

**BULGARGAZ EAD**

**INTERIM MANAGEMENT REPORT  
INTERIM CONDENSED FINANCIAL STATEMENTS**

**30 SEPTEMBER 2018**

# CONTENTS

	<u>PAGE</u>
<b>INTERIM MANAGEMENT REPORT</b>	–
<b>INTERIM CONDENSED FINANCIAL STATEMENTS</b>	
CONDENSED STATEMENT OF FINANCIAL POSITION	1
CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	2
CONDENSED STATEMENT OF CHANGES IN EQUITY	3
CONDENSED STATEMENT OF CASH FLOWS	4
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS	5 –21

This Company Management Report for the nine-month period to September 30, 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 January 1, 2018 – September 30, 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.

## **I. COMPANY OVERVIEW**

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

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

Bulgargaz EAD carries out its activities as regards to public supply of natural gas for the territory of the Republic of Bulgaria, in compliance with License No JI-214-14/29.11.2006, issued by the State Energy and Water Regulatory Commission (SEWRC), for a period of 35 years. With an Amendment Act to the Energy Act (amended, State Gazette, issue 17 as 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 registered shares. The total amount of the Company share capital is subscribed and entirely paid in by the Bulgarian Energy Holding EAD. All shares are with a nominal value of BGN 1. The Company shares are ordinary, registered, unprivileged and voting shares. The sole owner of the Bulgargaz EAD share capital is Bulgarian Energy Holding EAD and the latter is 100% owned by the State. A share gives one voting right in the General Meeting of the Shareholders, a dividend right and a liquidation share that are equal to the nominal value of the share.

## **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).

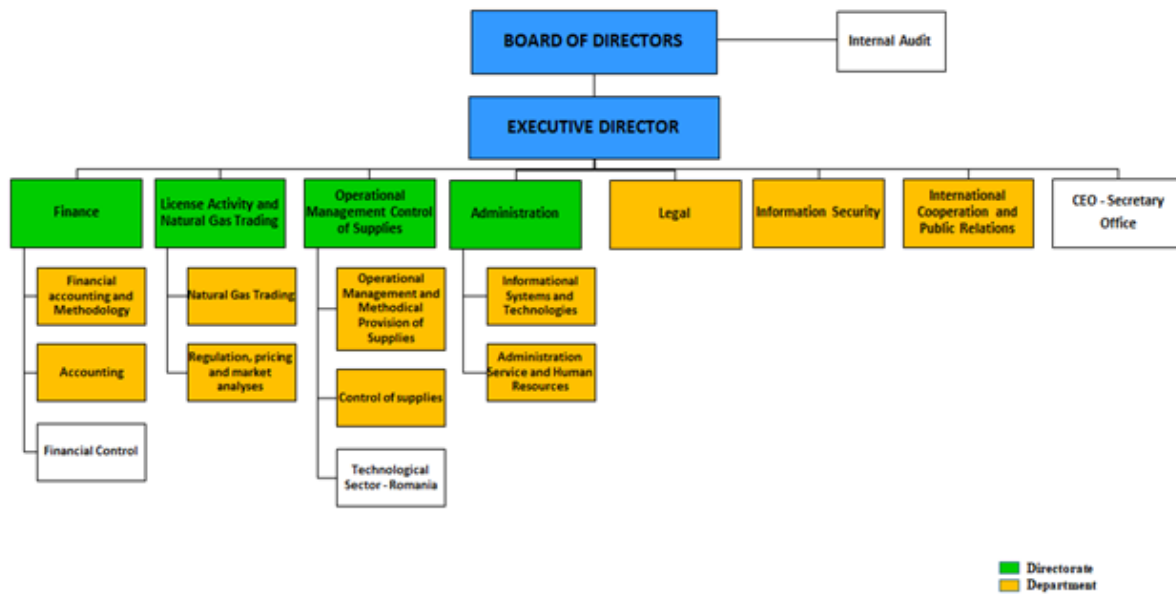
On May 22, 2017, a Decision of BEH EAD's BoD was registered in the Commercial Register for the election of a new CEO. As of that date the composition of the Board of Directors is as follows:

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

On September 1, 2018, a Decision of BEH EAD's BoD was registered in the Commercial Register for the election of a new member of the BoD. As of that date 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

## ORGANISATIONAL STRUCTURE OF BULGARGAZ EAD



### COMPANY'S MANAGEMENT RESPONSIBILITY

The Management confirms that adequate accounting policy is applied during preparation of the Financial Statements for the nine-month period to September 30, 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.

### INFORMATION ABOUT COMPANY SHARES' ACQUISITION AND OWNERSHIP BY BOD MEMBERS

BoD members do not own Company shares. There are no privileges and exclusive rights regarding shares and bonds acquisition foreseen for BoD members. Bulgarian Energy Holding EAD 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 to 01/09/2018; Chairman of BoD from 12/12/2013 to 01/09/2018:

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

Petyo Angelov Ivanov– Chairman of BoD, Member of the BoD from 01/09/2018 to the present moment:

- 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 a member of the BoD, in South Stream Bulgaria AD and in Contur Global Operations Bulgaria AD as a member of the BoD.

Iliyan Kirilov Dukov – Member of the BoD from 06/01/2015 to the present moment:

- 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 to the present moment:

- Does not participate as an unlimited liability partner in trade companies;
- Does not own more than 25% of trade companies' equity;
- Does not participate in the management of other companies, co-operations as procurator, manager or member of BoD.

### **INFORMATION ABOUT CONTRACTS UNDER ARTICLE 240b OF THE COMMERCIAL ACT CONCLUDED DURING THE YEAR**

During the nine-month period to September 30, 2018, the BoD members or other related persons thereof had not concluded any contracts with the Company that were beyond its usual activity or significantly divert from the market conditions.

### **II. COMPANY ACTIVITY RESULTS FOR THE NINE MONTH PERIOD TO SEPTEMBER 30, 2018**

During the nine-month period to September 30, 2018, Bulgargaz EAD carried out its activities in compliance with the regulations. The Company activity results represent a financial profit, after taxes amounting to BGN 10 172 thousand (as at 30 September, 2017: BGN 1 013 thousand).

### **GENERAL FACTORS AFFECTING COMPANY'S ACTIVITIES**

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

Natural gas public supply is a regulated activity by EWRC. Bulgargaz EAD natural gas purchasing prices are market based, while Company's natural gas selling prices are regulated. Bulgargaz EAD, in its capacity of a natural gas trader, is not in an equal position in comparison with other natural gas traders, whose activities are not regulated in accordance with the aforementioned regulations. The Company has no branch network and does not develop research and development activity.

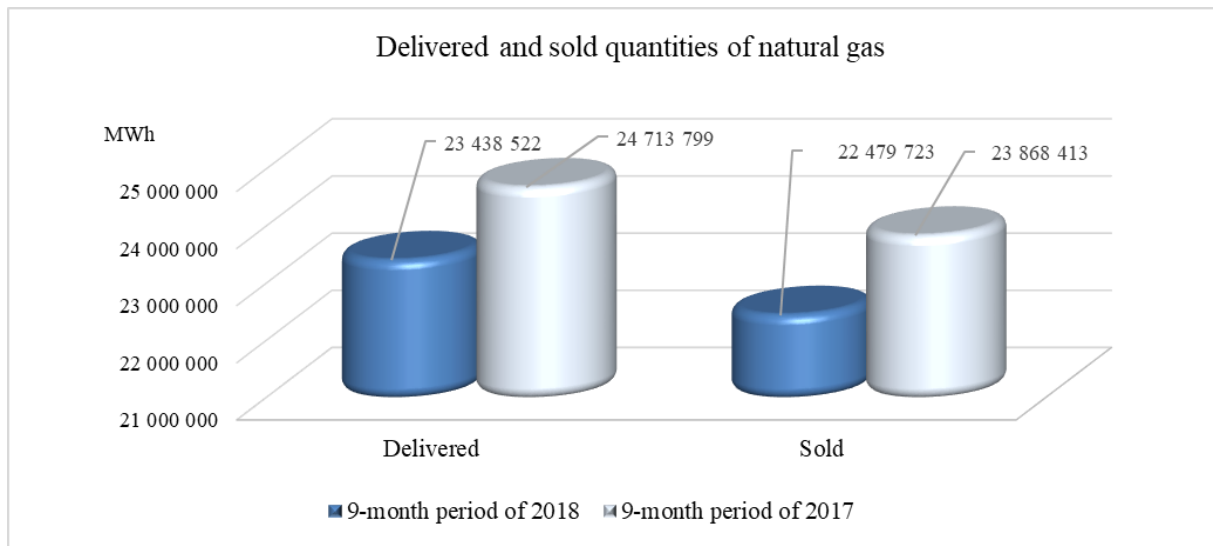
## **1. QUANTITATIVE INDICATORS IMPLEMENTATION**

### **Delivered and sold natural gas volumes**

The natural gas deliveries securing the needs of the Company's clients during the reporting period have been carried out through long-term contracts. The natural gas volumes delivered and sold during the nine-month period to September 30, 2018, compared to the same period in 2017, are presented in Table 1 below:

Table No. 1

Type of delivery	Unit	Nine-month period to September 30, 2018	Nine-month period to September 30, 2017	Volume change	% Change
Delivered	MWh	23 438 522	24 713 799	(1 275 277)	(5.16%)
Sold	MWh	22 479 723	23 868 413	(1 388 690)	(5.82%)



During the reporting period, deliveries totalled 23 438 522 MWh natural gas (nine-month period to September 30, 2018: 24 713 799 MWh), which is a decrease of 1 275 277 MWh, or 5.16%.

During the reporting period, 22 479 723 MWh natural gas was sold, compared to 23 868 413 MWh during the nine-month period to September 30, 2017, which is a decrease of 1 388 690 MWh, or 5.82%. The decrease is mainly due to the lower consumption of customers in the Chemistry and Energy sectors.

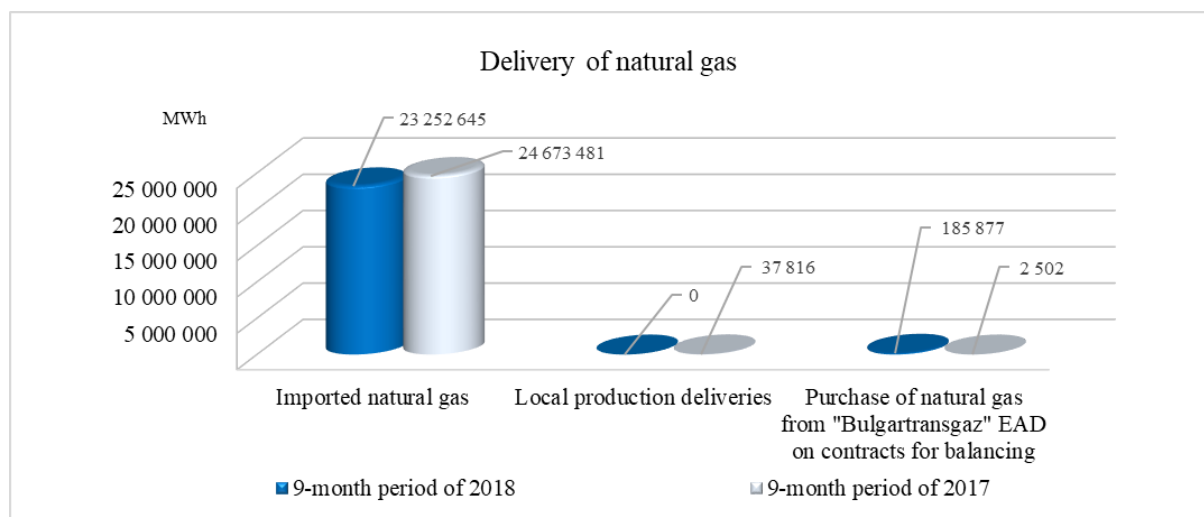
### 1.1. DELIVERED NATURAL GAS VOLUMES

The delivered natural gas volumes for the nine-month period to September 30, 2018, and the nine-month period to September 30, 2017 are presented in Table No. 2 below.

