BULGARGAZ EAD

ANNUAL ACTIVITY REPORT
FINANCIAL STATEMENTS
INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2014

CONTENTS

This annual Company Activity Report for 2014 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, 2014 - December 31, 2014.

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 September 26, 2013 the company was managed by a Board of Directors, comprising:

Iliya Petrov Ivanov	Chairman of the BoD
Boris Yanakiev Todorov	Member of the BoD
Dimitar Ivanov Gogov	Member of the BoD and CEO

On September 26, 2013, the BEH's BoD Decision on appointment of new members of the Board of Directors was registered in the Companies Register:

Dafinka Yordanova Yankova	Member of the BoD
Boris Yanakiev Todorov	Member of the BoD
Dimitar Ivanov Gogov	Member of the BoD and CEO

On October 03, 2013, the BEH's BoD Decision on appointment of new members of the Board of Directors was registered in the Companies Register:

Dafinka Yordanova Yankova	Chairman of the BoD
Botyo Tomov Velinov	Member of the BoD
Dimitar Ivanov Gogov	Member of the BoD and CEO

On November 13, 2013, 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:

Dafinka Yordanova Yankova	Chairman of the BoD
Botyo Tomov Velinov	Member of the BoD
Shishman Antonov Chaushev	Member of the BoD and CEO

On December 18, 2013, 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
Mustafa Mustafov Ahmedov	Member of the BoD
Dafinka Yordanova Yankova	Member of the BoD and CEO

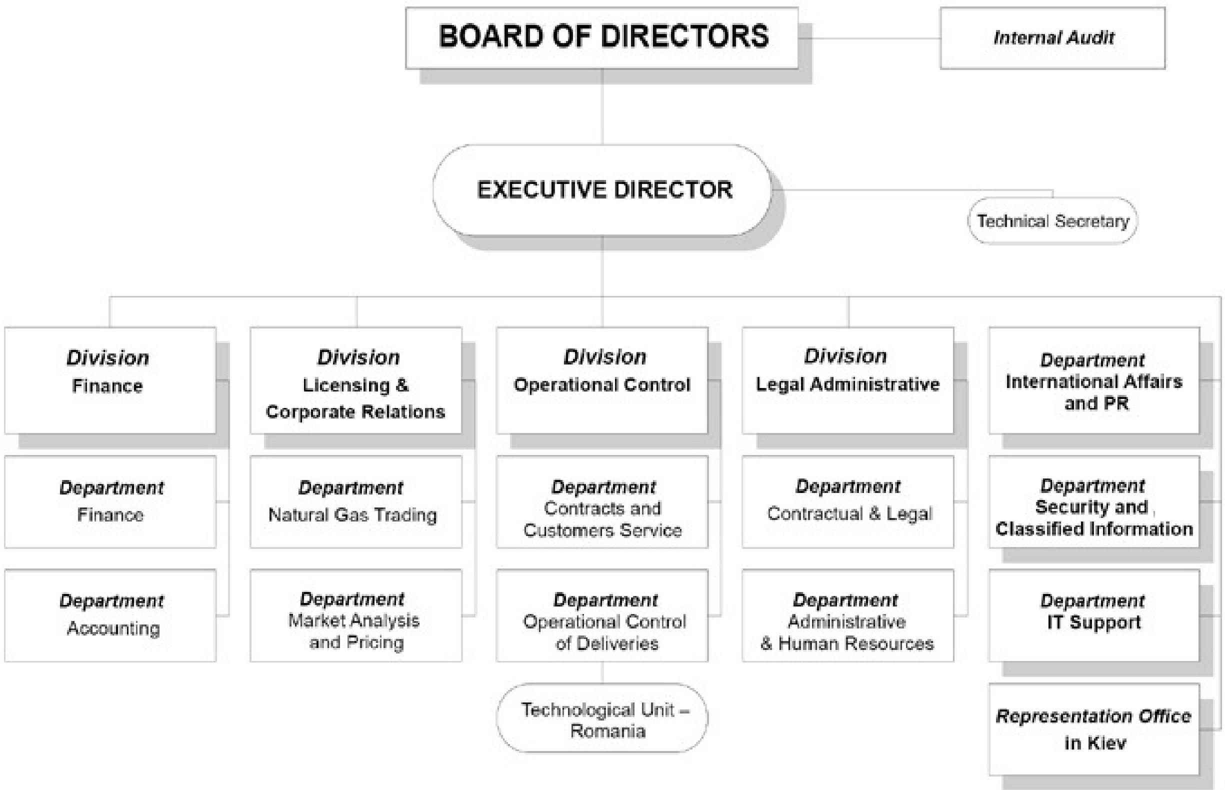
On April 15, 2014, the BEH's BoD Decision on appointment of a new CEO and new members of the Board of Directors was registered in the Companies Register:

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 Dukov was appointed Member of the BoD of Bulgargaz EAD.This was registered in the Companies register on January 6, 2015.

On February 2, 2015 with a Decision № 164 /02.02.2015 of Bulgargaz EAD`s BoD Petyo Ivanov was appointed CEO of the company.This was registered in the Companies register on February 10, 2015.

BULGARGAZ EAD`S ORGANISATIONAL STRUCTURE



Company Management responsibility

The Management confirms that adequate accounting policy is applied during preparation of the 2014 individual 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 2013 and 2014 the BoD members received remuneration, as follows:

BGN	**2014**	**2013**
BoD remuneration	109 535	118 084
Social security expenses	12 352	10 645
Compensation	-	4 436
Total:	**121 887**	**133 165**

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).

Dimitar Ivanov Gogov - CEO, Member of BoD from 15.01.2007 until 13.11.2013:

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

Boris Yanakiev Todorov – Member of BoD from 02.12.2009 until 03.10.2013, and Chairman of BoD from 14.07.2010 until 03.12.2012 and from 24.09.2013 until 03.10.2013.:

- Does not participate as an unlimited liability partner in trade companies;
- Does not own more than 25 % of trade companies' equity;
- Participates in South Stream Bulgaria AD management as a Member of the BoD from 09.12. 2010 until 12.09 2013.

Iliya Petrov Ivanov – Chairman of the BoD from 03.12.2012 until 24.09. 2013 and Member of the BoD from 09.08.2012 until 26.09.2013:

- Does not participate as an unlimited liability partner in trade companies;
- Does not own more than 25 % of trade companies' equity;
- Participates in Maryan 2010 OOD management as manager;
- Participates in South Stream Bulgaria AD management as CEO and Member of the BoD from 12.09.2013 until 17.12.2013.

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

- 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 EVERFRESH EOOD and FRIYAGAS OOD management as Manager, and ITF Group AD as Member of the BoD.

Shishman Antonov Chaushev – CEO, Member of the BoD from 13.11.2013 until 18.12.2013:

- Does not participate as an unlimited liability partner in trade companies;
- Does not own more than 25 % of trade companies' equity;

- Does not participate in other companies' management, co-operations as a procurator, manager or member of a Board.

Mustafa Mustafov Ahmedov - Member of the BoD as of 18.12.2013 until 15.04.2014:

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

Anna Emilova Dimitrova - Member of the BoD as of 15.04.2014 until 06.01.2015:

- Does not participate as an unlimited liability partner in trade companies;
- Does not own more than 25 % of trade companies' equity;
- Participates in "Contour Global Operations Bulgaria" AD as a Member of the BoD

Dafinka Yordanova Yankova - CEO from 18.12.2013 until 10.02.2015, Member of the BoD from 26.09.2013 until 10.02.2015 and Chairperson of the BoD from 14.10.2013 until 12.12.2013:

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

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, Animax C 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;
- Does not participate in other companies' management, co-operations as a procurator, manager or member of a Board.

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

In 2014 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 2014

In 2014 Bulgargaz EAD performs its activities in compliance with the regulations. The company activity results represent a financial profit for 2014.

General Factors Affecting Company's Activities

Bulgargaz EAD 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 also performs an unregulated activity –sales of services and sales of small volumes of natural gas beyond territory of the Republic of Bulgaria.

1. Quantitative Indicators Implementation

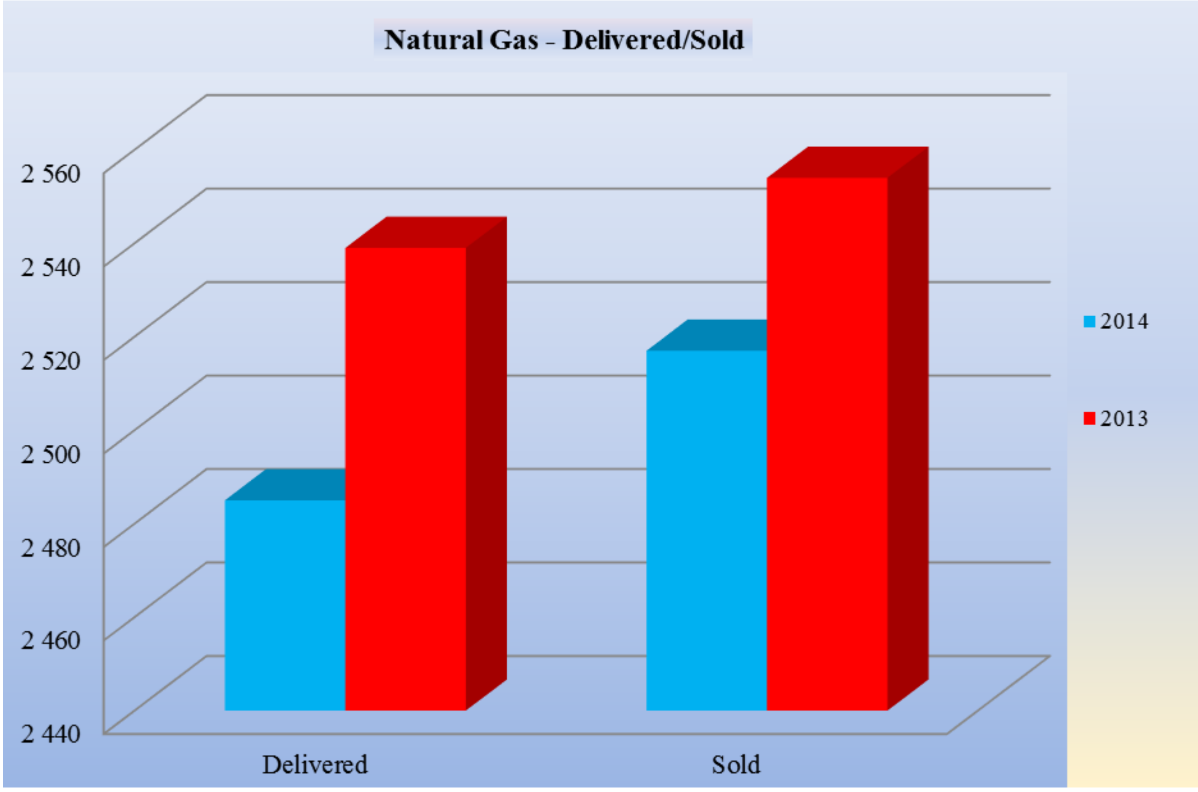
Delivered/ Sold Natural Gas Volumes

1.1. Delivered 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 on the internal market in 2014, compared to 2013, are presented in Table 1 below:

