**Thousand BGN**	**% of the total sold quantity**
Toplofikatsia Sofia EAD	6 854 070	254 578	21.25%
Lukoil Neftohim Burgas AD	3 832 291	144 939	11.88%
Neochim AD	3 560 889	133 257	11.04%
Overgas Mrezhi AD	3 078 027	114 518	9.54%

Bulgargaz EAD's main supplier of natural gas is OOO Gazprom Export. For 2018 its share of the total volumes of gas delivery amounted to 99.20%. Apart from it, in 2018 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 2018, 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 2018 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. 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.

6. 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 Status"**, Table "Statement of Financial Position" herein above.

7. 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 credit/overdraft agreements with the following financial institutions:

(1) Contract for purchase and sale of natural gas with repurchase from D Commerce Bank AD to a contracted amount of BGN 10 017 thousand. The repurchase term is 06-03-2018. The due interest is in the amount of BGN 93 thousand. The quantities of natural gas are stored in the gas storage facility in the village of Chiren and are provided under the conditions of consignment storage to the Company. As of 31-12-2018, the contract is terminated.

(2) Loan Agreement (overdraft) from CCB Plc to a contracted amount of BGN 12 000 thousand without collateral. The loan is maturing on 30-09-2019 and is repaid in one instalment on that date.

(3) Loan Agreement (overdraft) from Citibank Europe PLC - Bulgaria Branch to a contracted amount of BGN 10 900 thousand without collateral. The loan is maturing on 30-09-2019 and is repaid in one instalment on that date.

(4) Credit agreement (overdraft) from Societe Generale Expressbank AD with an agreed amount of BGN 10 000 thousand without collateral. The loan is maturing on 23-07-2019 and is repaid in one instalment on that date.

Undrawn loans

As of 31-12-2018, the Company has undrawn loans (overdrafts) as follows: overdraft limit amounting to BGN 10 900 thousand from Citibank Europe AD - Bulgaria Branch; an overdraft limit of BGN 12 000 thousand from Central Cooperative Bank AD; an overdraft limit of BGN 6 313 thousand from Societe Generale Expressbank AD.

8. 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 2018.

9. 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.

Major factors that bring risk to the Company's activity have been EWRC's decisions in approving the limit prices of natural gas for the domestic market, trade and other receivables and liabilities, as well as foreign exchange risk related to foreign currencies rate changes.

10. 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 2018 there were no changes in the Company's management major principles.

11. 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.

12. 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 2018 the Company paid the follows remunerations to the BoD members:

In thousand BGN

	For year 2018	For year 2017
BoD remuneration	184	176
Social security payments	18	19
Total	**202**	**195**

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

On 24 November 2017, a decision was taken by the 44th National Assembly of the Republic of Bulgaria to take the necessary action for the closing of Case COMP/B1/AT.39849 – BEH Gas, by which the National Assembly supports the closing of the case under Article 7 of Regulation (EC) No 1/2003 without admitting the alleged infringements and without assuming liability for them, by fulfilling the obligations arising from a possible prohibitive decision, including a possible financial 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 Gazprom, in which, on 24 May 2018, the Commission announced that an agreement had been reached and the same was closed under Article 9 of Regulation (EC) No 1/2003 without a financial penalty.

On 17 December 2018, the European Commission notified Decision C (2018) 8806 in case AT.39849 BEH-Gas, by which the European Commission imposed a fine on Bulgarian Energy Holding EAD (BEH), its subsidiary for gas supply Bulgargaz EAD and its subsidiary for gas infrastructure Bulgartransgaz EAD (the BEH group) amounting to EUR 77 068 000 for allegedly blocking competitors' access to key gas infrastructure in Bulgaria in violation of EU antitrust rules. The decision was received in the 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 March 18, 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.

As of December 31, 2018, the Company has charged 1/3 of the amount of the fine at the amount of BGN 50 244 thousand.

14. OTHER INFORMATION AT COMPANY'S DISCRETION

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

29-03-2019

ЕДНОЛИЧНО АКЦИОНЕРНО ДРУЖЕСТВО 1 БУЛГАРГАЗ СОФИЯ

Nikolay Pavlov
Executive Director

Stanimir Kostov
Head of Financial Reporting and Methodology Department

BULGARGAZ EAD
STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2018

(All amounts are in thousands BGN)

	Note	AS AT 31 DECEMBER 2018	2017*
ASSETS			
Non-current assets			
Plant and equipment	7	100	90
Intangible assets	8	117	189
Deferred tax assets	10	13 814	14 940
		14 031	**15 219**
Current assets			
Inventories	12	90 943	75 994
Trade and other receivables	11	234 668	235 806
Cash and cash equivalents	13	100	2 145
		325 711	**313 945**
TOTAL ASSETS		**339 742**	**329 164**
EQUITY AND LIABILITIES			
Equity			
Share capital	15	231 698	231 698
Reserves	16	7 412	6 474
Retained earnings /(accumulated) loss		(33 867)	9 468
		205 243	**247 640**
Non-current liabilities			
Trade and other payables	18	-	8 368
Provisions	32	50 244	-
Liabilities for retirement employee benefits	19	72	52
		50 316	**8 420**
Current liabilities			
Borrowings	17	3 687	9 956
Trade and other payables	18	80 197	63 060
Income tax payables		220	-
Liabilities for retirement employee benefits	19	79	88
		84 183	**73 104**
TOTAL LIABILITIES		**134 499**	**81 524**
TOTAL EQUITY AND LIABILITIES		**339 742**	**329 164**

* The Company has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition method chosen, comparative information is not restated.

The annual financial statements were authorized for issue by the Board of Directors on 9 April 2019.

Liliya Ivanova
Head of Accounting Department

Nikolay Pavlov
Executive Director

Еднолично акционерно дружество
Булгаргаз
София

Audit Firm
HLB Bulgaria OOD

Compiled on: 29 March 2019

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

Финансов отчет,
върху който сме издали одиторски
доклад с дата:
09. 04. 2019
„Ейч Ел Би България" ООД
HLB Bulgaria Ltd.
Управител:........ Регистриран одитор:..........

The accompanying notes on pages 5-59 are an integral part of the financial statements.

BULGARGAZ EAD

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME 31 DECEMBER 2018

(All amounts are in thousands BGN)	Note	**YEAR ENDED 31 DECEMBER** **2018**	**2017***
Revenues from sale of natural gas	27	1 286 429	1 112 151
Other revenue and income	26	17 432	14 752
Cost of natural gas as sold		(1 272 999)	(1 086 844)
Recovered/(accrued) impairment losses on financial assets - net	20	5 706	2 717
Cost of hired services	21	(7 874)	(6 473)
Employee benefits and social security expenses	22	(2 793)	(2 530)
Cost of materials	23	(82)	(85)
Non-financial assets depreciation/amortization expenses	7,8	(173)	(155)
Expenses on provisions	24	(50 244)	-
Other expenses	25	(225)	(462)
Operating activity (loss) / profit		**(24 823)**	**33 071**
Financial income	28	13	1
Financial costs	28	(5 138)	(23 306)
Financial income/(costs) – net		**(5 125)**	**(23 305)**
(Loss) / Profit before tax		**(29 948)**	**9 766**
Income tax expense	29	(2 030)	(300)
Net (loss) / profit for the year		**(31 978)**	**9 466**
Other items of the comprehensive income:			
Items that will not be reclassified in profit or loss:			
Remeasurement of retirement defined benefit plans	19	(10)	-
Income tax related to items that will not be reclassified in profit or loss	10	1	-
Other comprehensive income for the year, net of tax		**(9)**	**-**
Total comprehensive income for the year		**(31 987)**	**9 466**

* The Company has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition method chosen, comparative information is not restated.

The annual financial statements were authorized for issue by the Board of Directors on 9 April 2019.

Liliya Ivanova
Head of Accounting Department

Nikolay Pavlov
Executive Director

ЕДНОЛИЧНО АКЦИОНЕРНО ДРУЖЕСТВО БУЛГАРГАЗ СОФИЯ

Audit Firm
HLB Bulgaria OOD

Compiled on: 29 March 2019

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

Финансов отчет, върху който сме издали одиторски доклад с дата: 09. 04. 2019
„Ейч Ел Би България" ООД HLB Bulgaria Ltd.
Управител: Регистриран одитор:

The accompanying notes on pages 5-59 are an integral part of the financial statements.

BULGARGAZ EAD

STATEMENT OF CHANGES IN EQUITY

31 DECEMBER 2018

	Note	Share capital	Reserves	Retained earnings / accumulated loss	Total
AS AT 31 DECEMBER 2017 *		**231 698**	**6 474**	**9 468**	**247 640**
Adjustments on application of IFRS 9, net of tax	3.1.2	-	-	(6 150)	(6 150)
AS AT 1 JANUARY 2018 (restated)		**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**
AS AT 1 JANUARY 2017		**214 450**	**2 807**	**37 424**	**254 681**
Total comprehensive income for the year, of which:					
* net profit for the year		-	-	9 466	9 466
Total comprehensive income		**-**	**-**	**9 466**	**9 466**
Transactions with the Sole Shareholder					
Transfer to reserve fund	16	-	3 668	(3 668)	-
Dividend distribution	31	-	-	(16 507)	(16 507)
Increase by new issue of shares – Art. 197 (1) Commercial Act	15	17 248	-	(17 248)	-
Total transactions with the Sole Shareholder		**17 248**	**3 668**	**(37 423)**	**(16 507)**
Transfer of revaluation into retained profit			(1)	1	-
AS AT 31 DECEMBER 2017		**231 698**	**6 474**	**9 468**	**247 640**

* The Company has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition method chosen, comparative information is not restated.

The annual financial statements were authorized for issue by the Board of Directors on 9 April 2019.

Liliya Ivanova
Head of Accounting Department

Nikolay Pavlov
Executive Director

Audit Firm
HLB Bulgaria OOD

Compiled on: 29 March 2019

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

Финансов отчет, върху който сме издали одиторски доклад с дата: 09. 04. 2019
"Ейч Ел Би България" ООД
HLB Bulgaria Ltd.
Управител
Регистриран одитор

The accompanying notes on pages 5-59 are an integral part of the financial statements.