Table No. 2

MWh

№	Type of delivery	Nine-month period to September 30, 2018	Nine-month period to September 30, 2017	Relative share		% Change
				Nine-month period to September 30, 2018	Nine-month period to September 30, 2017	
1	Imported natural gas	23 252 645	24 673 481	99.21%	99.84%	(5.76%)
2	Local production deliveries	-	37 816	-	0.15%	(100%)
3	Purchase of natural gas from Bulgartransgaz EAD on contracts for balancing	185 877	2 502	0.79%	0.01%	7 329.14%
	<b>Total</b>	<b>23 438 522</b>	<b>24 713 799</b>	<b>100%</b>	<b>100%</b>	<b>(5.16%)</b>



To secure the needs of natural gas to its customers, during the nine-month period to September 30, 2018, Bulgargaz EAD delivered 23 252 645 MWh of natural gas, which is 99.21% of the total supply, as well as the purchase of natural gas from Bulgartransgaz EAD under contracts for balancing the system – 185 877 MWh.

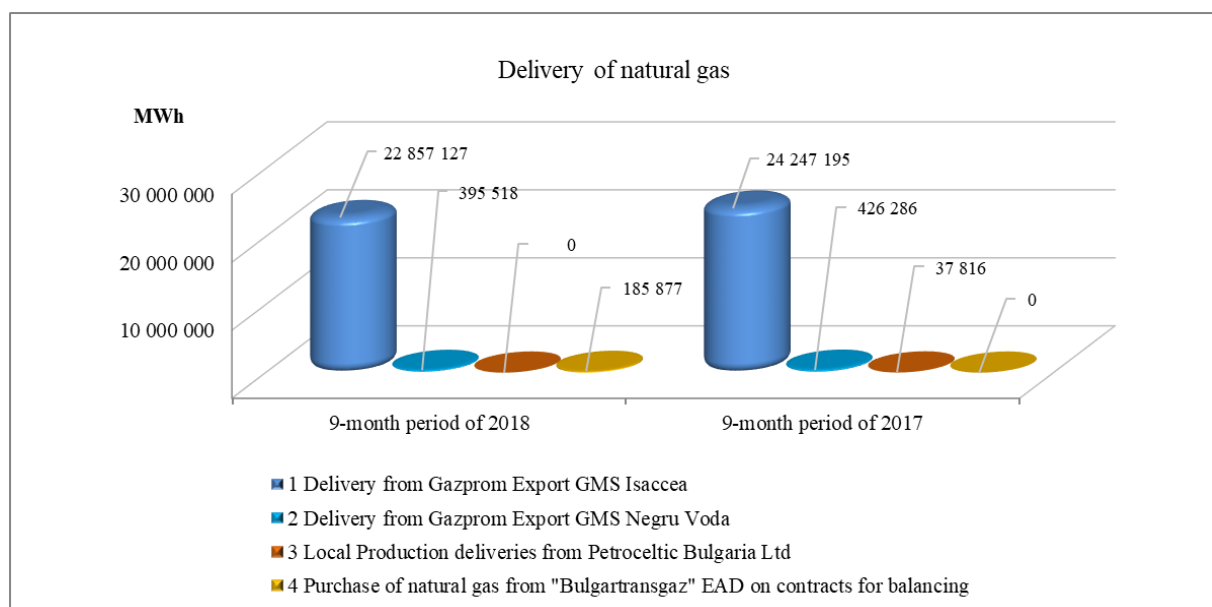
In March 2018, the amount of natural gas subject to a contract with "D Commerce Bank AD" for the purchase and sale with repurchase concluded at the end of 2017 has been repurchased.

Delivered natural gas volumes, allocated by sources, are indicated in Table No. 3 below.

Table No. 3

MWh

№	Type of delivery	Nine-month period to September 30, 2018	Nine-month period to September 30, 2017	Relative share		% Change
				Nine-month period to September 30, 2018	Nine-month period to September 30, 2017	
<b>1</b>	<b>Imported natural gas</b>	<b>23 252 645</b>	<b>24 673 481</b>	<b>99.21%</b>	<b>99.84%</b>	<b>(5.76%)</b>
1.1.	Gazprom Export:	23 252 645	24 673 481	99.21%	99.84%	(5.76%)
1.1.1	GMS Isaccea	22 857 127	24 247 195	97.52%	98.11%	(5.73%)
1.1.2	GMS Negru Voda	395 518	426 286	1.69%	1.73%	(7.22%)
<b>2</b>	<b>Local production deliveries</b>	-	<b>37 816</b>	-	<b>0.15%</b>	<b>(100%)</b>
2.1.	Petroceltic Bulgaria EOOD	-	37 816	-	0.15%	(100%)
<b>3</b>	<b>Purchase of natural gas by Bulgartransgaz EAD on contracts for balancing</b>	<b>185 877</b>	<b>2 502</b>	<b>0.79%</b>	<b>0.01%</b>	<b>7 329.14%</b>
	<b>Total</b>	<b>23 438 522</b>	<b>24 713 799</b>	<b>100%</b>	<b>100%</b>	<b>(5.16%)</b>



During the nine-month period to September 30, 2018, Bulgargaz EAD purchased the necessary natural gas volumes from import via a long term contract with OOO Gazprom Export.

During the nine-month period to September 30, 2018, there are no natural gas volumes purchased from Petroceltic Bulgaria EOOD (30.09.2017: 37 816 MWh).

## 1.2 NATURAL GAS PRODUCTION AND INJECTION

Natural gas volumes produced and injected in UGS Chiren during the nine-month period to September 30, 2018, and the nine-month period to September 30, 2017 are represented in Table No. 4.

Table No.4

MWh

Period	Nine-month period to September 30, 2018		Nine-month period to September 30, 2017			Change Production		Change Injection	
	Production	Injection	Production	Sales to Kostinbrod Gas	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%)
<b>Total</b>	<b>2 229 990</b>	<b>3 280 921</b>	<b>2 334 065</b>	<b>17 891</b>	<b>3 320 910</b>	<b>(104 075)</b>	<b>(4.46%)</b>	<b>(39 989)</b>	<b>(1.20%)</b>

The production of natural gas during the nine-month period to September 30, 2018, is 2 229 990 MWh (2017: 2 334 065 MWh) or a decrease of 104 075 MWh (by 4.46%), which is due to the application by Bulgartransgaz EAD of a different coefficient for recalculation of produced quantities from volume into energy.

The injection of natural gas during the nine-month period to September 30, 2018, is 3 280 921 MWh (2017: 3 320 910 MWh) or a decrease of 39 989 MWh (1.20%).



## 2. NATURAL GAS SALES

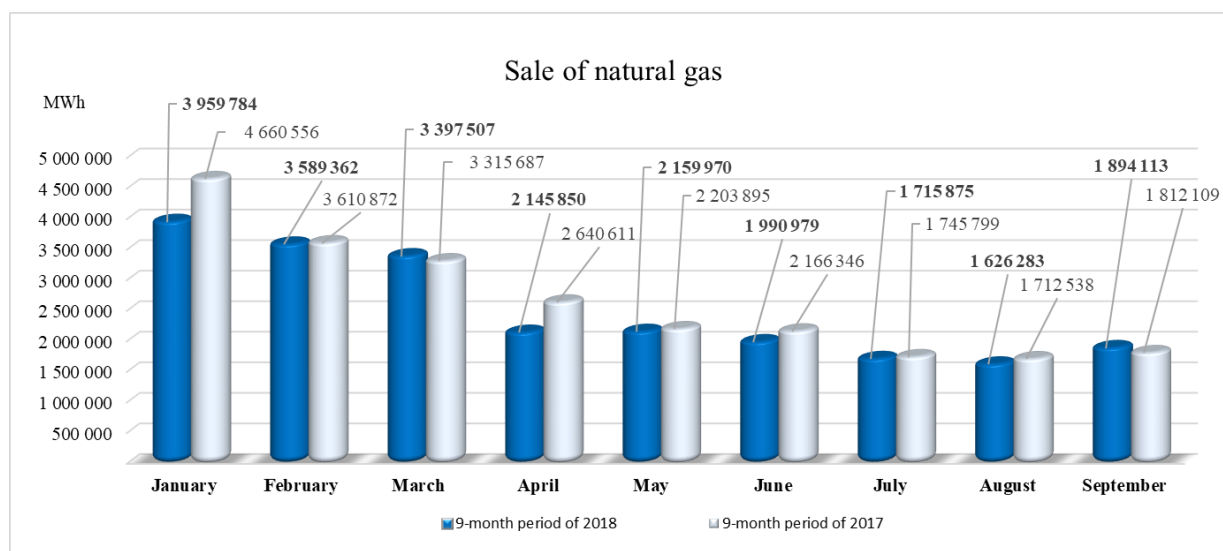
### 2.1. GENERAL CONSUMPTION

Bulgargaz EAD's ensures reliable supply of natural gas to its customers, in accordance with the quantity and quality contractual requirements. During the nine-month period to September 30, 2018, the Company sold to its clients 22 479 723 MWh natural gas (nine-month period to September 30, 2017: 23 868 413 MWh), which is a decrease of 1 388 690 MWh, or 5.82% than the gas sold during the same period in the preceding year. The decrease is due to the lower consumption of companies in the Energy and Chemistry sector.