***Table No.1*:**

Indicators	Unit	2014	2013	Volume change	% Change
Delivered	mln m^3	2 485	2 539	- 54	- 2.13 %
Sold	mln m^3	2 517	2 554	- 37	- 1.45 %



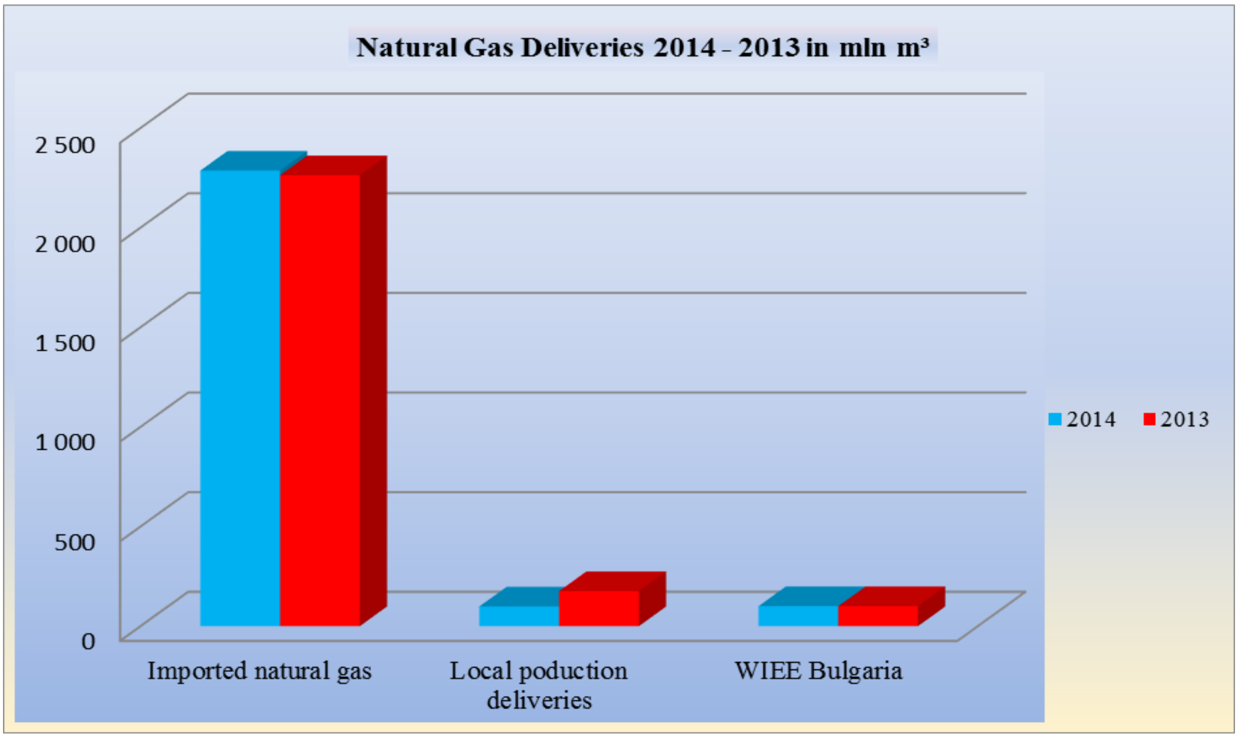
The delivered natural gas volumes in 2014 and 2013 are presented in Table 2.

During the reported period of 2014 the deliveries totaled 2 485 mln. cubic metres, which is 54 mln. cubic metres less in comparison to 2013. As a whole, the deliveries for 2014 compared to 2013 was less only by 2.13 % and the latter was due to natural gas sales lower by 37 mln. cubic metres.
The data specified above is presented in Table No.2 and the figure below.

Table No.2:

In mln m³

No.	Type of delivery	2014	2013	Relative Share		% Change
				2014	2013	
1	Imported natural gas	2 286	2 263	91.99 %	89.13 %	1.02%
2	Local production deliveries	99	176	3.98 %	6.93 %	- 43.75%
3	**"WIEE Bulgaria" EOOD delivery to UGS Chiren**	**100**	**100**	4.03 %	3.94 %	0.00%
	Total:	**2 485**	**2 539**	**100.00 %**	**100.00 %**	**-2.13 %**



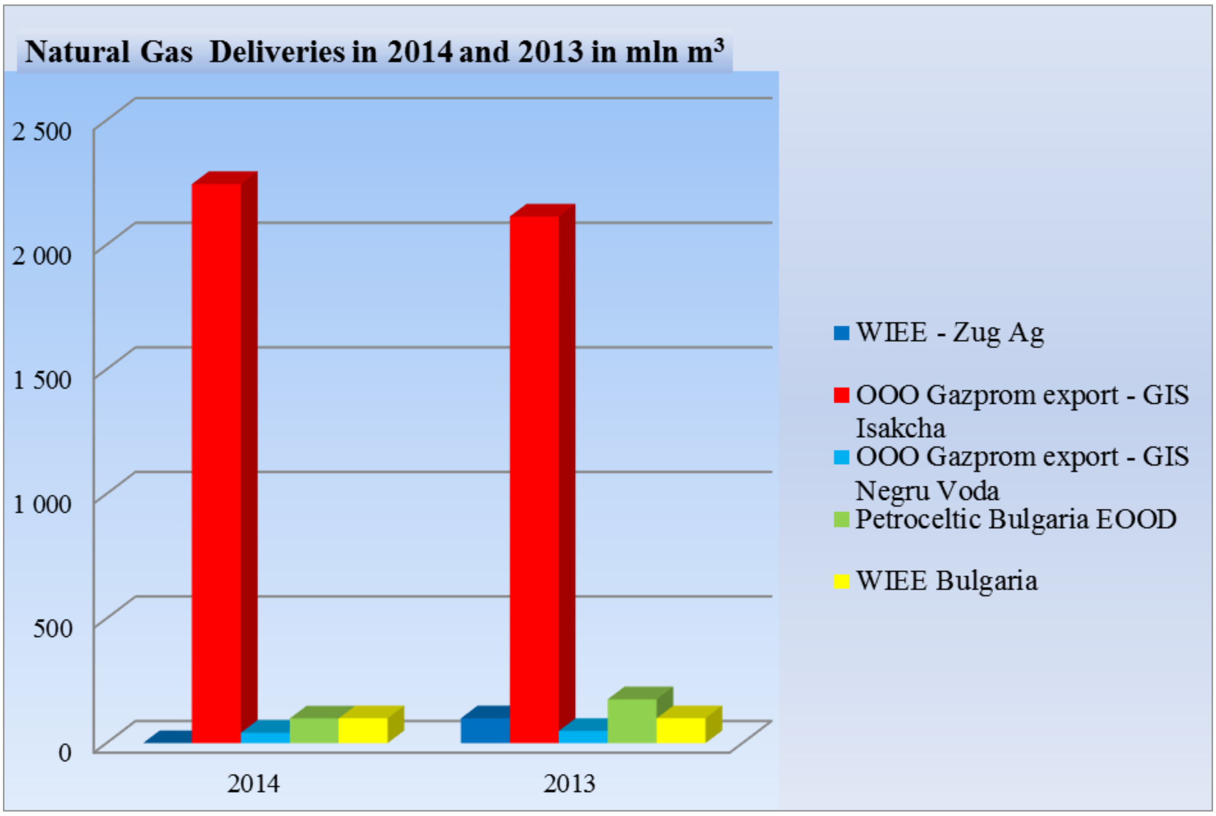
In 2014, in order to meet natural gas needs of its clients, Bulgargaz EAD delivered 91.99 % of natural gas from import, 3.98 % from indigenous production and 4.03 % gas bought back from WIEE Bulgaria EOOD. Natural gas volumes produced from UGS Chiren during the same period were 259 mln cubic metres, and the injected ones – 142 mln cubic metres.

Received natural gas volumes in 2014, allocated by sources, are indicated in Table 3 below.

Table No.3:

No	Type of delivery	Mln m^3	Mln m^3	Relative Share (in %)		% Change
		2014	2013	2014	2013	
1	**Imported natural gas in Bulgaria**	**2 286**	**2 263**	**91.99%**	**89.13%**	**1.02%**
1.1	WIEE Bulgaria EOOD	-	100	0.00%	3.94%	**-**100.00%
1.2	*OOO Gazprom Export –GMS Isaccea*	2 244	2 114	90.30%	83.26%	6.15%
1.3	*OOO Gazprom Export –GMS Negru Voda*	42	49	1.69%	1.93%	-14.29
2	**Local production deliveries**	**99**	**176**	**3.98%**	**6.93%**	**- 43.75%**
3	**WIEE Bulgaria to UGS Chiren**	**100**	**100**	**4.03%**	**3.94%**	**0.00%**
	Total	**2 485**	**2 539**	**100.00%**	**100.00%**	**-2.13%**

In 2013 and as of the beginning of 2014 Bulgargaz EAD continued to purchase the necessary natural gas volumes from import via a long term contract with OOO Gazprom Export. In 2013 Bulgargaz EAD entered into two contracts with WIEE Bulgaria EOOD. The first one provided finacial funding for Bulgargaz for a few months in 2013. The second contract secured a purchase of 100 mln cubic metres in UGS Chiren, necessary for autumn/winter of 2013/2014, and in order not to breach the requirements for purchasing minimum summer quantity of gas under the agreement with OOO Gazprom Export. For that purpose, Bulgargaz purchased (imported) from WIEE Bulgaria EOOD 100 mln cubic metres of natural gas, that Bulgargaz injected in UGS Chiren and then sold it back to WIEE Bulgaria EOOD with a commitement of buying back the same quantities in Q1 of 2014. (UGS Chiren production period).
Bulgargaz EAD also purchases natural gas volumes produced from gas fields - concessioner Petroceltic Bulgaria EOOD.



1.2 Natural gas production and injection

Natural gas volumes produced and injected in UGS Chiren in 2013 and 2014 are represented in table No 4.