BULGARGAZ EAD
STATEMENT OF CASH FLOWS
31 DECEMBER 2018

(All amounts are in thousands BGN)

	Note	YEAR ENDED 31 DECEMBER 2018	2017
CASH FLOWS FROM OPERATING ACTIVITY			
Proceeds from clients from sales of natural gas		1 361 408	1 174 707
Proceeds from transactions with related parties		238 891	177 958
Payments to suppliers, including:		(1 330 670)	(1 191 207)
Purchase of natural gas		*(1 196 235)*	*(1 078 220)*
Transactions with related parties		*(131 579)*	*(111 979)*
Payments to other counterparties		*(2 856)*	*(1 008)*
Taxes paid, different from corporate income tax		(237 568)	(215 791)
Payments to personnel and social security institutions		(2 846)	(2 553)
Profit/(loss) of exchange rate revaluation of cash and cash equivalents, net		(4 112)	(11 813)
Other proceeds/ (payments) from operating activity		(748)	(2 711)
Net cash flow from operating activity		**24 355**	**(71 410)**
CASH FLOWS FROM INVESTING ACTIVITY			
Payments for intangible assets		(74)	(111)
Payments for plant and equipment		(31)	(20)
Payments for vehicles and non-current tangible assets from related parties		(57)	-
Net cash flow from investing activity		**(162)**	**(131)**
CASH FLOWS FROM FINANCING ACTIVITY			
Dividends paid		(19 252)	(2 000)
Proceeds and payments and under financing agreements		(9 924)	9 924
Interest payments on borrowings and deferred trade payables		(749)	(1 085)
Net cash flow from financing activity		**(29 925)**	**6 839**
Net decrease of cash and cash equivalents during the year		**(5 732)**	**(64 702)**
Cash and cash equivalents at the beginning of the year, net of overdrafts		2 145	66 847
Cash and cash equivalents at the end of the year, net of overdrafts	**13**	**(3 587)**	**2 145**

The annual financial statements were authorized for issue by the Board of Directors on 9 April 2019.

Liliya Ivanova
Head of Accounting Department

Nikolay Pavlov
Executive Director

ЕДНОЛИЧНО АКЦИОНЕРНО ДРУЖЕСТВО БУЛГАРГАЗ СОФИЯ

Audit Firm
HLB Bulgaria OOD

Compiled on: 29 March 2019

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

Финансов отчет,
върху който сме издали одиторски
доклад с дата:
09. 04. 2019
„Ейч Ел Би България" ООД
HLB Bulgaria Ltd.
Управител:...... Регистриран одитор:......

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 OOO Gazprom Export. The Company is considering and assessing the opportunities for providing alternative sources and routes for natural gas.

The Company operates under an individual licence for public supply of natural gas on the territory of Republic of Bulgaria – licence No 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 2017.

As of 31 December 2018, 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 26,455 thousand, which is in the hypothesis of Article 252, paragraph 1, item 5 of the Commercial Act.

For the year 2018, the Company reported a net loss of BGN 31,978 thousand as a result of the accrued provision for a fine in Case COMP/B1/AT.39849 - BEH gas amounting to BGN 50,244 thousand, based on the European Commission's Decision dated 17-12-2018. The Company recognized expenses on provisions of 1/3 (one third) of the amount of the fine imposed on BEH EAD, Bulgargaz EAD and Bulgartransgaz EAD with a total amount to EUR 77,068 thousand. The European Commission's Decision sets out **alleged infringements by BEH EAD, Bulgargaz EAD and Bulgartransgaz EAD for reporting periods in the past – from year 2010 to 2014**.

For detailed information on the case, see Note 32 "Provisions, Contingent Assets and Contingent Liabilities".

In the case of a decision of the General Court of the European Union for the annulment of the imposed fine or should the amount thereof be reduced, according to the accounting policy of the Company, Bulgargaz EAD will generate income from the reversal of the provision.

In addition, the annual financial statement shows that the financial result of Bulgargaz EAD for 2018, before the recognized expense on provisions under Case COMP/B1/AT.39849 - BEH gas, is an operating profit of BGN 25,421 thousand. This is indicative of the sustainable and stable development of the Company, which has made a profit for the fourth consecutive year of its operating activities.

Since the beginning of 2019, the management of Bulgargaz EAD has taken action to bring the Company's activity in conformity with Article 252 of the Commercial Act. As of February 28, 2019 the net profit amounted to BGN 13,906 thousand (unaudited data), which covered a substantial portion of the difference of BGN 26,455 thousand, formed as at 31 December 2018, between the value of the registered shareholder capital and net assets of the Company. Pursuant to the planned measures, in early 2019 Bulgargaz EAD has signed agreements for the rescheduling of overdue receivables with three of its main clients against a financial collateral. the expected interest revenue for year 2019 under these Agreements amounts to BGN 2 232 thousand.

In view of the above and in view of the undertaken actions, the management of Bulgargaz EAD expects that the Company's capital will be in compliance with the requirements of Article 252 of the Commerce Act as of the end of the next reporting period.

As at 31 December 2018, 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 POLICIES AND CHANGES DURING THE PERIOD

3.1.1. GENERAL

For the current financial year, the Company has adopted all new and/or revised standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU and the IFRS International Financial Reporting Interpretations Committee (IFRIC) respectively.

The adoption of these standards and/or interpretations that are effective for annual periods beginning on or after January 1, 2018 has resulted in changes in the Company's accounting policy regarding the principles, rules and criteria for accounting for the following reportable items, and the reporting and disclosure of financial information about them: trade receivables, related party receivables, loans granted, cash and cash equivalents, court and other receivables, income from contracts with customers.

The Company applied for the first time IFRS 15 "Revenue from contracts with customers" and IFRS 9 "Financial instruments".

The Company has chosen to apply IFRS 15 using the cumulative effect method in which comparative information is not restated. The Company also benefits from the exemption in paragraph 7.2.15 of IFRS 9 for the restatement of comparative information in respect of the classification of financial assets and liabilities and depreciation under IFRS 9.

The cumulative effect of the original application is recognized as an adjustment to retained earnings/(uncovered loss) at the date of initial application (1 January 2018). The comparative information in the statement of profit or loss and other comprehensive income and in the statement of financial position is not restated and is presented under the repealed IAS 18 "Revenue ", IAS 11 "Construction Contracts", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures".

Significant changes in accounting policies and effects from initial application are described in Appendix 3.1.2 and account for the effects of changes in accounting policies in relation to amendments to IFRSs adopted by the EU and effective for annual periods beginning on or after 1 January 2018. The effect of initial application of these standards is mainly related to an increase in the recognized impairment loss for expected credit losses of financial assets (Appendix 3.1.2).

For the first time in 2018 some other amendments and interpretations apply, which, with the exception of IFRIC Interpretation 22 "Transactions in Foreign Currency and Advance Payments", have no effect on the financial statements of the Company. The Company has not adopted standards, interpretations or amendments that have been published but have not yet entered into force.

3.1.2. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS EFFECTIVE FROM 1 JANUARY 2018

The Company applies the following new standards, amendments and interpretations to IFRSs developed and published by the International Accounting Standards Board, which are mandatory for the period beginning on 1 January 2018:

IFRS 15 "Revenue from contracts with customers"

IFRS 15 Revenue from Contracts with Customers and Related Interpretations to IFRS 15 Revenue from Contracts with Customers (hereafter referred to as IFRS 15) replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and several clarifications related to revenue. The new standard amends revenue recognition requirements and establishes principles for reporting information on the nature, amount, timing and uncertainty of income and cash flows arising from contracts with clients, IFRS 15 introduces a new five-step model for the reporting of revenue, and requires that revenue be recognized at an amount that reflects the consideration the entity expects to have in return for the goods or services passed to the customer. IFRS 15 requires entities to exercise judgment by taking into account all relevant facts and circumstances when applying each step of the model to the contracts with their customers.

The new standard is based on the principle that revenue is recognized when the control of the good or service is passed to the client.

Revenues that have a material effect on the Company are mainly related to contracts for the sale of natural gas. Sales are made under contracts with customers. Sales contracts with customers meet the criteria for reporting a contract with a customer.

Typically, under these contracts, the sale of natural gas is the only obligation to perform.

The application of IFRS 15 for the first time in the Company mainly concerns the following areas:

- inclusion of additional disclosures in the financial statements;
- identifying performance obligations.

(a) Transition

The Company has chosen to apply IFRS 15 using the cumulative effect method, and the effect of initial application of this Standard will be recognized as an adjustment to the opening balance of retained earnings/ (uncovered loss) at the date of initial application, 1 January 2018. Accordingly, the information submitted for 2017 has not been recalculated, that is presented in accordance with the applicable IAS 18, IAS 11, and Related Interpretations. In addition, the disclosure requirements of IFRS 15 are not fully applied to comparative information. Information on comparative information was provided on the basis of the requirements for disclosure of repealed standards (IAS 18) and reclassifications in relation to the new disclosure requirements under IFRS 15.

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

In accordance with the transitional provisions of the Standard, IFRS 15 is only applied to contracts that were not finalized on 1 January 2018.

(b) Assessment and recognition

Revenues that have a material effect on the Company are revenues from the sale of natural gas. Recognition and measurement of revenue under these contracts does not differ from their recognition with current practice.

The Company has assessed the effects of the application of the new IFRS 15 on its financial statements and has not identified areas to be affected that affect its earnings and/or receivables as long as no material change in business model is expected, nor a change in the time horizon of passing the control to customers from the services provided by the Company or the reporting of sales of natural gas and other current assets. Additional information about the Company's accounting policies related to the recognition of revenue under contracts with customers is presented in Note 3.4 and Note 27.

IFRS 9 "Financial Instruments"

IFRS 9 establishes new principles, rules and criteria for the classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting, and replaces IAS 39 "Financial Instruments: Recognition and Measurement". New classification criteria and groups of financial assets, new rules for their subsequent valuation and the recognition of interest income are introduced. Also, IFRS 9 establishes a new approach to measuring impairment - based on expected credit losses.

Detailed information on the new accounting policy and the effect of the change on previously applied accounting policies are presented below.