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

Table No. 5

Reporting period	Nine-month period to September 30, 2018		Nine-month period to September 30, 2017		Change	
	MWh	Share in %	MWh	Share in %	MWh	%
January	3 959 784	17.61%	4 660 556	19.53%	(700 772)	(15.04%)
February	3 589 362	15.97%	3 610 872	15.13%	(21 510)	(0.60%)
March	3 397 507	15.11%	3 315 687	13.89%	81 820	2.47%
April	2 145 850	9.55%	2 640 611	11.06%	(494 761)	(18.74%)
May	2 159 970	9.61%	2 203 895	9.23%	(43 925)	(1.99%)
June	1 990 979	8.86%	2 166 346	9.08%	(175 367)	(8.10%)
July	1 715 875	7.63%	1 745 799	7.31%	(29 924)	(1.71%)
August	1 626 283	7.23%	1 712 538	7.18%	(86 255)	(5.04%)
September	1 894 113	8.43%	1 812 109	7.59%	82 004	4.53%
<b>Total</b>	<b>22 479 723</b>	<b>100%</b>	<b>23 868 413</b>	<b>100%</b>	<b>(1 388 690)</b>	<b>(5.82%)</b>



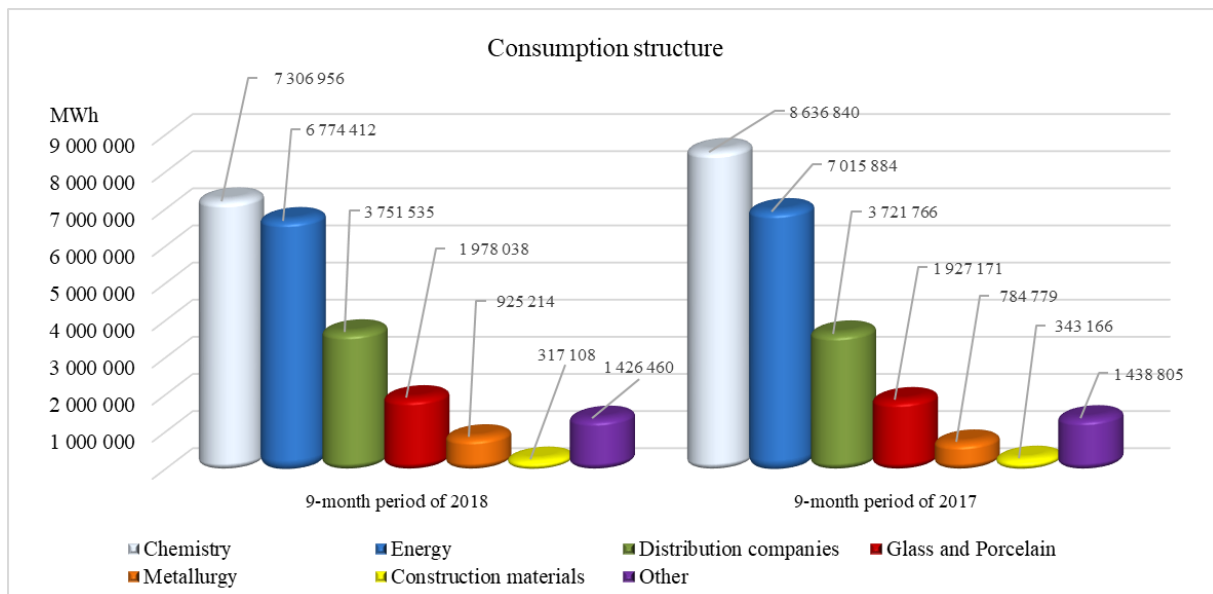
### 2.2. CONSUMPTION STRUCTURE

A comparison of the natural gas sales by main economic sectors in the nine-month period to September 30, 2018, and nine-month period to September 30, 2017, allocated by main industry sectors, is presented in Table No. 6 below.

Table No. 6

Sector	Nine-month period to September 30, 2018		Nine-month period to September 30, 2017		Change	
	MWh	Share in %	MWh	Share in %	MWh	%
Chemistry	7 306 956	32.50%	8 636 840	36.19%	(1 329 884)	(15.40%)
Energy	6 774 412	30.14%	7 015 884	29.39%	(241 472)	(3.44%)
Distribution companies	3 751 535	16.69%	3 721 766	15.59%	29 769	0.80%
Glass and Porcelain	1 978 038	8.80%	1 927 171	8.07%	50 867	2.64%
Metallurgy	925 214	4.12%	784 779	3.29%	140 435	17.89%
Construction materials	317 108	1.41%	343 166	1.44%	(26 058)	(7.59%)
Other	1 426 460	6.35%	1 438 805	6.03%	(12 345)	(0.86%)
<b>Total</b>	<b>22 479 723</b>	<b>100%</b>	<b>23 868 411</b>	<b>100%</b>	<b>(1 388 688)</b>	<b>(5.82%)</b>

For the period January-September 2018 compared to the same period of 2017, sales decreased by 1 388 690 MWh (or by 5.82%). This is a result of lower consumption of customers in the Energy and Chemistry sectors. The decreased consumption by the district heating companies in the period January - March 2018 is due to the higher temperatures during the winter months of 2018 compared to the same period in 2017 as well as to technical breakdowns of 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;
- ✓ the decrease in natural gas consumption is observed in the enterprises in the Energy and Chemistry industry.
- ✓ In all other sectors there is an increase in consumption, the increase with the Distribution Companies sector being insignificant.

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

The comparison between the weighted average prices for delivery and sale of natural gas for the first, second and third quarters of 2018, excluding the costs of access and transmission, is shown in the table below. The negative difference between the weighted average delivery price and the weighted average selling price for the second and third quarter of 2018 is due to the fact that in the second and third quarter of 2018 the selling price approved by the EWRC is lower than the cost of natural gas supply.

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	31.83	33.40	1.57	4.93%
Second quarter of 2018	35.27	34.07	(1.20)	(3.40%)
Third quarter of 2018	39.96	37.79	(2.17)	(5.43%)
<b>First nine months of 2018</b>	<b>35.34</b>	<b>34.61</b>	<b>(0.73)</b>	<b>(2.07%)</b>
<b>First nine months of 2017</b>	<b>30.90</b>	<b>30.71</b>	<b>(0.19)</b>	<b>(0.61%)</b>

The delivery price at the entrance to the gas pipeline network (to the Bulgarian border) includes costs for the purchase of natural gas under the contract with OOO Gazprom Export and the cost of transport through the territory of Romania.

The weighted average selling price besides the indicated costs to the Bulgarian border also includes components accrued in accordance with Ordinance No. 2 of 2013 to regulate natural gas prices, calculated on the basis of the company's operating costs and the costs related to imposed obligations to society.

### 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:

#### 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 meeting 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.

#### 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.

## **CREDIT RISK**

The credit risk for the Company represents a risk of financial loss, if a customer fails to meet its contractual obligations. That risk arises out of Company's receivables from customers. The Company's customers are heating companies, having difficulties in collecting their receivables and experiencing serious obstacles to settle their liabilities on due dates. The Company conducts continuous monitoring on its receivables, observes its clients conduct and considers in details its main debtors' activities. The Company enters into deferred payment agreements with some clients facing difficulties to settle their current liabilities. As an extreme measure to resort to is natural gas delivery suspension. The Company also protects its interests through court proceedings.

## **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.

### **STRATEGIC OBJECTIVES**

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

- In order to achieve the objectives, the Company endeavors to provide alternative sources and routes for the supply of natural gas that will increase the geographic supply portfolio and help to increase the security and reliability of gas supply. 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 scarce. The same can be extremely risky, given the conflict between Ukraine and the Russian Federation;
- Maintaining continuous financial stability and increasing the economic efficiency of the Company's activity;
- Entering the gas market of neighbouring countries.

### **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 STATUS**

The financial and economic status of Bulgargaz EAD has been examined and analyzed on the basis of financial and accounting statements prepared: condensed statement of profit or loss and other comprehensive income and condensed cash flow statement for the nine-month period to September 30, 2018, compared to the same period in 2017, as well as a condensed statement of the financial position of the Company as of 30/09/2018, compared with the previous period as of 31/12/2017.

### **MAIN FINANCIAL INDICATORS**

The main financial and economic results from the activity of the Company for the nine-month period to September 30, 2018, and the nine-month period to September 30, 2017 are presented below:

*In thousand BGN*

Indicators	30/09/2018	30/09/2017	Change	Change (%)
Total revenues	853 489	784 361	69 128	8.81%
Total expenses	(835 823)	(763 528)	(72 295)	9.47%
<b>EBITDA</b>	<b>17 799</b>	<b>20 945</b>	<b>(3 146)</b>	<b>(15.02%)</b>
<b>EBIT</b>	<b>17 666</b>	<b>20 833</b>	<b>(3 167)</b>	<b>(15.20%)</b>
<b>EBT</b>	<b>13 538</b>	<b>1 136</b>	<b>12 402</b>	<b>1 091.73%</b>

*In thousand BGN*

Indicators	30/09/2018	31/12/2017	Change	Change (%)
Non-current fixed assets	80	90	(10)	(11.11%)
Total assets	290 097	329 164	(39 067)	(11.87%)
Current assets	276 353	313 945	(37 592)	(11.97%)
Current liabilities	36 493	73 104	(36 611)	(50.08%)
<b>Cash</b>	<b>12 721</b>	<b>2 145</b>	<b>10 576</b>	<b>493.05%</b>
<b>Working capital</b>	<b>239 860</b>	<b>240 841</b>	<b>(981)</b>	<b>(0.41%)</b>
<b>Equity</b>	<b>253 552</b>	<b>247 640</b>	<b>5 912</b>	<b>2.39%</b>
Share capital	231 698	231 698	-	-
Reserves	7 422	6 474	948	14.64%
Retained profit	4 260	2	4 258	212 900%
Profit/loss for the period	10 172	9 466	706	7.46%
<b>Number of personnel</b>	<b>54</b>	<b>54</b>	-	-

### **CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*In thousand BGN*

	30/09/2018		30/09/2017		Change	
<b>Revenues</b>	<b>853 489</b>	<b>100%</b>	<b>784 361</b>	<b>100%</b>	<b>69 128</b>	<b>8.81%</b>
<b>Revenues from sale of natural gas</b>	<b>839 233</b>	<b>98.33%</b>	<b>773 039</b>	<b>98.56%</b>	<b>66 194</b>	<b>8.56%</b>
<b>Other income</b>	<b>14 256</b>	<b>1.67%</b>	<b>11 322</b>	<b>1.44%</b>	<b>2 934</b>	<b>25.91%</b>
- penalties under overdue receivables/liabilities	12 478	1.46%	8 768	1.12%	3 710	42.31%
- sanctions for 105% volume	1 140	0.13%	-	-	1 140	-
- penalties for volumes not taken under Art.7.4 and 7.5	585	0.07%	-	-	585	-
<b>- revenue from non-regulated activity</b>	<b>51</b>	<b>0.01%</b>	<b>-</b>	<b>-</b>	<b>51</b>	<b>-</b>
<b>- other income</b>	<b>2</b>	<b>0.00%</b>	<b>2 554</b>	<b>0.32%</b>	<b>(2 552)</b>	<b>(99.92%)</b>
<b>Expenses as per economic elements</b>	<b>(835 823)</b>	<b>100%</b>	<b>(763 528)</b>	<b>100%</b>	<b>(72 295)</b>	<b>9.47%</b>
<b>Cost of sold natural gas</b>	<b>(830 894)</b>	<b>99.41%</b>	<b>(758 446)</b>	<b>99.34%</b>	<b>(72 448)</b>	<b>9.55%</b>
<b>Recovered/ (accrued ) impairment</b>	<b>1 778</b>	<b>(0.21%)</b>	<b>944</b>	<b>(0.12%)</b>	<b>834</b>	<b>88.35%</b>
- recovered/ (accrued) impairment of receivables	1 778	(0.21%)	944	(0.12%)	834	88.35%
<b>Costs of materials</b>	<b>(50)</b>	<b>0.01%</b>	<b>(58)</b>	<b>0.01%</b>	<b>8</b>	<b>(13.79%)</b>
- fuel gas	(14)	0.00%	(19)	0.01%	5	(26.32%)
- main materials	(3)	0.00%	(6)	0.00%	3	(50%)
- fuels and lubricants	(16)	0.01%	(15)	0.00%	(1)	6.67%
- stationary and consumables	(8)	0.00%	(10)	0.00%	2	(20%)
- sanitary materials	(4)	0.00%	(3)	0.00%	(1)	33.33%
- advertising materials	-	0.00%	(2)	0.00%	2	(100%)
- other materials	(5)	0.00%	(3)	0.00%	(2)	66.67%
<b>Hired services costs</b>	<b>(4 442)</b>	<b>0.53%</b>	<b>(3 972)</b>	<b>0.52%</b>	<b>(470)</b>	<b>11.83%</b>