Period	2014		2013		production change 2014 /2013		injection change 2014 /2013	
	production mln m³	injection mln m³	production mln m³	injection mln m³	Mln. m³	%	Mln. m³	%
January	84	-	87	-	-3	-3.45%	-	x
February	73	-	72	-	1	1.39%	-	x
March	-	10	42	-	-42	-100.00%	10	x
April	-	36	-	-	-	x	36	x
May	-	12	-	51	-	x	-39	-76.47%
June	-	-	-	70	-	x	-70	-100.00%
July	-	1	-	97	-	x	-96	-98.51%
August	11	1	2	67	9	450.00%	-66	51.43%
September	-	53	-	35	-	x	18	x
October	8	29	-	-	8	x	29	x
November	45	-	-	-	45	x	-	x
December	38	-	28	-	10	35.71%	-	x
Total	**259**	**142**	**231**	**320**	**28**	**12.12%**	**-178**	**-55.63%**

The total natural gas volumes produced in 2014 compared to those in 2013 were 28 mln cubic metres more i.e. 12.12%. As seen in the table above, the produced natural gas volumes in January and February 2013 were almost the same as the ones produced in the same period of 2013. Due to the events in the Ukraine Bulgargaz suspended natural gas production in March and commenced injecting natural gas in the UGS with the view of increasing natural gas reserves in the storage to ensure the delivery of certain daily quantities in the country, in case of potential suspension of natural gas delivery through the territory of the Ukraine (as was the case in 2009). In August, October, November and December 2014 there was an increase in the produced natural gas quantities compared to the same period in 2013. The natural gas quantities injected in 2014 compared to 2013 are with 178 mln. m^3 less i.e. with 55.63%, although in March, April, September and October 2014 the injection was greater. In May, June, July and August 2014 there was a significant difference in the injected quantities compared to the same period in 2013. This was due to a lack of sufficient cash to purchase gas quantities necessary for injection.

By 31.12.2014 Bulgargaz EAD had 232mln.m^3 available in UGS Chiren , taking into consideration that by 31.12.2013 there were 349 mln.m^3.

2. Natural gas sales

2.1. General Consumption

Bulgargaz EAD's seeks to ensure the reliable supply of natural gas to customers, in accordance with the quantity and quality contractual requirements**.** In 2014 the company delivered to its clients 2 517 mln. m³ natural gas, which was with 1.45 % less than the gas sold during the same period in 2013.

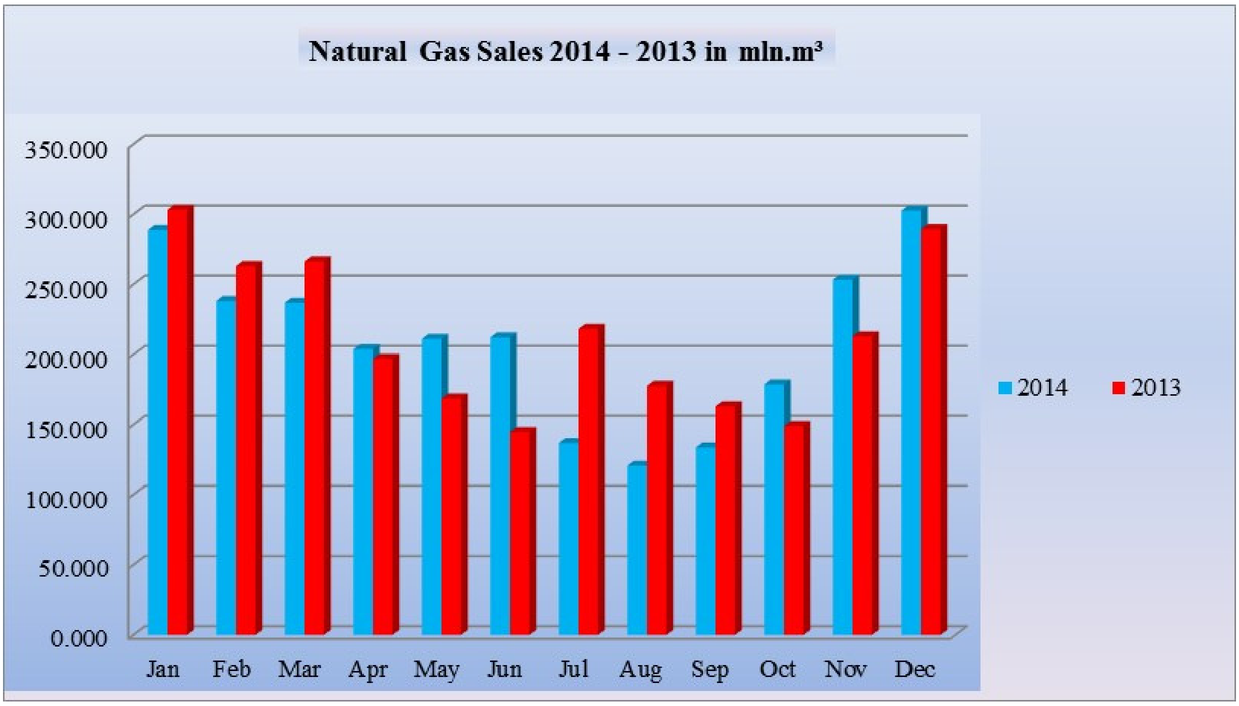
Sales per months and their share in the total sold volumes are represented in table No 5.

Table No 5

Accounted period	2014		2013		Change 2014/2013	
	mln m³	share in %	mln m³	share in %	Mln m³	%
January	289	11.48%	303	11.86%	-14	-4.62%
February	238	9.46%	263	10.30%	-25	-9.51%
March	237	9.42%	267	10.45%	-30	-11.24%
April	204	8.10%	197	7.71%	7	3.55%
May	211	8.38%	169	6.62%	42	24.85%
June	213	8.46%	145	5.68%	68	46.90%
July	137	5.44%	218	8.54%	-81	-37.16%
August	121	4.81%	178	6.97%	-57	-32.02%
September	133	5.28%	163	6.38%	-30	-18.40%
October	178	7.07%	149	5.83%	29	19.46%
November	253	10.05%	213	8.34%	40	18.78%
Декември	303	12.04%	289	11.32%	14	4.84%
Total	**2 517**	**100.00%**	**2 554**	**100.00%**	**-37**	**-1.45%**

From January to March and from July to September 2014 lower sales of natural gas compared to the same periods in 2013 are observed. This is mainly due to the milder weather which significantly reduced heating and gas distribution companies` consumption of natural gas. For the period from April to June and from October to December 2014 natural gas sales increase compared to the same period in 2013 and a significant increase in May and June is observed. This is due to the fact that Bulgargaz won the Bulgartransgaz EAD`s tender for the delivery of 140 mln.m^3 natural gas.

The increase in natural gas sales in December 2014 was mainly due to the transaction with "D leasing" EAD concluded in the end of 2014 for the sales and purchase of natural gas under the terms of buying back 12 888 971 norm.m^3 gas stored in UGS Chiren which was bought back by Bulgargaz in March 2015.



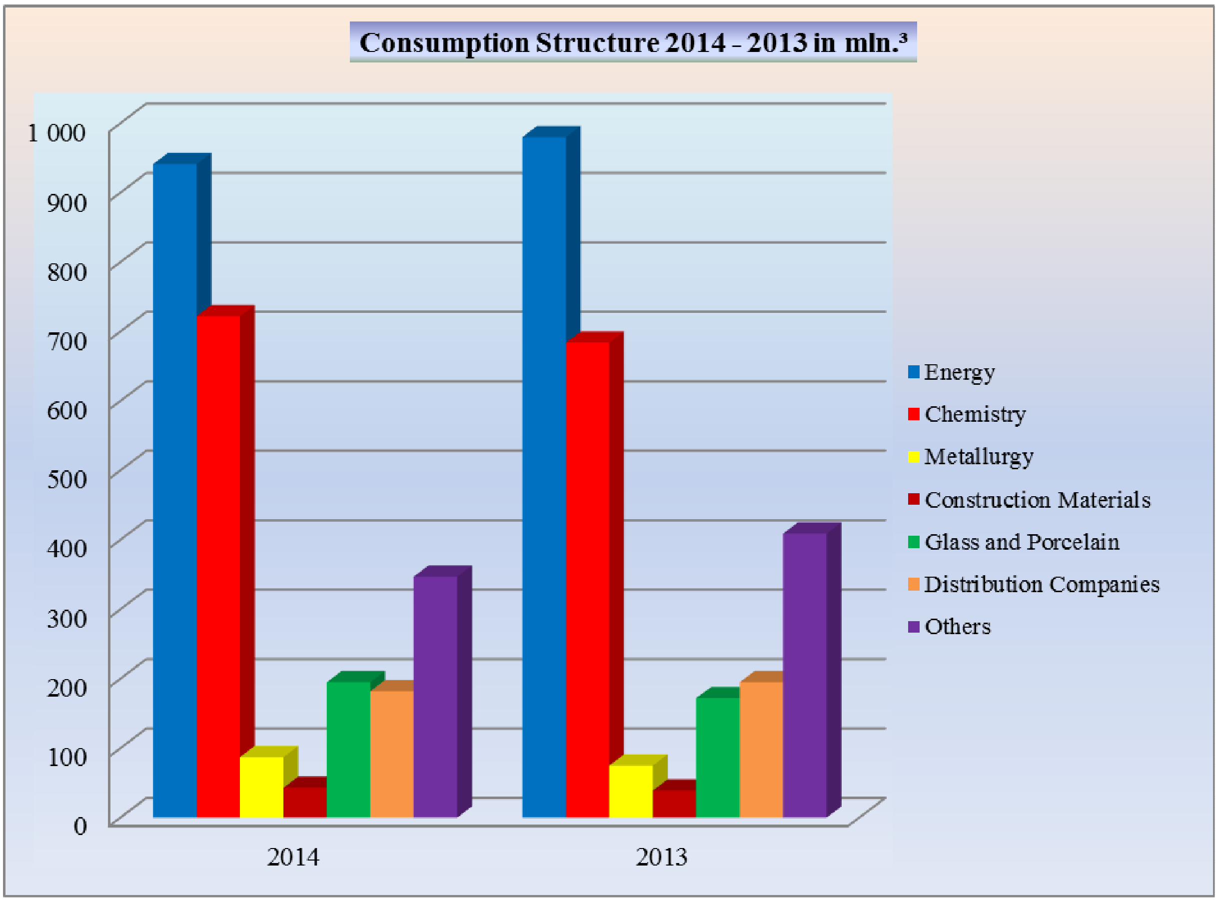
2.2. Consumption Structure

Table No 6 below presents a comparison of the natural gas sales to client of the in 2014 and 2013, allocated by main industry sectors.