(a) Transition

The Company has adopted IFRS 9 at the effective date of its entry into force (1 January 2018) and does not restate the comparative information.

The Company benefits from the exemption in paragraph 7.2.15 of IFRS 9 from a restatement of prior periods in respect of the classification and impairment of financial instruments. The cumulative effect of the original application is recognized as an adjustment to retained earnings/ (uncovered loss) at the date of initial application (1 January 2018).

The following table summarizes the effect of the transition to IFRS 9, net of taxes on the opening balance of retained earnings/ (uncovered loss):

	Effect on opening balances
	TBGN
Retained earnings as of 31 December 2017	**9 468**
Increase in impairment losses on trade receivables	(6 510)
Increase in impairment losses on court and awarded receivables	(160)
Increase in impairment losses on other receivables	(159)
Increase in the impairment loss of cash with banks	(4)
Deferred taxes	683
Retained earnings as of 1 January 2018	**3 318**

In addition, the Company has adopted the related amendments to IFRS 7 "Financial Instruments: Disclosures" that are applicable to the disclosures for the year 2018 but are not fully applied to comparative information *(b) Classification and evaluation*

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

IFRS 9 introduces a new approach to the classification of financial assets that is based on the characteristics of the contractual cash flows of the financial assets and the business model in which they are managed. The impact of IFRS 9 on the classification and measurement of financial assets is presented below.

A significant part of the financial assets held are held by the Company for the purpose of collecting the related contractual cash flows. The management of the Company has determined that financial assets representing cash in bank, trade receivables, other receivables, court and awarded receivables and receivables from related parties that were classified as "loans and receivables" under IAS 39 and subsequently measured at amortized cost as at 31 December 2017, will be held by the Company in order to receive the agreed cash flows and are expected to result in cash flows representing only principal and interest payments (business model applied). These financial assets are classified and subsequently measured at amortized cost under IFRS 9.

The following table presents the classification of each type of financial assets of the Company under IAS 39 and its subsequent classification and measurement under IFRS 9 on 1 January 2018.

	Type of financial asset	**Category under IAS 39**	**Category under IFRS 9**
1	Short-term trade receivables	Loans and receivables	Debt instruments measured at amortized cost
2	Trade receivables with a financing component	Loans and receivables	Debt instruments measured at amortized cost
3	Short-term receivables from related parties	Loans and receivables	Debt instruments measured at amortized cost
4	Receivables from related parties with a financing component	Loans and receivables	Debt instruments measured at amortized cost
5	Cash and cash equivalents	Loans and receivables	Debt instruments measured at amortized cost
6	Court and awarded receivables	Loans and receivables	Debt instruments measured at amortized cost

The table below presents the initial carrying amount of each type of financial assets of the Company under IAS 39 and their carrying amount under IFRS 9 on January 1, 2018.

Type of financial asset	**Category under IAS 39**	**Category under IFRS 9**	**Carrying amount under IAS 39**	**Carrying amount under IFRS 9**
			TBNG	**TBGN**
Current trade receivables	Loans and receivables	At amortized cost	153 736	147 226
Court and awarded receivables	Loans and receivables	At amortized cost	160	-
Other receivables	Loans and receivables	At amortized cost	561	402
Receivables from related parties	Loans and receivables	At amortized cost	10 826	10 826
Cash in bank accounts	Loans and receivables	At amortized cost	2 145	2 141
Total financial assets			**167 428**	**160 595**

The effect of the adoption of IFRS 9 on the carrying amounts of financial assets on 1 January 2018 is mainly related to the new impairment requirements for financial assets.

(c) Impairment of financial assets

IFRS 9 replaces the "losses incurred" model in IAS 39 with the "Expected Credit Loss" model. In accordance with IFRS 9, impairment losses should be recognized earlier than IAS 39.

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

The Company has adopted an accounting policy and methodology for assessing credit risk and determining the expected credit losses for each type of financial asset. Accounting policy includes:

- Approaches for determining the credit impairment of each type of financial asset;
- Phases of financial assets reported under the Standardized Approach of IFRS 9;
- The models for calculating the expected credit losses for twelve months or for the entire maturity of the financial assets.

The following table presents the Company's approach for impairment for each type of financial asset under IFRS 9 as of 1 January 2018.

	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	Cash and cash equivalents	Debt instruments measured at amortized cost	Standardized approach
6	Court and awarded receivables	Debt instruments measured at amortized cost	Simplified approach

The Company has determined that the application of the impairment requirements of IFRS 9, effective from 1 January 2018, leads to the recognition of an additional impairment loss. A breakdown of the final balance of the allowance for impairment in accordance with IAS 39 with the opening balance of the loss allowances determined in accordance with IFRS 9 is described below:

	Impairment under IAS 39 at 31 December 2017	Revaluation	Expected credit losses under IFRS 9 as at 1 January 2018
	TBGN	TBGN	TBGN
Current trade receivables under IAS 39 / Financial assets at amortized cost under IFRS 9	(7 360)	(6 510)	(13 870)
Court and awarded receivables under IAS 39 / Financial Assets at amortized cost under IFRS 9	(201 153)	(160)	(201 313)
Other receivables under IAS 39 / Financial assets at amortized cost under IFRS 9	(16 902)	(159)	(17 061)
Cash and cash equivalents under IAS 39 / Financial assets at amortized cost under IFRS 9	-	(4)	(4)
	(225 415)	**(6 833)**	**(232 248)**

The Company has adopted the following new and revised standards and interpretations that are mandatory for application from 1 January 2018 that do not affect the financial position and results of its operations.

IFRIC Interpretation 22 "Transactions in Foreign Currency and Advance Payments" - adopted by the EU on 28 March 2018.

This Interpretation relates to the reporting of transactions or parts of foreign currency transactions upon receipt of advance payments prior to the recognition of the asset itself, expense or income. In such cases, undertakings report prepayment asset (prepayments of assets or services) or deferred income liability (sales receivable from customers) and are treated as non-monetary. When receiving such foreign currency prepayments, the date of the transaction is used to determine the exchange rate, and if there are multiple payments, the transaction date is determined for each individual payment.

Undertakings may apply the amendments on an entirely retrospective basis. Alternatively, the Company may apply the translation for future periods in respect of all assets, expenses and income that are recognized initially at or after:

(i) the commencement of the reporting period in which the entity applies the first statement, or

(ii) the beginning of the previous reporting period presented as comparative information in the financial statements for the period in which the Company applies the Interpretation for the first time.

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Earlier application of the Interpretation is admissible and should be disclosed.

The Company has adopted an alternative approach to clarification regarding its initial application, namely from the beginning of the reporting period in which the Company will apply it for the first time, as of 1 January 2018. As the Company has significant prepayments and foreign currency receipts, the effect on the financial statements on initial application will be as follows:

- Purchase of natural gas

in the statement of financial position – increase or decrease of the value of natural gas not realized at the end of the reporting period and respectively increase or decrease of the financial result for the period;

in the statement of profit or loss – increase or decrease in the cost of natural gas during the reporting period and, respectively, an increase or decrease in financial income/expenses from a change in the exchange rates for the period.

Due to the multiple advances made at different periods forming the value of unrealized gas at the end of the reporting period, 31 December 2017, it is virtually impossible to determine the amount of the adjustment resulting from the new provisions of IFRIC 22.

- sales of natural gas

in the statement of profit or loss – increase or decrease in the revenues from the sale of natural gas during the reporting period and respectively an increase or decrease in the financial income/expense from exchange rate changes for the period.

Since the advances received are made by customers in the same or previous month, there is no effect on the financial result, but only on the presentation method.

- purchases of services

in the statement of profit or loss – increase or decrease in the cost of services during the reporting period and a corresponding increase or decrease in financial income/expense from change in foreign exchange rates for the period.

As prepayments are made to counterparties in the same or previous month, the Company has no effect on the financial result, but only on the presentation method.

Amendments to IFRS 2 "**Share-based Payment**" – Adopted by the EU on 26 February 2018 - (effective for annual periods beginning on or after 1 January 2018);

Amendments to IAS 40 "**Investment Property**" **-** Adopted by the EU on 14 March 2018 - Transactions in Investment Property - (effective for annual periods beginning on or after 1 January 2018);

Amendments to IFRS 4: Application of IFRS 9 "**Financial Instruments**" **to IFRS 4** "**Insurance Contracts**" – Adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018);

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

Amendments to Standards "Improvements to IFRSs (Cycle 2014-2016)" – Adopted by the EU on 7 February 2018 - Improvements to IFRS 12 (effective for annual periods beginning on or after 1 January 2017), IFRS 1 and IAS 28 for annual periods beginning on 1 January 2018).

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

The following new standards, amendments to standards and interpretations to existing standards have been issued by the IASB and have been adopted by the EU but have not yet entered into force and have not been accepted for earlier application by the Company:

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

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

In addition, IFRS 16 requires lessees and lessors to make more detailed disclosures than IAS 17.

The management of the Company has made an assessment of the application of the Standard and, at the date of preparation of these financial statements, the expected effect is as follows.

	1 January 2019 TBGN
Assets	
Asset with right of use	547
Liabilities	
Lease liabilities	547
Net effect on equity	**-**

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

IFRIC 23 "Uncertainty Related to Income Taxes Tax Treatment" - (adopted by the EU on 23 October 2018, effective for annual periods beginning on 1 January 2019);

Amendments to Standards "Improvements to IFRSs (Cycle 2015-2017)" - (adopted by the EU on March 14, 2019, effective for annual periods beginning on or after 1 January 2019);

Amendments to IAS 19 "Employee Benefits" - Amendment, curtailment or settlement of the plan - (adopted by the EU on 13 March 2019 in force for annual periods beginning on or after 1 January 2019);

Amendment to IAS 28 "Investments in Associates and Jointly Controlled Undertakings" - (adopted by the EU on 8 February 2019 in force for annual periods beginning on or after 1 January 2019).

3.1.4. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS, ISSUED BY IASB NOT YET ENDORSED BY THE EU

The Management considers it appropriate to disclose that the following new or revised standards, new interpretations and amendments to existing standards that have already been issued by the International

Accounting Standards Board (IASB) at the reporting date but have not yet been approved by the EU and accordingly, are not taken into account when preparing these financial statements. The dates of entry into force will depend on EU approval decisions. The Company does not expect these Standards and Interpretations to have a material impact on the Company's financial position, results and/or disclosures.

