BULGARGAZ EAD

ANNUAL ACTIVITY REPORT
FINANCIAL STATEMENTS
INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2015

CONTENTS

This annual Company Activity Report for 2015 presents financial statements' comments and analysis and other important information as regards to the financial position and results of Bulgargaz EAD activity for one year period, January 1, 2015 - December 31, 2015.

This report has been made pursuant to Art 33, Paragraph 1 and 2 of the Accountancy Act, and Article 187d, 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 address of management: 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 purpose of its storage in a gas storage facility; marketing research and analyses of the Bulgarian natural gas market.

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

Ownership and Management

Bulgargaz EAD is a sole shareholder joint stock company within the organizational structure of the Bulgarian Energy Holding EAD (BEH).

The registered share capital is allocated into 206 297 188 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 amount of BGN 1. The company shares are ordinary, registered, unpriviledged and voting shares.

The sole owner of the Bulgargaz EAD share capital is the Bulgarian Energy Holding EAD, which 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).

Until April 15, 2014 the company was managed by a Board of Directors, comprising:

Botyo Tomov Velinov	Chairman of the BoD
Mustafa Mustafov Ahmedov	Member of the BoD
Dafinka Yordanova Yankova	Member of the BoD and CEO

On April 15, 2014, the BEH's BoD Decision on appointment of new members of the Board of Directors was registered in the Companies Register:

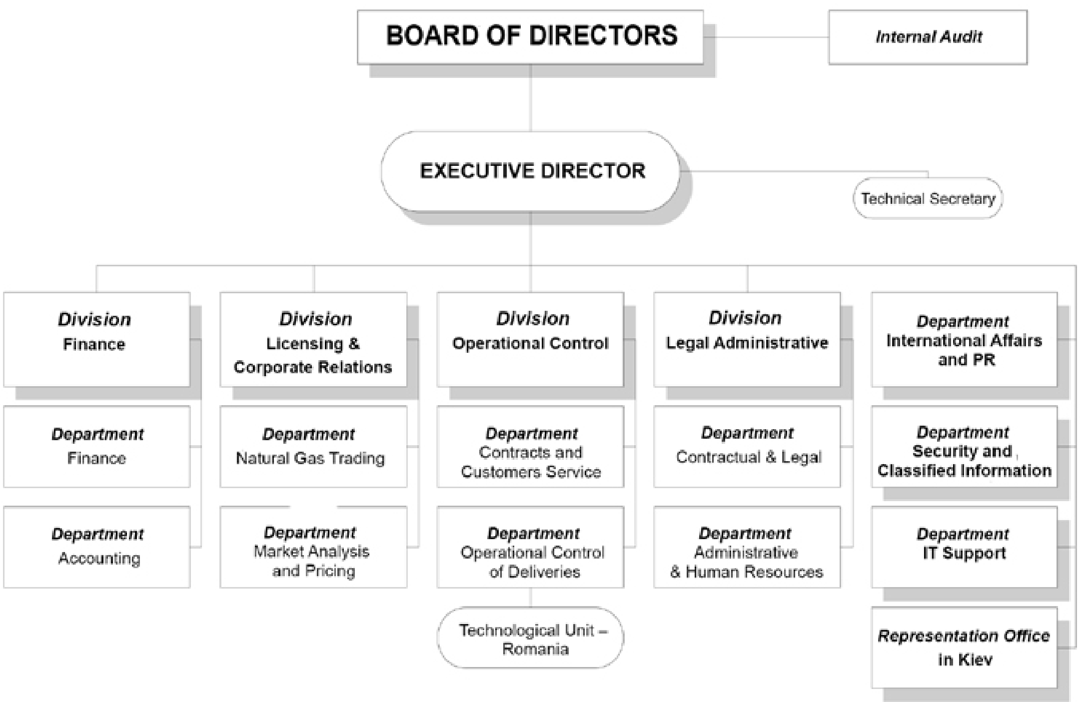
Botyo Tomov Velinov	Chairman of the BoD
Anna Emilova Dimitrova	Member of the BoD
Dafinka Yordanova Yankova	Member of the BoD and CEO

On December 23, 2014 with a Decision № 61 – 2014/23.12.2014 of BEH EAD, Iliyan Kirilov Dukov was appointed Member of the BoD of Bulgargaz EAD. This was registered in the Companies register on January 6, 2015.

On February 10, 2015 the BEH's BoD Decision on appointment of a new CEO, and new members of the Board of Directors was registered in the Companies Register:

Botyo Tomov Velinov	Chairman of the BoD
Iliyan Kirilov Dukov	Member of the BoD
Petyo Angelov Ivanov	Member of the BoD and CEO

BULGARGAZ EAD`S ORGANISATIONAL STRUCTURE



Company Management responsibility

The Management confirms that adequate accounting policy is applied during preparation of the 2015 the Financial Statements and that the latter are prepared based on a going concern principle.
The company management is responsible for correct keeping of the accounting ledgers for the expedient assets management and for undertaking necessary measures to avoid and discover potential frauds and other irregularities.

Information on BoD Remuneration under Management and Control Contracts

In 2014 and 2015 the BoD members received remuneration, as follows:

In BGN

	2015	**2014**
BoD remuneration	106 399	109 535
Social security expenses	12 813	12 352
Compensation	1 053	-
Total:	**120 265**	**121 887**

Information on 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. BEH owns 100% of the shares.

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

Botyo Tomov Velinov – Member of the BoD from 03.10.2013; Chairman of BoD as of 12.12.2013

- 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.

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

- Does not participate as an unlimited liability partner in trade companies;
- Owns more than 25 % of the equity of Ypi 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;

Petyo Angelov Ivanov – CEO, Member of the BoD from 10.02.2015:

- 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 Contour Global Operations Bulgaria AD as a Member of the BoD;

Information on Contracts under Article 240b of the Commercial Act concluded during 2015.

In 2015 the BoD members or other related persons thereof, had not concluded any contracts with the company that are beyond its usual activity or significantly divert from the market conditions.

II. Company Activity Results for 2015

In 2015 Bulgargaz EAD performs its activities in compliance with the regulations. The company activity results represent a financial profit for 2015, after taxes amounting to 20 365 BGN (2014: 5 129 BGN).

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. The natural gas public supply is a regulated activity. 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 to other natural gas traders, whose activities are not regulated in accordance with the aforementioned regulations. As of January 1, 2013, Bulgargaz EAD has also performed an unregulated activity – sales of services and sales of small volumes of natural gas beyond territory of the Republic of Bulgaria.

Important events occurred during the year, relating directly to company`s activity.

On 29th of July 2014 the Commission for Protection of Competition issued Decision № 1054, which found that Bulgargaz EAD committed a violation of Article 21 of the Law on Protection of Competition, representing imposing unfair trading conditions. By a Decesion № 10524/12.10.2015 of the Supreme Administrative Court the imposed fine, amounting to TBGN 23 378, was cancelled. The cancelation is not subject to appeal.

By amending Regulation № 2 from March 19, 2013 for regulating natural gas prices (State Gazette issue 94, as of December 4, 2015), for the purposes of price regulation, as eligible costs, are included by EWRC the cost of impairment losses of inventories of natural gas and state fees, related to cases initiated in order to collect receivables.

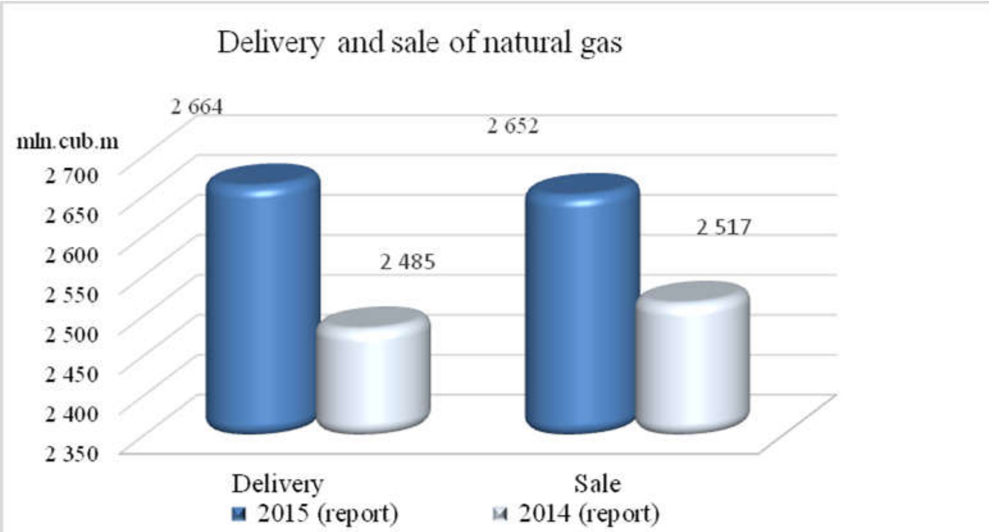
1. Quantitative Indicators Implementation

Delivered and Sold Natural Gas Volumes

The natural gas deliveries, securing needs of the company's clients, during the reported period, are performed via long-term contracts. The natural gas volumes delivered and sold in 2015, compared to 2014, are presented in Table 1:

Table No.1:

Type of delivery	Unit	2015 (report)	2014 (report)	Volume change	% Change
Delivered	Mln.cub. m^3	2 664	2 485	179	7.20%
Sold	Mln.cub. m^3	2 652	2 517	135	5.36%



During the reported period of 2015, the deliveries totalled to 2 664 mln. m^3 natural gas (2014: 2 485 mln. m^3), which is an increase of 179 mln. m^3 or 7.20%.

During the reported period 2 652 mln. m^3 natural gas was sold compared to 2 517 mln. m^3 for 2014, which is an increase of 135 mln. m^3 or 5.36%. The increase was mainly due to the clients' higher consumption in the Chemistry sector.

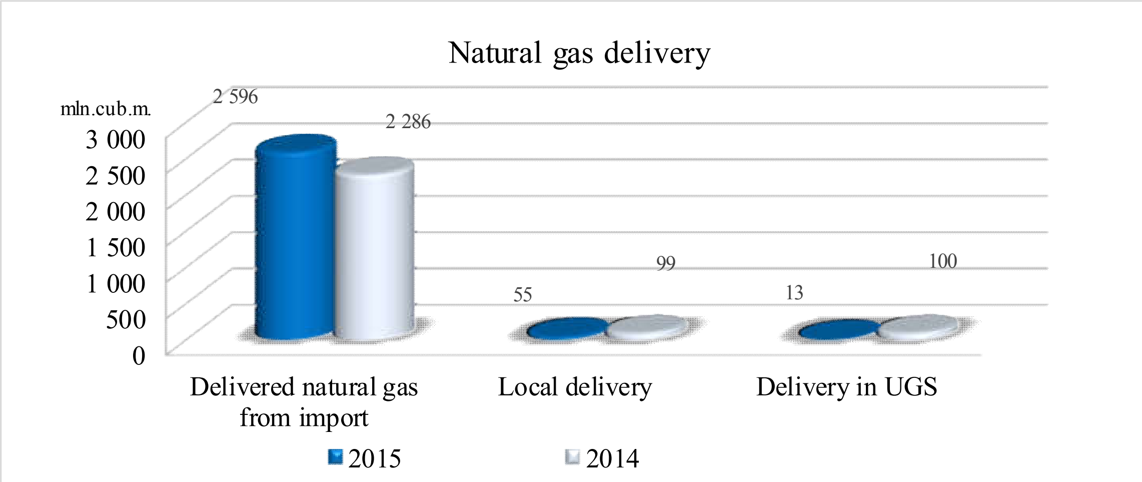
1.1. Delivered natural gas volumes

The delivered natural gas volumes in 2015 and 2014 are presented in Table 2.

Table No.2:

mln.m^3

No	Type of delivery	2015	2014	Relative Share 2015	Relative Share 2014	% Change
1	Imported natural gas	2 596	2 286	97.45%	91.99%	13.56%
2	Local production deliveries	55	99	2.06%	3.99%	-44.44%
3	Delivery to UGS	13	100	0.49%	4.02%	-87.00%
	Total:	**2 664**	**2 485**	**100.00%**	**100.00%**	**7.20%**



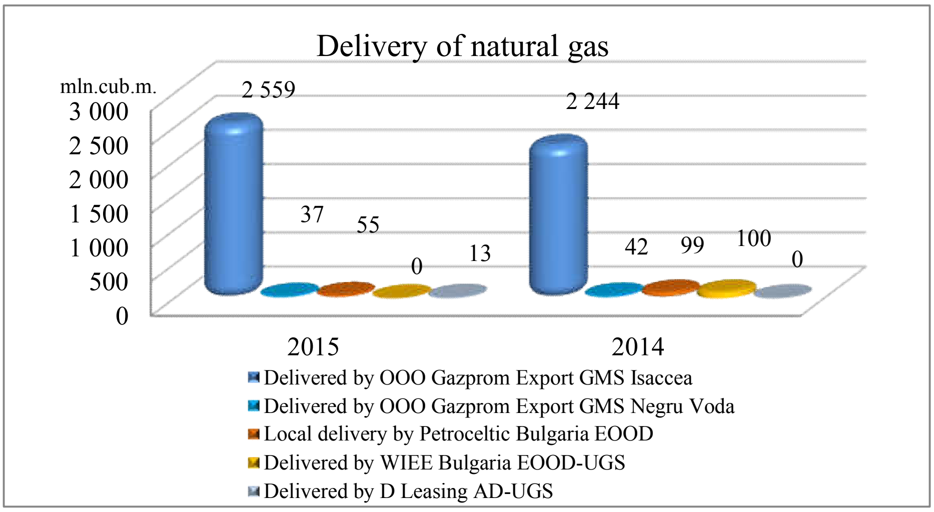
In 2015, in order to meet the natural gas needs of its clients, Bulgargaz EAD delivered 97.45 % of natural gas from import, 2.06 % from indigenous production, and 0.49 % under repurchase contract with D Leasing AD.

The delivered natural gas volumes in 2015, allocated by sources, are indicated in Table 3 below.

Table No.3:

mln.m³

No	Type of delivery	2015 (report)	2014 (report)	Relative share		% Change
				2015	2014	
1	**Imported natural gas**	**2 596**	**2 286**	**97.45%**	**91.99%**	**13.56%**
1.1.	Gazprom Export:	**2 596**	**2 286**	97.45%	91.99%	13.56%
	GMS Isaccea	2 559	2 244	96.06%	90.30%	14.04%
	GMS Negru Voda	37	42	1.39%	1.69%	-11.90%
2	**Local production deliveries**	**55**	**99**	**2.06%**	**3.99%**	**-44.44%**
2.1.	Petroceltic Bulgaria EOOD	55	99	2.06%	3.99%	-44.44%
3	**Delivery from UGS**	**13**	**100**	**0.49%**	**4.02%**	**-87.00%**
3.1.	WIEE Bulgaria EOOD	0	100	0.00%	4.02%	-100.00%
3.2.	D Leasing AD	13	0	0.49%	0.00%	100.00%
	Total	**2 664**	**2 485**	**100.00%**	**100.00%**	**7.20%**



In 2015 Bulgargaz EAD continued to purchase the necessary natural gas volumes from import via a long term contract with OOO Gazprom Export.

Bulgargaz EAD purchased natural gas volumes amounting to 55 mln.m^3, produced from Petroceltic Bulgaria EOOD`s gas fields. (2014: 99 mln.m^3)

In December 2014 Bulgargaz EAD entered into sale and purchase of natural gas contract with D Leasing EAD under the conditions of a repurchase deal of 13 mln.m^3 natural gas stored in UGS Chiren. In March 2015 the company bought back the sold natural gas volumes.

1.2 Natural gas production and injection

Natural gas volumes produced and injected in UGS Chiren in 2015 and 2014 are represented in table No 4.