Table No.6:

In mln m³

No	Industry sector	2014	2013	% Change
1	ENERGY	941	980	-3.98%
2	CHEMISTRY	722	684	5.56%
3	METALLURGY	87	75	16.00%
4	CONSTRUCTION MATERIALS	43	39	10.26%
5	GLASS AND PORCELAIN	195	172	13.37%
6	DISTRIBUTION COMPANIES	182	195	-6.67%
7	OTHER	347	409	-15.16%
	Total for the country:	**2 517**	**2 554**	**-1.45%**



The data disclosed in the table and illustrated in the chart, clearly outline the tendency in the consumption structure by industry sectors. The delivery for Bulgartransgaz EAD is represented as “other industry sectors”.

- 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 energy sector and the distribution companies reduced their gas consumption. One of the reasons thereto was milder weather and the other reason production decrease of some companies, due to lack of markets for realization of their products;
- there is an increase in the consumption of companies producing glass and porcelain, construction materials, as well as of those in the chemistry and metallurgy sectors;
- the highest increase in natural gas consumption is observed in the metallurgy and glass plants;

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

Comparison of average weighted delivery and sale natural gas prices for 2014 and 2013

Table No.7:

Period	Average weighted delivery price up to entry of gas transmission system BGN /1000 м³	Average weighted sales price, transmission fee included BGN /1000 м³	Difference	
			BGN	**%**
2014	584.77	611.03	26.26	4.49%
2013	588.05	638.07	50.02	8.51%

As seen in the table above, in 2014 and 2013 there was positive difference between weighed average sales price and weighted average delivery price.

Taking into account the influence of the transmission fee on the sales price, the difference, between weighed average sales price and weighted average delivery price for 2014, it would be 6.53 BGN for 1000 m^3 i.e. 1.12% (2013- 30.29 BGN for 1000 m^3 i.e. 5.15% respectively).The higher sales prices for both of the periods are related to partial reimbursement of outstanding receivables from EWRC for Bulgargaz`previous price periods.

IV. Risk Factors

Key elements that bring risk to company activity are: EWRC decisions upon approval of natural gas marginal prices for the internal market; trading and other receivables and liabilities; monetary means.

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". It purchases natural gas volumes, necessary to meet its clients' needs under market based prices and sells these quantities under regulated prices. The lack of corespondance between the aforementioned prices might cause risks to the company in conducting its functional obligations.

Some practically proven consequences related to the regulatory risk are: the unregulated interference of the regulatory authority in company's trading policy; approval by the regulatory body of prices, lower than those, formed in accordance with the respective legislation, leading to lower incomes, insufficient to cover the actual expanses for natural gas purchasing and its delivery to the consumers; company difficulties to proceed with the payments to its external gas suppliers within contractual deadlines; fines and penalty payment foreseen in the gas supply contracts.

Currency Risk

This risk relates to changes in foreign currencies' exchange rates and the profit/loss realization, resulting from the revaluation of assets in foreign currency. Due to the Currency Board requirements, the Bulgarian LEV (BGN) is fixed to the European currency unit – Euro, and therefore, major influence is caused by the US dollar (USD) rate exchange fluctuations. The company purchases natural gas in USD and sells it in BGN, which exposes the company at a risk of foreign currency exchange rate changes. In addition, the approved by EWRC marginal price for each regulatory period is determined at a fixed USD-BGN exchange rate, due to which the company is exposed at risk of continuous increase of USD exchange rate within the period of prices' application, compared to the exchange rate, used at the time of the approval.

Credit Risk

The credit risk for the company represents a risk of financial loss, if a customer or counterparties to a financial instrument, fails to meet its contractual obligations. That risk arises out from company's receivables of customers. Customers of Bulgargaz EAD are the heating companies, having difficulties in collecting their receivables and experiencing serious obstacles to discharge their liabilities. The aforementioned refers also to other clients that due to market situations face difficulties in discharging their natural gas liabilities in time. 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 a natural gas delivery suspension. The company protects its interests also in court.

Liquidity Risk

Liquidity risk occurs when the company is not able to meet its financial obligations and commitments. They are presented in short term liabilities of the company, namely advance payment liabilities under natural gas delivery contract for an upcoming month, liabilities towards the State in the form of taxes and excise duties; liabilities under commercial loans. Their maturity is short and they are rapidly collectable which requires their adequate discharging.

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

Due to the large cash volume and their short-term nature, in case of cash shortage, Bulgargaz seeks a way of attracting funds from a financing bank in order to cover this shortage. Inconvenience causes the Public Procurement Act, which the company is obliged to observe as a licensee when selecting a financial institution.

V. Outlook and Development

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

Bulgargaz EAD Strategic Objectives

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

- In this respect, priority goals are securing alternative sources and routes of natural gas supply to build up company's geographical delivery portfolio; contribute to increasing natural gas supply security and reliability.Curently 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.
- Entering into neighbouring country gas markets;
- Keeping constant financial stability and increasing the economic effectiveness of company's activities;
- Collaboration and participation in natural gas market development and growth both in Bulgaria and the region;
- Mutual participation with other companies in research and development of natural gas fields.

Operational Objectives:

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

In the short-run, company's major objective is securing Bulgargaz EAD financial stability in in a situation of unstable market environment in Bulgaria, high inter-company indebtedness and extensive public response, whenever the company proposes natural gas price increase. The purpose is optimization of the cash flow via: collecting of company's receivables from clients or their sale to third parties and securing financial funding in the form of corporate and bank loans.

VI. Financial–Economic Position

Bulgargaz EAD's financial-economic position is reviewed and analysed on the basis of elaborated company financial accounting documents – statements of profit/loss and the other comprehensive income, and statements on the company's financial position and cash flow statement for 2014 - compared to 2013.

Transactions with WIEE Bulgaria EOOD concluded in 2013 and finally closed in 2014 as well as the transaction with "D leasing" EAD concluded in the end of 2014 are presented as financing (loan), and not as natural gas sales and purchase transactions.

Main Financial Indicators

In thousands of BGN (TBGN)

Indicators	2014 statement	2013 statement	change 2014 /2013 (difference)	change 2014 /2013 (%)
Total activity income	1 541 295	1 518 763	22 532	1.48%
Total activity expenses	(1 541 689)	(1 467 159)	(74 530)	5.08%

Indicators	2014 statement	2013 statement	change 2014 /2013 (difference)	change 2014 /2013 (%)
EBITDA	**(212)**	**51 770**	**(51 982)**	**(100.41%)**
EBIT	**(394)**	**51 604**	**(51 998)**	**(100.76%)**
EBT	**8 183**	**46 465**	**(38 282)**	**(82.39%)**
Non-current tangible assets	**99**	**178**	**(79)**	**(44.38%)**
Total assets	576 078	565 509	10 569	1.87%
Current assets	549 104	541 105	7 999	1.48%
Current liabilities	334 179	318 961	15 218	4.77%
Cash	**554**	**13 373**	**(12 819)**	**(95.86%)**
Net current assets	**214 925**	**222 144**	**(7 219)**	**(3.25%)**
Equity	**208 882**	**201 734**	**7 148**	**3.54%**
Share capital	206 297	257 691	(51 394)	(19.94%)
Reserves	41	36 141	(36 100)	(99.89%)
Retained profit/uncovered loss	(4 607)	(149 699)	145 092	(96.92%)
Current period profit/loss	7 151	57 601	(50 450)	(87.59%)
Number of personnel	**49**	**51**	**(2)**	**(3.92%)**

In 2014 and 2013 the company achieved the following financial-economic results:

Statement of profit/loss and the other comprehensive income (presented in a single statement)

In thousands of BGN (TBGN)

	2014 report		2013 report		% change 2014 report/ 2013 report
	In thousands BGN (TBGN)	% of the total	In thousands BGN (TBGN)	% of the total	
Income	**1 541 295**	**100.00%**	**1 518 763**	**100.00%**	**1.48%**
1. Natural gas sales income	**1 531 206**	**99.35%**	**1 505 448**	**99.12%**	**1.71%**
2. Other income	**10 089**	**0.65%**	**13 315**	**0.88%**	**-24.23%**
- liquidated damages on overdue receivables	7 161	0.46%	10 699	0.70%	-33.07%
- income of not regulated activity	2 521	0.16%	2 583	0.17%	-2.40%
- others	407	0.03%	33	0.00%	1133.33%
Expenses by nature	**-1 541 689**	**100.00%**	**-1 467 159**	**100.00%**	**5.08%**
1. Cost of sold natural gas	**-1 508 945**	**97.88%**	**-1 432 521**	**97.64%**	**5.33%**
2. Impairment loss	**-17 237**	**1.12%**	**-5 484**	**0.37%**	**214.31%**
- loss of receivables' impairment	-12 895	0.84%	-2 709	0.18%	376.01%

	2014 report		2013 report		% change 2014 report/ 2013 report
	In thousands BGN (TBGN)	% of the total	In thousands BGN (TBGN)	% of the total	
- loss of sold trade receivables' impairment	-1 142	0.07%	-1 052	0.07%	8.56%
- loss of natural gas impairment	-3 200	0.21%	-1 723	0.12%	85.72%
3. Materials and consumables	**-103**	**0.01%**	**-106**	**0.01%**	**-2.83%**
Fuel gas	-38	0.00%	-41	0.00%	-7.32%
Main materials	-11	0.00%	-10	0.00%	10.00%
Fuels and lubricants	-32	0.00%	-32	0.00%	0.00%
Stationary and consumables	-13	0.00%	-15	0.00%	-13.33%
Sanitary materials	-3	0.00%	-3	0.00%	0.00%
Advertising materials	-4	0.00%	-3	0.00%	33.33%
others	-2	0.00%	-2	0.00%	0.00%
4. Hired services, incl.:	**-6 686**	**0.43%**	**-11 979**	**0.82%**	**-44.19%**
- gas storage costs	-1 048	0.07%	-2 532	0.17%	-58.61%
- expenses on managements contracts	-79	0.01%	-967	0.07%	-91.83%
- license fees	-812	0.05%	-1 009	0.07%	-19.52%
- expenses for services related to unregulated activity	-2 521	0.16%	-2 583	0.18%	-2.40%
- insurances	-151	0.01%	-231	0.02%	-34.63%
-rent	-258	0.02%	-256	0.02%	0.78%
-court charges and expenditures	-1 465	0.10%	-3 996	0.27%	-63.34%
-communications	-77	0.00%	-83	0.01%	-7.23%
-remunerations audit committee	-40	0.00%	-41	0.00%	-2.44%
-consulting services	-3	0.00%	-8	0.00%	-62.50%
-repair and technical maintenance	-11	0.00%	-10	0.00%	10.00%
-office maintenance	-9	0.00%	-6	0.00%	50.00%
-public utility	-23	0.00%	-24	0.00%	-4.17%
-subscription service	-25	0.00%	-26	0.00%	-3.85%
- parking and other vehicles' expenses	-19	0.00%	-20	0.00%	-5.00%
- visa services	-2	0.00%	-	0.00%	x
- translation services	-2	0.00%	-5	0.00%	-60.00%
- security	-117	0.01%	-140	0.01%	-16.43%
-operational leasing	-	0.00%	-20	0.00%	-100.00%
-labour medicine service	-2	0.00%	-2	0.00%	0.00%
-publishing services	-10	0.00%	-3	0.00%	233.33%
-SEWRC's fee – price approval	-4	0.00%	-4	0.00%	0.00%