IFRS 17 "Insurance Contracts" - (effective for annual periods beginning on or after 1 January 2021);
Changes in the Conceptual Financial Reporting Framework - (effective for annual periods beginning on or after 1 January 2020);
Amendment to IAS 28 "Investments in Associates and Jointly Controlled Undertakings" - Long-term Investments in Associates or Jointly Controlled Entities **-** (effective for annual periods beginning on or after 1 January 2019);
Amendments to IFRS 3 Business Combinations - (effective for annual periods beginning on or after January 1, 2020).

3.2. PRESENTATION OF FINANCIAL STATEMENTS

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.

The Company has initially applied IFRS 9 and IFRS 15 from 1 January 2018. In accordance with the selected transition method, the comparative information was not restated.

Financial information is presented and disclosed in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" (repealed), IFRS 7 "Financial Instruments: Disclosures" and IAS 18 "Revenue" (repealed).

The Company has opted for a modified retrospective application for the first time of IFRS 15 "Revenue from contracts with customers". In adopting IFRS 9 "Financial Instruments", the Company applied the benefits in its initial application. All adjustments resulting from the initial application of the two new standards are reported in equity (to retained earnings / (accumulated loss)) on 1 January 2018.

The effects of the initial application of the new IFRS 15 "Revenue from contracts with customers" and IFRS 9 "Financial instruments" are described in Note 3.1.2.

3.3. 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.

3.4. REVENUE

Accounting policy applicable until 31 December 2017

Revenue comprises of income from sales of natural gas and rendering of services.

Revenue is measured by reference to the fair value of consideration received or to be received by the Company, excluding VAT, all trade discounts, quantitative rebates as made by the Company.

Revenue is recognized, provided that all of the following conditions are satisfied:

- The amount of the revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company;
- The costs incurred or to be incurred can be measured reliably;
- When the recognition criteria for each of the Company's different activities have been met. These recognition criteria are based on the goods or services provided to the customer and the contract conditions in each case, and are described herein below.

REVENUE FROM SALES OF NATURAL GAS

Revenues from sales of natural gas are recognized when the Company has passed to the buyer the significant risks and rewards of ownership of the goods supplied. Significant risks and rewards are generally considered to be transferred to the buyer when the customer has taken undisputedly delivery of the goods.

Revenues from sales of natural gas are recognized at the end of each month, after the consumed by the Company's clients natural gas has been calculated. The revenue accrual is measured on the basis of a monthly bilateral protocol for gas supply signed by both parties. The validity of the protocols is certified with the signatures of the authorized representatives of the Company and the customer.

According to the Bulgarian legislation, the Company cannot determine its own pricing on the natural gas it sells. Selling prices of natural gas for all consumers connected to the transmission and distribution networks are uniform throughout the country and are determined by the State Energy and Water Regulatory Commission (SEWRC), a state body to the Council of Ministers. By amending the Energy Act (Prom. SG. 17 of 06-03-2015), the Commission was transformed into Energy and Water Regulatory Commission (EWRC).

REVENUE FROM PENALTIES

Revenue from penalties related to overdue receivables for sales of gas charged under the terms of the contracts for the sale of natural gas are recognized as other income in the Statement of profit or loss and other comprehensive income. The prudence concept is used in recognising of this revenue. According to this concept, recognition of penalty receivables is ceased in case of material risks related to collection of reported receivables. In the presence of data that question client's solvency, penalty receivables are not recognized.

INTEREST INCOME

Interest income is accounted by using the effective interest rate representing the rate that exactly discounts estimated future cash payments within the expected life of the financial instrument or a shorter period where appropriate, to the carrying amount of the financial asset. Interest income is included in the line "Financial income" in the Statement of profit or loss and other comprehensive income.

Accounting policy applicable from 1 January 2018

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 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.

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 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.

PENALTIES FOR OVERDUE RECEIVABLES

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

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 another 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:

- another 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.

3.5. 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 of assets include impairment losses for receivables, 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.

3.6. 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".

3.7. 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
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.

3.8. 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.

3.9. REPORTING OF LEASES - THE COMPANY AS A LESSEE

In accordance with IAS 17 "Leases", the economic ownership of a leased asset is transferred from the lessor to the lessee, in case the lessee bears the substantial risks and rewards related to the ownership of the leased asset.

At the inception of the lease, the related asset is then recognized at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. The respective amount is reflected in the financial statement as a finance lease liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

Subsequently, the leasing payments are distributed between financial cost and reduction of the unpaid finance leasing liability.

Assets acquired under the terms of finance lease are amortized in accordance with IAS 16 "Property, Plant and Equipment" or IAS 38 "Intangible Assets".

The interest element of leasing payments represents a constant proportion of the not discharged liability and recognized in the profit or loss for the period of the lease.

All other leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Operating leases' associated costs, such as maintenance and insurance, are recognized in the profit or loss at the time they occurred.

3.10. IMPAIRMENT OF ASSETS 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 annually. 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.

3.11. FINANCIAL INSTRUMENTS

Accounting policy applicable until 31 December 2017

Financial assets and liabilities are recognized when the Company becomes a party to contractual agreements including financial instruments.

Financial assets are derecognized in case of loss of control on contractual rights consisting the financial asset, i.e. when rights for cash flow receipt have expired, or when the substantial part of ownership risks and rewards has been transferred.

Financial liability is derecognized when it is extinguished, discharged, the transaction has been cancelled or the prescription term has expired.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

All financial assets are recognized on their settlement date.

Financial assets and financial liabilities are subsequently measured, as described below.

3.11.1. FINANCIAL ASSETS

For the purpose of subsequent measurement, financial assets other than hedging instruments are classified into the following categories:

- loans and receivables;
- financial assets at fair value through profit or loss;
- held-to-maturity investments;
- available-for-sale financial assets;

Financial assets are assigned to the different categories, depending on the purpose for which the investments were acquired. The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income. All financial assets except for those at fair value through profit or loss are subject to test for impairment as at the financial statement date. Financial assets are impaired when there is objective evidence for that. Different criteria to determine impairment for each category of financial assets, as described below, are applied.

All income and expenses relating to possession of financial instruments are reflected in the profit or loss upon their acquisition no matter what is the evaluation of the financial asset carrying amount they relate to, and are presented in the Statement of profit or loss and other comprehensive income, lines "Finance costs", "Finance income", except for impairment loss of trade receivables, which is presented in line "Impairment losses".

LOANS AND RECEIVABLES

Loans and receivables originated in the Company are non-derivative financial assets with fixed payments that are not traded on an active market. Loans and receivables are subsequently measured at amortized cost using the effective interest method less the amount of impairment. Any change in their value is reflected in profit or loss for the current period. Cash and cash equivalents, trade and most of other receivables are categorized as financial instruments. Discounting is omitted where the effect of discounting is insignificant.

Significant receivables are individually tested for impairment when they are past due at the financial statement date or when there is objective evidence that a counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other credit risk, if applicable. In such cases the percentage of impairment is based on recent historical data of counterparty's default rates for each identified group. Impairment loss of trade receivables is presented in line 'Impairment losses' in the Statement of profit or loss and other comprehensive income. At each reporting date the Company assesses whether there is objective evidence that a given financial asset or group of financial assets may be impaired. A financial asset or group of financial assets is considered impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("the loss event") and that the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably measured. Evidence of impairment may include indications that debtors or group of debtors are experiencing serious financial difficulties or are being in default or delinquency in the payment of interest or principal, or likely to declare insolvency/over-indebtedness or take financial reorganization or when observable data indicate a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that are associated with defaults by debtors.

FINANCIAL ASSETS AT AMORTIZED COST

For financial assets carried at amortized cost, the Company first assesses whether objective evidence of impairment (suspicion that the counterparty will not fulfil its obligation) individually for financial assets that are significant, individually or collectively, for financial assets that are not individually significant. If it is determined that no objective evidence of an individually assessed financial asset impairment exists, whether it is significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets are assessed for impairment collective basis. Assets that are individually assessed for impairment and for which an impairment loss has been and continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that loss has arisen from impairment, the amount of the loss is measured as difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected losses on loans that have not yet been incurred). The present value of estimated future cash flows is discounted at the original effective interest rate of financial assets. If a loan has a variable interest rate, the discount rate for evaluation of the impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through use of an allowance account and the amount of the loss is recognized in profit or loss for the period. Interest income continues to be accrued on the reduced carrying amount by using the interest rate used to discount future cash flows for the assessment of the impairment loss. Interest income is reflected as part of the financial income in the statement of profit or loss and other comprehensive income. Loans together with the associated provisions thereto are written off when there is no realistic possibility that they may be collected in the future and all securities are sold or transferred to the Company. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is restored at a later stage, the recovery is recognized in profit or loss.

3.11.2. FINANCIAL LIABILITIES

The Company's financial liabilities include borrowings, trade and other payables and finance lease liabilities and financing.

INITIAL RECOGNITION AND EVALUATION

Financial liabilities are recognized when the Company becomes a party to the contractual agreements for payment of cash amounts or another financial asset to another company or contractual liability for exchange of financial instruments with another company under potentially unfavourable terms. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included in line “Finance costs” or “Finance income”.

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value in profit or loss, or loans and borrowings, or as derivatives that are effective hedging instruments, as is appropriate. The Company determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, transaction costs that are directly attributable to the acquisition of the financial liability.

The Company's financial liabilities include trade and other payables and interest-bearing loans and borrowings.

SUBSEQUENT MEASUREMENT

Financial liabilities are subsequently measured at amortized cost by using the effective interest rate (EIR), with the exception of financial instruments held for trading or designated to fair value through profit or loss, which are measured at fair value reporting changes in profit or loss.

Subsequent measurement of financial liabilities depends on their classification as follows:

LOANS AND BORROWINGS

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses relating to loans and borrowings are recognised in profit or loss for the period when the liabilities are written-off as well as through the amortisation process.

Amortised cost is calculated by taking into account any discounts or premiums on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the Statement of profit or loss and other comprehensive income.