Table No.4:

Period	2015		2014		Production change 2015/2014		Injection change 2015/2014	
	Production	Injection	Production	Injection				
	mln. m^3	mln. m^3	mln. m^3	mln. m^3	mln. m^3	%	mln. m^3	%
January	77	-	84	-	-7	-8.33%	-	-
February	70	-	73	-	-3	-4.11%	-	-
March	62	-	-	10	62	100.00%	-10	-100.00%
April	1	-	-	36	1	100.00%	-36	-100.00%
May	-	1	-	12	-	-	-11	-91.67%
June	-	18	-	-	-	-	18	100.00%
July	-	98	-	1	-	-	97	9700.00%
August	10	57	11	1	-1	-9.09%	56	5600.00%
September	-	69	-	53	0	-	16	30.19%
October	-	45	8	29	-8	-100.00%	16	55.17%
November	9	-	45	-	-36	-80.00%	-	-
December	50	-	38	-	12	31.58%	0	-
Total	**279**	**288**	**259**	**142**	**20**	**7.72%**	**146**	**102.82%**

The total natural gas volumes produced in 2015 totalled to 279 mln. m^3 natural gas (2014: 259 mln. m^3), which is an increase of 20 mln. m^3 or 7.72%.

Due to the political events in 2014 in Ukraine, natural gas production in the UGS Chiren was suspended, and natural gas injecting commenced into the facility to ensure the necessary natural gas volumes (as was the case in 2009).

In 2015 the injected natural gas volumes were 288 mln.m^3 (2014: 142 mln.m^3), which is 146 mln.m^3 or 102.82% more for the reported period. In 2015 the injection season at UGS Chiren started 15 days later than usual. Despite the delayed injection period, the injected natural gas volumes were more than those in the preceding year and met the agreed schedules under the Contract and the Agreement for transportation and storage of natural gas in UGS Chiren.

As of 31.12.2015 Bulgargaz EAD holds 238 mln.m^3 natural gas available in UGS Chiren (December 2014: 232 mln.$m^{3)}$.

2. Natural gas sales

2.1. General Consumption

Bulgargaz EAD's aims to ensure reliable supply of natural gas to its customers, in accordance with the quantity and quality contractual requirements. In 2015 the company sold to its clients 2 652 mln. m³ natural gas (2014: 2 517 mln. m³), which was an increase of 135 mln. m³ or 5.36% more than the gas sold during the same period in the preceding year. The increase is due to the higher consumption of companies from Chemistry and Glass and Porcelain sectors.

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

Table No.5:

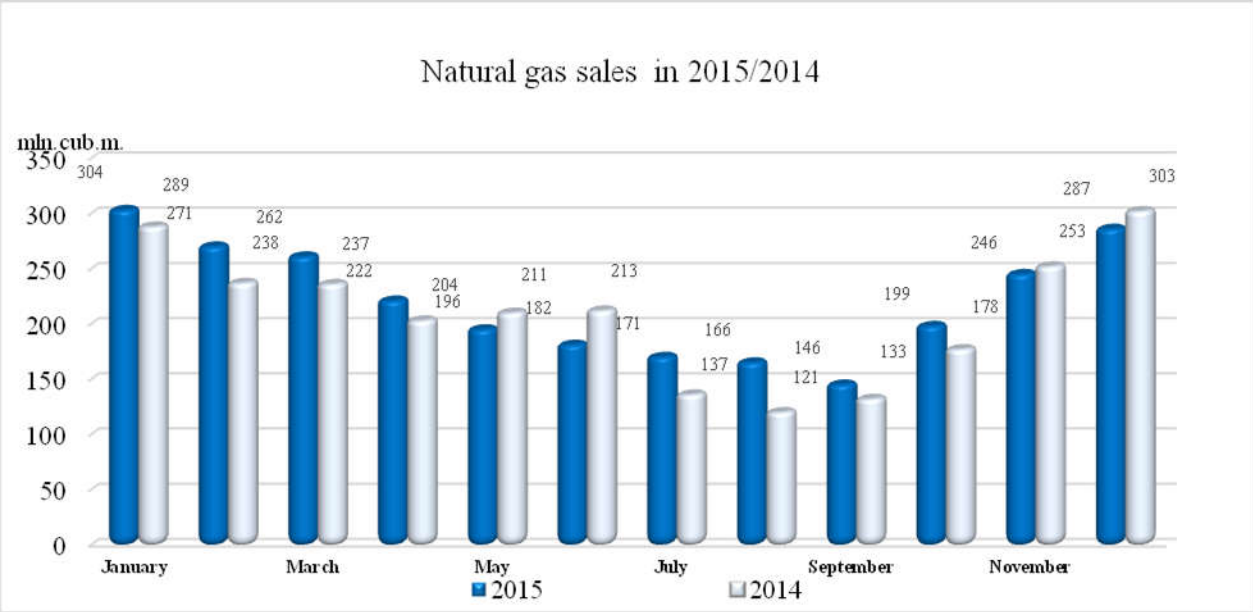
Accounted period	2015		2014		Change 2015/2014	
	mln.m³	share in %	mln.m³	mln.m³	mln.m³	%
January	304	11.46%	289	11.48%	15	5.19%
February	271	10.22%	238	9.46%	33	13.87%
March	262	9.88%	237	9.42%	25	10.55%
April	222	8.37%	204	8.10%	18	8.82%
May	196	7.39%	211	8.38%	-15	-7.11%
June	182	6.86%	213	8.46%	-31	-14.55%
July	171	6.45%	137	5.44%	34	24.82%
August	166	6.26%	121	4.81%	45	37.19%
September	146	5.51%	133	5.28%	13	9.77%
October	199	7.50%	178	7.07%	21	11.80%
November	246	9.28%	253	10.05%	-7	-2.77%
December	287	10.82%	303	12.04%	-16	-5.28%
Total	**2 652**	**100.00%**	**2 517**	**100.00%**	**135**	**5.36%**

For the period January-April 2015, 1 059 mln.m³ natural gas was sold compared to 968 mln.m³ during the same period in 2014. Sales increased with 91 mln.m³ (or 9.4%) due to the higher consumption of clients from Chemistry and Energy sectors. The increase in Energy sector, during the heating season in 2015 was mainly because of heating companies' higher consumption due to the colder weather.

For the period May-June 2015, sales of natural gas decreased with 46 mln.m³ compared to the same period in 2014. This is due to one-off contract for natural gas sale to Bulgartransgaz EAD (under Contract. 1684/2014 г. for delivery of 140 mln. m³), as for the period May-June 2014 the delivery under this contract amounted to 118 mln. m³. Growth in consumption of companies from Chemistry and Glass and Porcelain sectors was observed during the reported period.

For the period July-September 2015, 483 mln.m3 natural gas was sold, compared to 391 mln.m3 during the same period in 2014. Sales increased with 92 mln.m3 (or 23.5%) due to the higher consumption of companies from Chemistry and Glass and Porcelain industries.

For the period October-December 2015, 732 mln.m³ natural gas was sold (2014: 734 mln.m³). In October, the higher consumption was mainly due to one-off sale of natural gas to Bulgartransgaz EAD. During the months of November-December 2015, compared to the same period 2014, reduction in consumption mark heating and gas distribution companies, due to the higher temperatures.



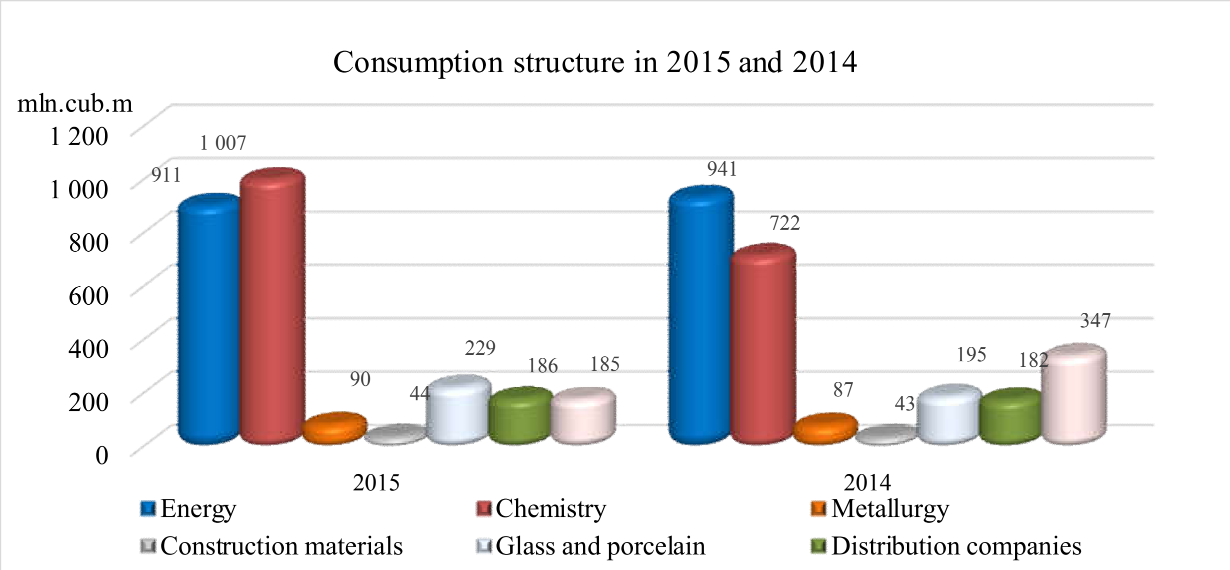
2.2. Consumption Structure

A comparison of the natural gas sales to client in 2015 and 2014, allocated by main industry sectors is presented in table No 6.

Table No.6:

mln m³

Sectors	2015 (report)		2014 (report)		Change 2015 /2014	
	mln.m³	share in %	mln.m³	share in %	mln.m³	%
Energy	911	34.35%	941	37.39%	-30	-3.19%
Chemistry	1 007	37.97%	722	28.68%	285	39.47%
Metallurgy	90	3.39%	87	3.46%	3	3.45%
Construction materials	44	1.66%	43	1.71%	1	2.33%
Glass and porcelain	229	8.63%	195	7.75%	34	17.44%
Distribution companies	186	7.01%	182	7.23%	4	2.20%
Other	185	6.98%	347	13.79%	-162	-46.69%
Total	**2 652**	**100.00%**	**2 517**	**100.00%**	**135**	**5.36%**



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

- ✓ the companies in the field of energy and chemical industries remained the major consumers of natural gas, followed by glass factories and gas distribution companies;
- ✓ the highest increase in natural gas consumption is observed in the chemical industries;
- ✓ all industry sectors increase their consumption of natural gas;

The natural gas delivery of 154 mln.m^3 under the Contract № 1684, sold to Bulgartransgaz EAD is represented in sector (group) "others".

3. Natural Gas Prices for Delivery and Sale on the Internal Market

Comparison of average weighted prices for delivery and sale of natural gas for 2015 and 2014

Table No.7

Period	Weighted average price of delivery up to entry of gas transmission system BGN /1000 м³	Weighted average price for sale including transmission fee BGN /1000 м³	Difference	
			BGN	%
2015	475.18	511.44	36.26	7.63%
2014	584.77	611.03	26.26	4.49%

The information represented in table No.7 shows that during 2014 and 2015 there was a positive difference between weighed average sale price and weighted average price of delivery of natural gas. In the weighted average sale price is included transmission fee, amounting to BGN 19.73, which is not a subject to the company's license.

If the effect of transmission fee on the sale price is taken into account, the average weighted sales price would be:

Period	Weighted average price of delivery up to entry of gas transmission system BGN /1000 м³	Weighted average sale price, excluding transmission fee BGN /1000 м³	Change	
			BGN	%
2015	475.18	491.71	16.53	3.48%
2014	584.77	591.30	6.53	1.12%

III. Risk Factors

Key elements that bring risk to company activity are: EWRC’s decisions upon approval of natural gas marginal prices for the internal market, trading and other receivables and liabilities as well as currency risk related to change in the exchange rates of foreign currency.

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

Regulatory 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 under market based prices and sells these quantities under regulated prices. The lack of correspondance between the aforementioned prices might cause risks to the company in conducting its functional obligations.

The intervention of the regulatory authority in company’s trading policy as regards lower prices, than those, formed in accordance with the respective legislation, lead to lower income and sale below cost. When the income is not sufficient to cover the actual expenses for natural gas purchase and its delivery to the consumers, it is difficult for the company to proceed with the payments of the amounts due. Fines and penalty payment are foreseen in the terms and conditions of gas supply contracts.

Currency Risk

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

The main risk for Bulgargaz EAD arises from the necessity to purchase natural gas in USD and sell it in BGN. Because of that 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 to risk of loss of continuous increase of USD exchange rate within the period of prices’ application, compared to the exchange rate, applied at the time of the approval.

Credit Risk

The credit risk for the company represents a risk of financial loss, if a customer or counterparty to a financial instrument, fails to meet its contractual obligations. That risk arises out of company's receivables from customers. Bulgargaz EAD's customers of are heating companies, having difficulties in collecting their receivables and experiencing serious obstacles to discharge their liabilities on due dates. Bulgargaz EAD 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. The extreme measure is natural gas delivery suspension. The company protects its interests through court suits and claims.

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. The regular payments due require a careful planning of all cash inflows and outflows, based on monthly forecasts.

IV. Outlook and Development

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

Strategic Objectives

Bulgargaz EAD main strategic objective is ensuring natural gas supply for company's clients.

- High priority objective relates to the development of alternative sources and routes of natural gas supply to build up company's geographical delivery portfolio and contribute to increasing natural gas supply security and reliability. Currently, natural gas supply from import is still performed throught one single entry point and meanwhile national gas production is extremely insufficient. The latter may lead to a great risk taking into consideration the conflict between Ukraine and The Russian Federation.
- Maintaining financial stability and increasing the economic efficiency and effectiveness of company's activities;
- Collaboration and participation in natural gas market development and growth in Bulgaria and the region;
- Mutual participation with other companies in research and development of natural gas fields.
- Entering into neighbouring country gas markets;

Operational Objectives:

- Maintain company's financial stability;
- Development and implementation of a uniform automatic system for operational monitoring of import, consumption and balance of natural gas.

In the short-run, company's major objective is securing Bulgargaz EAD financial stability in a situation of market uncertainty in Bulgaria and high inter-company indebtedness.

The company aims to optimize its cash flow position by improving company's receivables collection from clients or their sale to third parties and also raise funds in the form of loans.

V. Financial–Economic Position

Bulgargaz EAD's financial-economic position is reviewed and analysed on the basis of the company financial and accounting documents – Statement of profit or loss and other comprehensive income, Statement on the company's financial position and Statement on cash flow for 2015 compared to the same period of 2014.

The transaction with D leasing EAD concluded in the end of 2014, and finally closed in March of 2015, as well as the transaction with Societe Generale Expressbank AD concluded in the end of 2015 and finally closed in March of 2016, are presented as financing deals (commercial loan), but not as natural gas sales and purchase transactions.