	2014 report		2013 report		% change 2014 report/ 2013 report
	In thousands BGN (TBGN)	% of the total	In thousands BGN (TBGN)	% of the total	
-notarial fees	-3	0.00%	-	0.00%	x
-other services and fees	-5	0.00%	-13	0.00%	-61.54%
5. Amortization	**-182**	**0.01%**	**-166**	**0.01%**	**9.64%**
6.Cost of personnel	**-2 175**	**0.14%**	**-1 973**	**0.13%**	**10.24%**
- remuneration expenses	-1 893	0.12%	-1 732	0.12%	9.30%
- social security expenses	-282	0.02%	-241	0.02%	17.01%
7. Other expenses	**-6 361**	**0.41%**	**-14 930**	**1.02%**	**-57.39%**
- Liquidated damages for payments in arrears	-6 171	0.40%	-14 812	1.01%	-58.34%
- business trips and representative expenses	-56	0.00%	-54	0.00%	3.70%
- training	-17	0.00%	-13	0.00%	30.77%
- one-off tax	-16	0.00%	-12	0.00%	33.33%
-membership in organizations	-34	0.00%	-34	0.00%	0.00%
-others	-67	0.00%	-5	0.00%	1240.00%
profit from operating activity	**-394**		**51 604**		**-100.76%**
Net finance income and costs	**8 577**		**-5 139**		**-266.90%**
1. Finance income	**16 631**	**100.00%**	**5 136**	**100.00%**	**223.81%**
- effects of discounting financial assets	-	0.00%	-	0.00%	x
-interest income on long-term receivables	233	1.40%	372	7.24%	-37.37%
- interest income on cash and cash equivalents	269	1.62%	902	17.56%	-70.18%
- interest income on deposits of related parties	-	0.00%	9	0.18%	-100.00%
- currency exchange profit	16 129	96.98%	3 853	75.02%	318.61%
2. Financial costs	**-8 054**	**100.00%**	**-10 275**	**100.00%**	**-21.62%**
- Effects of discounting financial assets	-8	0.10%	-73	0.71%	-89.04%
- interest expenses under related parties loans	-2 880	35.76%	-5 186	50.47%	-44.47%
- interest expenses under related parties commercial liability	-2 221	27.58%	-2 074	20.18%	7.09%
-interest expenses under buy-back agreements	-579	7.19%	-2 805	27.30%	-79.36%
-interest expenses under financial leasing	-2	0.02%	-9	0.09%	-77.78%
-interest expenses on liability payment under plans with defined income	-5	0.06%	-4	0.04%	25.00%

	2014 report		2013 report		% change 2014 report/ 2013 report
	In thousands BGN (TBGN)	% of the total	In thousands BGN (TBGN)	% of the total	
- interest expense under tax liability	-2 321	28.82%	-77	0.75%	2914.29%
- other interest expenses	-4	0.05%	-	0.00%	x
- bank charges	-34	0.42%	-47	0.46%	-27.66%
Profit before tax	**8 183**		**46 465**		**-82.39%**
Income tax expenses	**-1 032**		**11 136**		**-109.27%**
Net profit for the period	**7 151**		**57 601**		**-87.59%**

Income

The biggest share of the Bulgargaz EAD income comes from natural gas sales - 99.35 %. For the period January 01 2014 – December 31 2014, the company sold 2 504 mln m^3 of natural gas, amounting to TBGN 1 531 206 (the transaction with “D leasing” EAD is not calculated as sales and purchase of natural gas but as financing) while during the same period in 2013 2 354 mln.m^3 amounting to TBGN 1 505 448 were sold (the transactions with WIEE Bulgaria EOOD are not calculated as sales and purchase of natural gas but as financing).
With regard to the other incomes, with the biggest share are the incomes from liquidated damages accrued for delay in non-compliance with the deadline for payment under natural gas delivery contracts.They are 33% lower.This is due to the reduced amount of the receivables from clients. There is a decrease by 2.40% in the incomes from delivery related to unregulated activity.

Expenses

Expenses classified by nature include: cost of natural gas sold, impairement expenses, material costs, hired services expenses, amortization expenses, labour remunerations, social security, contributions, etc. In 2014 they amounted to TBGN 1 541 689, and in comparison with 2013 are with 5.08 % higher.

The biggest relative share in the total expenses represents the cost of natural gas sold – 97.88 %. In 2014 compare to 2013 is with 5.33 % higher.

In 2014 impairment cost, include impairment of company’s trade receivables net represented, charged loss of impairment of sold trade receivables and impairment of natural gas.An increase with 214.31% in the impairment cost is observed compare to 2013.The trade receivables impairement has the largest relative share in the impairement expenses in 2014.In Q3 of 2014 there is an impairement of the natural gas in UGS Chiren and of the natural gas in the gas transmission pipeline in Romania.

Hired services costs made in 2014 were with 44.19 % lower, in comparison with those made in the same period of the preceding year. On the one hand, this was due to significant reduction of the court charges and expenditures and on the other hand to the decrease in the expenses under a management and control contract and natural gas storage costs.In 2014 court charges and expenditures expenses are lower with 63.34% compared to the same period of the preceding year.This is due to the specificity of these expenses in 2013.

Compared to 2013, expenses for management and control decrease in 2014 by 91.83%. The reason thereof was the new agreement entered into with BEH EAD.

Licence fees also decreased because they are percentage of the annual income of Bulgargaz, and they were lower in 2013 compared to 2012.

In 2014, in comparison to 2013, the costs for natural gas storage were 58.61 % lower, due to the lower quantity of natural gas stored in the UGS Chiren because of increased natural gas production and decreased injection.

Audit committee fees insignificantly decreased in 2014, compared to the same period in 2013, due to the fact that they are related to Bulgargaz EAD's BoD remunerations.

Company's amortization costs were increased by 9.64 % in 2014, in comparison with 2013 this was due to the amortization of the owned assets.

The materials costs for 2014 were 2.83 % lower compared to those made in 2013, due to lower fuel gas costs, which have the greatest relative share in the material costs.

Other activity expenses were lower by 57.39 % in 2014, in comparison to 2013. This was due to the increase in the liquidated damages for payments in arrears with company's suppliers, because the major part of the overdue liabilities was discharged.

Operating activities' financial results are negative amounting to TBGN 394 in 2014, while in 2013 they were positive, amounting to TBGN 51 604.There is a decrease of 100.76% in the operating activities' financial results.

For 2014 there was positive difference between financial income and expenses, amounting to TBGN 8 577, while in 2013 there is a negative difference amounting to TBGN (5 139).
Compared to 2013, the financial incomes for 2014 increased by 223.81% due to net positive currency differences in 2014 compare to 2013.There was a decrease in financial incomes under long term receivables and in financial incomes from interests on cash and cash equivalents.

Financial costs in 2014 compared to 2013 decreased with 21.62%.This is due to: the high interests on overdue related party loans and the interests under buyback agreements in 2013, similar costs during the same period in 2014 are insignificant, the occurrence of interest costs for overdue tax liabilities in 2014.

After considering the finance income and expenses, the financial result before tax is profit, amounting to TBGN 8 183 for 2014. For the same period of 2013 the result was also a profit amounting to TBGN 46 465.

Bulgargaz EAD net financial result for 2014 is - TBGN 7 151.

Assets and Liabilities Analysis

By December 31 2014, the company owns assets amounting to TBGN 576 078 in total. Structure and dynamics changes regarding assets for the considered period, are presented in the table below.

Statements on Financial Position

In thousands of BGN (TBGN)

	31.12.2014 statement		31.12.2013 statement		% change 2014 report/ 2013 report
	TBGN	% of the total	TBGN	% of the total	
Assets					
Non-current assets					
Plants and equipment	99	0.37%	178	0.73%	(44.38%)
Intangible assets	105	0.39%	165	0.68%	(36.36%)
Trade and other receivables	5 052	18.73%	1 311	5.37%	285.35%
- trade receivables from natural gas sales	-	0.00%	1 311	5.37%	(100.00%)
-other receivables	5 052	18.73%	-	0.00%	x
Deferred tax assets	21 718	80.51%	22 750	93.22%	(4.54%)
Total non-current assets	**26 974**	**100.00%**	**24 404**	**100.00%**	**10.53%**
Current assets					
Inventories	144 073	26.24%	217 544	40.20%	(33.77%)
- natural gas	144 054	26.24%	217 519	40.20%	(33.77%)
-materials	19	0.00%	25	0.00%	(24.00%)
Trade and other receivables	404 477	73.66%	310 188	57.32%	30.40%
- trade receivables from natural gas sales	279 776	50.95%	210 601	38.92%	32.85%
-court and rewarded receivables	21 793	3.97%	2 390	0.44%	811.84%
-prepaid advances for natural gas delivery	46 101	8.40%	96 636	17.86%	(52.29%)
-unpaid advance for natural gas delivery	44 317	8.07%	-	0.00%	x
-assignment contract receivables	12 386	2.25%	-	0.00%	x
-receivables from related parties	-	0.00%	425	0.08%	(100.00%)