Trade payables are recognized initially at their nominal value and subsequently measured at amortized cost reduced with obligation settlement payments.

Accounting policy applicable from 1 January 2018

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

A financial asset is any asset that represents: cash, an equity instrument of other entity, a contractual right to receive or exchange cash or financial instruments under potentially favorable terms with another entity, and a contract that will be settled in the company’s own equity instruments and is a non-derivative in which it may or will receive a variable number of its equity instruments or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

A financial liability is any liability that is a contractual right to deliver or exchange cash or financial instruments under potentially unfavorable terms with another entity, as well as a contract that will be settled in the issuer’s own equity instruments and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

3.11.3. 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.

3.11.4. 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 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.

3.12. 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.

3.13. 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.

3.14. 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.

3.15. 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.

3.16. 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.

3.17. 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.

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.

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.

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

(A) FOREIGN CURRENCY 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 (USD)**
AS AT 31 DECEMBER 2018	
Financial assets	264
Financial liabilities	(11 035)
Total exposure to risk	**(10 771)**
AS AT 31 DECEMBER 2017	
Financial assets	15
Financial liabilities	(147)
Total exposure to risk	**(132)**

The following tables illustrate the sensitivity of post-tax net annual financial result and equity in regards to probable exchange rate differences between the Bulgarian Lev (BGN) and US Dollars (USD) +/- 1% (for 2017 +/- 1%) of the financial instruments held by the Company at the end of the reporting period, which are sensitive to changes compared to US dollar exchange rate.

AS AT 31 DECEMBER 2018	**Increase of the exchange rate of BGN to USD**		**Decrease of the exchange rate of BGN to USD**	
	Net financial result	**Equity**	**Net financial result**	**Equity**
US dollars (+/- 1%)	108	108	(108)	(108)

AS AT 31 DECEMBER 2017	**Increase of the exchange rate of BGN to USD**		**Decrease of the exchange rate of BGN to USD**	
	Net financial result	**Equity**	**Net financial result**	**Equity**
US dollars (+/- 1%)	2	2	(2)	(2)

(B) INTEREST RATE RISK

The Company's policy is to minimize interest rate cash flow risk exposures on long-term financing. As at 31 December 2018, the Company has three contracts for overdrafts with variable interest rate, but due to the fact that they are short-term and the utilized amounts are not material, the Company is not exposed to a significant risk of a change in market interest rates as at 31 December 2018.

(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 has no direct influence on the selling price set by the EWRC and is subject to the same price period, which represents a risk due to realized quantity of natural gas determined in dynamics according to the market situation.

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

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

4.1.2. CREDIT RISK

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

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

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

	AS AT 31 DECEMBER	
	2018	**2017**
Classes of financial assets – carrying amounts (Note 6)		
Trade and other receivables	156 461	165 616
Cash and cash equivalents	100	2 145
Total financial assets	**156 561**	**167 761**

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

As of 31 December 2018 and 31 December 2017, 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	
	2018	**2017**
Receivables from Toplofikatsia Sofia EAD	61 200	106 130
Total trade and other receivables	**156 461**	**165 616**

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 2018	**Current**		**Non-current**		
	Within 6 months	**6 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Borrowings (without finance lease liabilities)	3 687	-	-	-	3 687
Trade and other payables	25 496	-	-	-	25 496
Total	**29 183**	**-**	**-**	**-**	**29 183**

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

AS AT 31 DECEMBER 2017	Current		Non-current		
	Within 6 months	6 to 12 months	1 to 5 years	More than 5 years	Total
Borrowings (without finance lease liabilities)	9 956	-	-	-	9 956
Trade and other payables	26 228	8 219	8 368	-	42 815
Total	**36 184**	**8 219**	**8 368**	**-**	**52 771**

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	
	2018	2017
Equity (Net assets)	205 243	247 640
+ Subordinated debt	-	-
Adjusted capital	**205 243**	**247 640**
Total liabilities less subordinated debt	134 499	81 524
- Cash and cash equivalents	(100)	(2 145)
Net debt	**134 399**	**79 379**
Net debt to Adjusted capital	**1:0.65**	**1:0.32**

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 RECEIVABLES

Accounting policy applicable until 31 December 2017

Impairment of receivables is accounted for as the difference between the carrying amount of the receivables and the present value of the estimated future cash flows, discounted at the original effective interest rate. Impairment of receivables is recognized for both specific receivables, and on the basis of an analysis of the collection of receivables. For customers with whom deferred payment arrangements are concluded, receivables are stated at present value and impairment is specific. For current receivables, impairment is charged using an uncollectible rate calculated for the calendar year.

The Company uses an allowance account to account for the provision for impairment of non-performing and uncollectible receivables from customers. The management assesses the adequacy of this provision on the basis of age analysis of claims, historical experience of the level of write-off of uncollectible receivables, as well as the solvency analysis of the respective customer, changes in the agreed payment terms and other similar factors. If the financial position and performance of customers deteriorate (above expectations), the value of receivables to be derecognised in subsequent reporting periods may be higher than expected at the reporting date.

As at 31 December 2017, the management's best estimate of the required impairment of financial assets amounts to BGN 225,415 thousand. Additional information is presented in Note 11.

Accounting policy applicable from 1 January 2018

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 2018, the management's best estimate of the expected credit losses of cash in banks amounts to BGN 0 thousand (1 January 2018: BGN 4 thousand) (Note 3.1.2 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.

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

Management reviews the useful lives of depreciable assets at the end of each reporting period.

As at 31 December 2018 management assesses the useful life of assets that represents the expected term of their use. The carrying amounts of the assets are analysed 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 151 thousand (31-12-2017: BGN 140 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.

5.6. 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 2018, the best estimate of the required provision for claims against the Company amounted to BGN 50,244 thousand (31 December 2017: none). Further information is provided in Note 32.

5.7. 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.

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

6. CATEGORIES OF FINANCIAL INSTRUMENTS

AS AT 31 DECEMBER 2018

Financial assets	**Debt instruments measured at amortized cost**
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 (excluding finance leases) (Note 17)	3 687
Trade and other payables (Note 18)	25 496
Total financial liabilities in the statement of financial position	**29 183**

AS AT 31 DECEMBER 2017

Financial assets	**Receivables and cash**
Trade and other receivables (Note 11)	165 616
Cash and cash equivalents (Note 13)	2 145
Total financial assets in the statement of financial position	**167 761**

Financial liabilities	**Financial liabilities carried at amortized cost**
Borrowings (excluding finance leases) (Note 17)	9 956
Trade and other payables (Note 18)	42 815
Total financial liabilities in the statement of financial position	**52 771**

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.

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

7. PLANT AND EQUIPMENT

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

	Plant and equipment	Vehicles	Office equipment	Total
AS AT 1 JANUARY 2017				
Gross carrying amount	86	441	289	**816**
Depreciation	(42)	(412)	(250)	**(704)**
Carrying amount	**44**	**29**	**39**	**112**
YEAR ENDED 31 DECEMBER 2017				
Additions	-	-	17	**17**
Disposals	-	-	(22)	**(22)**
Depreciation	(5)	(8)	(26)	**(39)**
Depreciation of written-off assets	-	-	22	**22**
Ending carrying amount	**39**	**21**	**30**	**90**
AS AT 31 DECEMBER 2017				
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**

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 240 thousand (2017: BGN 251 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 2018 no plant and equipment are pledged as collateral of Company's liabilities.

As at 31 December 2018, 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.

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

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 analysed as follows:

	Software	Licence	Total
AS AT 1 JANUARY 2017			
Gross carrying amount	762	15	**777**
Amortization	(567)	(5)	**(572)**
Carrying amount	**195**	**10**	**205**
YEAR ENDED 31 DECEMBER 2017			
Additions	100	-	**100**
Disposals	(9)	-	**(9)**
Amortization	(116)	-	**(116)**
Amortization of written-off assets	9	-	**9**
Ending carrying amount	**179**	**10**	**189**
AS AT 31 DECEMBER 2017			
Gross carrying amount	853	15	**868**
Amortization	(674)	(5)	**(679)**
Carrying amount	**179**	**10**	**189**
YEAR ENDED 31 DECEMBER 2018			
Additions	34	25	**59**
Amortization	(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**

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”.

The intangible assets acquired in 2018 represent a change in functionality in the “Delivery” module, a Financial Control program and the right to use the Company’s trademark.

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

9. LEASES

(A) OPERATING LEASES AS A LESSEE

As of 31 December 2018, the Company is a lessee under one operating lease agreement.

The Company has signed a lease agreement for an office building in Sofia. The contract was signed on 21 March 2011 and the term of validity of the contract is 1 April 2021.

The Company's future minimum operating lease payments are as follows:

	AS AT 31 DECEMBER	
	2018	**2017**
Within 1 year	252	235
Between 1 and 5 years	323	575
	575	**810**

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

On 1 November 2016 a car rental contract with Bulgarian Energy Holding EAD was signed, with a term of one year and a rental price of 500 BGN without VAT. The term is extended by 1 year from 1 November 2017 and after the contract expires in 2018, the vehicle was acquired on the basis of a purchase contract.

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% (2017: 10%), applicable for the year, when they are expected to occur retroactively.