Main Financial Indicators

In thousands BGN (TBGN)

Indicators	2015	2014	Change 2015/ 2014 (difference)	Change 2015/ 2014 (%)
Income	1 399 440	1 539 273	(139 833)	(9.08%)
Expenses	(1 366 110)	(1 540 547)	174 437	(11.32%)
EBITDA	**33 462**	**(1 092)**	**34 554**	**3164.72%**
EBIT	**33 330**	**(1 274)**	**34 604**	**2716.49%**
EBT	**23 863**	**6 161**	**17 702**	**287.31%**
Fixed assets	**81**	**99**	**(18)**	**(18.18%)**
Total assets	456 646	574 056	(117 410)	(20.45%)
Current assets	424 350	547 082	(122 732)	(22.43%)
Current liabilities	190 059	334 179	(144 120)	(43.13%)
Cash	**33 258**	**554**	**32 704**	**5903.25%**
Working capital	**234 291**	**212 903**	**21 388**	**10.05%**
Equity	**226 136**	**206 860**	**19 276**	**9.32%**
Share capital	206 297	206 297	0	0.00%
Reserves	757	41	716	1746.34%
Retained profit/(uncovered loss)	(1 283)	(4 607)	3 324	(72.15%)
Current period profit/loss	20 365	5 129	15 236	297.04%
Long-term bank loans.				
Number of personnel	**54**	**49**	**5**	**10.20%**

The main financial-economic results from the company activity in 2015 and 2014 are presented as follows:

Statement of comprehensive income

In thousands BGN (TBGN)

	2015		2014		change	
	In thousands BGN (TBGN)	**% of the total**	**In thousands BGN (TBGN)**	**% of the total**	**In thousands BGN (TBGN)**	**%**
Income	**1 399 440**	**100.00%**	**1 539 273**	**100.00%**	**(139 833)**	**(9.08%)**
Income from sale of natural gas	**1 356 556**	**96.94%**	**1 531 206**	**99.48%**	**(174 650)**	**(11.41%)**
Other income	**42 884**	**3.06%**	**8 067**	**0.52%**	**34 817**	**431.60%**
- penalties under overdue receivables/liabilities	39 058	2.79%	5 139	0.33%	33 919	660.03%
- income from not regulated activity	2 560	0.18%	2 521	0.16%	39	1.55%
- other income	1 266	0.09%	407	0.03%	859	211.06%
Expenses as per economic elements	**(1 366 110)**	**100.00%**	**(1 540 547)**	**100.00%**	**174 437**	**(11.32%)**
Cost of natural gas sold	**(1 340 141)**	**98.10%**	**(1 508 945)**	**97.95%**	**168 804**	**(11.19%)**
Recovered /(accrued) impairment	**(15 886)**	**1.16%**	**(16 095)**	**1.04%**	**209**	**(1.30%)**
- recovered /(accrued) impairment on receivables	368	(0.03%)	(12 895)	0.84%	13 263	(102.85%)
- recovered /(accrued) impairment on natural gas	(16 254)	1.19%	(3 200)	0.21%	(13 054)	407.94%
Costs of Materials and consumables	**(100)**	**0.01%**	**(103)**	**0.01%**	**3**	**(2.91%)**
- fuel gas	(33)	0.00%	(38)	0.00%	5	(13.16%)
- main materials	(9)	0.00%	(11)	0.00%	2	(18.18%)
- fuels and lubricants	(28)	0.00%	(32)	0.00%	4	(12.50%)
- stationary and consumables	(13)	0.00%	(13)	0.00%	0	0.00%
- sanitary materials	(5)	0.00%	(3)	0.00%	(2)	66.67%
- advertising materials	(7)	0.00%	(4)	0.00%	(3)	75.00%
- others	(5)	0.00%	(2)	0.00%	(3)	150.00%
Hired services costs	**(6 238)**	**0.46%**	**(6 686)**	**0.43%**	**448**	**(6.70%)**
- gas storage costs	(589)	0.04%	(1 048)	0.07%	459	(43.80%)
- expenses on managements contracts	(255)	0.02%	(79)	0.01%	(176)	222.78%
- license fees	(822)	0.06%	(812)	0.05%	(10)	1.23%
- expenses for services related to unregulated activity	(2 560)	0.19%	(2 521)	0.16%	(39)	1.55%
- insurances	(250)	0.02%	(151)	0.01%	(99)	65.56%
- rents	(258)	0.02%	(258)	0.02%	0	0.00%
- court charges and expenditures	(1 177)	0.09%	(1 465)	0.10%	288	(19.66%)
- communications	(79)	0.01%	(77)	0.00%	(2)	2.60%
- remunerations audit committee	(30)	0.00%	(40)	0.00%	10	(25.00%)
- consulting and audit services	(70)	0.01%	(3)	0.00%	(67)	2233.33%
- repair and technical maintenance	(14)	0.00%	(11)	0.00%	(3)	27.27%
- office maintenance	(2)	0.00%	(9)	0.00%	7	(77.78%)
- public utility	(25)	0.00%	(23)	0.00%	(2)	8.70%
- subscription service	(20)	0.00%	(25)	0.00%	5	(20.00%)
- parking and other vehicles' expenses	(18)	0.00%	(19)	0.00%	1	(5.26%)
- visa services	(1)	0.00%	(2)	0.00%	1	(50.00%)
- translation services	0	0.00%	(2)	0.00%	2	(100.00%)
- security	(46)	0.00%	(117)	0.01%	71	(60.68%)
- labour medicine service	(4)	0.00%	(2)	0.00%	(2)	100.00%
- publishing services	(12)	0.00%	(10)	0.00%	(2)	20.00%
- EWRC's fee – price approval	(4)	0.00%	(4)	0.00%	0	0.00%
- other charges	(2)	0.00%	(8)	0.00%	6	(75.00%)
Amortization costs	**(132)**	**0.01%**	**(182)**	**0.01%**	**50**	**(27.47%)**
Cost of personnel	**(2 346)**	**0.17%**	**(2 175)**	**0.14%**	**(171)**	**7.87%**
- remuneration expenses	(2 042)	0.15%	(1 893)	0.12%	(149)	7.88%
- social security expenses	(304)	0.02%	(282)	0.02%	(22)	7.80%
Other expenses	**(1 267)**	**0.09%**	**(6 361)**	**0.41%**	**5 094**	**(80.08%)**
- penalties for overdue payments	(1 161)	0.08%	(6 171)	0.40%	5 010	(81.19%)
- business trips and representative expenses	(33)	0.00%	(56)	0.00%	23	(41.07%)
- training	(1)	0.00%	(17)	0.00%	16	(94.12%)
- one-off taxes	(17)	0.00%	(16)	0.00%	(1)	6.25%
- membership in organizations	(34)	0.00%	(34)	0.00%	0	0.00%
- others	(21)	0.00%	(67)	0.00%	46	(68.66%)
Profit/(loss) from operating activity	**33 330**		**(1 274)**		**34 604**	**2716.49%**
Net finance income/(costs)	**(9 467)**		**7 435**		**(16 902)**	**(227.33%)**
Finance income	**11 002**	**100.00%**	**16 631**	**100.00%**	**(5 629)**	**(33.85%)**

	2015		2014		change	
	In thousands BGN (TBGN)	% of the total	In thousands BGN (TBGN)	% of the total	In thousands BGN (TBGN)	%
- interest income on long-term receivables	71	0.65%	233	1.40%	(162)	(69.53%)
- interest income on cash and cash equivalents	237	2.15%	269	1.62%	(32)	(11.90%)
- currency exchange profit	10 694	97.20%	16 129	96.98%	(5 435)	(33.70%)
Financial costs	**(20 469)**	**100.00%**	**(9 196)**	**100.00%**	**(11 273)**	**122.59%**
- effect from financial assets sale	(4 568)	22.32%	(1 150)	12.51%	(3 418)	297.22%
- interest expenses under related parties loans	(1 734)	8.47%	(2 880)	31.32%	1 146	(39.79%)
- interest expenses under related parties commercial liability	(3 225)	15.76%	(2 221)	24.15%	(1 004)	45.20%
- interest expenses under related parties leasing	0	0.00%	(2)	0.02%	2	(100.00%)
- interest expenses under buy-back agreements	(129)	0.63%	(579)	6.30%	450	(77.72%)
- interest expenses under overdue tax liabilities	(10 798)	52.75%	(2 321)	25.24%	(8 477)	365.23%
- interest expenses on liability payment under plans with defined income	(6)	0.03%	(5)	0.05%	(1)	20.00%
- other interest expenses	0	0.00%	(4)	0.04%	4	(100.00%)
- bank charges	(9)	0.04%	(34)	0.37%	25	(73.53%)
Profit/(loss) before tax	**23 863**		**6 161**		**17 702**	**287.31%**
Profit/(loss) on income tax	**(3 498)**		**(1 032)**		**(2 466)**	**238.95%**
Net profit/(loss) for the period	**20 365**		**5 129**		**15 236**	**297.04%**

Income

The company sold 2 652 mln m3 of natural gas amounting to TBGN 1 356 556 (December 2014: 2 517 mln m3, TBGN 1 531 206). For 2015 the net income from natural gas sales amounts to TBGN 16 415 (2014: TBGN 22 261), which is a decrease of 26.26%. The latter is due to lower delivery and sale prices for 2015.

Expenses

Expenses as per economic elements include: cost of natural gas sold, impairment expenses, material costs, hired services expenses, amortization expenses, labour remunerations, social security and allowances, etc. In 2015 they amounted to TBGN 1 366 110 (2014: TBGN 1 540 547), which is a decrease of TBGN 174 437 or 11.32%.

The biggest relative share in the total expenses represents the cost of natural gas sold 98.10%. In 2015 compared to 2014 the cost of natural gas sold is with 11.19 % lower.

The impairment costs include: impairment of company's trade receivables and impairment of natural gas. In the impairment costs is observed decrease of 1.30%, compared to the same period in 2014, mainly due to recovered impairment on receivables. As a result of the decreasing price of natural gas the company charged impairment on the natural gas on stock, amounting to TBGN 16 254 (2014: TBGN 3 200).

Hired services costs, as made in 2015 amounted to TBGN 6 238 (2014: TBGN 6 686) which is a decrease of TBGN 448 or 6.70%. The latter is due to reduction of the court charges and expenditures, expenses for natural gas storage, security and license fees.

In 2015 the other expenses amounted to TBGN 1 267 (2014: TBGN 6 361), which is a decrease of TBGN 5 094 or 80.08%. This is due to a decrease penalties fees for delayed payments under current liabilities to Overgas Inc AD, Bulgartransgaz EAD and OOO Gazprom Export.

Operating activity result is positive, amounting to TBGN 33 330 in 2015 (2014: TBGN 1 274 loss), which is an increase of TBGN 34 604.

Financial activity result is negative amounting to TBGN – 9 467 (2014: TBGN 7 435), which is a decrease of TBGN – 16 902. This is mainly due to increase in expenses for overdue tax liabilities for VAT - TBGN 8 477, and also an increase in interest expenses under related parties commercial liability with TBGN 1 004. For the reported period, the profit from change in foreign currency exchange rate was TBGN 5 435 lower than 2015.

After considering the finance income and expenses for 2015, the financial result before tax is profit, amounting to TBGN 23 863 (2014: TBGN 6 161).

Statements on Financial Position

By December 31, 2015, the company's own assets amount to TBGN 456 646 (December of 2014: TBGN 574 056). Changes in the structure of the assets for the related period, are presented in the table below.

In thousands of BGN (TBGN)

	31.12.2015		**31.12. 2014**		**change**	
	In thousands of BGN (TBGN)	**% of the total**	**In thousands of BGN (TBGN)**	**% of the total**	**In thousands of BGN (TBGN)**	**%**
Assets						
Non-current assets						
Plants and equipment	81	0.25%	99	0.37%	-18	(18.18%)
Intangible assets	25	0.08%	105	0.39%	-80	(76.19%)
Trade and other receivables	13 970	43.26%	5 052	18.73%	8 918	176.52%
- other receivables	13 970	43.26%	5 052	18.73%	8 918	176.52%
Deferred tax assets	18 220	56.42%	21 718	80.51%	-3 498	(16.11%)
Total non-current assets	**32 296**	**100.00%**	**26 974**	**100.00%**	**5 322**	**19.73%**
Current assets					**0**	
Inventories	99 347	23.41%	144 073	26.33%	-44 726	(31.04%)
- natural gas	99 329	23.41%	144 054	26.33%	-44 725	(31.05%)
- materials	18	0.00%	19	0.00%	-1	(5.26%)
Trade and other receivables	291 745	68.75%	402 455	73.56%	-110 710	(27.51%)
- trade receivables from natural gas sales	234 305	55.22%	277 754	50.77%	-43 449	(15.64%)
- court and rewarded receivables	529	0.12%	21 793	3.98%	-21 264	(97.57%)
- prepaid advances for natural gas delivery	56 640	13.35%	46 101	8.43%	10 539	22.86%
- unpaid advance for natural gas delivery	0	0.00%	44 317	8.10%	-44 317	(100.00%)
- assignment contract receivables	0	0.00%	12 386	2.26%	-12 386	(100.00%)
- other receivables	271	0.06%	104	0.02%	167	160.58%
Cash and cash equivalent	33 258	7.84%	554	0.10%	32 704	5903.25%
Total current assets	**424 350**	**100.00%**	**547 082**	**100.00%**	**-122 732**	**(22.43%)**
Total assets	**456 646**		**574 056**		**-117 410**	**(20.45%)**

Non-current assets

By December 31, 2015 the non-current assets amounted to TBGN 32 296 (December 2014: TBGN 26 974), which is an increase of TBGN 5 322 or 19.73%. By 2015 the non-current assets were comprised from non-current tangible and intangible assets, amounting to TBGN 106, other receivables, amounting to TBGN 13 970 from Corporate Commercial Bank AD – in insolvency, and deferred tax assets TBGN 18 220.

Current assets

By December 31, 2015, the current assets amounted to TBGN 424 350 (2014: TBGN 547 082), which is a decrease of TBGN 122 732 or 22.43%, as a result of:

- Reclassification of current receivables from CCB to non-current;
- Decreased receivables from natural gas sales, as a result of the higher collection during 2015;
- Paid amounts for legal claims for accounts receivable, amounting to TBGN 19 349 during 2015.

By December 31, 2015, the inventory amounted to TBGN 99 347 (December 2014: TBGN 144 073), which represents a decrease of TBGN 44 726, or 31.04%. By December 31, 2015: the natural gas on stock was 238 mln.m^3 (December 2014: 232 mln.m^3) at weighted average price of BGN 405.56 for 1000 m^3 (2014: BGN 603.14/1000 m^3). The inventory decrease was due to the lower cost of natural gas storage.

By December 31, 2015 the trade and other receivables amounted to TBGN 291 745 (December 2014: 402 455), which is a decrease of TBGN 110 710 or 27.51% compared to the end of 2014.

The decrease in trade receivables is due to both concluded Addendum to assignment contract between the company and Bulgarian Energy Holding EAD for sale of receivables from Toplofikacia Sofia EAD amounting to TBGN 83 160, and higher collection of receivables from clients.

In August of 2015, assignment contract was concluded between Bulgargaz EAD and NEK EAD by which, against consideration, were transferred receivables from Toplofikacia Sofia, amounting to TBGN 42 627 nominal price. By December 31, 2015г. The amount due was fully reimbursed.

In August of 2015 the company completely fulfilled its obligations to NRA amounting to TBGN 42 982, as a result of offsetting between Bulgargaz EAD, NEK EAD and NRA.

The prepaid advance for natural gas delivery by December 31, 2015 is increasing with TBGN 10 539 or (22.86%). In the end of 2015 there were no any unpaid advances for natural gas delivery (December 2014: TBGN 44 317).

The most significant trade receivables, including consumed but not paid natural gas by December 31, 2015 came from the following companies (Annex 11):

Name of client:	TBGN
Toplofikacia Sofia EAD	149 797
Toplofikacia Pleven EAD	30 251
Toplofikacia Burgas EAD	16 983
Lukoil Neftohim Burgas AD	15 302
Toplofikacia Vratsa EAD	8 551
Gastrade Sliven EOOD	5 000
Citygas Bulgaria EAD	2 748
BST Company AD	2 150
Neochim AD	1 851
M Gas EOOD	1 699
Other	6 371
Total:	**240 703**

By December 31, 2015 Bulgargaz EAD`s cash and cash equivalents amount to TBGN 33 258 (December 2014: TBGN 554), which is an increase of TBGN 32 704. The improvement of the company`s cash and cash equivalents is in accordance with the short term objectives set out by the Management – securing a financial stability and setting aside cash to guarantee the natural gas deliveries for autumn-winter season 2016/2017.