	31.12.2014 statement		31.12.2013 statement		% change 2014 report/ 2013 report
	TBGN	% of the total	TBGN	% of the total	
-other receivables	104	0.02%	136	0.03%	(23.53%)
Cash and cash equivalent	554	0.10%	13 373	2.47%	(95.86%)
Total current assets	**549 104**	**100.00%**	**541 105**	**100.00%**	**1.48%**
Total assets	**576 078**		**565 509**		**1.87%**
Equity and liabilities					
Equity					
Share capital	206 297	98.76%	257 691	127.74%	(19.94%)
Legal reserves	-	0.00%	36 097	17.89%	(100.00%)
Revaluation reserve	41	0.02%	44	0.02%	(6.82%)
Retained earnings/accumulated loss	2 544	1.22%	(92 098)	-45.65%	(102.76%)
Total equity	**208 882**	**100.00%**	**201 734**	**100.00%**	**3.54%**
Liabilities					
Non-current liabilities					
Trade and other payables	32 940	99.77%	44 730	99.81%	(26.36%)
-related party payables	32 940	99.77%	44 730	99.81%	(26.36%)
Retirement liabilities	77	0.23%	84	0.19%	(8.33%)
Total non-current liabilities	**33 017**	**100.00%**	**44 814**	**100.00%**	**(26.32%)**
Current liabilities					
Loans	135 448	40.53%	60 581	18.99%	123.58%
- related party loans	128 436	38.43%	-	0.00%	x
- payables under finance lease from related parties	-	0.00%	52	0.02%	(100.00%)
-financing under natural gas buyback contracts	7 012	2.10%	60 529	18.98%	(88.42%)
Trade and other payables	198 658	59.45%	258 330	80.99%	(23.10%)
- trade payables	4 984	1.49%	192 304	60.29%	(97.41%)
- related party payables	42 736	12.79%	13 825	4.33%	209.12%
-payables under unpaid advance for natural gas delivery	2 837	0.85%	22 553	7.07%	(87.42%)
-payables under an unpaid advance for natural gas delivery	44 317	13.26%	-	0.00%	x
-VAT to be paid	101 404	30.34%	29 336	9.20%	245.66%
-excise to be paid	457	0.14%	131	0.04%	248.85%
-payables to personnel	74	0.02%	68	0.02%	8.82%
-payables to social security entities	16	0.00%	13	0.00%	23.08%
-other liabilities	1 833	0.55%	100	0.03%	1733.00%
Retirement liabilities	73	0.02%	50	0.02%	46.00%

	31.12.2014 statement		31.12.2013 statement		% change 2014 report/ 2013 report
	TBGN	% of the total	TBGN	% of the total	
compensation					
Total current liabilities	**334 179**	**100.00%**	**318 961**	**100.00%**	**4.77%**
Total liabilities	**367 196**		**363 775**		**0.94%**
Total equity and liabilities	**576 078**		**565 509**		**1.87%**

Non-current assets

By December 31, 2014 the non-current assets amounted to TBGN 26 974, and were comprised from fixed tangible and intangible assets, totalling to TBGN 204; trade and other receivables, amounting to TBGN 5 052 and deferred tax assets – TBGN 21 718. In the trade and other receivables in 2014 is included Bulgargaz EAD`s frozen cash in Corporate Commercial Bank AD. In comparison with 2013 there are no fixed trade receivables from natural gas sales during the reported year, as a result of discharging of liabilities by counterparties. By December 31, 2013 the non-current assets value was TBGN 24 404. The increase of 10.53 % is mainly due to the occurrence of long-term other receivables as a result of cash freezing. Decrease in non-current intangible and tangible assets was due to asset amortization. There was an insignificant change in the deffered tax assets.

Current assets

As presented in the table, current assets significantly prevail over the non-current assets, which is due to the specific nature of company's activity.

By December 31, 2014, the current assets amounted to TBGN 549 104, representing 95.32 % of the total assets. In the end 2013, the latter amounted to TBGN 541 105, i.e. 95.68% of the total assets. By the end of the reported period there is an increase of 1.48 % in the current assets value. Basically, the latter was due to the increase in the Trade and Other receivables, inspide of the decrease in inventories and cash. The greatest percentage decrease was observed in cash and cash equivalents – 95.86 %.

The inventories in 2014 compared to the end of 2013 are lower with 33.77% this is due to the lower volumes of gas in UGS Chiren (232 mln.m^3 by 31.12.2014 compared to 349 mln.m^3 by 31.12.2014), because the transactions with WIEE Bulgaria EOOD and D Leasing EAD are presented as a loan in the financial statement.

In the trade and other receivables the increase was 30.40 % - mainly resulting from Bulgargaz EAD`s increased receivables from natural gas sales, dispite the assignment contract entered into with BEH EAD, through which Bulgargaz EAD sold receivables from Toplofikacia Sofia. In addition in trade and other receivables for 2014 are reflected receivables under an assignment contract with CNG Maritza OOD amounting to TBGN 12 386 arising from a payment account contract between Bulgargaz EAD and Corporate Comercial Bank AD.More significant trade receivables (gross amount of the principals) by 31.12.2014 come from the following companies:

Client	**TBGN**
Toplofikacia Sofia EAD	198 059
Toplofikacia Pleven EAD	28 968
Toplofikacia Burgas EAD	15 864
Toplofikacia Vratsa EAD	8 687
Drujba Staklarski Zavodi AD	5 320
Gastrade Sliven EOOD	5 104
Neochim AD	1 303
Other	34 548
Total gross trade receivables	**297 853**

Bulgargaz EAD`s cash in payment accounts decreased by 95.86% in 2014 compared to the same period in 2013.This is due to the fact that 5 million BGN out of 17 milllion BGN total restricted cash in company`s payment accounts in Corporate Comercial Bank AD are presented in the statement as other receivables and the rest 12.3 million BGN are presented as short-term receivables under an assignment contract.

Share capital structure

In accordance with a decision of BEH EAD`s Board of directors as of 27.06.2014 Bulgargaz EAD share capital was reduced with the view of covering part of realized financial losses amounting to 51 394 (fifty one million three hundred ninety four thousand) ordinary registered shares with a nominal value of 1 lev for each one and their consequent invalidation.This reduction was made in accordance with art.200, item 2, art.201, para.1 and art.187A, para.1, item.1 of the Commercial Act.With a decision of BEH EAD`s Board of directors as of 27.06.2014 the loss from previous years amounting to TBGN 98 261 was covered with a net profit for 2013 amounting to TBGN 62 164 and legal reserves amounting to TBGN 36 097.

By December 31, 2014, the registered share capital amounted to TBGN 206 297 (2013 – TBGN 257 691). The equity increase in 2014, in comparison with 2013, amounting to TBGN 7 148 was at the expense of the current financial result for 2014.

The Company’s non-current liabilities by December 31, 2014 amount to TBGN 33 017 and were formed by deferred liabilities for transmission and storage of natural gas. Non-current liabilities were decreased by 26.32%, compared to those by December 31, 2013. The latter was due to reclassification of deferred liabilities to Bulgartransgaz EAD, from non-current to current liabilities.

Current Liabilities

The current liabilities had a greater relative share than the non-current liabilities.By December 31, 2014, compared to the end of 2013, the current liabilities increased by 4.77 % due to the borrowings from BEH EAD. In September 2014 Bulgargaz EAD received a short-term in-company loan amounting to 15 million BGN with an annual interest rate of 4.49%.The principal and the interest are paid on time. In the end of 2014 BEH EAD granted Bulgargaz EAD another in-company loan amounting to 47 million BGN with an annual intrest rate of 4.49%.The company used the restricteds to make payments to OOO Gazprom Export.In the beginning of 2014 Bulgargaz EAD signed an assignment contract and sold to BEH EAD its receivables from Toplofikatsiya Sofia EAD amounting to more than 128 million BGN.As a result of reaching an agreement on Bulgargaz EAD`s and Toplofikatsia Sofia EAD`s mutual calculations, an Annex to an assignment contract was entered into, and part of the assigned receivable was transformed into a loan to BEH EAD amounting to more than 78 million BGN.

There was also an increase in the liabilities to related parties, those under an unpaid advance for natural gas deliveries, liabilities to personnel and social security entities, as well as those for VAT and excise and other liabilities.

There is a decrease in the trade liabilities and financing under natural gas buyback contracts.This was due to discharging of liabilities to suppliers and to WIEE Bulgaria EOOD under natural gas buyback transactions.In 2014 Bulgargas EAD signed a contract with D Leasing EAD for sales of natural gas which was bought back in March 2015.

Cash Flow Statement

In thousand BGN (TBGN)

	2014 statement	**2013 statement**	**% change 2014 statement/ 2013 statement**
Cash flow of operating activity	(68 611)	(89 524)	(23.36%)
Cash flow of investing activity	(39)	(227)	(82.82%)
Cash flow of financing activity	72 628	(1 089)	(6 769.24%)
Reclassification of cash in Corporate Commercial Bank into other long-term receivables	(5 052)	-	X
Reclassification of cash into short-term receivables under an assignment contract	(12 386)	-	X
Net change in cash and cash equivalents	(13 460)	(90 840)	(85.18%)
Cash and cash equivalents in the beginning of the period	**13 373**	**111 624**	(88.02%)
Profit/loss of currency revaluation	641	(7 411)	(108.65%)
Cash and cash equivalents in the end of the period	**554**	**13 373**	(95.86%)

The table above reveals data on the changes in the cash flows in 2014 compared to 2013.

Cash flow of operating activity of Bulgargaz in 2014 was a negative value, formed from difference between income from clients for delivered gas and payment to suppliers for purchased natural gas; for services and VAT. Bulgargaz paid for VAT and excise more than BGN 198 million.

Cash flow of finacing activity is positive because in 2014 Bulgargaz EAD received from BEH EAD loans amounting to more than BGN 140 million.

The net decrease in the cash flow for 2014 is TBGN 12 819 while in 2013 it is TBGN 98 251.The cash flow statement shows reclassification of restricted cash in Corporate Commercial Bank into long-term other receivables and short-term receivables under an assignment contract.As a result in the end of the period the funds decreased by 95.86% compared to the same period during the preceding year.

Events after the end of the reported period

They are specified in Annex 32 of the annual financial statement.

Financial Ratios

Profitability

Profitability	2014 statement	2013 statement	% change
Sales profitability	0.47%	3.83 %	(87.73%)
Equity profitability	3.42%	28.55 %	(88.02%)
Assets profitability	1.24%	10.19 %	(87.83%)

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.

Equity profitability
This indicator reveals the profit after tax of BGN 100 equity, as an indicator of equity profitability level.

Assets profitability
It reveals all used capital profitability level – owned and from loans. It is expressed via comparison of achieved financial result and assets used therein.

All 2014 profitability indicators were positive, but compared to the same period in 2013 they are lower. The latter was due to a lower financial result, realized during the reviewed period in 2014 compared to the same period in 2013.

Liquidity

	2014 statement	2013 statement
Current liquidity ratio	1.64	1.70
Quick liquidity ratio	1.21	1.01
Immediate liquidity ratio	0.00	0.04

The current liquidity ratio is above 1 (one), therefore the current liabilities of the company can be covered by the available current assets, but in the mean time this ratio is lower than the one in the end of 2013.