	AS AT 31 DECEMBER	
	2018	**2017**
Deferred tax assets		
– Deferred tax assets for recovery in more than 12 months	13 817	14 945
Total deferred tax assets	**13 817**	**14 945**
Deferred tax liabilities		
– Deferred tax liabilities for recovery in more than 12 months	(3)	(5)
Total deferred tax liabilities	**(3)**	(5)
Deferred tax assets, net	**13 814**	**14 940**

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

	YEAR ENDED 31 DECEMBER	
	2018	**2017**
AS AT 1 JANUARY	**14 940**	**15 240**
Adjustment from initial application of IFRS 9	683	-
AS AT 1 JANUARY	**15 623**	**15 240**
Recognized as expense in profit or loss (Note 29)	(1 810)	(300)
Tax expense relating to items of other comprehensive income (Note 29)	1	-
AS AT 31 DECEMBER	**13 814**	**14 940**

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

In 2017 the unused tax loss from previous periods of BGN 6 811 thousand has been deducted for which no deferred tax asset has been recognized. As of 31 December 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**	**Total**
AS AT 1 JANUARY 2017	**(32)**	**(15 188)**	**(14)**	**(12)**	**-**	**(15 246)**
Expense/(Income) in profit or loss	32	271	-	(2)	-	301
AS AT 31 DECEMBER 2017	**-**	**(14 917)**	**(14)**	**(14)**	**-**	**(14 945)**
Adjustment from initial application of IFRS 9	-	(683)	-	-	-	(683)
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)**
DEFERRED TAX LIABILITIES						
AS AT 1 JANUARY 2017	**-**	**-**	**-**	**-**	**6**	**6**
Expense in profit or loss	-	-	-	-	(1)	(1)
AS AT 31 DECEMBER 2017	**-**	**-**	**-**	**-**	**5**	**5**
Expense in profit or loss	-	-	-	-	(2)	(2)
AS AT 31 DECEMBER 2018	**-**	**-**	**-**	**-**	**3**	**3**
DEFERRED TAX ASSETS AS AT 31 DECEMBER 2018, NET	**-**	**(13 786)**	**(15)**	**(16)**	**3**	**(13 814)**

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

11. TRADE AND OTHER RECEIVABLES

	AS AT 31 DECEMBER	
	2018	**2017**
Trade receivables	151 299	161 096
Accumulated impairment of trade receivables	(8 007)	(7 360)
Trade receivables, net	**143 292**	**153 736**
Court and awarded receivables	201 389	201 313
Accumulated impairment of court and awarded receivables	(201 389)	(201 153)
Court and awarded receivables, net	**-**	**160**
Receivable from Corporate Commercial Bank AD - insolvent	5 077	17 463
Accumulated impairment of receivable from Corporate Commercial Bank AD-insolvent	(4 712)	(16 902)
Receivable from Corporate Commercial Bank AD-insolvent, net	**365**	**561**
Prepaid advances for natural gas delivery	75 030	68 492
Receivables from related parties (Note 34)	11 865	10 826
Other receivables - prepaid expenses, guarantees and deposits	4 116	2 031
Total trade and other receivables	**234 668**	**235 806**

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, Bulgargaz EAD should be recovered the amount of BGN 561 thousand.

Expected credit losses are calculated on the date of each reporting period. They are calculated as at 1 January 2018 on initial application of IFRS 9 and thereafter as of 31 December 2018.

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 1 January 2018 and 31 December 2018 respectively:

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

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**

1 January 2018	**Expected credit loss percentage**	**Gross amount of customer receivables**	**Impairment of expected credit loss**	**Impairment under IAS 39**	**Net amount of receivables from customers**
	%	**TBGN**	**TBGN**	**TBGN**	**TBGN**
Unmatured	1%	80 368	(1 008)	-	79 360
30-90 days	12%	63 072	(7 485)	(6 492)	55 587
90 – 180 days	27%	14 244	(3 871)	(863)	10 373
180 – 360 days	44%	3 412	(1 506)	(5)	1 906
Over 360 days	-	-	-	-	-
		161 096	**(13 870)**	**(7 360)**	**147 226**

The age structure of current trade receivables is as follows:

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**

As at 31 December 2017

	Not overdue	**30-90 days**	**90-180 days**	**180-360 days**	**>360 days**	**Total**
	TBGN	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**
Trade receivables	80 368	63 072	14 244	3 412	-	**161 096**
	80 368	**63 072**	**14 244**	**3 412**	**-**	**161 096**

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 Duty, 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 2018, trade receivables with book value of BGN 109 137 thousand (31 December 2017: BGN 22 848 thousand) were impaired.

The aging analysis of trade receivables for which an impairment loss is recognized as at 31 December 2018 is as follows:

	AS AT 31 DECEMBER	
	2018	**2017**
Within 3 months	964	-
Between 3 and 6 months	27	4 051
Over 6 months	4 109	3 309
Under agreements	2 907	-
Total	**8 007**	**7 360**

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

	YEAR ENDED 31 DECEMBER	
	2018	**2017**
AS AT 1 JANUARY	**225 415**	**228 296**
Adjustment from initial application of IFRS 9	6 828	-
Accrued losses from impairment of financial assets	58 019	22 199
Written-off uncollectible receivables	(48)	(164)
Reversals of impairment losses	(63 757)	(24 355)
Accrued losses from impairment of CCB AD-insolvent	(12 349)	(561)
AS AT 31 DECEMBER	**214 108**	**225 415**

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 at 31 December 2018, the Company holds collateral as a guarantee on trade receivables amounting to BGN 55 thousand.

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

	AS AT 31 DECEMBER	
	2018	**2017**
Bulgarian Lev (BGN)	158 499	167 021
US Dollars (USD)	72 791	65 807
Romanian Lei (RON)	2 488	293
Euro (EUR)	890	2 685
Total trade and other receivables	**234 668**	**235 806**

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

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

12. INVENTORIES

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

	AS AT 31 DECEMBER	
	2018	**2017**
Natural gas at cost	90 923	75 974
Natural gas – net realisable value	90 923	75 974
Materials	20	20
Total inventories	**90 943**	**75 994**

In 2018 a total of BGN 1 272 999 thousand of sold natural gas has been recognized as expenses in profit or loss (2017: BGN 1 086 844 thousand).

The accrued impairment movement of natural gas is the following:

	YEAR ENDED 31 DECEMBER	
	2018	**2017**
AS AT 1 JANUARY	**-**	**324**
Written-off impairment of natural gas sold	-	(324)
AS AT 31 DECEMBER	**-**	**-**

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

The main external sources used as an impairment indicator, are decisions issued by EWRC №Ц-7/30-03-2018 , №Ц-8/29-06-2018, №Ц-14/28-09-2018 and №Ц-19/28-12-2018.

Reversals of impairment of inventories are recognized as an adjustment to cost of natural gas sold during the period. Accrued new impairment losses is presented in the Statement of profit or loss and other comprehensive income.

No inventories are pledged as security for Company`s liabilities.

13. CASH AND CASH EQUIVALENTS

	AS AT 31 DECEMBER	
	2018	**2017**
Cash in current bank accounts	78	2 122
Cash on hand	22	23
Total cash and cash equivalents in the statement of financial position	**100**	**2 145**
Overdrafts *	(3 687)	-
Total cash and cash equivalents in the statement of cash flows	**(3 587)**	**2 145**

* As at 31 December 2018, bank overdrafts that form an integral part of the cash management of the Company are included as a component of cash and cash equivalents for the purpose of presentation in the statement of cash flows.

The amount of cash that has been apprehended in relation to a claim against a counterparty of the Company as at 31 December 2018 amounts to BGN 50 thousand (31 December 2017: none).

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

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

	AS AT 31 DECEMBER	
	2018	**2017**
Bulgarian Lev (BGN)	73	2 112
US Dollars (USD)	14	15
Euro (EUR)	11	16
British Pounds (GBP)	-	1
Romanian Lei (RON)	2	1
Total cash and cash equivalents	**100**	**2 145**

14. RECONCILIATION OF INITIAL AND FINAL BALANCES IN THE STATEMENT OF FINANCIAL POSITION AS OF 31-12-2018 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 loan 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 2018, 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 2017	**214 450 488**	**214 450**
Increase for the period	17 248 096	17 248
AS AT 31 DECEMBER 2017	**231 698 584**	**231 698**
AS AT 31 DECEMBER 2018	**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.

In 2017, in accordance with Protocol № 41-2017/23-05-2017 of the Board of Directors of Bulgarian Energy Holding EAD, the registered capital of the Company was increased by 17 248 096 (seventeen million, two hundred forty eight thousand, ninety-six) ordinary registered shares with a nominal value of BGN 1 each for the account of the net profit for year 2017.

(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 2017	**2 752**	**54**	**1**	**2 807**
Transfer to “Reserve” Fund	3 668	-	-	**3 668**
Other changes	-	(1)	-	**(1)**
AS AT 31 DECEMBER 2017	**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**

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.

In 2018, in accordance with Protocol № 24-2018/03-05-2018 of the Board of Directors of Bulgarian Energy Holding EAD, it was decided the net profit for 2017 to be distributed, as a result of which an amount of BGN 947 thousand was transferred to “Reserve” Fund

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 2018	2017
Current		
Borrowings	3 687	-
Financing under repurchase agreements of natural gas	-	9 956
Total current	**3 687**	**9 956**
Total borrowings	**3 687**	**9 956**

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

	Interest rate	Maturity	31-12-2018	31-12-2017
			TBGN	TBGN
(1) D Commerce Bank AD	2.79%	06-03-2018	-	9 956
(2) CCB Plc	1.09%	30-09-2019	-	-
(3) Citibank Europe AD - Bulgaria Branch	Basic interest rate +1.50%	30-09-2019	-	-
(4) Societe Generale Expressbank AD	Reference interest rate +0.99%	23-07-2019	3 687	-
			3 687	**9 956**

(1) Contract for purchase and sale of natural gas with repurchase from D Commerce Bank AD to a contracted amount of BGN 10 017 thousand. The repurchase term is 06-03-2018. The due interest is in the amount of BGN

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

93 thousand. The quantities of natural gas are stored in the gas storage facility in the village of Chiren and are provided under the conditions of consignment storage to the Company. As of 31-12-2018 the contract is terminated.

(2) Loan Agreement (overdraft) from CCB Plc to a contracted amount of BGN 12 000 thousand without collateral. The loan is maturing on 30-09-2019 and is repaid in one instalment on that date.

(3) Loan Agreement (overdraft) from Citibank Europe PLC - Bulgaria Branch to a contracted amount of BGN 10 900 thousand without collateral. The loan is maturing on 30-09-2019 and is repaid in one instalment on that date.

(4) Credit agreement (overdraft) from Societe Generale Expressbank AD with an agreed amount of BGN 10 000 thousand without collateral. The loan is maturing on 23-07-2019 and is repaid in one instalment on that date.

Undrawn loans

As at 31 December 2018, the Company has undrawn loans (overdrafts) as follows: an overdraft limit of BGN 10 900 thousand from Citibank Europe AD - Bulgaria Branch; an overdraft limit amounting to BGN 12 000 thousand from Central Cooperative Bank AD; an overdraft limit amounting to BGN 6 313 thousand by Societe Generale Expressbank AD.