The changes in the liabilities structure:

In thousands of BGN (TBGN)

	31.12.2015		**31.12. 2014**		**change**	
	In thousands of BGN (TBGN)	**% of the total**	**In thousands of BGN (TBGN)**	**% of the total**	**In thousands of BGN (TBGN)**	**%**
Equity and liabilities						
Equity						
Share capital	206 297	91.23%	206 297	99.73%	0	0.00%
Statutory reserves	701	0.31%	0	0.00%	701	
Other reserves	56	0.02%	41	0.02%	15	36.59%
Retained earnings/(Accumulated loss)	19 082	8.44%	522	0.25%	18 560	3554.47%
Total equity	**226 136**	**100.00%**	**206 860**	**100.00%**	**19 276**	**9.32%**
Liabilities						
Non-current liabilities						
Trade and other duties	40 378	99.82%	32 940	99.77%	7 438	22.58%
- lliabilities to related parties	40 378	99.82%	32 940	99.77%	7 438	22.58%
Retirement benefit obligations	73	0.18%	77	0.23%	-4	(5.19%)
Total non-current liabilities	**40 451**	**100.00%**	**33 017**	**100.00%**	**7 434**	**22.52%**
Current liabilities					**0**	
Loans	42 514	22.37%	135 448	40.53%	-92 934	(68.61%)
- loans from related parties	30 460	16.03%	128 436	38.43%	-97 976	(76.28%)
- financing under buy-back contracts for purchasing natural gas	12 054	6.34%	7 012	2.10%	5 042	71.91%
Trade and other liabilities	147 472	77.59%	198 658	59.45%	-51 186	(25.77%)
- trade liabilities	2 078	1.09%	4 984	1.49%	-2 906	(58.31%)
- liabilities to related parties	28 031	14.75%	42 736	12.79%	-14 705	(34.41%)
- received advances by the clients for sale of natural gas	727	0.38%	2 837	0.85%	-2 110	(74.37%)
- liabilities for unpaid advance for natural gas delivery	0	0.00%	44 317	13.26%	-44 317	(100.00%)
- VAT to be paid	103 966	54.70%	101 404	30.34%	2 562	2.53%
- excise to be paid	396	0.21%	457	0.14%	-61	(13.35%)
- payables to personnel	81	0.04%	74	0.02%	7	9.46%
- liabilities to insurance companies	15	0.01%	16	0.00%	-1	(6.25%)

	31.12.2015		31.12. 2014		change	
	In thousands of BGN (TBGN)	% of the total	In thousands of BGN (TBGN)	% of the total	In thousands of BGN (TBGN)	%
-other liabilities	12 178	6.41%	1 833	0.55%	10 345	564.38%
Retirement benefit obligations	73	0.04%	73	0.02%	0	0.00%
Total current liabilities	**190 059**	**100.00%**	**334 179**	**100.00%**	**-144 120**	**(43.13%)**
Total liabilities	**230 510**		**367 196**		**-136 686**	**(37.22%)**
Total equity and liabilities	**456 646**		**574 056**		**-117 410**	**(20.45%)**

Share capital structure

By December 31, 2015, the registered share capital amounted to TBGN 206 297 (December 2014 TBGN 206 297).

By December 31, 2015, the accumulated loss from previous years amounted to TBGN 1 283. For 2015 the current net profit is TBGN 20 365 (by December 2014: TBGN 5 129).

Non-current liabilities

The Company's non-current liabilities by December 31, 2015 amounted to TBGN 40 451 (December 2014: TBGN 33 017) which is an increase of TBGN 7 434 or 22.52%. The non-current liabilities are formed by loans and deferred liabilities for transmission and storage of natural gas to related parties.

Current Liabilities

The current liabilities had a greater relative share than the non-current liabilities. By December 31, 2015, the current liabilities amounted to TBGN 190 059 (December 2014: TBGN 334 179), which is a decrease of TBGN 144 120 or 43.13%.

The company`s loans by December 31, 2015 amount to TBGN 42 514 (December 2014: TBGN 135 448) which is a decrease of TBGN 92 934 or 68.61%. Bulgargaz EAD`s loans decrease by 76.28% as a result of liabilities discharge to related parties.

In the end of 2014 Bulgarian Energy Holding EAD granted Bulgargaz EAD intercompany loan amounting to TBGN 47 000 with an annual interest rate of 4.49%. The company used it to make payments to OOO Gazprom Export. On June 30, 2015 with the aim to optimize the cash flow was signed an addendum for deferring liabilities until December 31, 2016, under the loan Contract beetwen Bulgarian Energy Holding EAD and Bulgargaz EAD. As a result the cash flow on monthly basis was optimized with TBGN 4 042.

In the beginning of 2014 Bulgargaz EAD signed an assignment contract and sold to BEH EAD its receivables from Toplofikatsiya Sofia EAD amounting to TBGN 128 436. As a result of reaching an agreement on Bulgargaz EAD`s and Toplofikatsia Sofia EAD`s mutual calculations, an Addendum to assignment contract was entered into, and part of the assigned receivables were transformed into a loan to BEH EAD. The principal of the loan amount to TBGN 78 593, after deducting of the discount amounting to TBGN 4 568.

There is a decrease in the trade and other liabilities with TBGN 51 186 or 25.77% compared to the end of 2014. This is mainly due to discharging liabilities for unpaid advance for natural gas delivery, amounting to TBGN 44 317, under long term contract for natural gas delivery with OOO Gazprom Export. These liabilities were fully paid in the beginning of 2015.

Cash Flow Statement

In the table below is stated data for changes in the cash flows during 2015, compared to 2014.

In thousand BGN (TBGN)

	2015	2014	change	
	In thousand BGN (TBGN)	In thousand BGN (TBGN)	In thousand BGN (TBGN)	%
Net cash flow of operating activity	48 555	-67 970	116 525	171.44%
Net cash flow of investing activity	-30	-39	9	22.00%
Net cash flow of financing activity	-15 821	72 628	-88 449	-121.78%
Reclassification of restricted cash in Corporate Commercial Bank into non-current trade and other receivables	0	-5 052	5 052	-100.00%
Reclassification of Receivables under assignment contract into non-current trade and other receivables	0	-12 386	12 386	-100.00%
Net change in cash and cash equivalents in the period	32 704	-12 819	45 523	355.12%
Cash and cash equivalents in the beginning of the period	**554**	**13 373**	-12 819	-95.86%
Cash and cash equivalents in the end of the period	**33 258**	**554**	32 704	5903.25%

The net cash flow of operating activity of Bulgargaz in 2015 is positive, and formed from difference between income from clients for delivered natural gas and payment to suppliers for purchased natural gas, for services and VAT amounts payable. Bulgargaz payments for VAT and excise amounted to TBGN 185 294.

The net cash flow from financing activity for the reported period is negative, amounting to TBGN 15 821 (December 2014: positive net cash flow TBGN 72 628), which was formed from:

- Proceeds from financing agreements amounting to TBGN 12 000 (2014: TBGN 7 000)
- Proceeds from granted loans during 2015 amounting to TBGN 0 (2014: TBGN 140 593)
- Payments on loans and financing agreements amounting to TBGN 27 821 (2014: TBGN 74 965)

Events after the end of the reported period

They are specified in Annex 22 of the Annual financial statement.

Financial Ratios

These are ratios, based on financial reports, which aim to present the overall assessment for the company's financial performance, profitability and effectiveness in utilizing its assets to achieve its operational objectives.

During 2015, the financial ratios are improving significantly compared to 2014, reaching levels close to market ones.

Profitability

Indicators	2015	2014
Sales profitability	1.50%	0.33%
Return on Equity	9.01%	2.48%
Return on Assets	4.46%	0.89%

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.

Return on equity
This indicator reveals the equity profitability level. During 2015 the return on equity ratio is 9.01% reaching the market levels.

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.

Liquidity

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

Indicators	2015	2014
Current liquidity ratio	2.23	1.64
Quick liquidity ratio	1.71	1.21
Immediate liquidity ratio	0.17	0.00

For 2015 the current liquidity ratio is 2.23, therefore the current liabilities of the company are covered more than two times by the available current assets. The ratio is improving significantly compared to that calculated in the end of 2014.

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 by more than 1.7 times.

The immediate liquidity ratio is significantly improved compared to the end of 2014, and is close to the optimal levels from 0.2 - 0.25.

Financial Independence

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

Indicators	2015	2014
Financial autonomy ratio	0.98	0.56
Indebtedness ratio	1.02	1.78

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

When the indicator is above 1 (one), it shows the level of financial independence from using funds from other parties.

The indicator for financial autonomy ratio in 2015 is close to 1 (one), and there is a significant improvement compared to 2014. This is due to the higher collection of receivables from clients and repayment of current and overdue liabilities.

The indicator for indebtedness ratio represents the company`s level of dependence from creditors. When the indicator is greater than 1 (one), the company`s dependence from funds from other parties is greater.

By the end of 2015, this indicator decreased compared to the reported in the end of 2014 and shows reduced company dependence to external creditors.

Events after balance sheet date

On 19th February 2016, the Bulgarian Energy Holding EAD BoD's Decision on appointment of a new CEO and new members of the Board of Directors was registered in the Companies Register:

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

13.04.2016 г.

ЕДНОЛИЧНО АКЦИОНЕРНО ДРУЖЕСТВО 1 БУЛГАРГАЗ СОФИЯ

Nikolay Pavlov
CEO

Stoyan Yanchev
CFO

BULGARGAZ EAD

STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2015

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

(All amounts are presented in thousand BGN)

	Note	As at 31 December 2015	As at 31 December 2014 Restated	As at 01 January 2014
ASSETS				
Non-current assets				
Plant and equipment	7	81	99	178
Intangible assets	8	25	105	165
Trade and other receivables	11	13 970	5 052	1 311
Deferred tax assets	10	18 220	21 718	22 750
		32 296	**26 974**	**24 404**
Current assets				
Inventories	12	99 347	144 073	217 544
Trade and other receivables	11	291 745	402 455	310 188
Cash and cash equivalents	13	33 258	554	13 373
		424 350	**547 082**	**541 105**
TOTAL ASSETS		**456 646**	**574 056**	**565 509**
EQUITY AND LIABILITIES				
Equity				
Share capital	14	206 297	206 297	257 691
Reserves	15	757	41	36 141
Retained earnings/loss		19 082	522	(92 098)
		226 136	**206 860**	**201 734**
Non-current liabilities				
Trade and other payables	17	40 378	32 940	44 730
Retirement benefit obligations	18	73	77	84
		40 451	**33 017**	**44 814**
Current liabilities				
Borrowings	16	42 514	135 448	60 581
Trade and other payables	17	147 472	198 658	258 330
Retirement benefit obligations	18	73	73	50
		190 059	**334 179**	**318 961**
TOTAL LIABILITIES		**230 510**	**367 196**	**363 775**
TOTAL EQUITY AND LIABILITIES		**456 646**	**574 056**	**565 509**

These financial statements were authorized for issue by the Board of Directors on 13 April 2016.

Liliya Ivanova
Head of Accounting Department

Stoyan Yanchev
Head of Finance Division

Nikolay Pavlov
Executive Director

Date: 31 March 2016

Audited according to the auditor's report dated 13 April 2016:
Specialised Auditing Company
HLB Bulgaria OOD

Milena Hristova – Manager ____________________
Vaska Gelina - Registered auditor responsible for the audit ____________________

BULGARGAZ EAD

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

31 DECEMBER 2015

(All amounts are presented in thousand BGN)

	Note	YEAR ENDED 31 DECEMBER 2015	2014 Restated
Revenue from sale of natural gas		1 356 556	1 531 206
Other revenue	24	42 884	8 067
Cost of natural gas sold		(1 340 141)	(1 508 945)
Impairment loss	19	(15 886)	(16 095)
Hired services expenses	20	(6 238)	(6 686)
Employee benefits expenses and social security expenses	21	(2 346)	(2 175)
Cost of materials	22	(100)	(103)
Depreciation/amortization of non-financial assets	7,8	(132)	(182)
Other expenses	23	(1 267)	(6 361)
Operating activity (loss)/profit		**33 330**	**(1 274)**
Finance income	25	11 002	16 631
Finance costs	25	(20 469)	(9 196)
Financial income/(costs) - net		**(9 467)**	**7 435**
Profit before tax		**23 863**	**6 161**
Income tax (expenses)/revenues	26	(3 498)	(1 032)
Net profit for the period		**20 365**	**5 129**
Other components of the comprehensive income			
Components that will not be reclassified to profit or loss			
Remeasurement of retirement defined benefit plans	18	2	(3)
Other comprehensive income/(loss) for the year, net of tax		**2**	**(3)**
Total comprehensive income for the period		**20 367**	**5 126**

These financial statements were authorized for issue by the Board of Directors on 13 April 2016.

Liliya Ivanova
Head of Accounting Department

Nikolay Pavlov
Executive Director

Stoyan Yanchev
Head of Finance Division

АКЦИОНЕРНО ДРУЖЕСТВО БУЛГАРГАЗ СОФИЯ

Date: 31 March 2016

Audited according to the auditor's report dated 13 April 2016:
Specialised Auditing Company
HLB Bulgaria OOD

Milena Hristova – Manager ____________________
Vaska Gelina - Registered auditor responsible for the audit ____________________

BULGARGAZ EAD

STATEMENT OF CHANGES IN EQUITY

31 DECEMBER 2015

(All amounts are presented in thousand BGN)

	Note	Share capital	Reserves	Undistributed Profit/ Accumulated loss	Total
AS AT 1 JANUARY 2014		**257 691**	**36 141**	**(92 098)**	**201 734**
Total comprehensive income for the year incl.					
*Net profit for the year		-	-	7 151	7 151
*Other comprehensive income net of tax		-	(3)	-	(3)
Total comprehensive income		-	**(3)**	**7 151**	**7 148**
Transactions with the sole owner					
Loss coverage	15	-	(36 097)	36 097	-
Decrease of shareholders equity art. 201, para.1 and art. 187a from Commercial Act	14	(51 394)		51 394	-
Total transactions with the sole owner		**(51 394)**	**(36 097)**	**87 491**	-
AS AT 31 DECEMBER 2014		**206 297**	**41**	**2 544**	**208 882**
AS AT 1 JANUARY 2015		**206 297**	**41**	**2 544**	**208 882**
Effect from accounting errors (Note 5)		-	-	(2 022)	(2 022)
AS AT 1 JANUARY 2015 (Restated)		**206 297**	**41**	**522**	**206 860**
Total comprehensive income for the year, incl.					
*Net profit for the year		-	-	20 365	20 365
*Other comprehensive income net of tax		-	2	-	2
Total comprehensive income		-	**2**	**20 365**	**20 367**
Transactions with the sole owner					
Distribution for Reserve Fund	15	-	715	(715)	-
Dividend	15	-	-	(1 091)	(1 091)
Total transactions with the sole owner		-	**715**	**(1 806)**	**(1 091)**
Other changes			(1)	1	-
AS AT 31 DECEMBER 2015		**206 297**	**757**	**19 082**	**226 136**

These financial statements were authorized for issue by the Board of Directors on 13 April 2016.

Liliya Ivanova
Head of Accounting Department

Nikolay Pavlov
Executive Director

Stoyan Yanchev
Head of Finance Division

Date: 31 March 2016

Audited according to the auditor's report dated 13 April 2016:
Specialised Auditing Company
HLB Bulgaria OOD

Milena Hristova – Manager
Vaska Gelina - Registered auditor responsible for the audit

BULGARGAZ EAD

STATEMENT OF CASH FLOWS

31 DECEMBER 2015

(All amounts are presented in thousand BGN)

	Note	2015	2014
		YEAR END 31 DECEMBER	
CASH FLOWS FROM OPERATING ACTIVITY			
Proceeds from clients from sales of natural gas		1 576 059	1 494 795
Proceeds from transactions with related parties		25	137 446
Proceeds from interest and penalties		237	270
Payments to suppliers:		(1 339 393)	(1 499 115)
For purchases of natural gas		*(1 268 589)*	*(1 473 658)*
Related party transactions		*(67 230)*	*(23 888)*
Payments to other counterparties		*(3 574)*	*(1 569)*
Taxes paid, different from corporate income tax		(185 294)	(198 099)
Payment to personnel and social security entities		(2 362)	(2 185)
Other profit/loss from currency revaluation of cash and cash equivalents		(1 864)	641
Other payments for operating activity		1 147	(1 723)
Net cash flows from operating activity		**48 555**	**(67 970)**
CASH FLOWS FROM INVESTING ACTIVITY			
Acquisition of intangible assets		(10)	(36)
Acquisition of plant and equipment		(20)	(4)
Proceeds from sale of plant and equipment		-	1
Net cash flows from investing activity		**(30)**	**(39)**
CASH FLOWS FROM FINANCIAL ACTIVITY			
Proceeds from financing agreements		12 000	7 000
Payments under financing agreements		(7 012)	(56 051)
Proceeds from borrowings		-	140 593
Payment of borrowings		(17 040)	(15 001)
Payments of interest on borrowings and deferred trade payables		(3 769)	(3 913)
Net cash flows from financial activity		**(15 821)**	**72 628**
Reclassification to "Restricted cash amounts in Corporate Commercial Bank AD" into non-current trade and other receivables	11	-	**(5 052)**
Reclassification to "Receivables on cession contract" into current trade and other receivables	11	-	**(12 386)**
Net decrease of cash and cash equivalents during the period		**32 704**	**(12 819)**
Cash and cash equivalents, in the beginning of the period		554	13 373
Cash and cash equivalents, in the end of the period	**13**	**33 258**	**554**

These financial statements were authorized for issue by the Board of Directors on 13 April 2016.