The quick liquidity ratio is above 1 (one), therefore with available current assets, decreased by the inventories; the current liabilities of the company can be covered more than once. Improvements were also observed here, compared to the end of 2013.

The immediate liquidity ratio is significantly deteriorated compared to the end of 2013, and was below the normal limits from 0.2 – 0.25.

Financial Independence

	2014 statement	2013 statement
Financial autonomy ratio	0.57	0.55
Indebtedness ratio	1.76	1.80

The financial independence indicators reveal company financial independence from creditors, when financing company's equity and assets, and its ability to meet all liabilities' payments in the long run. The financial autonomy ratio in 2014 is far below 1, meaning that financial risk level is high and the company must undertake measures regarding its financial independence.By the end of 2013 this indicator was also below 1.

The indebtedness ratio is reciprocal to the financial autonomy ratio, defined above (1/FAQ), and specifies the level of company's financial dependence from creditors. This indicator in 2014 is above 1 which reveals indebtedness of Bulgargaz, but compared to the end of 2013 it went down, which shows decrease in company's indebtedness.

24.04.2015

ЕДНОЛИЧНО АКЦИОНЕРНО ДРУЖЕСТВО
БУЛГАРГАЗ
СОФИЯ

Petyo Ivanov
CEO

Nikolay Pavlov
CFO

BULGARGAZ EAD

STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2014

(All amounts are presented in thousand BGN)

	Note	As at 31 December 2014	As at 31 December 2013 Restated	As at 01 January 2013
ASSETS				
Non-current assets				
Plant and equipment	7	99	178	268
Intangible assets	8	105	165	43
Trade and other receivables	11	5 052	1 311	12 790
Deferred tax assets	10	21 718	22 750	11 611
		26 974	**24 404**	**24 712**
Current assets				
Inventories	12	144 073	217 544	172 117
Trade and other receivables	11	404 477	310 188	374 178
Cash and cash equivalents	13	554	13 373	111 624
		549 104	**541 105**	**657 919**
TOTAL ASSETS		**576 078**	**565 509**	**682 631**
EQUITY AND LIABILITIES				
Equity				
Share capital	14	206 297	257 691	257 691
Reserves	15	41	36 141	36 170
Retained earnings/loss		2 544	(92 098)	(149 705)
		208 882	**201 734**	**144 156**
Non-current liabilities				
Borrowings	16	-	-	56
Trade and other payables	17	32 940	44 730	38 386
Retirement benefit obligations	18	77	84	98
		33 017	**44 814**	**38 540**
Current liabilities				
Borrowings	16	135 448	60 581	116 540
Trade and other payables	17	198 658	258 330	383 395
Retirement benefit obligations	18	73	50	-
		334 179	**318 961**	**499 935**
TOTAL LIABILITIES		**367 196**	**363 775**	**538 475**
TOTAL EQUITY AND LIABILITIES		**576 078**	**565 509**	**682 631**

These financial statements were authorized for issue by the Board of Directors on 24 April 2015.

Liliya Ivanova
Head of Accounting Department

Nikolay Pavlov
Head of Finance Division

Petyo Ivanov
Executive Director

Date: 24 April 2015

Audited according to the auditor's report dated 27 April 2015:

Mariy Apostolov
Registered auditor responsible for the audit
Managing partner

Grant Thornton Ltd.
Auditing Company

BULGARGAZ EAD

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

31 DECEMBER 2014

(All amounts are presented in thousand BGN)	**Note**	**YEAR ENDED 31 DECEMBER 2014**	**2013 Restated**
Revenue from sale of natural gas		1 531 206	1 505 448
Other revenue	24	10 089	13 315
Cost of natural gas sold		(1 508 945)	(1 432 521)
Impairment loss	19	(17 237)	(5 484)
Hired services expenses	20	(6 686)	(11 979)
Employee benefits expenses and social security expenses	21	(2 175)	(1 973)
Cost of materials	22	(103)	(106)
Depreciation and amortization of non-financial assets	7, 8	(182)	(166)
Other expenses	23	(6 361)	(14 930)
Operating activity (loss)/profit		**(394)**	**51 604**
Finance income	25	16 631	5 136
Finance costs	25	(8 054)	(10 275)
Financial income/(costs) - net		**8 577**	**(5 139)**
Profit before tax		**8 183**	**46 465**
Income tax expenses/ revenues	26	(1 032)	11 136
Net profit for the period		**7 151**	**57 601**
Other comprehensive loss that will not be reclassified subsequently to profit or loss			
Remeasurement of retirement benefit obligations	18	(3)	(26)
Income tax relating to items not reclassified in profit or loss	26	-	3
Other comprehensive loss for the year, net of tax		**(3)**	**(23)**
Total comprehensive income for the period		**7 148**	**57 578**

These financial statements were authorized for issue by the Board of Directors on 24 April 2015.

Liliya Ivanova
Head of Accounting Department

Nikolay Pavlov
Head of Finance Division

Petyo Ivanov
Executive Director

ЕДНОЛИЧНО АКЦИОНЕРНО ДРУЖЕСТВО БУЛГАРГАЗ СОФИЯ

Date: 24 April 2015

Audited according to the auditor's report dated 27 April 2015:
Mariy Apostolov
Registered auditor responsible for the audit
Managing partner

Grant Thornton Ltd.
Auditing Company

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ София Рег. №032 "Грант - Торнтон" ООД

BULGARGAZ EAD

STATEMENT OF CHANGES IN EQUITY

31 DECEMBER 2014

(All amounts are presented in thousand BGN)

	Note	Share capital	Reserves	Accumulated loss	Total
AS AT 1 JANUARY 2013		**257 691**	**36 170**	**(149 705)**	**144 156**
Comprehensive income					
Profit for the period		-	-	57 601	57 601
Other comprehensive loss related to remeasurement of defined benefit liability		-	(23)	-	(23)
Total comprehensive income		**-**	**(23)**	**57 601**	**57 578**
Transfer of revaluation reserve	15	-	(6)	6	-
AS AT 31 DECEMBER 2013		**257 691**	**36 141**	**(92 098)**	**201 734**
AS AT 1 JANUARY 2014		**257 691**	**36 141**	**(87 535)**	**206 297**
Effect from accounting errors (Note 5)		-	-	(4 563)	(4 563)
AS AT 1 JANUARY 2014 (Restated)		**257 691**	**36 141**	**(92 098)**	**201 734**
Transactions with the owners					
Loss coverage	15	-	(36 097)	36 097	-
Decrease of shareholders equity art. 201, para.1 and art. 187a from TA	14	(51 394)	-	51 394	-
Total transactions with owners		**(51 394)**	**(36 097)**	**87 491**	**-**
Profit for the period		-	-	7 151	7 151
Other comprehensive loss related to remeasurement of defined benefit liability		-	(3)	-	(3)
Total comprehensive income		**-**	**(3)**	**7 151**	**7 148**
AS AT 31 DECEMBER 2014		**206 297**	**41**	**2 544**	**208 882**

These financial statements were authorized for issue by the Board of Directors on 24 April 2015.

Liliya Ivanova
Head of Accounting Department

Nikolay Pavlov
Head of Finance Division

Petyo Ivanov
Executive Director

ЕДНОЛИЧНО АКЦИОНЕРНО ДРУЖЕСТВО
СОФИЯ

Date: 24 April 2015

Audited according to the auditor's report dated 27 April 2015:
Mariy Apostolov
Registered auditor responsible for the audit
Managing partner

Grant Thornton Ltd.
Auditing Company

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №032
"Грант - Торнтон" ООД

BULGARGAZ EAD

STATEMENT OF CASH FLOWS

31 DECEMBER 2014

(All amounts are presented in thousand BGN)

	Note	YEAR END 31 DECEMBER 2014	2013
CASH FLOWS FROM OPERATING ACTIVITY			
Proceeds from clients from sales of natural gas		1 494 795	1 752 531
Proceeds from transactions with related parties		137 446	60 363
Proceeds from interest and penalties		270	911
Payments to suppliers:		(1 499 115)	(1 641 093)
For purchases of natural gas		*(1 473 658)*	*(1 588 030)*
Related party transactions		*(23 888)*	*(50 899)*
Payments to other counterparties		*(1 569)*	*(2 164)*
Tax paid excluding corporate income tax		(198 099)	(258 665)
Payment to personnel and social security entities		(2 185)	(1 882)
Other payments for operating activity		(1 723)	(1 689)
Net cash flows from operating activity		**(68 611)**	**(89 524)**
CASH FLOWS FROM INVESTING ACTIVITY			
Acquisition of intangible assets		(36)	(156)
Acquisition of plant and equipment		(4)	(71)
Proceeds from sale of plant and equipment		1	-
Net cash flows from investing activity		**(39)**	**(227)**
CASH FLOWS FROM FINANCIAL ACTIVITY			
Proceeds from financing agreements		7 000	63 067
Payments for financing agreements		(56 051)	(60 931)
Proceeds from borrowings		140 593	5
Repayment of borrowings		(15 001)	(5)
Payments of interest on borrowings and deferred trade payables		(3 913)	(3 225)
Net cash flows from financial activity		**72 628**	**(1 089)**
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		**(13 460)**	**(90 840)**
Cash and cash equivalents, in the beginning of period		13 373	111 624
Exchange gain/(losses) on cash and cash equivalents		641	(7 411)
Cash and cash equivalents, end of period	**13**	**554**	**13 373**

These financial statements were authorized for issue by the Board of Directors on 24 April 2015.

Liliya Ivanova
Head of Accounting Department

Nikolay Pavlov
Head of Finance Division

Petyo Ivanov
Executive Director

Date: 24 April 2015
Audited according to the auditor's report dated 27 April 2015:
Mariy Apostolov
Registered auditor responsible for the audit
Managing partner

Grant Thornton Ltd.
Auditing Company

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'000) (including comparative information for 2013) unless otherwise stated.

By 31 December 2014, the financial statements are prepared on a going concern basis, which assumes that the Company will continue its operations in the foreseeable future, despite the generated negative cash flow from operating activities in the amount of BGN 68 611 thousand. 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 and the contracts for purchase and sale of natural gas, as well as the provision 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 the appropriate financial statements are 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 2014 APPLICABLE FOR THE COMPANY

IAS 36 "Impairment of assets" (amended) effective from 1 January 2014, adopted by the EU in December 2013
The amendment requires the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. It should be applied retrospectively for annual periods beginning on or after 1 January 2014. Earlier application is permitted provided the entity has already adopted IFRS 13.