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

The carrying amounts of borrowings were denominated in the following currencies:

	AS AT 31 DECEMBER	
	2018	**2017**
Bulgarian Lev (BGN)	3 687	9 956
Total borrowings	**3 687**	**9 956**

18. TRADE AND OTHER PAYABLES

	AS AT 31 DECEMBER	
	2018	**2017**
Related party payables (Note 34)	13 469	42 135
VAT payable	37 599	25 282
Trade payables	11 957	567
Advances received from clients for sale of natural gas	15 113	1 637
Excise duty	1 762	1 469
Payables to employees	131	120
Liabilities to insurance companies	74	70
Other liabilities	92	148
Total trade and other payables	**80 197**	**71 428**
Less non-current portion:		
- Related party payables (Note 34)	-	8 368
Non-current trade and other payables	**-**	**8 368**
Current trade and other payables	**80 197**	**63 060**

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 2019. They occur mainly in relation to accumulated unused leave at the end of the reporting period and amounted to BGN 131 thousand (31-12-2017: BGN 120 thousand).

Liabilities to insurance companies – BGN 74 thousand (31-12-2017: BGN 70 thousand) include the social security payables related to accrued unused compensation leaves in the amount and social security payables over remunerations for December 2018, paid during January 2019.

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

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	
	2018	**2017**
Current amount of liabilities	151	140
Liability at the end of the reporting period	**151**	**140**

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

	YEAR ENDED 31 DECEMBER	
	2018	**2017**
AS AT 1 JANUARY	**140**	**143**
Current length-of-service costs (Note 22)	9	10
Interest expenses (Note 28)	2	4
Total expenses in profit or loss	**11**	**14**
Revaluations:		
- Gains from changes in demographic assumptions	1	1
- Gains from changes in financial assumptions	2	5
- Profit/(loss) from the actual experience	7	(6)
Total other comprehensive income	**10**	**-**
Paid benefits	**(10)**	**(17)**
AS AT 31 DECEMBER	**151**	**140**

The main actuarial assumptions used are as follows:

	AS AT 31 DECEMBER	
	2018	**2017**
Discount rate	1%	1.4%
Future salaries increase	2%	2%

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

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

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

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 2018:

AS AT 31 DECEMBER 2018	**Change in the actuarial assumptions**	**Effect on the liability in BGN**	**Change in the actuarial assumptions**	**Effect on the liability in BGN**
Discount rate	+ 1 %	(7 102)	– 1 %	8 601
Salary increase	+ 1 %	8 473	– 1 %	(7 146)
Staff turnover	+ 1 %	(7 446)	– 1 %	8 925
Average life expectancies	+1 year	644	-1 year	(688)

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 2018, the weighted average duration of the obligation to pay compensation upon retirement is 5 years.

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

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

	YEAR ENDED 31 DECEMBER	
	2018	**2017**
Accrued impairment loss on trade receivables, net	(5 858)	(2 651)
Accrued impairment loss on other receivables, net	37	(561)
Accrued impairment loss on court and awarded receivables, net	119	495
Accrued impairment loss on cash in banks, net	(4)	-
Total impairment loss on financial assets	**(5 706)**	**(2 717)**

21. COST OF HIRED SERVICES

The cost of hired services includes:

	YEAR ENDED 31 DECEMBER	
	2018	**2017**
Natural gas storage expenses	5 062	4 810
Court fees and legal advices	1 366	292
License fees	584	525
Rents	253	251
Other fees	153	127
Insurance	105	88
Management contract expenses	98	145
Communications	99	97
Remunerations of audit committee members	75	57
Subscription service	24	22
Consulting services	55	59
Total cost of hired services	**7 874**	**6 473**

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

22. EMPLOYEE BENEFITS AND SOCIAL SECURITY EXPENSES

Employee benefits and social security expenses of the Company include:

	YEAR ENDED 31 DECEMBER	
	2018	**2017**
Salary expenses	2 365	2 106
Social security expenses	338	320
Compensated leaves costs	81	94
Cost of defined retirement benefit obligations (Note 19)	9	10
Total employee benefit expenses	**2 793**	**2 530**

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

	YEAR ENDED 31 DECEMBER	
	2018	**2017**
Hired employees at the end of the year	52	54
Average number of hired employees throughout the year	54	54

23. COST OF MATERIALS

The cost of materials of the Company includes:

	YEAR ENDED 31 DECEMBER	
	2018	**2017**
Fuel gas	27	25
Fuel and lubricants	22	20
Stationery and consumables	11	12
Main materials	6	11
Other	16	17
Total cost of materials	**82**	**85**

24. EXPENSES ON PROVISIONS

	YEAR ENDED 31 DECEMBER	
	2018	**2017**
Provision for a fine in Case COMP/B1/AT.39849 - BEH gas (Note 32)	50 244	-
Total expenses on provisions	**50 244**	**-**

25. OTHER EXPENSES

Other expenses of the Company include:

	YEAR ENDED 31 DECEMBER	
	2018	**2017**
Penalties on delayed payments	135	382
Business trips and representation expenses	52	36
Trainings	3	2
One-off taxes	14	14
Others	21	28
Total other expenses	**225**	**462**

(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 2018	2017
Penalties on overdue receivables	12 700	11 741
Other sanctions and contract penalties	4 679	2 892
Recovered legal expenses	51	113
Other	2	6
Total other revenue	**17 432**	**14 752**

27. REVENUES FROM SALE OF NATURAL GAS

REVENUE UNDER CONTRACTS WITH CUSTOMERS

	YEAR ENDED 31 DECEMBER 2018	2017
Types of goods and services		
Revenues from sale of natural gas	1 286 429	1 112 151
	1 286 429	**1 112 151**

	YEAR ENDED 31 DECEMBER 2018	2017
Geographic markets		
- Domestic market	1 286 429	1 112 151
	1 286 429	**1 112 151**

	YEAR ENDED 31 DECEMBER 2018	2017
Timing of revenue recognition		
Goods passed at a given moment of time	1 286 429	1 112 151
	1 286 429	**1 112 151**

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 and IAS 18.

Type of product/ service	**Nature and timing of fulfilment of performance obligations, including essential payment terms**	**Recognition of revenue under IFRS 15 (effective from 1 January 2018)**	**IAS 18 Recognition of Revenue (effective before 1 January 2018)**
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;	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)	Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the amount of revenue can be measured reliably. Revenue is measured by reference to the fair

Type of product/ service	**Nature and timing of fulfilment of performance obligations, including essential payment terms**	**Recognition of revenue under IFRS 15 (effective from 1 January 2018)**	**IAS 18 Recognition of Revenue (effective before 1 January 2018)**
	- 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.	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.	value of consideration received or to be received by the Company, excluding VAT, all trade discounts, quantitative rebates as made by the Company.
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.	Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the amount of revenue can be measured reliably. Revenue is measured by reference to the fair value of consideration received or to be received by the Company, excluding VAT, all trade discounts, quantitative rebates as made by the Company.

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

BALANCES ON CONTRACTS WITH CUSTOMERS

	AS AT 31 DECEMBER 2018	AS AT 31 DECEMBER 2017
Trade receivables	143 292	153 736
Receivables from related parties	11 865	10 826
	155 157	**164 562**

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	
	2018	**2017**
Financial income		
Interest income on long-term receivables	13	1
Finance income – interest income from financial assets carried at amortized cost	**13**	**1**
Total financial income	**13**	**1**
Financial costs		
Interest expense on trade payables to related parties	(621)	(1 196)
Interest expense on repurchase agreements	(61)	(32)
Interest expense on short-term loans	(35)	(2)
Interest expense on financial liabilities carried at amortized cost	**(717)**	**(1 230)**
Interest expense on overdue tax liabilities	-	(78)
Exchange rate loss on receivables, payables and cash, net	(4 339)	(21 984)
Bank charges	(80)	(10)
Interest expense on defined benefit obligations (Note 19)	(2)	(4)
Total financial costs	**(5 138)**	**(23 306)**
Financial income/(costs), net	**(5 125)**	**(23 305)**

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

29. INCOME TAX EXPENSES

The relationship between the expected tax income/(expense) based on the applicable tax rate in Bulgaria of 10% (2017: 10%) and the tax expense/income actually recognized in profit or loss can be reconciled as follows:

	YEAR ENDED 31 DECEMBER	
	2018	**2017**
Profit before tax	(29 948)	9 766
Tax rate	10%	10%
Expected tax expense	(2 995)	(977)
Tax effect on income tax expense on:		
Expenses not recognized for tax purposes	(10 858)	(2 254)
Income not recognized for tax purposes	7 643	2 550
Tax loss carried forward	-	681
Income taxes expenses	**(220)**	**-**
Expenses on current corporate tax	(220)	-
Effect of the change in deferred taxes (Note 10)	(1 810)	(300)
Income (expense) tax revenues	**(2 030)**	**(300)**
Deferred tax income (expense) recognized directly in the other comprehensive income	**1**	**-**

30. NON-CASH TRANSACTIONS

In 2018 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.

31. 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.

With Decision No 24-2018/03-05-2018 of the Board of Directors of BEH EAD and in compliance with Authorisation №2 of Council of Ministers from 09-03-2018, from the net profit for 2017 amounting to BGN 9 466 thousand is written-down dividend to the sole shareholder of the capital, amounting to BGN 4 260 thousand, which represents 50% of the profit for 2017 after tax, deduction of the allocations for “Reserve” fund and cover the losses for previous years.

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

On 24 November 2017, a decision was taken by the 44th National Assembly of the Republic of Bulgaria to take the necessary action for the closing of Case COMP/B1/AT.39849 – BEH Gas, by which the National Assembly supports the closing of the case under Article 7 of Regulation (EC) No 1/2003 without admitting the alleged infringements and without assuming liability for them, by fulfilling the obligations arising from a possible prohibitive decision, including a possible financial 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 Gazprom, in which, on 24 May 2018, the Commission announced that an agreement had been reached and the same was closed under Article 9 of Regulation (EC) No 1/2003 without a financial penalty.