Liliya Ivanova
Head of Accounting Department

Stoyan Yanchev
Head of Finance Division

Nikolay Pavlov
Executive Director

Date: 31 March 2016

Audited according to the auditor's report dated 13 April 2016:
Specialised Auditing Company
HLB Bulgaria OOD

Milena Hristova – Manager
Vaska Gelina - Registered auditor responsible for the audit

1. GENERAL INFORMATION

BULGARGAZ EAD (the Company) is a sole shareholder joint stock company registered under the Commercial Law, situated at 47 Petar Parchevich St., Serdika district, Sofia, Bulgaria and UIC 175203485. The Company is registered in the Bulgarian Registry Agency, under № 113068, Volume 1534, page 35 company case № 16440/2006 and was registered on the ground of Decision № 1 of January 15, 2007.

The Company's main activity is the public supply of natural gas, as well as purchases and sales related thereto; purchases of natural gas stored in an underground gas storage; marketing studies and natural gas market analyses.

The major strategic goal of BULGARGAZ EAD, as a public gas supplier, is to ensure the public interests by providing long-term supplies of natural gas. The Company has entered into a contract for the supply of Russian 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 L-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.

2. ACCOUNTING POLICIES

Presented below are the main accounting policies applied in preparing of the financial statements. Policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

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

The financial statements are presented in Bulgarian lev (BGN), which is also the functional currency of the Company. All amounts are presented in thousand Bulgarian lev (BGN 1000) (including comparative information for 2014) unless otherwise stated.

By 31 December 2015, the financial statements are prepared on a going concern basis, which assumes that the Company will continue its operations in the foreseeable future. As disclosed in note 1 "General information", the Company has an individual license for public supply of natural gas in the Republic of Bulgaria, issued by the State Energy and Water Regulatory Commission for a period of 35 years. The future operations of the Company as a public supplier of natural gas depend on the business environment, the regulatory requirements, the contracts for ensuring natural gas supplies, the contracts for natural gas sales to the clients of the company, as well as the securing of funding from the parent company BULGARIAN ENERGY HOLDING EAD, if necessary. Given the assessment of the expected future cash flows and the group strategy for business development in Bulgaria, the

Company's management believes that it is appropriate financial statements to be prepared on a going concern basis.

The preparation of financial statements in accordance with IFRS requires the management to make estimates related to the application of the accounting policy of the company. Areas of the financial statements that incorporate higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are described in Note 4.

2.1.1. NEW AND REVISED STANDARDS AND INTERPRETATIONS EFFECTIVE FROM 2015 APPLICABLE

Amendments of different standards "Improvements in IAS (2011-2013 cycle)", resulting from the Annual IFRS improvement project (IFRS 1, IFRS 3, IFRS 13, IAS 40), mainly with the purpose of eliminating controversies and interpretation of definitions – adopted by the EU on 18 December 2014 (the amendments will be applied for annual periods starting on or after 01 January 2015),

Amendments of different standards "Improvements in IAS (2010-2012 cycle)", resulting from the Annual IFRS improvement project (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38), mainly with the purpose of eliminating controversies and clarification of definitions – adopted by the EU on 17 December 2014 (the amendments will be applied for annual periods starting on or after 01 February 2015),

Amendment of IAS 19 "Employee benefits" – Plans with defined benefits: Employee instalments – adopted by the EU on 17 December 2014 (applicable for annual periods starting on or after 01 February 2015).

2.1.2. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS ISSUED BY IASB AND ADOPTED BY THE EU THAT ARE NOT YET EFFECTIVE

Amendment of IFRS 11 "Joint Arrangements" – Acquisition of an interest in a joint operation – adopted by the EU on 24 November 2015 (applicable for annual periods starting on or after 01 January 2016)

Amendment of IAS 1 "Presentation of Financial Statements" – Disclosure Initiative – adopted by the EU on 18 December 2015 (applicable for annual periods starting on or after 01 January 2016)

Amendment of IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Acceptable methods of depreciation and amortization – adopted by the EU on 02 December 2015 (applicable for annual periods starting on or after 01 January 2016),

Amendment of IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" – Agriculture: Bearer Plants– adopted by the EU on 23 November 2015 (applicable for annual periods starting on or after 01 January 2016),

Amendment of IAS 27 "Separate Financial Statements" – Equity method in separate financial statements - adopted by the EU on 18 December 2015 (applicable for annual periods starting on or after 01 January 2016),

Amendments of different standards "Improvements in IFRS" (2012-2014 cycle) resulting from the Annual IFRS improvement project (IFRS 5, IFRS 7, IAS 19 and, IAS 34) mainly with the purpose of eliminating controversies and interpretation of definitions – adopted by the EU on 15 December 2015 (the amendments will be applied for annual periods starting on or after 01 January 2016),

2.1.3. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS, ISSUED BY IASB AND NOT YET ADOPTED BY THE EU

The management considers it appropriate to inform that the following new or revised standards, new interpretations and amendments to existing standards, that compared to the accounting date are already issued by IASB, but are not yet approved for application by the European Commission and respectively are not taken into consideration during preparation of these financial statements. The effective dates will be dependent on the approval decisions for application of the European Commission.

The management expects that the adoption of these standards, the amendment and interpretations of existing standards will not have significant effect on the financial statements of the company during their initial application.

IFRS 9 "Financial Instruments" – (effective for annual periods starting on or after 1 January 2018**),**

IFRS 14 "Regulatory deferral accounts" (effective for annual periods starting on or after 1 January 2016**),**

IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods starting on or after 1 January 2018**),**

IFRS 16 "Leasing" (effective for annual periods starting on or after 1 January 2019**),**

Amendments of IFRS 10 "Consolidated financial statements" and IAS 28 „Investments in associates and joint ventures" - Sales or contributions of assets between an investor and its associate/joint venture – delayed for undefined period of time,

Amendments of IFRS 10 "Consolidated financial statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 „Investments in associates and joint ventures" – Investment companies: Applying the consolidation exceptions – (effective for annual periods starting on or after 1 January 2016)

Amendments of IAS 12 "Income taxes" - Recognition of deferred tax assets for unrealized losses (effective for annual periods starting on or after 1 January 2017)

2.2. PRESENTATION OF FINANCIAL STATEMENTS

Financial Statements are presented in accordance with IAS 1 "Presentation of Financial Statements" (revised 2007). The company presents the statement of profit or loss and other comprehensive income in a single statement.

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

Information concerning the retrospective restatement of items in the financial report for the comparative period as a result of an error, is presented in Note 5.

2.3. FOREIGN CURRENCY TRANSACTIONS

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

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

2.4. REVENUE

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

Revenue is measured by reference to the fair value of consideration received or receivable by the Company, excluding VAT, rebates and trade discounts.

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

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

2.4.1. REVENUE FROM SALES OF NATURAL GAS

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

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

According to the Bulgarian legislation, the Company cannot determine own pricing on the natural gas it sells. Selling prices of natural gas for all consumers connected to the transmission and distribution network are uniform throughout the country and are determined by the State Energy and Water Regulatory Commission (SEWRC), a state body to the Council of Ministers. By amending the Energy Act (Prom. SG. 17 of 06.03.2015), the Commission was transformed into Energy and Water Regulatory Commission (EWRC).

2.4.2. REVENUE FROM PENALTIES

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

2.4.3. INTEREST INCOME

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

2.5. OPERATING EXPENSES

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

Impairment losses of assets include impairment losses for receivables, for inventories and non-current tangible and intangible assets

DIFFERENCES WITHIN THE CLASS "UNCERTAINTY" OF MEASUREMENT SYSTEMS

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

2.6. INTEREST EXPENSES AND BORROWING COSTS

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

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

2.7. PLANT AND EQUIPMENT

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

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

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

Revaluations are performed according to the following frequency:

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

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

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

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

Subsequent expenditure relating to an item of plant and equipment is added to the carrying amount of the asset when it is probable that this expenditure will enable the Company to generate future economic benefits in excess of its originally assessed standard of performance. All other subsequent expenditure is recognized as such for the period it is made.

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

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

Plant and equipment is derecognised upon sale or when no expected future economic benefits from its use or disposal. Gain or loss arising on the derecognition of the asset are determined as the difference between the net disposal proceeds if any, and the carrying amount of the asset and are recognized in statement of profit or loss and other comprehensive income when the asset is derecognised.

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

The recognition threshold adopted by the Company for property, plant and equipment amounts to BGN 500.

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

2.8. INTANGIBLE ASSETS

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

After initial recognition, an intangible asset is carried at its purchase price less any accumulated amortization and any accumulated impairment losses. Impairment losses are recognized are reported as expense and are recognized in the statement of profit or loss and other comprehensive income for the respective period.

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

Residual values and useful lives are reviewed by the management at each reporting date.

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

- License 35 years
- Software 10 years

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

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

2.9. REPORTING OF LEASES - THE COMPANY AS A LESSEE

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

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

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

The interest element of leasing payments represents a constant proportion of the undischarged liability and is recognized in the profit or loss for the period of the lease.

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

2.10. IMPAIRMENT OF ASSETS

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

All assets and cash-generating units are tested for impairment at least once annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that their carrying value is not be recoverable.

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

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

2.11. FINANCIAL INSTRUMENTS

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

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

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

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

All financial assets are recognized on their settlement date.

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

2.11.1. FINANCIAL ASSETS

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

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

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

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

LOANS AND RECEIVABLES

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

Significant receivables are individually considered for impairment when they are past due at the financial statement date or when there is objective evidence that a counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other credit risk, if applicable. In these cases the percentage of impairment is based on recent historical counterparty default rates for each identified group. Impairment loss of trade receivables is presented within 'Impairment losses' in the statement of profit or loss and other comprehensive income.

At each reporting date the Company assesses whether there is objective evidence that a financial asset or group of financial assets may be impaired. A financial asset or group of financial assets is considered impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("the loss event") and that the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably measured. Evidence of impairment may include indications that debtors or group of debtors are experiencing serious financial difficulties or being in default or delinquency in the payment of interest or principal, or likely to declare insolvency / over-indebtedness or take financial reorganization or when observable data indicate a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that are associated with defaults by debtors.

FINANCIAL ASSETS AT AMORTIZED COST

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

If there is objective evidence that loss has arisen from impairment, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected losses on loans that have not yet been incurred). The present value of estimated future cash flows is discounted at the original effective interest rate of financial assets. If a loan has a variable interest rate, the discount rate for evaluation of the impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through use of an allowance account and the amount of the loss is recognized in profit or loss for the period. Interest income continues to be accrued on the reduced carrying amount by using the interest rate used to discount future cash flows for the assessment of the impairment loss. Interest income is reflected as part of the financial income in the statement of profit or loss and other comprehensive income. Loans together with the associated provisions thereto are written off when there is no realistic possibility that they may be collected in the future and all securities are sold or transferred to the Company. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is restored at a later stage, the recovery is recognized in profit or loss.

2.11.2. FINANCIAL LIABILITIES

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

INITIAL RECOGNITION AND EVALUATION

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

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

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

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

SUBSEQUENT MEASUREMENT

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

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

LOANS AND BORROWINGS

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

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

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

2.12. INVENTORIES

Inventories include materials and commodities - natural gas.

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

GAS IN UNDERGROUND GAS STORAGES

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

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

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

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

Costs for the storage of natural gas in an underground storage are stated at a current expense.

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

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

2.13. INCOME TAXES

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

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

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

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

Deferred tax liabilities are always recognized in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. As for management's assessment of the probability of future taxable income to utilize against deferred tax assets, see note 4.

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

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

2.14. CASH AND CASH EQUIVALENTS

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

2.15. EQUITY AND RESERVES

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

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

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

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

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

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

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

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

Actuarial gains or losses are recognized in other comprehensive income.

Interest expenses related to pension obligations are included in "Finance costs" in statement of profit or loss and other comprehensive income. All other post- employment benefit expenses are included in "Employee benefits expenses".

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

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

2.17. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

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

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

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

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

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

3. FINANCIAL RISK MANAGEMENT

3.1. FINANCIAL RISK FACTORS

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

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

3.1.1. MARKET RISK

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

(A) FOREIGN CURRENCY RISK

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

Exposure to short-term risk	**(USD)**
AS AT 31 DECEMBER 2015	
Financial assets	5 535
Total exposure	**5 535**
AS AT 31 DECEMBER 2014	
Financial assets	1 508
Financial liabilities	(47 233)
Total exposure	**(45 725)**

The following tables illustrate the sensitivity of post-tax net annual financial result and equity in regards to probable exchange rate differences between the Bulgarian Lev (BGN) and US Dollars (USD) +/- 1% (for 2014 +/- 1%) of the financial instruments held by the company at the end of the reporting period which are sensitive compared to US dollar exchange rate differences.

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

AS AT 31 DECEMBER 2015	**Increase of the exchange rate of BGN**		**Decrease of the exchange rate of BGN**	
US Dollars (USD) (+/- 1 %)	**Net financial result**	**Equity**	**Net financial result**	**Equity**
	50	50	(49)	(49)

AS AT 31 DECEMBER 2014	**Increase of the exchange rate of BGN**		**Decrease of the exchange rate of BGN**	
	Net financial result	**Equity**	**Net financial result**	**Equity**
US Dollars (USD) (+/- 1 %)	(410)	(410)	413	413

(B) INTEREST RATE RISK

The Company's policy is to minimize interest rate cash flow risk exposures on long-term financing. As at 31 December 2015, the Company is exposed to changes in market interest rates through trade loans, which have fluctuating interest rate for overdue principals.

The following tables illustrate the sensitivity of the net financial result after tax and equity to a reasonably possible change in interest rates in regard to borrowings at variable interest rate based on Base Interest Rate in Bulgaria (BIR) of +/-0.01% (2014: +/- 0.01 %). These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held by the company at the end of the reporting period that are sensitive to changes in interest rates. All other variables are held constant.

	Net financial result		**Equity**	
AS AT 31 DECEMBER 2015	**Increase of interest rate**	**Decrease of interest rate**	**Increase of interest rate**	**Decrease of interest rate**
Borrowings (BIR +/-0.01%)	(494)	494	(494)	494

	Net financial result		**Equity**	
AS AT 31 DECEMBER 2014	**Increase of interest rate**	**Decrease of interest rate**	**Increase of interest rate**	**Decrease of interest rate**
Borrowings (BIR +/-0.01%)	(3 202)	3 202	(3 202)	3 202

(C) OTHER PRICE RISK

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

The marginal cost of the public supplier Bulgargaz EAD for sale to final suppliers and consumers connected to the transmission network is determined by the EWRC according to methods set out in the Energy Act and the Regulations to regulate gas prices. The Company has no direct impact on the selling price set by the EWRC and is subject to the same rate period, which represents a risk due to realized quantity of natural gas determined in dynamics according to the market situation.

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

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

3.1.2. CREDIT RISK

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

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

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

	AS AT 31 DECEMBER	
	2015	**2014**
Classes of financial assets – carrying amounts (Note 6)		
Trade and other receivables	248 805	316 985
Cash and cash equivalents	33 258	554
Total financial assets	**282 063**	**317 539**

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

As of 31 December 2015 and 31 December 2014, the Company is exposed to concentrations of credit risk with respect to receivables from Toplofikacia Sofia EAD that comprise more than 10% of the short-and long-term net receivables:

	AS AT DECEMBER	
	2015	**2014**
Receivables from Toplofikacia Sofia EAD	146 863	189 491
Total trade and other receivables	248 805	316 985

Additional disclosures relating to credit risk are presented Notes 11.