	30/09/2018		30/09/2017		Change	
- natural gas storage costs	(2 900)	0.35%	(2 735)	0.36%	(165)	6.03%
- expenses on management contracts	(73)	0.01%	(106)	0.01%	33	(31.13%)
- license fees	(438)	0.05%	(394)	0.05%	(44)	11.17%
- insurances	(78)	0.01%	(64)	0.01%	(14)	21.88%
- rents	(191)	0.02%	(181)	0.02%	(10)	5.52%
- court charges and expenditures	(471)	0.06%	(235)	0.03%	(236)	100.43%
- communications	(69)	0.01%	(72)	0.01%	3	(4.17%)
- audit committee remuneration	(56)	0.01%	(45)	0.01%	(11)	24.44%
- consulting and audit services	(43)	0.00%	(40)	0.01%	(3)	7.50%
- repair and technical maintenance	(10)	0.00%	(8)	0.00%	(2)	25%
- building maintenance	(3)	0.00%	(1)	0.00%	(2)	200%
- public utilities	(16)	0.00%	(15)	0.00%	(1)	6.67%
- subscription service	(18)	0.00%	(16)	0.00%	(2)	12.50%
- parking expenses	(15)	0.00%	(14)	0.00%	(1)	7.14%
- translation services	(3)	0.00%	(4)	0.00%	1	(25%)
- security	(45)	0.01%	(31)	0.01%	(14)	45.16%
- labour medicine service	(2)	0.00%	(2)	0.00%	-	-
- EWRC's fee – price approval	(3)	0.00%	(3)	0.00%	-	-
- other charges	(8)	0.00%	(6)	0.00%	(2)	33.33%
<b>Depreciation/amortization expenses</b>	<b>(133)</b>	<b>0.01%</b>	<b>(112)</b>	<b>0.01%</b>	<b>(21)</b>	<b>18.75%</b>
<b>Employee benefit expenses</b>	<b>(1 926)</b>	<b>0.23%</b>	<b>(1 701)</b>	<b>0.22%</b>	<b>(225)</b>	<b>13.23%</b>
- remuneration expenses	(1 674)	0.20%	(1 463)	0.19%	(211)	14.42%
- social security expenses	(252)	0.03%	(238)	0.03%	(14)	5.88%
<b>Other expenses</b>	<b>(156)</b>	<b>0.02%</b>	<b>(183)</b>	<b>0.02%</b>	<b>27</b>	<b>(14.75%)</b>
- penalties for overdue payments	(106)	0.01%	(134)	0.02%	28	(20.90%)
- business trips and representative expenses	(25)	0.01%	(23)	0.00%	(2)	8.70%
- training	(3)	0.00%	(1)	0.00%	(2)	200%
- one-off taxes	(10)	0.00%	(8)	0.00%	(2)	25%
- membership fees	(4)	0.00%	(3)	0.00%	(1)	33.33%
- others	(8)	0.00%	(14)	0.00%	6	(42.86%)
<b>Profit/ (loss) from operating activity</b>	<b>17 666</b>		<b>20 833</b>		<b>(3 167)</b>	<b>(15.20%)</b>
<b>Net financial income / (costs)</b>	<b>(4 128)</b>		<b>(19 697)</b>		<b>15 569</b>	<b>79.04%</b>
<b>Financial income</b>	<b>13</b>	<b>100%</b>	<b>1</b>	<b>100%</b>	<b>12</b>	<b>1 200%</b>
- interest income on long-term receivables	13	100%	1	100%	12	1 200%
<b>Financial costs</b>	<b>(4 141)</b>	<b>100%</b>	<b>(19 698)</b>	<b>100%</b>	<b>15 557</b>	<b>(78.98%)</b>
- interest expenses under trade payables to related parties	(521)	12.58%	(950)	4.82%	429	(45.16%)
- interest expense on loans to banks	(5)	0.12%	-	-	(5)	-
- interest expenses under repurchase agreements	(61)	1.47%	-	-	(61)	-
- loss from foreign exchange rate differences	(3 484)	84.14%	(18 741)	95.14%	15 257	(81.41%)
- bank charges	(70)	1.69%	(7)	0.04%	(63)	900%
<b>Profit/ before tax</b>	<b>13 538</b>		<b>1 136</b>		<b>12 402</b>	<b>1 091.73%</b>
<b>Income Tax (expense)/ revenue</b>	<b>(3 366)</b>		<b>(123)</b>		<b>(3 243)</b>	<b>2 636.59%</b>
<b>Net profit/ for the period</b>	<b>10 172</b>		<b>1 013</b>		<b>9 159</b>	<b>904.15%</b>

## REVENUE

During the nine-month period to September 30, 2018, the Company sold 22 479 723 MWh of natural gas, amounting to BGN 839 233 thousand (nine-month period to September 30, 2017: 23 868 413 MWh, BGN 773 039 thousand). The net revenue from natural gas sales for the nine-month period to September 30, 2018, amounts to BGN 8 339 thousand (nine-month period to September 30, 2017: BGN 14 593 thousand), which is a decrease of BGN 6 254 thousand. During the nine-month period to September 30, 2018, there was a negative difference between natural gas average weighted sale price and average weighted delivery price, amounting to BGN 0.73, while in 2017 the difference was BGN 0.19 (Table 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, etc. During the nine-month period to September 30, 2018, they amounted to BGN 835 823 thousand (in the first half of 2017: BGN 763 528 thousand), which is an increase of BGN 72 295 thousand, or by 9.47%.

The largest relative share in the total expenses represents the cost of natural gas sold for the nine-month period to September 30, 2018, amounting to BGN 830 894 thousand (nine-month period to September 30, 2017: BGN 758 446 thousand). During the nine-month period to September 30, 2018, compared to 2017, the cost of natural gas as sold was 9.55% higher.

During the nine-month period to September 30, 2018, the reintegrated impairment of receivables amounted to BGN 1 778 thousand (nine-month period to September 30, 2017: BGN 944 thousand).

Hired services costs during the nine-month period to September 30, 2018, amounted to BGN 4 442 thousand (the nine-month period to September 30, 2017: BGN 3 972 thousand), which is an increase of BGN 470 thousand, or by 11.83%. This is due to an increase in the costs of court fees and expenses and the costs of natural gas storage.

During the nine-month period to September 30, 2018, the other expenses amounted to BGN 156 thousand (nine-month period to September 30, 2017: BGN 183 thousand), which is a decrease of BGN 27 thousand. Of those with the largest relative share are the penalty expenses for delayed payments due on a dividend due in 2016 to Bulgarian Energy Holding EAD. They are lower for the first nine months of 2018 compared to the same period of 2017.

The operating result is positive, amounting to BGN 17 666 thousand for the first nine months of 2018 (first nine months of 2017: BGN 20 833 thousand).

The net result of financial income and expenses for the nine-month period to September 30, 2018, is negative at the amount of 4 128 thousand (nine-month period to September 30, 2017: negative BGN 19 697 thousand), which represents an increase of BGN 15 569 thousand. During the reporting period a loss from exchange rate change was realized at the amount of BGN 3 484 thousand (the first nine months of 2017: BGN 18 741 thousand).

During the reporting period there was a decrease in interest expense on trade payables to related parties by BGN 429 thousand.

During the reporting period, interest expenses under repurchase agreements were paid with D Commerce Bank, under a contract for purchase and sale of natural gas.

After reflecting the financial revenues and expenditures for the nine-month period to September 30, 2018, the financial result before tax is a profit of BGN 13 538 thousand (nine-month period to September 30, 2017: BGN 1 136 thousand), which is an increase of BGN 12 402 thousand.

## **CONDENSED STATEMENT OF FINANCIAL POSITION**

As at September 30, 2018, the Company's total assets amounted to BGN 290 097 thousand (December 31, 2017: BGN 329 164 thousand). Changes in the structure of the assets for the period are presented in the table below:

*In thousand BGN*



	30/09/2018		31/12/2017		Change	
<b>Assets</b>						
<b>Non-current assets</b>						
Plant and equipment	80	0.58%	90	0.59%	(10)	(11.11%)
Intangible assets	144	1.05%	189	1.24%	(45)	(23.81%)
Deferred tax assets	13 520	98.37%	14 940	98.17%	(1 420)	(9.50%)
<b>Total non-current assets</b>	<b>13 744</b>	<b>100%</b>	<b>15 219</b>	<b>100%</b>	<b>(1 475)</b>	<b>(9.69%)</b>
<b>Current assets</b>						
<b>Inventories</b>	<b>128 210</b>	<b>46.40%</b>	<b>75 994</b>	<b>24.21%</b>	<b>52 216</b>	<b>68.71%</b>
- natural gas	128 191	46.39%	75 974	24.20%	52 217	68.73%
- materials	19	0.01%	20	0.01%	(1)	(5%)
<b>Trade and other receivables</b>	<b>135 422</b>	<b>49%</b>	<b>235 806</b>	<b>75.11%</b>	<b>(100 384)</b>	<b>(42.57%)</b>
- trade receivables from natural gas sales	68 260	24.70%	153 736	48.97%	(85 476)	(55.60%)
- court and awarded receivables	279	0.10%	160	0.05%	119	74.38%
- prepaid advances for supply of natural gas	58 435	21.14%	68 492	21.82%	(10 057)	(14.68%)
- court Corporate Commercial Bank AD	561	0.20%	561	0.18%	-	-
- receivables from related parties (natural gas, deposits and guarantees)	6 951	2.52%	10 826	3.45%	(3 875)	(35.79%)
- other receivables	936	0.34%	2 031	0.64%	(1 095)	(53.91%)
<b>Cash and cash equivalents</b>	<b>12 721</b>	<b>4.60%</b>	<b>2 145</b>	<b>0.68%</b>	<b>10 576</b>	<b>493.05%</b>
<b>Total current assets</b>	<b>276 353</b>	<b>100%</b>	<b>313 945</b>	<b>100%</b>	<b>(37 592)</b>	<b>(11.97%)</b>
<b>Total assets</b>	<b>290 097</b>		<b>329 164</b>		<b>(39 067)</b>	<b>(11.87%)</b>

#### NON-CURRENT ASSETS

As at September 30, 2018, the non-current assets amounted to BGN 13 744 thousand (December 31, 2017: BGN 15 219 thousand), which is a decrease of BGN 1 475 thousand or by 9.69%. As at September 30, 2018, the non-current assets were comprised from non-current tangible and intangible assets, amounting to BGN 224 thousand and deferred tax assets of BGN 13 520 thousand.

#### CURRENT ASSETS

As at September 30, 2018, the current assets amounted to BGN 276 353 thousand (December 31, 2017: BGN 313 945 thousand), which is a decrease of BGN 37 592 thousand, or by 11.97% as a result of a decrease in trade and other receivables.

The following assignment agreements were concluded during the nine-month period to September 30, 2018:

*In thousand BGN*

Receivable from	Principal	Penalty	Total value of sold receivables
Toplofikacia Sofia EAD	170 922	9 857	180 779
Toplofikacia Pleven EAD	24 180	1 246	25 426
Toplofikacia Burgas EAD	11 495	286	11 781
Toplofikacia Petrich EAD	1 415	4	1 419
<b>Total</b>	<b>208 012</b>	<b>11 393</b>	<b>219 405</b>

Receivables are sold at face value.

As at September 30, 2018, the inventories amounted to BGN 128 210 thousand (December 31, 2017: BGN 75 994 thousand), which represents an increase of BGN 52 216 thousand, or by 68.71%.