On 17 December 2018, the European Commission notified Decision C (2018) 8806 in case AT.39849 BEH-Gas, by which the European Commission imposed a fine on Bulgarian Energy Holding EAD (BEH), its subsidiary for gas supply Bulgargaz EAD and its subsidiary for gas infrastructure Bulgartransgaz EAD (the BEH group) amounting to EUR 77 068 000 for allegedly blocking competitors' access to key gas infrastructure in Bulgaria in violation of EU antitrust rules. The decision was received in the 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 March 18, 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.

As of December 31, 2018, the Company has charged 1/3 of the amount of the fine at the amount of BGN 50 244 thousand and the judgment is that the settlement is expected to occur after more than 12 months.

Legal claims

There are no significant legal claims against the Company.

In 2018 the Company has brought administrative proceedings to the Supreme Administrative Court on the basis of which the Company disputes the legality of the decisions of the SEWRC, with which the Commission approves the price of natural gas in the first and second quarter of 2018.

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.

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

33. COMMITMENTS

(A) OPERATING LEASES AND THE COMPANY AS A LEESEE

As of 31 December 2018, the Company has no commitments under irrevocable operating lease agreements.

34. RELATED PARTY TRANSACTIONS AND BALANCES

The Company discloses the following related parties:

Sole shareholder of the Company, exercising control (Parent company)
Bulgarian Energy Holding EAD

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)
Natsionalna Elektricheska Kompania EAD, “TPP Maritsa East 2” EAD, “Mini Maritsa Iztok” EAD, “Kozloduy NPP” EAD, “Kozloduy NPP – NB” EAD, “HPP Kozloduy” EAD, “Interpriborservice” OOD, “Bulgartel” EAD, “Bulgartransgaz” EAD, “Electricity System Operator” EAD, “TPP Maritsa East 2 (9 and 10)” EAD, PFC “Beroe – Stara Zagora” EAD, “Bulgartel-Skopje” Dooel, “Energy Measurement and Information Technology Operator” EAD (in liquidation), “Independent Bulgarian Energy Exchange“ EAD to 15-02-2018, “Energy Investment Company” EAD to 26-04-2018.

Associated companies for BEH Group
“ContourGlobal Maritsa Iztok 3” AD, “ContourGlobal Operations Bulgaria” AD, “Energy” Insurance JSC “Allianz Bulgaria” EAD, HEC “Gorna Arda” AD

Joint companies for BEH Group
ICGB AD, “South Stream Bulgaria” AD, Transbalkan Electric Power Trading S.A. – NECO S.A.

Others - all enterprises related to the State

Key management of the Company
Petyo Angelov Ivanov – Chairman of the BoD
Iliyan Kirilov Dukov – Member of the BoD
Nikolay Angelov Pavlov – Member of the BoD and CEO

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

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**	
	2018	**2017**
Companies under common control		
BULGARTRANSGAZ EAD	10 925	12 179
Total	**10 925**	**12 179**

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**	
	2018	**2017**
Parent company		
BULGARIAN ENERGY HOLDING EAD	52	-
Total	**52**	**-**

(C) PURCHASE OF GOODS AND SERVICES	**YEAR ENDED 31 DECEMBER**	
Parent company	**2018**	**2017**
BULGARIAN ENERGY HOLDING EAD	103	151
Companies under common control		
BULGARTRANSGAZ EAD	92 224	71 948
BULGARTEL EAD	15	20
Total	**92 342**	**72 119**

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) ASSIGNMENT OF RECEIVABLES

During the reporting period, the Company has transferred its receivables from Toplofikatsia Sofia EAD, Toplofikatsia Pleven EAD, Toplofikatsia Burgas EAD, Toplofikatsia Petrich EAD to Natsionalna Elektricheska Kompania EAD and BULGARIAN ENERGY HOLDING EAD, totalling BGN 219 405 thousand, on the basis of agreements concluded between the assignor and the assignees.

(E) ACCRUED PENALTY CHARGES	**YEAR ENDED 31 DECEMBER**	
	2018	**2017**
Companies under common control		
BULGARIAN ENERGY HOLDING EAD	103	382
BULGARTRANSGAZ EAD	653	1 196
Total	**756**	**1 578**

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

(F) RECEIVABLES FOR PURCHASES OF GOODS AND SERVICES

	AS AT 31 DECEMBER	
	2018	**2017**
Companies under common control		
BULGARTRANSGAZ EAD	11 865	10 826
Total current	**11 865**	**10 826**

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.

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

(G) PAYABLES FOR PURCHASES OF GOODS AND SERVICES	AS AT 31 DECEMBER	
	2018	2017
NON-CURRENT		
Companies under common control		
BULGARTRANSGAZ EAD	-	8 368
Total non-current	**-**	**8 368**
Current		
Parent company		
BULGARIAN ENERGY HOLDING EAD	25	14 929
Companies under common control		
BULGARTRANSGAZ EAD	13 443	18 837
BULGARTEL EAD	1	1
Total current	**13 469**	**33 767**
Total	**13 469**	**42 135**

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

As at 31 December 2018 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 2018 the long-term portion of rescheduled trade payables is estimated at BGN 0 thousand (31 December 2017: BGN 8 368 thousand) and the short-term part to BGN 8 368 thousand principal (31 December 2017: BGN 16 293 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 5 075 thousand.

(H) 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	
	2018	2017
Short term benefits to key management personnel		
- Remunerations	184	176
- Social security costs	18	19
Total	**202**	**195**

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

35. POST-REPORTING DATE EVENTS

No significant events have occurred after the end of the current reporting period that has effect on the condensed financial statements as at 31 December 2018, except for the one mentioned below:

By its decision, the Energy and Water Regulation Commission established the marginal prices of natural gas from the Public supplier to end suppliers and customers connected to the gas transmission network for the first quarter of 2019, as follows: BGN 44.80/MWh, excluding excise duty and VAT.

On 28 January 2019, 3 agreements were signed for the payment of overdue liabilities by Toplofikatsia Pleven EAD, Toplofikatsia Vratsa EAD and Toplofikatsia-Burgas EAD, amounting to BGN 42 036 thousand.

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 2018 (including comparatives) were approved and adopted by the Board of Directors on 9 April 2019.

HLB BULGARIA

INDEPENDENT AUDITOR'S REPORT

TO THE SOLE SHAREHOLDER OF

BULGARGAZ EAD

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of BULGARGAZ EAD (the Company), which comprise the statement of financial position as at 31 December 2018, 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 the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, 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 Opinion

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

Key Audit Matters

Key audit matters are those matters that, according to our professional judgment, were of the highest importance in the auditing of the financial statements for the current period. These matters are considered as part of our audit of the financial statements as a whole and the formation of our opinion on it, and we do not provide a separate opinion on these matters.

Initial measurement and classification of financial assets, determination of their impairment, including the transition to IFRS 9 'Financial Instruments'
IFRS 9 'Financial Instruments' (IFRS 9) became effective for annual reporting periods beginning on or after 1 January 2018. IFRS 9 is a new and complex accounting standard which has required considerable judgment and interpretation in its implementation. The

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impact of the application of IFRS 9 needs to be disclosed as required by IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Given the estimated impact of this new accounting standard on the opening balance of the Company's statement of financial position at 1 January 2018 and the accounting policy choices and assumptions to be taken by management on the implementation of IFRS 9 from 1 January 2018, we consider this matter as a key audit matter in our audit.
Note 3.1.2, Note 3.11, Note 4.1.2, Note 5.1, Note 11, Note 20 to the financial statements

Key Audit Matter	**How this key audit matter was addressed in our audit**
We focused on this area because: (a) the management exercises significant judgment, using subjective assumptions about the initial classification of the financial assets according to the IFRS 9 requirements; (b) the process of estimating the expected credit losses implies multiple judgments and a higher level of uncertainty and subjectivity in the estimated assumptions as to when and how much to recognize impairment of loans and an estimate of the amount of expected credit losses; (c) as at 31 December 2018, the trade and other receivables of BULGARGAZ EAD net of impairment amounted to BGN 234,668 thousand, representing 72% of the current assets of the Company at that date. In connection with the above, we have identified this issue as a key audit matter for our audit. The key changes resulting from the adoption of IFRS 9 as of 1 January 2018 for the Company relate to: (a) the calculation of credit losses on financial assets that are already determined on the basis of the expected losses but not on the losses historically incurred; (b) initial measurment and classification of	Our audit procedures include, but are not limited to, the following procedures: • Assessment and review of the accounting policies applicable from 1 January 2018 for recognition, classification, subsequent measurement and impairment of financial assets; • We reviewed the Company's business model related to classification and assessment for each category of financial assets; • We reviewed and assessed the new methodology for Expected credit loss provisioning, as well as for Classification and Measurement of financial assets in order to ensure compliance with the requirements of IFRS 9; • We have obtained an understanding and assessed the reasonableness of the key outputs calculated by the models, as well as key judgments and assumptions used by Management for the implementation of the models; • We reviewed a sample of significant exposures for their default determination appropriateness, and we reviewed the probability of default (PD) calculation used in the expected credit losses (ECL)

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financial assets. In addition, we have identified the transition to IFRS 9 and disclosure requirements as a key audit matter as the Company has developed new models for calculating impairment of financial assets that require judgments to be applied in very significant areas and especially for the calculation of expected credit losses (ECL).	calculation. We also revised the mathematical correctness of models calculation at 1 January and as at 31 December 2018; • Assessement of the adequacy of the disclosures in the financial statements realated to financial assets including the effect of the transition at 1 January 2018, in order to determine whether they are in compliance with the requirements of IFRS 9.

Emphasis of matter

We draw attention to Note 2 „Basis of Preparation of the Annual Financial Statements" where it is disclosed that as at 31 December 2018 the Company share capital at the amount of BGN 231,698 thousand exceeds its net assets by BGN 26,455 thousand, that is not in compliance with the requirements of Art. 252 of the Commerce Act, as well as the actions taken by the Company management.

Our opinion is not modified in respect of this matter.

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.

We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Additional 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.

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b) 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.

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 2018 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 2018 represents fourth total uninterrupted statutory audit engagement for that entity carried out by us.

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

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

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

Audit firm

HLB BULGARIA OOD

Manager:

Veronika Revalska

Registered auditor, responsible for the audit:

Vaska Gelina

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

9 April 2019

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