3.1.3. LIQUIDITY RISK

Liquidity risk is the risk arising from the Company not being able to meet its obligations. Effective management of company's liquidity needs ensuring sufficient working cash funds mostly by short-term related party financing. Liquidity needs are monitored for various time bands, on a day-to-day basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly.

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

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

AS AT 31 DECEMBER 2015		Current	Non-current		
	Within 6 months	6 to 12 months	1 to 5 years	More than 5 years	Total
Borrowings (without finance lease liabilities)	31 069	11 445	-	-	42 514
Trade and other payables	22 538	7 649	40 378	-	70 565
Total	**53 607**	**19 094**	**40 378**	**-**	**113 079**

AS AT 31 DECEMBER 2014		Current	Non-current		
	Within 6 months	6 to 12 months	1 to 5 years	More than 5 years	Total
Borrowings (without finance lease liabilities)	135 448	-	-	-	135 448
Trade and other payables	49 545	-	32 940	-	82 485
Total	**184 993**	**-**	**32 940**	**-**	**217 933**

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

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

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

Financial assets used for managing liquidity risk

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

3.2. CAPITAL MANAGEMENT

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

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

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

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

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

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

	AS AT 31 DECEMBER	
	2015	**2014**
Equity (Net assets)	226 136	206 860
+ Subordinated debt	30 460	128 436
Adjusted capital	**256 596**	**335 296**
Total liabilities less subordinated debt	200 050	238 760
- Cash and cash equivalents	(33 258)	(554)
Net debt	**166 792**	**238 206**
Adjusted capital to net debt	**1: 0.65**	**1:0.71**

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

3.3. FAIR VALUE MEASUREMENT

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

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

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

4.1. IMPAIRMENT OF RECEIVABLES

Impairment of receivables is recognized in the amount of difference between the asset's carrying amount and the present value of future cash flows, discounted at the original effective interest rate. Impairment of receivables is recognized both for specific receivables and based on analysis of collectability. For customers which have signed deferred payment agreements, receivables are stated at present value and the impairment is specific. Impairment of current receivables is calculated by applying the percentage of uncollectible, for the calendar year.

The Company uses an allowance account to account for the impairment provision of bad debts or debts which are difficult to collect from customers. Management is assessing the adequacy of this provision based on aging analysis of receivables, historical experience of the level of write-off of bad debts, as well as analysis of the solvency of the client, changes to the agreed payment terms and other similar factors. If the financial condition and results of operations of customers deteriorate (more than expected), the value of receivables to be written off in subsequent reporting periods may be greater than expected at the reporting date. As at 31 December 2015 the best management estimate of the necessary impairment of receivables amounted to BGN 205 232 thousand (2014: BGN 205 686 thousand). Additional information is provided in Note 11.

4.2. INVENTORIES

Impairment of natural gas stocks are recognized up to its net realizable value. The determination of impairment requires management to assess the turnover of stocks of natural gas and its possible realization through sale. The

Company's management believes that the carrying amount of inventories consisting of natural gas represents the best estimate of its net realizable value at the date of statement of financial position according to IAS 2 Inventories. Additional information is provided in Note 12.

4.3. USEFUL LIVES OF DEPRECIABLE ASSETS

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

As at 31 December 2015 management assesses the useful live of assets that represents the expected term of their use. The carrying amounts of the assets are analysed in Notes 7 and 8. Actual results, however, may vary due to technical obsolescence, particularly relating to software and IT equipment.

4.4. DEFINED BENEFIT OBLIGATIONS

Management estimates the defined benefit obligations once annually with the assistance of independent actuaries; however, the actual outcome of the obligation may differ from the preliminary estimate due to its uncertainty. The estimate of its defined benefit obligation amounting to BGN 146 thousand (2014: BGN 150 thousand) is based on standard rates of inflation, medical cost and mortality. It also takes into account the Company's specific anticipation of future salary increases. Discount factors are determined at the end of each year to the yield on long-term government securities with 10-year maturity, denominated in the currency in which the defined benefits will be paid. There is uncertainty in the estimate particularly in terms of the tendency to change healthcare costs, which may vary significantly in future assessments of the value of the obligations for defined benefit.

4.5. PROVISIONS

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

4.6. DEFERRED TAX ASSETS

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

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

5. EFFECT FROM ACCOUNTING ERROR ADJUSTMENTS

In 2015 there was an error related to recognized in excess in 2014 revenues from penalties for overdue receivables for natural gas sold amounting to 2 022 thousands BGN. The Company made the respective restatement for 2014, as the other revenues, trade and other receivables respectively, were reduced by 2 022 thousands BGN.

Effects of adjustment of errors on assets, liabilities and financial result of the Company are as follows:

ASSETS	AS AT 31 DECEMBER 2014	Adjustment	AS AT 31 DECEMBER 2014 Restated
Non-current assets	**26 974**	**-**	**26 974**
Current assets			
Trade and other receivables	404 477	(2 022)	402 455
Total current assets	**549 104**	**(2 022)**	**547 082**
TOTAL ASSETS	**576 078**	**(2 022)**	**574 056**
CAPITAL AND LIABILITIES			
Equity			
Accumulated loss	(4 617)	-	(4 617)
Accumulated profit	7 161	(2 022)	5 139
Total equity	**208 882**	**(2 022)**	**206 860**
Non-current liabilities	**33 017**	**-**	**33 017**
Current liabilities	**334 179**	**-**	**334 179**
TOTAL LIABILITIES	**367 196**	**-**	**367 196**
TOTAL CAPITAL AND LIABILITIES	**576 078**	**(2 022)**	**574 056**

Restatement of accumulated profit for 2014

Decrease of revenue from penalties	(2 022)
Total effect – decrease of accumulated profit	**(2 022)**
Decrease of trade receivables	(2 022)
Total effect – decrease of assets	**(2 022)**

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

6. CATEGORIES OF FINANCIAL INSTRUMENTS

AS AT 31 DECEMBER 2015

Financial assets	**Loans and receivables**
Trade and other receivables (Note 11)	248 805
Cash and cash equivalents (Note 13)	33 258
Total financial assets in Statement of financial position	**282 063**

Financial liabilities	**Financial liabilities measured at amortized cost**
Borrowings (without Finance lease liabilities) (Note 16)	42 514
Trade and other payables (Note 17)	70 565
Total financial liabilities in Statement of financial position	**113 079**

AS AT 31 DECEMBER 2014

Financial assets	**Loans and receivables**
Trade and other receivables (Note 11)	316 985
Cash and cash equivalents (Note 13)	554
Total financial assets in Statement of financial position	**317 539**

Financial liabilities	**Financial liabilities measured at amortized cost**
Borrowings (without Finance lease liabilities) (Note 16)	135 448
Trade and other payables (Note 17)	82 485
Total financial liabilities in Statement of financial position	**217 933**

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

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

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

7. PLANT AND EQUIPMENT

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

	Plant and equipment	Vehicles	Office equipment	Total
AS AT 01 JANUARY 2014				
Gross value	86	407	336	**829**
Depreciation	(33)	(370)	(248)	**(651)**
Carrying amount	**53**	**37**	**88**	**178**
YEAR ENDED 31 DECEBER 2014				
Additions	-	-	3	**3**
Disposals	-	-	(1)	**(1)**
Depreciation	(4)	(36)	(41)	**(81)**
Ending carrying amount	**49**	**1**	**49**	**99**
AS AT 31 DECEMBER 2014				
Gross value	86	407	324	**817**
Depreciation	(37)	(406)	(275)	**(718)**
Carrying amount	**49**	**1**	**49**	**99**
YEAR ENDED 31 DECEBER 2015				
Additions	-	-	20	**20**
Disposals	-	-	(1)	**(1)**
Depreciation	(3)	(1)	(33)	**(37)**
Ending carrying amount	**46**	**-**	**35**	**81**
AS AT 31 DECEMBER 2015				
Gross value	86	407	343	**836**
Depreciation	(40)	(407)	(308)	**(755)**
Carrying amount	**46**	**-**	**35**	**81**

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

Rent payments amounting to BGN 258 thousand (2014: BGN 258 thousand) of renting office under operating leases are included in the hired services expenses in the statement of profit or loss and other comprehensive income (Note 20).

As at 31 December 2015 no plant and equipment has been given as security for company's liabilities

As at 31 December 2015 the plant and equipment was evaluated and the outcome from these tests and evaluations show that there are no significant fluctuations in their market values and therefore there is no need of correcting their carrying values.

8. INTANGIBLE ASSETS

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

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

	Software	Licence	Total
AS AT 01 JANUARY 2014			
Gross value	458	15	**473**
Amortization	(305)	(3)	**(308)**
Carrying amount	**153**	**12**	**165**
YEAR ENDED 31 DECEMBER 2014			
Additions	41	-	**41**
Amortization	(101)	-	**(101)**
Ending carrying amount	**93**	**12**	**105**
AS AT 31 DECEMBER 2014			
Gross value	499	15	**514**
Amortization	(406)	(3)	**(409)**
Carrying amount	**93**	**12**	**105**
YEAR ENDED 31 DECEMBER 2015			
Additions	15	-	**15**
Amortization	(94)	(1)	**(95)**
Ending carrying amount	**14**	**11**	**25**
AS AT 31 DECEMBER 2015			
Gross value	514	15	**529**
Amortization	(500)	(4)	**(504)**
Carrying amount	**14**	**11**	**25**

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

The intangible assets acquired in 2015 are a change in functionality of module "Penalties".

No intangible assets have been pledged as security for liabilities.

9. LEASE

(A) OPERATING LEASES AS A LEASSEE

The company has signed an operating lease for the use of an office building in Sofia. The contract was signed on 21 March 2011. The term of validity of the contract is 01 April 2021. The rent is negotiated on an annual basis until the end of the contract term. The annual amount of rent for the term of the contract is within the range of BGN 229 thousand (EUR 108 thousand) - BGN 258 thousand (EUR 132 thousand).

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

	AS AT 31 DECEMBE	
	2015	**201**
Within 1 year	229	25
Between 1 and 5 years	1 044	1 40
Over 5 years	-	7
	1 273	**1 73**

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

10. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are recognized for all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, at a tax rate of 10% (2015: 10%), applicable for the year, when they are expected to occur retroactively.

	AS AT 31 DECEMBER	
	2015	**2014**
Deferred tax assets		
– Deferred tax assets for recovery in more than 12 months	18 225	21 725
Total deferred tax assets	**18 225**	**21 725**
Deferred tax liabilities		
– Deferred tax liabilities for recovery in more than 12 months	5	7
Total deferred tax liabilities	**5**	7
Deferred tax assets, net	**18 220**	**21 718**

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

	YEAR ENDED 31 DECEMBER	
	2015	**2014**
AS AT 01 JANUARY	**21 718**	**22 750**
Recognized as income in profit or loss (Note 26)	(3 498)	(1 032)
AS AT 31 DECEMBER	**18 220**	**21 718**

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

The amount of unused tax losses as at 31 December 2015 for which no deferred tax asset is recognized in the statement of financial position is BGN 71 230 thousand. The deadline for deduction is 31 December 2017. According to the Corporate Income Tax Act, the Company has the right to carry forward tax losses within five years after their origination.

The Company realized tax loss as follows:

Fiscal period	**Period for deduction of tax losses.**	AS AT 31 DECEMBER	
		2015	**2013**
2011	from 2012 to 2016	4 866	42 952
2012	from 2013 to 2017	108 594	108 594
Total tax losses for carrying forward		**113 460**	**151 546**
Applicable tax rate		10 %	10 %
Expected deferred tax asset		**11 346**	**15 155**
Recognised deferred tax asset		**(4 223)**	**(8 032)**
Unrecognised deferred tax asset		**7 123**	**7 123**

In 2015 deferred tax asset for tax loss amounting to BGN 3 809 thousand is utilized in relation to a tax loss deducted for the period. As a result, the deferred tax asset recognized as at 31 December 2015 amounts to BGN 4 223 thousand.

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

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

DEFERRED TAX ASSETS	Impairment of inventory	Impairment of trade and other receivables	Pension provisions and constructive liabilities	Unused paid leaves	Plant and Equipment	Tax loss	Total
AS AT 01 JANUARY 2014	**(397)**	**(11 650)**	**(14)**	**(9)**	**-**	**(10 684)**	**(22 754)**
Expense/(Income) in profit or loss	(320)	(1 302)	(1)	-	-	2 652	**1 029**
Income in other comprehensive income	-	-	-	-	-	-	-
AS AT 31 DECEMBER 2014	**(717)**	**(12 952)**	**(15)**	**(9)**	**-**	**(8 032)**	**(21 725)**
Expense/(Income) in profit or loss	(378)	70	-	(1)	-	3 809	**3 500**
AS AT 31 DECEMBER 2015	**(1 095)**	**(12 882)**	**(15)**	**(10)**	**-**	**(4 223)**	**(18 225)**
DEFERRED TAX LIABILITIES							
AS AT 01 JANUARY 2014	**-**	**-**	**-**	**-**	**4**	**-**	**4**
Expense in profit or loss	-	-	-	-	**3**	-	**3**
AS AT 31 DECEMBER 2014	**-**	**-**	**-**	**-**	**7**	**-**	**7**
Expense in profit or loss	-	-	-	-	(2)	-	**(2)**
AS AT 31 DECEMBER 2015	**-**	**-**	**-**	**-**	**5**	**-**	**5**
DEFERRED TAX ASSETS AS AT 31 DECEMBER 2015, NET	**(1 095)**	**(12 882)**	**(15)**	**(10)**	**5**	**(4 223)**	**(18 220)**

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

11. TRADE AND OTHER RECEIVABELS

	AS AT 31 DECEMBER	
	2015	**2014**
Trade receivables	240 703	295 831
Accumulated impairment of trade receivables	(6 383)	(18 077)
Trade receivables, net	**234 320**	**277 754**
Court and awarded receivables	195 871	209 402
Accumulated impairment of court and awarded receivables	(195 356)	(187 609)
Court and awarded receivables, net	**515**	**21 793**
Receivable from Corporate Commercial Bank AD - insolvent	17 463	5 052
Accumulated impairment of receivable from Corporate Commercial Bank AD-insolvent	(3 493)	-
Receivable from Corporate Commercial Bank AD-insolvent, Net	**13 970**	**5 052**
Prepaid advances for natural gas delivery	56 639	46 101
Unpaid advance for natural gas delivery	-	44 317
Receivables under cession contract	-	12 386
Other receivables - prepaid expenses, guarantees and deposits	271	104
Total trade and other receivables	**305 715**	**407 507**
Minus non-current portion:		
- Other receivables	13 970	5 052
Current trade and other receivables	**291 745**	**402 455**

As at 31 December 2015 the Company has receivables from Corporate Commercial Bank AD – insolvent, amounting to BGN 17 463 thousand. With Decision No 664/22.04.2015 of City Court –Sofia, Corporate Commercial Bank AD was declared insolvent. The Company claimed receivables amounting to BGN 17 463 thousand to be included in the creditors' list, however the syndics of Corporate Commercial Bank AD – insolvent accepted and included in the list BGN 10 154 thousand, and a sum amounting to BGN 7 309 thousand remains unaccepted. Company's in-house lawyers submitted an Objection with No 3БН66-39/24.08.2015 within the legal term under Article 66 para 6 of Bank Insolvency Act. With a Decision 3БН66-8, No 3БН66-39/28.12.2015, CCB AD's (insolvent) syndics confirmed the amount of money initially included in the list. In an objection No 818/12.02.2016 via CCB AD's (insolvent) syndics, submitted in City Court – Sofia, Bulgargaz EAD stated its reasons related to legal non-conformity and incorrectness of the appealed final decision of CCB AD's (insolvent) syndics.

As at the date of these financial statements, Company's management, based on Protocol No 11/2016-01.03.2016 of BEH EAD's Board of Directors, determined the effect of the existing uncertainty related to the recoverable amount, available as at the date of preparation of the report, namely Sofia Administrative Court ruling in force, declaring CCB AD insolvent, as of 20.06.2014, the unknown amount of the insolvency estate, the uncertainty arising from the inaccuracies contained in the creditors' lists announced by the syndics, as well as taking into consideration of the available information, experience and practices, related to the insolvency procedures and consequential satisfaction of the creditors of other entities important for Bulgarian economy, declared insolvent. Based on these uncertainties, the management considered it reasonable that in 2015 a partial impairment loss of receivables from CCB AD's (insolvent) be recognized, as the impairment value is determined as 20 % of the amount of receivables.