As at September 30, 2018, the trade and other receivables amounted to BGN 135 422 thousand (December 31, 2017: BGN 235 806 thousand), which is a decrease of BGN 100 384 thousand or by 42.57% compared to the end of 2017.

The prepaid advance for natural gas supply as at September 30, 2018, amounting to BGN 58 435 thousand (December 31, 2017: BGN 68 492 thousand) represents a decrease by BGN 10 057 thousand or by 14.68%, compared to December 31, 2017.

The most significant trade receivables, including consumed but not paid natural gas as at September 30, 2018, came from the following companies:

<i>In thousand BGN</i>		
Counterparty	Total receivables	Of which overdue receivables
Toplofikacia Plevan EAD	25 350	25 350
Lukoil Neftochim Burgas AD	14 494	-
Toplofikacia Sofia EAD	6 657	6 494
Toplofikacia Burgas EAD	5 880	5 880
Toplofikacia Vratsa EAD	5 584	5 584
Neochim AD	2 584	-
Citygas Bulgaria EAD	2 332	-
Aresgas AD	1 544	-
M-Gas EOOD	1 432	790
TPP Varna EAD	1 024	1 024
Other	6 963	2 763
<b>Total</b>	<b>73 844</b>	<b>47 885</b>

As of September 30, 2018, the accumulated impairment of receivables amounted to BGN 5 584 thousand, while for the period there were accrued 44 523 thousand depreciation of overdue receivables and integrated impairment of BGN 46 301 thousand.

The Company's cash on current accounts as of September 30, 2018, amounted to BGN 12 721 thousand (December 31, 2017: BGN 2 145 thousand), which is an increase of BGN 10 576 thousand.

## CHANGES IN THE STRUCTURE OF EQUITY AND LIABILITIES

<i>In thousand BGN</i>						
	30/09/2018		31/12/2017		Change	
<b>Equity and liabilities</b>						
<b>Equity</b>						
Share capital	231 698	91.38%	231 698	93.56%	-	-
Statutory reserves	7 368	2.91%	6 420	2.59%	948	14.77%
Other reserves	54	0.02%	54	0.02%	-	-
Retained earnings	14 432	5.69%	9 468	3.83%	4 964	52.43%
<b>Total equity</b>	<b>253 552</b>	<b>100%</b>	<b>247 640</b>	<b>100%</b>	<b>5 912</b>	<b>2.39%</b>
<b>Liabilities</b>						
<b>Non-current liabilities</b>						
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	52	100%	52	0.62%	-	-
<b>Total non-current liabilities</b>	<b>52</b>	<b>100%</b>	<b>8 420</b>	<b>100%</b>	<b>(8 368)</b>	<b>(99.38%)</b>

	30/09/2018		31/12/2017		Change	
<b>Current liabilities</b>						
Loans	-	-	9 956	13.62%	(9 956)	(100%)
- Financing under repurchase contracts for natural gas	-	-	9 956	13.62%	(9 956)	(100%)
<b>Trade and other payables</b>	<b>34 458</b>	<b>94.42%</b>	<b>63 060</b>	<b>86.26%</b>	<b>(28 602)</b>	<b>(45.36%)</b>
- Trade payables	1 623	4.45%	567	0.78%	1 056	186.24%
- Payables to related parties	15 225	41.72%	33 767	46.19%	(18 542)	(54.91%)
- Received advances from clients for sale of natural gas	2 751	7.54%	1 637	2.24%	1 114	68.05%
- VAT to be paid	13 984	38.32%	25 282	34.58%	(11 298)	(44.69%)
- Excise duty to be paid	580	1.59%	1 469	2.01%	(889)	(60.52%)
- Payables to personnel	187	0.51%	120	0.16%	67	55.83%
- Liabilities to insurance companies	57	0.15%	70	0.10%	(13)	(18.57%)
- Other liabilities	51	0.14%	148	0.20%	(97)	(65.54%)
Corporate tax payables	1 947	5.34%	-	-	1 947	-
Liabilities for retirement employee benefit	88	0.24%	88	0.12%	-	-
<b>Total current liabilities</b>	<b>36 493</b>	<b>100%</b>	<b>73 104</b>	<b>100%</b>	<b>(36 611)</b>	<b>(50.08%)</b>
<b>Total liabilities</b>	<b>36 545</b>		<b>81 524</b>		<b>(44 979)</b>	<b>(55.17%)</b>
<b>Total equity and liabilities</b>	<b>290 097</b>		<b>329 164</b>		<b>(39 067)</b>	<b>(11.87%)</b>

## SHARE CAPITAL STRUCTURE

As at September 30, 2018, the registered share capital amounted to BGN 231 698 thousand (December 31, 2017: BGN 231 698 thousand), which was increased in year 2017 by BGN 17 248 thousand from distributed profit for year 2016 with a decision of the Sole Shareholder (Protocol No. 41-2017/23.05.2017).

As of September 30, 2018, the retained profit amounted to BGN 14 432 thousand (December 31, 2017: BGN 9 468 thousand). The change as of September 30, 2018, amounts to BGN 4 964 thousand. The current profit for year 2018 amounts to BGN 10 172 thousand.

## NON-CURRENT LIABILITIES

The Company's non-current liabilities as of September 30, 2018, amounted to BGN 52 thousand (December 31, 2017: BGN 8 420 thousand), which represents a decrease of BGN 8 368 thousand, or by 99.38%. The non-current liabilities are formed by deferred liabilities for transmission and storage of natural gas to a related party.

## CURRENT LIABILITIES

The current liabilities have a greater relative share than the non-current liabilities. As of September 30, 2018, the current liabilities amounted to BGN 36 493 thousand (December 31, 2017: BGN 73 104 thousand), which is a decrease of BGN 36 611 thousand, or 50.08%.

As of September 30, 2018, the Company has paid current payables under a trade loan – a transaction with "D Commerce Bank AD" for purchase and sale of natural gas under the conditions of repurchase amounting to BGN 9 956 thousand and BGN 61 thousand of contractual interest, maturing on 06.03.2018.

As of September 30, 2018, the Company has undrawn loans as follows: overdraft limit of BGN 10 000 thousand from CCB Plc, an overdraft limit amounting to BGN 10 000 thousand by Citibank Europe AD - Bulgaria Branch, and an overdraft limit amounting to BGN 10 000 thousand by Societe Generale Expressbank AD.

Trade and other payables decreased by BGN 28 602 thousand or by 45.36% compared to 2017. Payables to NRA amounted to BGN 13 984 thousand (31.12.2017: BGN 25 282 thousand), which is due to the decreased volume of natural gas sold.

As of September 30, 2018, the liabilities to related parties have been reduced. An increase was observed in the trade payables for natural gas deliveries by BGN 1 056 thousand.

### **CONDENSED STATEMENT OF CASH FLOWS**

The table below presents data for changes in the cash flows as of September 30, 2018, compared to September 30, 2017.

*In thousand BGN*

	<b>30/09/2018</b>	<b>30/09/2017</b>	<b>Change</b>	
Net cash flows from operating activity	40 468	(24 503)	64 971	265.16%
Net cash flows from investing activity	(97)	(69)	(28)	(40.58%)
Net cash flows from financing activity	(29 795)	(837)	(28 958)	(3 459.74%)
Net change in cash and cash equivalents during the period	10 576	(25 409)	35 985	141.62%
<b>Cash and cash equivalents at the beginning of the period</b>	<b>2 145</b>	<b>66 847</b>	<b>(64 702)</b>	<b>(96.79%)</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>12 721</b>	<b>41 438</b>	<b>(28 717)</b>	<b>(69.30%)</b>

The net cash flow from operating activities of the Company in the nine-month period to September 30, 2018, is in the amount of BGN 40 468 thousand (nine-month period to September 30, 2017: negative of BGN 24 503 thousand) – there is an increase of BGN 64 971 thousand, or by 265.16%. It is formed by the difference between receipts from customers for natural gas sold and payments to suppliers of purchased natural gas.

In the nine-month period to September 30, 2018, Bulgargaz EAD has paid for VAT and excise duty the amount of BGN 174 973 thousand (as of September 30, 2017: BGN 165 057 thousand).

### **POST REPORTING-DATE EVENTS**

The events are described in Note 21 of the interim condensed financial statements as of September 30, 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 the nine-month period to September 30, 2018, the financial ratios show financial stability of the Company and are optimal compared to market levels.

### **PROFITABILITY**

<b>Indicators</b>	<b>30/09/2018</b>	<b>30/09/2017</b>
Sales profitability	1.21%	0.13%
Return on equity	4.01%	0.42%
Return on assets	3.51%	0.33%

### **SALES PROFITABILITY**

The sales profitability indicator is calculated as percentage ratio between the profit after tax and sales revenues. It reveals net profit of BGN 100 income. As at September 30, 2018, the sales profitability indicator amounts to 1.21% (September 30, 2017: 0.13%)

### **RETURN ON EQUITY**

This indicator reveals the equity profitability level. In the nine-month period to September 30, 2018, the return on equity ratio is 4.01% (September 30, 2017: 0.42%).

### **RETURN ON ASSETS**

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

As at September 30, 2018, the return on assets is 3.51% (September 30, 2017: 0.33%).

### **LIQUIDITY**

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

<b>Indicators</b>	<b>30/09/2018</b>	<b>31/12/2017</b>
Current liquidity ratio	7.57	4.29
Quick liquidity ratio	4.06	3.25
Immediate liquidity ratio	0.35	0.03

As at September 30, 2018, the current liquidity ratio is 7.57, therefore, the current liabilities of the Company may be covered more than 7 times by the available current assets (September 30, 2017: 4.29).

The quick liquidity ratio is above 1 (one), therefore, with the available current assets, decreased by the inventories, the current liabilities of the Company can be covered more than 4 times.

The immediate liquidity ratio reveals the monetary means that cover Company`s short-terms liabilities. As at September 30, 2018, the immediate liquidity ratio is 0.35 (September 30, 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.

<b>Indicators</b>	<b>30/09/2018</b>	<b>31/12/2017</b>
Financial autonomy ratio	6.94	3.04
Indebtedness ratio	0.14	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 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. In the nine-month period to September 30, 2018, the indicator for financial autonomy ratio is 6.94 (September 30, 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 September 30, 2018, is 0.14 (September 30, 2017: 0.33).

11/10/2018

  
Nikolay Pavlov  
Executive Director





Katya Tsaneva  
Head of Financial Reporting and  
Methodology Department

**BULGARGAZ EAD**  
**CONDENSED STATEMENT OF FINANCIAL POSITION**  
**30 SEPTEMBER 2018**

*(All amounts are in thousands BGN)*

	NOTE	AS AT 30 SEPTEMBER 2018	AS AT 31 DECEMBER 2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Plant and equipment	7	80	90
Intangible assets	8	144	189
Deferred tax assets	12	13 520	14 940
		<b>13 744</b>	<b>15 219</b>
<b>Current assets</b>			
Inventories	9	128 210	75 994
Trade and other receivables	10	135 422	235 806
Cash and cash equivalents	11	12 721	2 145
		<b>276 353</b>	<b>313 945</b>
<b>TOTAL ASSETS</b>		<b>290 097</b>	<b>329 164</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	13	231 698	231 698
Reserves	14	7 422	6 474
Retained earnings		14 432	9 468
		<b>253 552</b>	<b>247 640</b>
<b>Non-current liabilities</b>			
Trade and other payables	15	-	8 368
Liabilities for retirement employee benefits		52	52
		<b>52</b>	<b>8 420</b>
<b>Current liabilities</b>			
Borrowings		-	9 956
Trade and other payables	15	34 458	63 060
Income tax payables		1 947	-
Liabilities for retirement employee benefits		88	88
		<b>36 493</b>	<b>73 104</b>
<b>TOTAL LIABILITIES</b>		<b>36 545</b>	<b>81 524</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>290 097</b>	<b>329 164</b>

The interim condensed financial statements were approved by the Board of Directors on 23 October 2018.