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

Unpaid advance for natural gas delivery at BGN 44 317 thousand as at 31 December 2014 represents an amount which Bulgargaz EAD is contractually obligated to pay to a supplier of natural gas for natural gas delivery for January 2015. As a result, Bulgargaz EAD has a right to receive certain quantity of natural gas, which actual value is deducted from amounts paid in advance.

The aging structure of current trade receivables is as follows:

As at 31 December 2015

	Not overdue	30-90 days	90-180 days	180-360 days	>360 days	Total
	TBGN	TBGN	TBGN	TBGN	TBGN	TBGN
Trade receivables	100 118	16 890	12 315	24 574	86 806	240 703
	100 118	16 890	12 315	24 574	86 806	240 703

As at 31 December 2014

	Not overdue	30-90 days	90-180 days	180-360 days	>360 days	Total
	TBGN	TBGN	TBGN	TBGN	TBGN	TBGN
Trade receivables	94 740	78 328	34 659	83 000	5 104	295 831
	94 740	78 328	34 659	83 000	5 104	295 831

Unpaid within 30 days as of the due date trade receivables 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 statements. When calculating the impairment amount of trade receivables as at 31 December 2015, the management took into consideration overdue trade receivables settled after the date of the financial statements and the date of its preparation.

As at 31 December 2015, trade receivables with a book value of BGN 22 950 thousand (2014: BGN 18 077 thousand) are impaired.

The amount of impairment losses on trade receivables (excluding impairment of court and awarded receivables) accrued as at 31 December 2015 is equal to BGN 1 345 thousand (2014: BGN 14 304 thousand).

The aging analysis of these trade receivables is as follows:

	AS AT 31 DECEMBER	
	2015	**2014**
Within 3 months	-	6 129
Between 3 and 6 months	-	4 183
Over 6 months	6 383	7 765
Total	**6 383**	**18 077**

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

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

	YEAR ENDED 31 DECEMBER	
	2015	2014
AS AT 01 JANUARY	**205 686**	**196 619**
Accrued losses from impairment of receivables	9 116	16 561
Written-off uncollectable receivables	(86)	(3 836)
Reversals of impairment losses	(12 976)	(3 666)
Accrued losses from impairment of CCB AD-insolvent	3 492	-
Effect of time	-	8
AS AT 31 DECEMBER	**205 232**	**205 686**

Impairment loss and recovery is presented in the statement of profit or loss and other comprehensive income (Note 19). The effects of time elapsed or change in the discount rate are reported in financial income / expense - net. Amounts reported in the allowance account for credit losses on receivables are written off when there is no expectation that the Company will be able to obtain additional payments.

At the end of the reporting period the Company's maximum exposure to credit risk is the fair value of each group of trade and other receivables mentioned above, except for prepaid advances for natural gas delivery, right to receive natural gas after the corresponding advance paid and the prepaid expenses for future periods. The Company does not hold any collateral as security for trade and other receivables.

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

	AS AT 31 DECEMBER	
	2015	2014
Bulgarian Lev (BGN)	248 941	315 465
United states dollar (USD)	56 774	91 628
Euro (EUR)	-	414
Total trade and other receivables	**305 715**	**407 507**

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

12. INVENTORIES

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

	AS AT 31 DECEMBER	
	2015	2014
Natural gas at cost	110 281	148 664
Impairment up to net realisable value	(10 952)	(4 610)
Natural gas – net realisable value	99 329	144 054
Materials	18	19
Total inventories	**99 347**	**144 073**

In 2015 a total of BGN 1 340 141 thousand of inventories has been reported as expenses in profit or loss (2014: BGN 1 508 945 thousand).

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

The movement in the accumulated depreciation of natural gas is as follow:

	YEAR ENDED 31 DECEMBER	
	2015	2014
AS AT 01 JANUARY	**4 610**	**3 976**
Impairment losses	16 254	4 610
Reversal of impairment	-	(1 410)
Written-off impairment of natural gas sold	(9 912)	(2 566)
AS AT 31 DECEMBER	**10 952**	**4 610**

At the date of the statement of financial position the Company has analysed the circumstances that would lead to the existence of impairment in the value of natural gas. The main external sources used as an impairment indicator, are decisions issued by EWRC № TS-13/30.03.2015, № TS-20/26.06.2015, № TS-33/30.09.2015 and № TS-48/30.12.2015. As a result, the value of the amount of natural gas pipeline in Romania and in gas storage Chiren was estimated up to net realizable value and an impairment expense amounting to BGN 16 254 thousand (2014: BGN 4 610 thousand) is recognized for the period.

Reversals of impairment of inventories are recorded as an adjustment to cost of natural gas sold during the period. Accrued new impairment losses are presented as such in the statement of profit or loss and other comprehensive income (Note 19).
In 2015, a decrease in costs as a result of the reversal of impairment, which were recognized is at the amount of BGN 0.00 thousand (2014: BGN 1 410 thousand).

No inventories are provided as collateral for liabilities.

As at the date of the financial statements the Company holds in custody 32 113 037 normal cubic meters natural gas under the agreement for sale and repurchase of natural gas.

13. CASH AND CASH EQUIVALENTS

	AS AT 31 DECEMBER	
	2015	2014
Cash in bank accounts	33 244	547
Cash on hand	14	7
Total cash and cash equivalents	**33 258**	**554**

Cash in bank accounts are financial assets that are neither past due nor impaired and do not carry credit risk for the Company.

For the purposes of the cash flow statement cash and cash equivalents include the following:

	AS AT 31 DECEMBER	
	2015	2014
Cash and cash equivalents	33 258	554
Total	**33 258**	**554**

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

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

	AS AT 31 DECEMBER	
	2015	**2014**
Bulgarian lev (BGN)	27 812	403
US dollars (USD)	5 398	51
Euro (EUR)	45	97
British pounds (GBP)	1	2
Romanian lei (RON)	2	1
Total cash and cash equivalents	**33 258**	**554**

As at 31 December 2014 cash amounting to BGN 5 052 thousand restricted in Corporate Commercial Bank AD have been reclassified as long-term other receivables. The amount of BGN 12 386 thousand are related to ceded receivables under a cession agreement. Those amounts are presented as short-term other receivables (Note 11).

14. SHARE CAPITAL

As of 31 December 2015, the registered share capital of the Company consists of 206 297 188 ordinary shares with a par value of BGN 1 per share. All shares are entitled to receive dividends and repayment of capital and represent one vote at the general meeting of shareholders.

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

	Number of shares	**Amount**
AS AT 01 JANUARY 2014	**257 691 067**	**257 691**
Reduction of share capital by cancellation of shares – art. 201, par. 1 and art. 187a of the Commercial Act	51 393 879	-
AS AT 31 DECEMBER 2014	**206 297 188**	**257 691**
AS AT 31 DECEMBER 2015	**206 297 188**	**206 297**

The sole shareholder of the Company's capital is Bulgarian Energy Holding EAD, which is owned by the Ministry of Energy. In 2014, in accordance with decision № 30-2014/27.06.2014 of the Bulgarian Energy Holding EAD, the registered capital of the Company was reduced by 51 393 879 (fifty-one thousand three hundred ninety-three eight hundred seventy-nine) ordinary registered shares with a par value of BGN 1 each and their consequential cancellation, in order to cover a portion of the realized loss from previous years.

The reduction of share capital is made in accordance with art. 200 § 2 in conjunction with art. 201, par. 2 and art. 187a, par. 1, item 1 of the Commercial Act.

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

15. RESERVES

	Legal reserves	Revaluation reserves of non-financial assets	Reserve from remeasurement of defined benefit obligation	Total
AS AT 01 JANUARY 2014	**36 097**	**56**	**(12)**	**36 141**
Other comprehensive income for the year before tax	-	-	(3)	**(3)**
Covering losses	(36 097)	-	-	**(36 097)**
AS AT 31 DECEMBER 2014	**-**	**56**	**(15)**	**41**
Deduction “Reserve” Fund	715	-	-	715
Other comprehensive income for the year after tax	-	-	2	2
Other changes	-	-	(1)	(1)
AS AT 31 DECEMBER 2014	**715**	**56**	**(14)**	**757**

LEGAL RESERVES

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

In 2015 under Protocol №26-2015/09.06.2015 of the Board of Directors of BEH EAD, was decided the net profit for 2014 to be distributed, as a result of which an amount of BGN 715 thousand was deducted for “Reserve” Fund.

REVALUATION RESERVES OF NON-FINANCIAL ASSETS

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

RESERVE FROM REVALUATIONS OF DEFINED BENEFIT PLANS

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

16. BORROWINGS

	AS AT 31 DECEMBER 2015	2014
Current		
Related party borrowings (Note 31)	30 460	128 436
Financing under repurchase agreements of natural gas	12 054	7 012
Total current	**42 514**	**135 448**
Total borrowings	**42 514**	**135 448**

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

As at 31 December 2015 the Company has received loans from Bulgarian Energy Holding EAD amounting to BGN 30 460 thousand under a loan contract. The loans are not secured.

Financing under repurchase agreements of natural gas amounting to BGN 12 054 thousand (2014: BGN 7 012 thousand) represent amounts received from counterparties with which the Company has contracts for the sale of natural gas, with an option to repurchase the same quantities of gas in the next period at a fixed price.
The quantities of natural gas are stored in UGS Chiren and are provided under the custody of the Company.

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

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

	AS AT 31 DECEMBER	
	2015	**2014**
Bulgarian lev (BGN)	42 514	135 448
Total borrowings	**42 514**	**135 448**

17. TRADE AND OTHER PAYABLES

	AS AT 31 DECEMBER	
	2015	**2014**
VAT payable	103 966	101 404
Related party payables (Note 31)	68 410	75 676
Interest on overdue payables	12 072	1 339
Liabilities under unpaid advance for natural gas delivery	-	44 317
Trade payables	2 078	4 984
Advances received from clients for sale of natural gas	727	2 837
Excise duty	396	457
Payables to employees	82	74
Liabilities to insurance companies	14	16
Other liabilities	105	494
Total trade and other payables	**187 850**	**231 598**
Minus non-current portion:		
- Related party payables (Note 31)	40 378	32 940
Non-current trade and other payables	**40 378**	**32 940**
Current trade and other payables	**147 472**	**198 658**

Liabilities under unpaid advance for natural gas delivery amounted to BGN 44 317 thousand is the Company's contractual obligation for payment to the supplier of natural gas for natural gas delivery for January 2015.

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

Payables to employees represent obligations to Company's employees, to be settled in 2016. They occur mainly in relation to accumulated unused leave at the end of the reporting period and amounted to BGN 82 thousand (2014: BGN 74 thousand). Liabilities to insurance companies include the social security payables related to accrued unused compensation leave in the amount of BGN 14 thousand (2014: BGN 16 thousand).

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

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

18. RETIREMENT BENEFIT OBLIGATIONS

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

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

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

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

	AS AT 31 DECEMBER	
	2015	**2014**
Present value of obligations	146	150
Liability at the end of the reporting period	**146**	**150**

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

	YEAR ENDED 31 DECEMBER	
	2015	**2014**
AS AT 01 JANUARY	**150**	**134**
Current service costs (Note 21)	8	8
Interest expenses (Note 25)	6	5
Total expenses	**14**	**13**
Remeasurements:		
- Gains from changes in demographic assumptions	(13)	(13)
- Loss from changes in financial assumptions	11	16
Total other comprehensive income	**(2)**	**3**
Paid income	**(16)**	**-**
AS AT 31 DECEMBER	**146**	**150**

The main actuarial assumptions used are as follows:

	AS AT 31 DECEMBER	
	2015	**2014**
Discount rate	4%	4%
Future salaries increase	2%	2%

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

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

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

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

The significant actuarial assumptions for the determination of the defined benefit obligation are related to the discount rate, the salary growth rate and the average life expectancy. The following table analyses the sensitivity and summarizes the effects of changes in these actuarial assumptions on the defined benefit liability as at 31 December 2015:

AS AT 31 DECEMBER 2015	**Change in the actuarial assumptions**	**Effect on obligation in BGN**	**Change in the actuarial assumptions**	**Effect on obligation in BGN**
Discount rate	+ 0.25 %	(1 689)	– 0.25 %	1 761
Future salary increase	+ 1 %	7 590	– 1 %	(6 540)
Staff turnover	+ 1 %	(6 662)	– 1 %	6 274
Average life expectancies	+1 year	1 755	-1 year	166

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

As of 31 December 2015 the weighted average duration of the obligation to pay compensation upon retirement is 5 years.

19. IMPAIRMENT LOSS

Impairment losses for the Company are related to the impairment of financial assets in the group of receivables and non-financial assets - natural gas. They are as follows:

	YEAR ENDED 31 DECEMBER 2015	**2014**
Impairment loss accrued for trade and other receivables, net (note 11)	(368)	12 895
Impairment loss accrued inventories, net (Note 12)	16 254	3 200
Total impairment losses of assets	**15 886**	**16 095**

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

20. HIRED SERVICES EXPENSES

The hired service expenses include:

	YEAR ENDED 31 DECEMBER	
	2015	**2014**
Cost of services, related to activity which is not regulated	2 560	2 521
Court fees and legal advices	1 175	1 465
Natural gas storage expenses	589	1 048
License fees	822	812
Rent	258	258
Other fees	129	207
Insurance	250	151
Management contract expenses	255	79
Communications	79	77
Remunerations of audit committee members	30	40
Subscription service	21	25
Consulting services	70	3
Total hired services expenses	**6 238**	**6 686**

21. EMPLOYEE BENEFIT EXPENSES AND SOCIAL SECURITY EXPENSES

The employee benefit expenses of the Company include:

	YEAR ENDED 31 DECEMBER	
	2015	**2014**
Wages, salaries	2 005	1 859
Social security expenses	303	282
Compensated leaves costs	30	26
Cost of defined retirement benefit obligations (Note 18)	8	8
Total employee benefit expenses	**2 346**	**2 175**

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

	YEAR ENDED 31 DECEMBER	
	2015	**2014**
Hired employees at the end of the period	54	49
Average number of hired employees throughout the year	55	55

22. COST OF MATERIALS

The Company's cost of materials include:

	YEAR ENDED 31 DECEMBER	
	2015	**2014**
Fuel gas	33	38
Fuel and lubricants	28	32
Stationery and consumables	13	13
Main materials	9	11
Other	17	9
Total cost of materials	**100**	**103**

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

23. OTHER EXPENSES

Other expenses of the company include:

	YEAR ENDED 31 DECEMBER	
	2015	**2014**
Penalties on delayed payments	1 092	6 171
Business trips and representation expenses	33	56
Trainings	1	17
One-off taxes	18	16
Others	123	101
Total other expenses	**1 267**	**6 361**

24. OTHER REVENUE

The Company's other revenue includes**:**

	YEAR ENDED 31 DECEMBER	
	2015	**2014**
Penalties on overdue receivables	39 058	5 139
Revenue from services, related to activity which is not regulated	2 560	2 521
Other	1 266	407
Total other revenue	**42 884**	**8 067**

25. FINANCE COST AND FINANCE INCOME

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

	YEAR ENDED 31 DECEMBER	
	2015	**2014**
Financial income		
Interest income on cash and cash equivalents	237	269
Interest income on long-term receivables	71	233
Finance income – interest income from financial assets carried at amortized cost	**308**	**502**
Exchange rate gain on receivables, payables and cash, net	10 694	16 129
Total finance income	**11 002**	**16 631**
Finance costs		
Interest expense on borrowings due to related parties	(1 734)	(2 880)
Interest expense on trade payables to related parties	(3 225)	(2 221)
Interest expense on repurchase agreements	(129)	(579)
Other interest expense	-	(4)
Interest expense on finance leases	-	(2)
Effect of discounting of financial assets	-	(8)
Interest expense on financial liabilities carried at amortized cost	**(5 088)**	**(5 694)**

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

	YEAR ENDED 31 DECEMBER 2015	2014
Interest expense on overdue tax liabilities	(10 798)	(2 321)
Discount from sale of receivables	(4 568)	(1 142)
Bank charges	(9)	(34)
Interest expense on defined benefit obligations (note 18)	(6)	(5)
Total finance costs	**(20 469)**	**(9 196)**
Finance income/(costs), net	**(9 467)**	**7 435**

26. INCOME TAX EXPENSES

The relationship between the expected tax income/(expense) based on the applicable tax rate in Bulgaria of 10 % (2014: 10 %) and the tax expense actually recognized in profit or loss can be reconciled as follows:

	YEAR ENDED 31 DECEMBER 2015	2014
Profit before tax	23 863	8 183
Tax rate	10%	10%
Expected tax expense	(2 386)	(818)
Tax effect on income tax expense on:		
Expenses not recognized for tax purposes	(3 992)	(2 375)
Income not recognized for tax purposes	2 569	541
Tax loss carried forward	3 809	2 652
Recognized deferred tax asset on tax loss	-	-
Income taxes expenses	-	-
Effect of the change in deferred taxes (Note 10)	(3 498)	(1 032)
Income tax revenues	**(3 498)**	**(1 032)**
Deferred tax income (expense) recognized directly in the other comprehensive income	-	-

27. NON-CASH TRANSACTIONS

In 2015 the Company did not enter into investing and financing transactions in which cash and cash equivalents were not used and which are not reflected in the cash flow statement.