\_\_\_\_\_  
Liliya Ivanova  
Head of Accounting Department

Compiled on 11 October 2018

\_\_\_\_\_  
Nikolay Pavlov  
Executive Director





**BULGARGAZ EAD****CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME  
30 SEPTEMBER 2018***(All amounts are in thousands BGN)*

	NOTE	9-MONTH PERIOD TO 30 SEPTEMBER	
		2018	2017
Revenues from sale of natural gas		839 233	773 039
Cost of natural gas as sold		(830 894)	(758 446)
Recovered/(accrued) impairment losses, net	17	1 778	944
Hired services expenses		(4 442)	(3 972)
Employee benefits and social security expenses		(1 926)	(1 701)
Cost of materials		(50)	(58)
Depreciation/amortization expenses	7, 8	(133)	(112)
Other revenues		14 256	11 322
Other expenses		(156)	(183)
<b>Operating activity profit/(loss)</b>		<b>17 666</b>	<b>20 833</b>
Financial income		13	1
Financial costs		(4 141)	(19 698)
<b>Financial income/(costs) – net</b>		<b>(4 128)</b>	<b>(19 697)</b>
<b>Profit/(loss) before tax</b>		<b>13 538</b>	<b>1 136</b>
Income tax expense	18	(3 366)	(123)
<b>Net profit/(loss) for the period</b>		<b>10 172</b>	<b>1 013</b>
<b>Total comprehensive income/(loss) for the period</b>		<b>10 172</b>	<b>1 013</b>

The interim condensed financial statements were approved by the Board of Directors on 23 October 2018.

\_\_\_\_\_  
Liliya Ivanova  
Head of Accounting Department

\_\_\_\_\_  
Nikolay Pavlov  
Executive Director



Compiled on 11 October 2018

**BULGARGAZ EAD**

**CONDENSED STATEMENT OF CHANGES IN EQUITY  
30 SEPTEMBER 2018**

*(All amounts are in thousands BGN)*

	NOTE	Share capital	Reserves	Retained earnings	Total
<b>AS AT 1 JANUARY 2018</b>	13, 14	<b>231 698</b>	<b>6 474</b>	<b>9 468</b>	<b>247 640</b>
<b>Comprehensive income</b>					
Profit for the period		-	-	10 172	10 172
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>10 172</b>	<b>10 172</b>
<b>Sole Shareholder operations</b>					
Reserve Fund distribution		-	948	(948)	-
Dividend distribution		-	-	(4 260)	(4 260)
<b>Total Sole Shareholder operations</b>		<b>-</b>	<b>948</b>	<b>(5 208)</b>	<b>(4 260)</b>
<b>AS AT 30 SEPTEMBER 2018</b>		<b>231 698</b>	<b>7 422</b>	<b>14 432</b>	<b>253 552</b>
<b>AS AT 1 JANUARY 2017</b>					
		<b>214 450</b>	<b>2 807</b>	<b>37 424</b>	<b>254 681</b>
<b>Comprehensive loss</b>					
Loss for the period		-	-	1 013	1 013
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>1 013</b>	<b>1 013</b>
<b>Sole Shareholder operations</b>					
Reserve Fund distribution		-	3 668	(3 668)	-
Dividend distribution		-	-	(16 508)	(16 508)
Capital increase by new share issue pursuant to Art. 197 (1) of the Commercial Act		17 248	-	(17 248)	-
<b>Total Sole Shareholder operations</b>		<b>17 248</b>	<b>3 668</b>	<b>(37 424)</b>	<b>(16 508)</b>
<b>AS AT 30 SEPTEMBER 2017</b>		<b>231 698</b>	<b>6 475</b>	<b>1 013</b>	<b>239 186</b>

The interim condensed financial statements were approved by the Board of Directors on 23 October 2018.

\_\_\_\_\_  
Liliya Ivanova  
Head of Accounting Department

\_\_\_\_\_  
Nikolay Pavlov  
Executive Director



Compiled on 11 October 2018



**BULGARGAZ EAD****CONDENSED STATEMENT OF CASH FLOWS  
30 SEPTEMBER 2018***(All amounts are in thousands BGN)*

	NOTE	9-MONTH PERIOD TO	
		2018	30 SEPTEMBER 2017
<b>CASH FLOWS FROM OPERATING ACTIVITY</b>			
Proceeds from clients		1 117 725	1 014 506
Payments to suppliers		(896 110)	(858 710)
Payments to personnel and social security institutions		(1 936)	(1 834)
Taxes paid, different from corporate income tax		(174 973)	(165 057)
Profit/(loss) of exchange rate revaluation of cash and cash equivalents		(3 459)	(10 510)
Other proceeds/payments from operating activity, net		(779)	(2 898)
<b>Net cash flow from operating activity</b>		<b>40 468</b>	<b>(24 503)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITY</b>			
Payments for plant and equipment		(27)	(17)
Payments for intangible assets		(70)	(52)
<b>Net cash flows from investing activity</b>		<b>(97)</b>	<b>(69)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>			
Dividends paid		(19 252)	-
Repaid borrowings and payments under financing agreements		(9 924)	-
Payments of interest under loans and financing agreements		(98)	-
Payments of interest under deferred trade payables		(521)	(837)
<b>Net cash flows from financing activity</b>		<b>(29 795)</b>	<b>(837)</b>
<b>Net increase/(decrease) of cash and cash equivalents during the period</b>		<b>10 576</b>	<b>(25 409)</b>
Cash and cash equivalents at the beginning of the period		2 145	66 847
<b>Cash and cash equivalents at the end of the period</b>	11	<b>12 721</b>	<b>41 438</b>

The interim condensed financial statements were approved by the Board of Directors on 23 October 2018.

\_\_\_\_\_  
Liliya Ivanova  
Head of Accounting Department

\_\_\_\_\_  
Nikolay Pavlov  
Executive Director



Compiled on 11 October 2018

# **BULGARGAZ EAD**

## **NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**

**30 SEPTEMBER 2018**

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

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### **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 15 January, 2007.

The Company's main activity is the public supply of natural gas as well as purchases and sales related thereto; purchases of natural gas to be stored in 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. JI-214-14 of 29 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.

The current condensed interim financial statements were approved for publication by the Board of Directors on 23 October 2018.

### **2. BASIS OF PREPARATION**

These condensed interim financial statements for the nine-month period to 30 September 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting. Same do not contain all the information required for the preparation of full annual financial statements under the International Financial Reporting Standards (IFRS) and should be read in conjunction with the annual financial statements of the Company for the year ended 31 December 2017 prepared in accordance with IFRS, developed and published by the International Accounting Standards Board ("IASB") and adopted for application in the European Union ("EU").

The interim condensed 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.

The interim condensed financial statements have been prepared in accordance with the going concern principle.

For the period ending 30 September 2018, the Company reported an accounting profit after tax of BGN 10 172 thousand, a positive cash flow from operating activities amounting to BGN 40 468 thousand, and a net increase in cash and cash equivalents for the period to the amount of BGN 10 576 thousand.

As of 30 September 2018, the financial statements are prepared on a going concern basis, implying that the Company will continue its operations for 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 from ensuring the financing on the part of the principal company – Bulgarian Energy Holding EAD, in case of necessity. Given the assessment of the expected future cash flows and the group strategy for the activity development in Bulgaria, the Company's management believes that it is appropriate the financial statements be prepared on the going concern principle.

### **3. ACCOUNTING POLICIES**

The condensed interim financial statements have been prepared in accordance with the adopted accounting policies in the last annual financial statements of the Company for the year ended 31 December 2017.

The Company is in the process of adapting the accounting policies applied as at 31 December 2017 to be in line with the requirements of the new standards, interpretations, amendments and improvements to existing standards issued by the IASB and adopted by the EU and whose application is mandatory for the Company for the first time since 1 January 2018 described in Note 3.1 New Standards, Amendments to Standards and Interpretations in Force for the First Time since 1 January 2018. As at the date of preparation of these condensed interim financial statements, the Company has not finalized this process, therefore the amounts and classification of the Company's assets, operations and results in the interim condensed financial statements as at 30 September 2018 are prepared and presented in accordance with the accounting policies applied as at 31 December 2017, except for IFRIC, Interpretation 22 "Foreign Currency Transactions and Advance Consideration".

As of the date of approval for the issuance of these condensed interim financial statements, amendments and improvements to existing standards have been made as follows:

#### **3.1. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS IN FORCE FOR THE FIRST TIME SINCE 1 JANUARY 2018**

These standards and interpretations include:

**IFRS 9 Financial Instruments** - Adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);

**IFRS 15 Revenue from contracts with customers** - Adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018);

**Interpretation of IFRS 15 Revenue from contracts with customers** - Adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018);

**Changes 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);

**Amendments to Different Standards Improvements to IFRS (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 (effective for annual periods beginning on or after 1 January 2018);

**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 - Transfers of investment properties - (effective for annual periods beginning on or after 1 January 2018);

**IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration"** - Adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 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 a prepayable asset (prepayments for provision of assets or services) or a deferred income liability (sales receivables 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. As an alternative, 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 beginning of the reporting period in which an entity applies the clarification for the first time, or
- (ii) the beginning of the previous reporting period presented as comparative information in the financial statements for the reporting period in which the Company applies the clarification for the first time.

This 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 the alternative approach to clarification regarding its initial application, i.e. from the beginning of the reporting period in which the Company will apply it for the first time, i.e. as of 1 January 2018. As the Company has substantial down payments and receipts in foreign currency, so the expected effect on the financial statements upon initial application will be as follows:

- purchase of natural gas

*in the Statement of Financial Position* - an increase or decrease of the value of natural gas not realized at the end of the reporting period and respectively an increase or decrease of the financial result for the period;

*in the Statement of Profit or Loss* - an increase or decrease in the cost 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.

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 revenues from sales of natural gas during the reporting period and a corresponding increase or decrease in financial income/expenses from changes in

foreign exchange rates for the period.

As the received advances are made by the customers in the same or the previous month, the Company does not expect an 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 service costs over the reporting period and a corresponding increase or decrease in financial income/expense from changes in foreign exchange rates for the period.

Since prepayments are made to counterparties in the same or previous month, the Company does not expect any effect on the financial result, but only on how it is presented.

**3.2. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS 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 adopted for earlier application by the Company:

**IFRS 16 Leasing** - Adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019);

This standard has a completely changed concept and introduces significant changes in the reporting of leases, especially on the part of lessees. It introduces new principles for the recognition, measurement and presentation of leases in order to better represent these transactions. The Standard will replace the current IAS 17 *Leases*, IFRIC 4 *Determining whether an arrangement contains a lease*, SIC-15 *Operating leases - incentives* and SIC-27 *Assessing the content of transactions involving the legal form of a lease*. The guiding principle of the new standard is the introduction of a one-size-fits-all model of lease accounting for lessees for all lease contracts with 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 is in the process of assessing the effect of applying the Standard but can not yet provide quantitative information.