28. DIVIDENDS

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

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

Dividends obligations are determined annually by the State Budget Act.

On 16 March 2015 Authorisation №1 of the Council of Ministers was approved, according to which joint stock companies due dividend is at amount not greater than 60 % of the profit as per financial statements for 2014. The provision is in compliance with Art. 247a of the Commercial Act, after deducting the allocations for Reserve Fund when the fund is not completed in accordance with Art. 91 of the State Budget Act of the Republic of Bulgaria for 2015.

With Decision № РД-30-2014/27.06.2014 of the Board of Directors of BEH EAD and in compliance with Authorisation №5 of Council of Ministers from 11 June 2014 and in compliance with the State Budget Act for 2014, the financial result for 2013 amounts to BGN 62 164 thousand was allocated to cover part of the losses for previous years.

In 2014 and 2015 Company did not pay dividends to the sole shareholder.

With a Decision No 26-2015/09.06.2015 of the Board of Directors of Bulgargaz EAD and in compliance with Authorisation №1 of Council of Ministers of 16.03.2015, the net profit for 2014 amounting to BGN 7 151 is allocated for “Reserve” fund, for loss covering for previous years and for dividend to the sole shareholder.

According to art.1 b) and c) of Authorisation №2 of Council of Ministers of 18.02.2016 for determination and payment to the State of deductions from the profit from the side of state owned entities and state owned trading companies, the Company is obliged to pay dividend to the State of the profit after tax for 2015 amounting to 50 %, after deduction of the allocations for “Reserve” fund when this fund is not completed. The dividend amount is no greater than a sum equal to 50% of the profit under the consolidated financial statements for 2015.

29. CONTIGENT ASSETS AND CONTIGENT LIABILITIES

European Commission procedures

Case COMP/B1/AT.39849 – BEH Gas

The case COMP/B1/AT.39849 – BEH Gas is related to a potential breach of Article 102 of TFUE in connection to alleged actions of Bulgargaz EAD and Bulgartransgaz EAD related to:
-preventing their competitors from getting access to key gas infrastructure (gas transmission network and gas storage facility) in Bulgaria, such as explicitly or tacitly refusing third party access or delaying (Bulgartransgaz EAD);
- preventing competitors from getting access to a major gas import pipeline via booking a capacity which remains unused (Bulgargaz EAD).

The proceedings are initiated in 2013 with view of adopting a decision under Chapter 3 (Art.7 and 10 of Regulation 1/2003). On 23 March 2015 EC issued a Statement of Objections (SO). Bulgargaz EAD presented a Reply to the SO on 09 July 2015. On 06 October 2015 there was a technical meeting under Case AT.39849 – BEH Gas, instead of Oral Hearing. The proceedings may end with the EC adopting a prohibition decision under Art. 7 or decision related to commitments to be taken by BEH EAD, Bulgargaz EAD and Bulgartransgaz EAD under Art. 9. In case of a prohibition decision, EC may impose behavioural or structural measures and a sanction. In accordance with the Guidelines on the method for determination of sanctions and Art. 23 of the Regulation 1/2003, for each entity taking part in the breach, the sanction cannot be higher than 10 % of the total turnover of the previous economic year. EC may take into consideration attenuating or aggravating circumstances under the Case. During the case, BEH EAD and Bulgargaz EAD continue collaborating with EC and providing it with the necessary information in due course. As at the date of preparation of Bulgargaz EAD's financial statements the Case is not terminated and there is no ruling in force. There are forthcoming procedural actions from the side of EC.

Legal claims

There are no significant legal claims against the Company.

The Company has brought administrative proceedings to the Supreme Administrative Court on the basis of which the Company disputes the legality of the decisions of the SEWRC, with which the Commission approves the price of natural gas in some quarters of the calendar years 2008 to 2012.

Others

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

30. COMMITMENTS

(A) OPERATING LEASES, AS A LEASEE

As of 31 December 2015, the Company has no commitments under irrevocable operating lease agreements..

31. RELATED PARTY TRANSACTIONS

The company announces the following related parties:

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

Sole shareholder of the mother company
The Bulgarian State through the Minister of Energy

Companies under mutual joint control with the company (companies in a group)
Natsionalna Elektricheska Kompania EAD, "TPP Maritsa East 2" EAD, "Mini Maritsa Iztok" EAD, "Kozloduy NPP" EAD, "Kozloduy NPP – NB" EAD, "HPP Kozloduy" EAD, "Interpriborservice" OOD, "Bulgartel" EAD, "Bulgartransgaz" EAD, "Electricity System Operator" EAD, "TPP Maritsa East 2 (9 and 10)" EAD, PFC "Beroe – Stara Zagora" EAD, "Bulgartel-Skopje" Dooel, "Energy Measurement and Information Technology Operator" EAD, "Independent Bulgarian Energy Exchange" EAD "Energy Investment Company" EAD

Associated and joint companies for BEH Group

ICGB AD
"South Stream Bulgaria" AD
"Contur Global Maritsa Iztok 3" AD

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

"Contur Global Operations Bulgaria" AD
"Energy" Insurance JSC
"Alianz Bulgaria" EAD

Key management of the company

Botyo Tomov Velinov – Chairman of the BoD
Iliyan Kirilov Dukov – Member of the BoD
Petyo Angelov Ivanov – Member of the BoD and CEO as at 31 December 2015

Key management of the mother company

Zhecho Delchev Stankov - Chairman of the BoD
Zhivko Dimitrov Dinchev - Member of the BoD
Jacklen Iosif Cohen - Member of the BoD and CEO as at 31 December 2015

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

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

(A) SALE OF GOODS	**YEAR ENDED 31 DECEMBER**	
	2015	**2014**
Companies under common control		
BULGARTRANSGAZ EAD	7 751	91 776
Total	**7 751**	**91 776**

(B) REVENUE FROM SOLD ASSETS	**YEAR ENDED 31DECEMBER**	
	2015	**2014**
Companies under common control		
NEK EAD	-	1
Total	-	1

(C) PURCHASE OF GOODS AND SEVICES	**YEAR ENDED 31 DECEMBER**	
	2015	**2014**
Parent company		
BULGARIAN ENERGY HOLDING EAD	255	94
Companies under common control		
BULGARTRANSGAZ EAD	52 651	45 052
BULGARTEL EAD	19	22
Total	**52 925**	**45 168**

Purchases of services from BULGARIAN ENERGY HOLDING EAD include services under management and control agreement and others.

Purchases of services from BULGARTRANSGAZ EAD include transmission and storage of natural gas.

Purchases of services from BULGARTEL EAD include technical support.

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

(D) ACCRUED PENALTY CHARGES

	YEAR ENDED 31 DECEMBER	
	2015	**2014**
Companies under common control		
BULGARIAN ENERGY HOLDING EAD	58	13
BULGARTRANSGAZ EAD	3 011	3 048
Total	**3 069**	**3 061**

Accrued expenses for penalties relate to the transmission and storage of natural gas.

(E) PAYABLES FOR PURCHASES OF GOODS AND SERVICES

	YEAR ENDED 31 DECEMBER	
	2015	**2014**
NON-CURRENT		
Companies under common control		
BULGARTRANSGAZ EAD	40 378	32 940
Total non-current	**40 378**	**32 940**
CURRENT		
Parent company		
BULGARIAN ENERGY HOLDING EAD	1 588	138
Companies under common control		
BULGARTRANSGAZ EAD	26 442	42 596
BULGARTEL EAD	2	2
Total current	**28 032**	**42 736**
Total	**68 410**	**75 676**

Trade payables of the Company to BULGARTRANSGAZ EAD are related to transmission and storage of natural gas.
As at 31 December 2015 the Company has an agreement, concluded on 15 July 2015, gathering 3 previous agreements of 11 May 2012, 15 March 2013 and 01 April 2015. As at the signing date of the agreement until the date of final payment of the debt – 30 June 2019, in accordance with an extinguishment schedule, the Company owes interest amounting to 3.6 per cent per year, based on a 360-year basis.

As at 31 December 2015 the long-term portion of rescheduled trade payables is estimated to BGN 40 378 thousand (31 December 2014: BGN 32 940 thousand) and the short-term part to BGN 15 162 thousand principal (31 December 2014: BGN 16 670 thousand)

In relation to this agreement Bulgargaz EAD is obliged to maintain certain minimum required quantity in Chiren.

The rest of the current obligations to Bulgartransgaz EAD is related to current supply of transmission services and storage of natural gas amounting to BGN 11 185 thousand and interest BGN 94 000 thousand.

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

(F) BORROWINGS DUE TO RELATED PARTIES

Borrowing due to the parent company	YEAR ENDED 31 DECEMBER	
	2015	**2014**
AS AT 01 JANUARY	**128 436**	**-**
Amounts received	-	140 593
Paid (settled under cession agreement)	(95 633)	(15 000)
Accrued interest and penalties in the Statement of profit and loss and other comprehensive income	2 832	2 880
Payments of interest and penalties (settled under cession agreement)	(5 175)	(37)
AS AT 31 DECEMBER	**30 460**	**128 436**

According to a loan agreement signed on 29 September 2014 between BULGARGAZ EAD and BULGARIAN ENERGY HOLDING EAD, BULGARGAZ EAD received intra-group credit designed for advance payment of natural gas supply for October 2014. The loan principal is amounting to BGN 15 000 thousand, the annual interest rate is 4.49 % and the maturity date is 19 October 2014. The loan was paid in 2014.
According to a loan agreement signed on 1 December 2014 between BULGARGAZ EAD and BULGARIAN ENERGY HOLDING EAD, BULGARGAZ EAD received intra-group credit for advance payment for the supply of natural gas. The loan principal is amounting to BGN 47 000 thousand, the annual interest rate is 4.49 % . According to the agreed repayment schedule, the monthly repayments begin on 30 April 2015 and finish on 31 December 2016. The loan is unsecured.

As at 31 December 2015 Bulgargaz' borrowing amounts to BGN 30 460 thousand – of which BGN 29 960 thousand principal and BGN 500 thousand interest.

(G) KEY MANAGEMENT PERSONNEL REMUNERATIONS

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

	YEAR ENDED 31 DECEMBER	
	2015	**2014**
Short term benefits to key management personnel		
- Remunerations	107	110
- Social security costs	15	12
Total	**122**	**122**

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

32. POST-REPORTING DATE EVENTS

No significant events have occurred after the end of the current reporting period that have effect on the annual financial statements as at 31 December 2015, except for those mentioned below:

The Commission for Energy and Water Regulation approved the selling prices of natural gas from the public supplier to end users and customers connected to the gas transmission network for the first quarter of 2016, as follows: BGN 405,56 per 1000 cubic meters without excise duty and VAT and BGN 413,28 per 1000 cubic meters without excise duty and VAT (for customers connected to the low pressure networks).

On 15 February 2016 with a Decision No 7 – 2016/15.02.2016 of Bulgarian Energy Holding EAD's BoD Nikolay Pavlov was elected Executive Director and Member of the BoD of Bulgargaz EAD replacing Petyo

Ivanov. This circumstance was published in the Commerce register on 19 February 2016. According to art 1 b) and c) of Authorisation No 2 of the Council of Ministers of 18 February 2016 for determination and payment to the State of deductions from the profit from the side of state owned entities and state owned trading companies, the Company is obliged to pay dividend to the State of the profit after tax for 2015 amounting to 50 %, after deduction of the allocations for "Reserve" fund when this fund is not completed. The dividend amount is no greater than a sum equal to 50% of the profit under the consolidated financial statements for 2015.

On 15 March 2016 a cession agreement between Bulgargaz EAD and NEK EAD was signed, with which Bulgargaz EAD transfers non-gratuitously receivables from Toplofikatsia Sofia amounting to BGN 51 114 thousand, including principals amounting to BGN 37 100 thousand and penalties for overdue receivables amounting to BGN 14 014 thousand.

33. AUTHORIZATION OF THE FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2015 (including comparatives) were approved by the Board of Directors on 13 April 2016.

HLB Bulgaria

Audit, Analysis & Consulting

INDEPENDENT AUDITOR'S REPORT

TO THE SOLE OWNER OF

"BULGARGAZ" EAD

Report on the financial statements

We have audited the accompanying financial statements of **"BULGARGAZ" EAD (the Company),** as at 31 December 2015, which comprise the statement of financial position as at 31 December 2015, and the profit and loss statement and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards, adopted by European Commission and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the professional requirements of the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

No. 149-151, „Konstantin Velichkov" blvd., 1st floor, office 3, Sofia, 1309, Bulgaria

Tel: +359 2 920 22 01/ 920 50 21, Fax: +359 2 920 36 65, E-mail: office@hlb-bg.com, Web site:www.hlb-bg.com

HLB Bulgaria
Audit, Analysis & Consulting

Basis for Qualified Opinion
The statement of financial position includes non-current receivables from Corporate Commercial Bank AD - in insolvency with gross value as at 31 December 2015 amounting to BGN 17,463 thousand and recognized impairment for the period BGN 3,493 thousand. In the creditors' receivables list approved by the administrators in insolvency amount of BGN 10,154 thousand is registered. The Company management considered that there exists many uncertainties related to determining recoverable amount of this receivable and estimated as reasonable to recognize partial impairment loss for the period (Note 11 "Trade and other receivables"). We were unable to obtain sufficient audit evidence even by applying alternative procedures to become convinced with reasonable assurance about the submitted values for this receivable in financial statements and to determine whether the amendments in the amount of this receivable are necessary.

Qualified opinion
In our opinion, except for the possible effect of the matter, described in "Basis for Qualified Opinion" section, the accompanying financial statements present fairly, in all material respects the financial position of **"BULGARGAZ" EAD** as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, adopted by European Commission.

An Emphasis of Matter Paragraph
We draw attention to the disclosed in Note 29 "Contingent assets and contingent liabilities" about case COMP/B1/AT.39849 – BEH gas. Our opinion is not qualified in relation to this issue.

Other matters
The Company financial statements as at 31 December 2014 were audited by other auditor that issued qualified audit report whit an emphasis of matter paragraph dated 27 April 2015.

Report on other Legal and Regulatory Requirements – Annual Activity Report as at 31.12.2015

We have reviewed the activity report as at 31 December 2015 of **"BULGARGAZ" EAD**, which is not part of the financial statements as at 31 December 2015. The historic financial information, presented in the activity report, prepared by the Management, corresponds, in all material aspects, to the financial information in the financial statements as at 31 December 2015, prepared in accordance with the International Financial Reporting Standards, adopted by the European Commission. The Management is responsible for the preparation of the activity report.

Specialized Auditing Company
"HLB Bulgaria" Ltd.

Representing the Auditing Company:
Milena Hristova

Registered Auditor (CPA) responsible for the audit:
Vaska Gelina

13.04.2016

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №017
"ЕЙЧ ЕЛ БИ БЪЛГАРИЯ" ООД