**Amendment to IFRS 9 Financial Instruments** – Adopted by the EU on 22 March 2018 - Prepayments with Negative Compensation (effective for annual periods as of 1 January 2019).

**3.3. 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's application approval decisions.

**IFRIC 23 "Uncertainty relating to Income Taxes"** - (effective for annual periods beginning on or after 1 January 2019);

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

**Amendments to IAS 19 Employee Benefits - Amendment, Reducing or Settlement of the Plan** - (effective for annual periods beginning on or after 1 January 2019);

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

**IFRS 17 "Insurance Contracts"** - (effective for annual periods beginning on or after 1 January 2021).

#### **4. ESTIMATES**

In the preparation of interim financial statements, the management makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from management's estimates, judgements and assumptions, and in rare cases fully correspond to the previously assessed results.

In the preparation of these condensed interim financial statements, the significant management's judgment in the application of the Company's accounting policies and the main sources of uncertainty of the accounting estimates do not differ from those disclosed in the annual financial statements of the Company as at 31 December 2017, with the exception of the changes in the estimate of income tax expense.

#### **5. FINANCIAL RISK MANAGEMENT**

##### **5.1. FINANCIAL RISK FACTORS**

In carrying out its activities, the Company is exposed to a number of financial risks. The most significant financial risks to which the Company is exposed are market risk, credit risk and liquidity risk.

The condensed interim financial statements do not include all the information on risk management and disclosures required in the preparation of annual financial statements and should be read in conjunction with the annual financial statements of the Company as at 31 December 2017. There were no changes to the risk management policy during the period.

##### **5.2. FAIR VALUE MEASUREMENT**

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

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

#### **6. SEASONALITY OF OPERATIONS**

The activity of the Company is characterized by seasonal fluctuation as part of the Company's customers (heat and gas distribution companies) that use natural gas for heat and electricity production or directly

## BULGARGAZ EAD

### NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 SEPTEMBER 2018

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

deliver it for heating. This is why the seasons have a significant impact on the Company's activities.

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

The realization of natural gas during the nine-month period to September 30, 2018 is 22 479 723 MWh (nine-month period to September 30, 2017: 23 868 413 MWh).

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

#### 7. PLANT AND EQUIPMENT

	Plant and equipment	Vehicles	Office equipment	Total
<b>AS AT 1 JANUARY 2018</b>				
Gross carrying amount	86	441	284	<b>811</b>
Depreciation	(47)	(420)	(254)	<b>(721)</b>
<b>Carrying amount</b>	<b>39</b>	<b>21</b>	<b>30</b>	<b>90</b>
<b>9-MONTH PERIOD TO 30 SEPTEMBER 2018</b>				
Additions	5	-	17	<b>22</b>
Depreciation	(4)	(6)	(22)	<b>(32)</b>
<b>Ending carrying amount</b>	<b>40</b>	<b>15</b>	<b>25</b>	<b>80</b>
<b>AS AT 30 SEPTEMBER 2018</b>				
Gross carrying amount	91	441	301	<b>833</b>
Depreciation	(51)	(426)	(276)	<b>(753)</b>
<b>Carrying amount</b>	<b>40</b>	<b>15</b>	<b>25</b>	<b>80</b>

No plant and equipment has been pledged as security for the Company's liabilities.

#### 8. INTANGIBLE ASSETS

	License	Software	Total
<b>AS AT 1 JANUARY 2018</b>			
Gross carrying amount	15	853	<b>868</b>
Amortization	(5)	(674)	<b>(679)</b>
<b>Carrying amount</b>	<b>10</b>	<b>179</b>	<b>189</b>
<b>9-MONTH PERIOD TO 30 SEPTEMBER 2018</b>			
Additions	25	31	<b>56</b>
Amortization	(2)	(99)	<b>(101)</b>
<b>Ending carrying amount</b>	<b>33</b>	<b>111</b>	<b>144</b>
<b>AS AT 30 SEPTEMBER 2018</b>			
Gross carrying amount	40	884	<b>924</b>
Amortization	(7)	(773)	<b>(780)</b>
<b>Carrying amount</b>	<b>33</b>	<b>111</b>	<b>144</b>

No intangible assets have been pledged as security for the Company's liabilities.

## BULGARGAZ EAD

### NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 SEPTEMBER 2018

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

#### 9. INVENTORIES

	AS AT 30 SEPTEMBER 2018	AS AT 31 DECEMBER 2017
Natural gas at cost	128 191	75 974
Natural gas – net realisable value	128 191	75 974
Materials	19	20
<b>Total inventories</b>	<b>128 210</b>	<b>75 994</b>

The accrued impairment movement of natural gas is the following:

	9-MONTH PERIOD TO 30 SEPTEMBER	
	2018	2017
<b>At the beginning of period</b>	-	324
Written-off impairment of natural gas sold	-	(324)
<b>At the end of period</b>	-	-

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

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

As at the date of the condensed statement of financial position, the Company has analysed the circumstances that would lead to the existence of impairment in the value of natural gas and on the basis of this assessment it was established that the net realizable value of the natural gas is higher than its carrying value, and as of 30 September 2018, no impairment loss was incurred. The main external sources used as an impairment indicator is decision № II-14/28.09.2018 issued by EWRC.

No inventories are pledged as security for the Company's liabilities.



**BULGARGAZ EAD****NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS****30 SEPTEMBER 2018***(All amounts are in thousands BGN, unless otherwise stated)***10. TRADE AND OTHER RECEIVABLES**

	AS AT 30 SEPTEMBER 2018	AS AT 31 DECEMBER 2017
Trade receivables	73 844	161 096
Accumulated impairment of trade receivables	(5 584)	(7 360)
<b>Trade receivables, net</b>	<b>68 260</b>	<b>153 736</b>
Court and awarded receivables	201 394	201 313
Accumulated impairment of court and awarded receivables	(201 115)	(201 153)
<b>Court and awarded receivables, net</b>	<b>279</b>	<b>160</b>
Receivable from Corporate Commercial Bank AD - insolvent	5 077	17 463
Accumulated impairment of receivable from Corporate Commercial Bank AD-insolvent	(4 516)	(16 902)
<b>Receivable from Corporate Commercial Bank AD-insolvent, net</b>	<b>561</b>	<b>561</b>
Prepaid advances for natural gas delivery	58 435	68 492
Receivables from related parties (Note 20)	6 951	10 826
Other receivables - prepaid expenses, guarantees and deposits	936	2 031
<b>Total trade and other receivables</b>	<b>135 422</b>	<b>235 806</b>
<b>Current trade and other receivables</b>	<b>135 422</b>	<b>235 806</b>

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

	9-MONTH PERIOD TO 30 SEPTEMBER	
	2018	2017
<b>At the beginning of period</b>	<b>225 415</b>	<b>228 296</b>
Accrued losses from impairment of receivables	44 523	9 816
Written-off uncollectible receivables	(36)	(152)
Reversals of impairment losses	(46 301)	(9 397)
Reversals of losses from impairment of Corporate Bank AD - insolvent	-	(561)
Written-off losses from impairment of Corporate Commercial Bank AD – insolvent	(12 386)	-
<b>At the end of period</b>	<b>211 215</b>	<b>228 002</b>

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

The effects of time elapsed/change in the discount rate are reported in financial income/expense - net.

Amounts recognized in the allowance account for credit losses on receivables are written-off when there is no expectation that the Company will be able to obtain additional payments.

Trade receivables that are not paid within 30 days of the due date are not considered overdue. Trade receivables, individually chosen to be impaired as at the end of the reporting period, are receivables from specific customers, which have financial difficulties as at the date of preparation of these financial

## BULGARGAZ EAD

### NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 SEPTEMBER 2018

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

statements. For the purpose of presenting these interim condensed financial statements and in accordance with the accounting policy of the Company, no review for impairment of trade and other receivables has been made.

The Company has receivables from the Corporate Commercial Bank AD (insolvent), amounting to BGN 17 463 thousand. Pursuant to the Decision No. 3BH66-8, 3BH66-39 of 28.12.2015 of the syndics of CCB AD (insolvent), entered in the Commercial Register, the amount of the recognised receivables of the Company is BGN 5 077 thousand. An appeal has been filed against the decision of the syndics before the competent court for recognition that the Company had a receivable amounting to BGN 12 394 thousand and a claim for contractual interest on the entire amount of the receivables filed in the bankruptcy proceedings. The Company's objection was rejected by two courts. A cassation complaint was filed with the Supreme Court of Cassation against the decision of the Second Instance Court.

Based on these uncertainties, the management considered it reasonable that in 2016 an impairment to be recognized, as the impairment value is determined as 100% of the amount of the receivable from Corporate Commercial Bank AD (insolvent).

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. On the basis of this information and decisions of the Board of Directors of BEH EAD under Protocol No. 21-2017/07.03.2017 and of Bulgargaz EAD under Protocol No. 280/29.05.2017, as at 30 June 2017 a reversal of impairment of receivables from the Corporate Commercial Bank AD – insolvent was made up to the amount of the recoverable amount determined by the syndics, namely BGN 561 thousand.

By an Order by the Supreme Court of Cassation of 13.03.2018, the appeal of Bulgargaz EAD against the decision of the Sofia Appellate Court, the case with Corporate Commercial Bank AD (insolvent) was not admitted to cassation and the decision came into effect.

The decision of the Sofia Appellate Court was upheld by the decision of the Sofia City Court, which rejected the objection of Bulgargaz EAD against the decision of the syndics of Corporate Commercial Bank AD (insolvent) to acknowledge that the company was the holder of a receivable for an amount to BGN 12 394 thousand, as well as a claim for contractual interest on the receivables filed in insolvency proceedings at the amount of BGN 17 472 thousand. As of the date of the Supreme Court of Cassation's order, the decision of the Sofia Appellate Court entered into force.

The unrecognized amount of the transferred receivable, according to accounting data amounting to BGN 12 386 thousand, has been written off from the accounting registers.

#### 11. CASH AND CASH EQUIVALENTS

	AS AT 30 SEPTEMBER 2018	AS AT 31 DECEMBER 2017
Cash on hand	14	23
Cash in bank accounts	12 707	2 122
<b>Total cash and cash equivalents</b>	<b>12 721</b>	<b>2 145</b>

**RECONCILIATION BETWEEN INITIAL AND FINAL BALANCES IN THE BREAKDOWN OF THE FINANCIAL POSITION AS OF 30 JUNE 2018 OF LIABILITIES ARISING FROM FINANCIAL ACTIVITIES**

Liabilities arising from financial activities	On 1 January	Cash flows from financial activities		Changes of non-cash nature - dematerialized	On 30 September
		Receipts	Payments	Additions (increases)	
Short-term bank loans	9 956	-	(10 017)	61	-
Long-term commercial loans related parties	-	-	(521)	521	-
<b>Total liabilities from financial activities:</b>	<b>9 956</b>	<b>-</b>	<b>(10 538)</b>	<b>582</b>	<b>-</b>

**12. DEFERRED TAX ASSETS AND LIABILITIES**

Deferred tax assets and liabilities are recognized for all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, at a tax rate of 10% (2017: 10%), applicable for the year, when they are expected to occur retroactively.

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

	9-MONTH PERIOD TO 30 SEPTEMBER	
	2018	2017
<b>AS AT 1 JANUARY</b>	<b>14 940</b>	<b>15 240</b>
Recognized as (income)/expense in the condensed statement of profit or loss and other comprehensive income (Note 18)	(3 366)	(43)
<b>AS AT 30 SEPTEMBER</b>	<b>11 574</b>	<b>15 197</b>

**BULGARGAZ EAD****NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS****30 SEPTEMBER 2018***(All amounts are in thousands BGN, unless otherwise stated)*

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

<b>DEFERRED TAX ASSETS</b>	<b>Impairment of inventories</b>	<b>Impairment of trade and other receivables</b>	<b>Pension provisions</b>	<b>Unused paid leaves</b>	<b>Plant and Equipment</b>	<b>Total</b>
<b>AS AT 1 JANUARY 2018</b>	-	(14 917)	(14)	(14)	-	(14 945)
Expense/(Income) in profit or loss	-	1 420	-	-	-	1 420
<b>AS AT 30 SEPTEMBER 2018</b>	-	(13 497)	(14)	(14)	-	(13 525)
<b>DEFERRED TAX LIABILITIES</b>						
<b>AS AT 1 JANUARY 2018</b>	-	-	-	-	5	5
Expense/(Income) in profit or loss	-	-	-	-	-	-
<b>AS AT 30 SEPTEMBER 2018</b>	-	-	-	-	5	5
<b>DEFERRED TAX ASSETS, NET</b>	-	(13 497)	(14)	(14)	5	(13 520)

**BULGARGAZ EAD****NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS****30 SEPTEMBER 2018***(All amounts are in thousands BGN, unless otherwise stated)***13. SHARE CAPITAL**

	<b>9-MONTH PERIOD TO 30 SEPTEMBER 2018</b>	
	<b>Number of shares</b>	<b>Amount</b>
At the beginning of period	231 698 584	231 698
<b>At the end of the period</b>	<b>231 698 584</b>	<b>231 698</b>

**14. RESERVES**

	<b>9-MONTH PERIOD TO 30 SEPTEMBER 2018</b>			
	<b>Statutory reserves</b>	<b>Revaluation reserves of non-financial assets</b>	<b>Reserve of revaluations of defined benefit plans</b>	<b>Total</b>
At the beginning of period	6 420	53	1	6 474
Deductions for the Reserve Fund	948	-	-	948
<b>At the end of the period</b>	<b>7 368</b>	<b>53</b>	<b>1</b>	<b>7 422</b>

**15. TRADE AND OTHER PAYABLES**

	<b>AS AT 30 SEPTEMBER 2018</b>	<b>AS AT 31 DECEMBER 2017</b>
Related party payables (Note 20)	15 225	42 135
VAT payable	13 984	25 282
Advances received from clients for sale of natural gas	2 751	1 637
Trade payables	1 623	567
Excise duty	580	1 469
Payables to employees	187	120
Liabilities to insurance companies	57	70
Other liabilities	51	148
<b>Total trade and other payables</b>	<b>34 458</b>	<b>71 428</b>
Less non-current portion:		
- Related party payables (Note 20)	-	8 368
<b>Non-current trade and other payables</b>	<b>-</b>	<b>8 368</b>
<b>Current trade and other payables</b>	<b>34 458</b>	<b>63 060</b>

**16. UNUSUAL ITEMS**

There are no expenses in the condensed statement of profit or loss and other comprehensive income as at 30 September 2018 treated as unusual items.

## BULGARGAZ EAD

### NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 SEPTEMBER 2018

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

#### 17. IMPAIRMENT LOSS

	9-MONTH PERIOD TO 30 SEPTEMBER	
	2018	2017
Impairment loss accrued for trade and other receivables (Note 10)	(1 778)	(383)
Accrued and recovered impairment losses on receivables from Corporate Commercial Bank - insolvent (Note 10)	-	(561)
<b>Total impairment losses of assets</b>	<b>(1 778)</b>	<b>(944)</b>

#### 18. INCOME TAX EXPENSES

	9-MONTH PERIOD TO 30 SEPTEMBER	
	2018	2017
Current corporate tax expense	(1 946)	-
Effect of the change in deferred taxes (Note 12)	(1 420)	(43)
<b>Income (expense) tax revenues</b>	<b>(3 366)</b>	<b>(43)</b>

Current tax expense is recognized on the basis of the Company's management's estimate of the weighted average annual profit tax expected for the full financial year, which is 10% (2017: 10%).

#### 19. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

##### European Commission procedures

##### Case COMP/B1/AT.39849 – BEH Gas

The case is related to an alleged breach of Article 102 of TFUE in connection to alleged actions of BEH EAD and its subsidiaries – Bulgargaz EAD and BULGARTRANGAZ EAD aimed at:

- preventing their competitors from getting access to key gas infrastructure (gas transmission network and the natural 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 - 10 of Regulation 1/2003).

On 23 March, 2015 the European Commission (EC) issued a Statement of Objections (SO). Bulgarian Energy Holding EAD and its gas subsidiaries presented their respective replies to the European Commission on 9 July 2015 (Bulgargaz EAD), 10 July 2015 (Bulgarian Energy Holding EAD) and 17 July 2015 (Bulgartransgaz EAD).

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

On 26 July 2018, a decision was taken by the 44th National Assembly of the Republic of Bulgaria to take the necessary action for closing Case COMP/B1/AT.39849 - BEH Gas, whereby the National Assembly adopted a decision to take action to reach agreement on Case COMP/B1/AT.39849 - BEH-gas.

At this time, the European Commission has not taken a formal decision to close the case, including the possible amount of the financial sanction.

**Legal claims**

During this period, there are no legal actions of significant material interest against the Company.

**20. RELATED PARTY TRANSACTIONS**

The Company announces the following related parties:

**Sole shareholder of the Company, exercising control (Parent company)**

BULGARIAN ENERGY HOLDING EAD

**Sole shareholder of the Parent company**

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, BULGARTRANGAZ EAD, Electricity System Operator EAD, TPP Maritsa East 2 (9 and 10) EAD, PFC Beroe – Stara Zagora EAD, Bulgartel-Skopje DOOEL, Energy Measurement and Information Technology Operator EAD (in liquidation), Independent Bulgarian Energy Exchange EAD until 15.02.2018, Energy Investment Company EAD until 26.04.2018.

**Associated companies for BEH Group**

Contur Global Maritsa Iztok 3 AD

Contur Global Operations Bulgaria AD

Energy Insurance JSC

Allianz Bulgaria Pension AD

HEC Gorna Arda AD

**Joint companies for BEH Group**

ICGB AD

South Stream Bulgaria AD

Transbalkan Electric Power Trading S.A. – NECO S.A.

**Others** – all enterprises related to the State.

**Key management of the Company**

Petyo Angelov Ivanov – Chairman of the BoD

Iliyan Kirilov Dukov – Member of the BoD

Nikolay Angelov Pavlov – Member of the BoD and CEO

## BULGARGAZ EAD

### NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 SEPTEMBER 2018

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

#### 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

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

#### (A) SALE OF GOODS AND SERVICES

	9-MONTH PERIOD TO 30 SEPTEMBER	
	2018	2017
<b>Companies under common control</b>		
BULGARTRANGAZ EAD	8 005	5 686
<b>Total</b>	<b>8 005</b>	<b>5 686</b>

Sales include natural gas sold for technological purposes and balancing.

#### (B) PURCHASE OF GOODS AND SERVICES

	9-MONTH PERIOD TO 30 SEPTEMBER	
	2018	2017
<b>Parent company</b>		
BULGARIAN ENERGY HOLDING EAD	102	110
<b>Companies under common control</b>		
BULGARTRANGAZ EAD	64 262	44 509
BULGARTEL EAD	13	16
<b>Total</b>	<b>64 377</b>	<b>44 635</b>

Purchases of services from BULGARIAN ENERGY HOLDING EAD include services under management and control agreement and a purchase of an intangible fixed asset.

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

Purchases of services from BULGARTEL EAD include technical support.

#### (C) CEDING OF RECEIVABLES

During the reporting period, the Company has ceded for consideration its receivables from Toplofikatsia Sofia EAD, Toplofikatsia Pleven EAD, Toplofikatsia Burgas EAD, Toplofikatsia Petrich EAD to the National Electrical Company EAD, totalling BGN 120 212 thousand, on the basis of agreements concluded between the assignor and the assignees.

The Company has also ceded its receivables from Toplofikatsia Sofia EAD to BULGARIAN ENERGY HOLDING EAD at a nominal value of BGN 99,193 thousand.



**BULGARGAZ EAD****NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS****30 SEPTEMBER 2018***(All amounts are in thousands BGN, unless otherwise stated)***(D) ACCRUED PENALTY CHARGES**

	<b>9-MONTH PERIOD TO 30 SEPTEMBER</b>	
	<b>2018</b>	<b>2017</b>
<b>Parent company</b>		
BULGARIAN ENERGY HOLDING EAD	103	134
<b>Companies under common control</b>		
BULGARTRANGAZ EAD	524	950
<b>Total</b>	<b>627</b>	<b>1 084</b>

Accrued penalty charges to BEH relate to the obligation to pay dividends, and to Bulgartransgaz EAD – default on current liabilities and interest under the Agreement.

**(E) RECEIVABLES FOR PURCHASES OF GOODS AND SERVICES**

	<b>AS AT 30 SEPTEMBER 2018</b>	<b>AS AT 31 DECEMBER 2017</b>
<b>Companies under common control</b>		
BULGARTRANGAZ EAD	6 951	10 826
<b>Total</b>	<b>6 951</b>	<b>10 826</b>

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

**(F) PAYABLES FOR PURCHASES OF GOODS AND SERVICES**

	<b>AS AT 30 SEPTEMBER 2018</b>	<b>AS AT 31 DECEMBER 2017</b>
<b>NON-CURRENT</b>		
<b>Companies under common control</b>		
BULGARTRANGAZ EAD	-	8 368
<b>Total non-current</b>	<b>-</b>	<b>8 368</b>
<b>CURRENT</b>		
<b>Parent company</b>		
BULGARIAN ENERGY HOLDING EAD	27	14 929
<b>Companies under common control</b>		
BULGARTRANGAZ EAD	15 197	18 837
BULGARTEL EAD	1	1
<b>Total current</b>	<b>15 225</b>	<b>33 767</b>
<b>Total</b>	<b>15 225</b>	<b>42 135</b>

## BULGARGAZ EAD

### NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 SEPTEMBER 2018

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

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

As at 30 September 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 of 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-day year.

As at 30 September 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 12 497 thousand principal (31 December 2017: BGN 16 293 thousand).

The rest of the current obligations to Bulgartransgaz EAD are related to current provision of transmission services and storage of natural gas amounting to BGN 2 700 thousand.

#### **(G) KEY MANAGEMENT PERSONNEL REMUNERATIONS**

Key management personnel includes members of the Board of Directors.

Key management personnel remunerations are as follows:

	<b>9-MONTH PERIOD TO 30 SEPTEMBER</b>	
	<b>2018</b>	<b>2017</b>
Short term benefits to key management personnel		
- Remunerations	134	124
- Social security costs	14	14
<b>Total</b>	<b>148</b>	<b>138</b>

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

#### **21. POST-REPORTING DATE EVENTS**

No significant events have occurred after the end of the current reporting period that has effect on the condensed financial statements as at 30 September 2018, except for the one mentioned below:

By its decision, the Energy and Water Regulatory 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 fourth quarter of 2018, as follows: BGN 43.28/MWh (BGN 456.65/1000 cubic meters), excluding excise duty and VAT.

#### **22. APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS**

The interim condensed financial statements as at 30 September 2018 (including comparatives) were approved and endorsed by the Board of Directors on 23 October 2018.