IAS 32 "Financial Instruments: Presentation" (amended) effective from 1 January 2014, adopted by the EU on 13 December 2012

The amendment clarifies that the right of set-off must be available today – that is, it is not contingent on a future event. It also must be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy.

IFRIC 21 "Levies" effective from 1 January 2014, adopted by the EU in June 2014
IFRIC 21 considers how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. IFRIC 21 also clarifies that an entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period

2.1.2. STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE EFFECTIVE FOR THE FIRST TIME IN 2014 AND ARE NOT APPLICABLE FOR THE COMPANY

IFRS 10 "Consolidated Financial Statements" effective from 1 January 2014, adopted by the EU on 11 December 2012
IFRS 10 "Consolidated Financial Statements" introduces a new, principle-based definition of control which will apply to all investees to determine the scope of consolidation. The standard is not applicable for the Company since it does not own investments in subsidiaries.

IFRS 11 "Joint Arrangements" effective from 1 January 2014, adopted by the EU on 11 December 2012
IFRS 11 "Joint Arrangements" supersedes IAS 31 "Interests in Joint Ventures". It replaces IAS 31's three categories of 'jointly controlled entities', 'jointly controlled operations' and 'jointly controlled assets' with two new categories - 'joint operations' and 'joint ventures'. The choice on the application of the proportional consolidation to the accounting of joint ventures is no longer applicable. The method of equity is obligatory for application for reporting of all joint ventures. The standard is not applicable to the Company, since it does not own joint ventures.

IFRS 12 "Disclosure of Interests in Other Entities" effective from 1 January 2014, adopted by the EU on 11 December 2012
IFRS 12 "Disclosure of Interests in Other Entities" is a new standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other unconsolidated structured entities about the risks to which the company is exposed as a result of investments

in structured entities. The standard is not applicable to the Company as it does not participate in other enterprises.

IFRS 10, IFRS 11, IFRS 12 – Transition Guidance, effective from 1 January 2013, adopted by the EU on 16 April 2013

The transitional provisions allow companies not to apply IFRS 10 retrospectively under certain circumstances and provide adjusted comparative information under IFRS 10, IFRS 11, and IFRS 12 only for the previous comparative period. Provisions exempt companies from the requirement to present comparative information in the consolidated financial statements for periods prior to the first financial year in which IFRS 12 is applied for the first time. Changes in the standards are not applicable to the Company as it has no investments in other companies and joint activities.

IAS 27 "Separate Financial Statements" (Revised) effective from 1 January 2014, adopted by the EU on 11 December 2012

IAS 27 "Separate Financial Statements" (revised) will now only apply to separate financial statements, the requirements for which are not substantially altered. The amendments to the standard are not applicable to the Company as it has no investments in subsidiaries.

IFRS 10, IFRS 12, IAS 27 (amendments) – Investment Entities, effective from 1 January 2014, adopted by the EU in November 2013

Amendments to exclude companies that meet the definition of "investment firms" and have certain characteristics from the requirement to consolidate their subsidiaries. Instead, the investments in subsidiaries should be accounted for by investment companies at fair value through profit or loss. Changes in the standards are not applicable to the Company as it is not investment enterprise.

IAS 28 "Investments in Associates and Joint Ventures" (Revised) effective from 1 January 2014, adopted by the EU on 11 December 2012.

IAS 28 "Investments in Associates and Joint Ventures" (Revised) requires the application of the equity method in accounting for associates and joint ventures. Changes in the scope of the standard are carried out due to the publication of IFRS 11 "Joint Arrangements". The amendments to the standard are not applicable to the Company as it has no investments in other companies and joint activities.

IAS 39 "Financial Instruments: Recognition and Measurement" (amended) effective from 1 January 2014, adopted by the EU in December 2013

The amendments allow hedge accounting to continue in case of novation of derivatives as a result of legislative changes that are designated as hedging instruments and are not traded on the exchange. The amendment of the standard is not applicable to the Company, as it will hedge accounting.

2.1.3. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS THAT WILL BE IN FORCE IN 2015 OR THEREAFTER, THAT ARE APPLICABLE FOR THE COMPANY, BUT ARE NOT ADOPTED EARLIER

IFRS 9 "Financial Instruments" effective from 1 January 2018, not yet adopted by the EU

IFRS 9 represents the first project of the International Accounting Standards Board (IASB) to replace IAS 39 "Financial Instruments: Recognition and Measurement". It replaces the four categories of financial assets for their valuation in IAS 39 Classification based on a single principle. IFRS 9 requires all financial assets to be measured at either amortized cost or fair value. Amortized cost provides information that is useful in making decisions on financial assets that are held primarily to collect cash flows that represent the payment of principal and interest. For all other financial assets, including those held for trading, fair value represents the most relevant measurement basis. IFRS 9 eliminates the need for multiple impairment models, such that there is only one impairment of assets carried at amortized cost. Additional sections relating to impairment and hedge accounting are still being developed. The Company's management does not expect the changes to be implemented before the publication of all sections of the standard and currently cannot assess their overall effect.

IFRS 15 "Revenue from Contracts with Customers" effective from 1 January 2017, not yet adopted by the EU
IFRS 15:
• replaces IAS 18 "Revenue" IAS 11 "Construction Contracts" and related interpretations
• introduces a new model for revenue recognition based on control
• changing the rules for determining whether revenues are recognized by a certain moment or during a given period of time
• Leads to expansion and improvement of revenue disclosure.
IFRS 15 is based on a fundamental principle which requires the company to recognize revenue:
• in a way that reflects transfer of goods or provision of services to clients
• an amount that reflects the expected remuneration, which the company will receive in exchange for those goods or services.
Allowed early adoption of the standard. Companies should apply the standard:
• retrospectively for each prior period presented, or
• retrospectively so that the cumulative effect of initial recognition is reflected in the current period.
Management of the Company is still in the process of assessing the effect of IFRS 15 on the annual financial statements of the Company.

Annual improvements 2012 in force from July 1, 2014, not yet adopted by the EU

Annual improvements 2013 in force from July 1, 2014, not yet adopted by the EU

Annual improvements 2014 in force from January 1, 2016, not yet adopted by the EU

2.1.4. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS THAT WILL BE IN FORCE IN 2015 OR THEREAFTER, BUT ARE NOT APPLICABLE TO THE COMPANY

IFRS 9 "Financial Instruments" (amended) – Hedge accounting, effective from 1 January 2018, not yet adopted by the EU
Amendments to lead to a significant change in hedge accounting, which allows companies to reflect their activities in relation to risk management better in the financial statements. The amendment of the standard will not be applicable for the Company as it has no hedge accounting.

IFRS 10 "Consolidated financial statements" and IAS 28 „Investments in associates and joint ventures" (amended), effective from 1 January 2016, not yet adopted by the EU
These amendments are the result of the discrepancy between the requirements of IFRS 10 and IAS 28 in the treatment of a sale or a contribution of assets between the investor and the associate or joint venture. The amendment of standards will not be applicable for the Company as it has no investments in other enterprises.

IFRS 11 "Joint Arrangements" (amended) – Acquisition of an Interest in a Joint Operation, effective from 1 January 2016, not yet adopted by the EU
This amendment provides guidance on the appropriate accounting treatment of the acquisition of the share in joint ventures, which represents a business. The amendment of the standard will not be applicable for the Company as it has no joint activities.

IFRS 14 "Regulatory deferral accounts" effective from 1 January 2016, not yet adopted by the EU
IFRS 14 allows companies applying IFRS for the first time, to continue the recognition of amounts related to regulated prices in accordance with their previous basis of accounting when applying IFRS. In order to improve the comparability of companies' accounts which have implemented IFRS and do not recognize such amounts, the standard calls for the separately presentation of the effects of regulated prices. The standard will not be

applicable to the Company.

IAS 16 “Property, plant and equipment” and IAS 38 “Intangible Assets” (amended), effective from 1 January 2016, not yet adopted by the EU
These amendments clarified that the use of methods for calculating depreciation, based on revenues is not appropriate, since the revenue generated by a particular activity with tangible or intangible assets does not reflect the use of the economic benefits expected from the assets.

IAS 16 “Property, plant and equipment” and IAS 41 “Agriculture” (amended) - Bearer Plants, effective from 1 January 2016, not yet adopted by the EU
These changes affect the financial reporting of fruit-bearing plants such as vines, rubber trees and oil palms.

IAS 27 “Separate financial statements” (amended), effective from 1 January 2016, not yet adopted by the EU
This amendment allows companies to use the equity method to investments in subsidiaries, joint ventures and associates in their individual financial statements. This standard will not affect the Company.

IAS 19 “Employee Benefits” (amended) – Employee Contributions, effective from 1 July 2014, not yet adopted by the EU
Amendments to IAS 19:

- larify the requirements of IAS 19 relating to contributions from employees or third parties
- llow contributions that do not depend on the number of years of service, to be treated as a reduction of expenses for Current service in the period in which the services are provided.

The amendment of the standard will not be applicable by the Company, as it has no contributions from employees or third parties under defined benefit plans.

2.2. PRESENTATION OF FINANCIAL STATEMENTS

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

Two comparative periods are presented for the statement of financial position when the Company: a) applies an accounting policy retrospectively; b) restated 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 arises from sale 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 SALE 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 transferred. 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 03.06.2015), 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.

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 net 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 at the date of their origin in accordance with the accrual and 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 findings from the "Operational control and balance of natural gas" gas balance and the monthly reports and instruments for the supply and consumption of gas. The value of these differences is based on the amounts and weighted average cost of gas for the month.

2.6. INTEREST EXPENSES AND BORROWING COSTS

Interest expenses are reported on an accrual basis using the effective interest 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 that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in 'Finance costs'.

2.7. PLANT AND EQUIPMENT

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

No	Property and equipment	Subsequent measurement method
1	**Plant and equipment**	**Revaluation model**
2	**Computers**	**Cost model**
3	**Vehicles**	
	• Trucks	Revaluation model
	• Cars	Cost model
	• special vehicles	Revaluation model
4	**Office equipment**	Cost model
5	**Spare parts, recognized as property, plant and equipment**	Revaluation model
6	**Other machinery and equipment**	Cost model

After initial recognition, the plant and equipment, for which revaluation model is applied, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Impairment losses are charged against revaluation reserve in the profit and loss other comprehensive income financial statement 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 asset (plant and equipment) changes significantly in short-term intervals, the asset is 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 differ from the fair value of a certain revalued asset at the end of the reporting period.

At the annual stock-tacking at the end of the reporting period (year-end) the Company reviewed 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 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 after initial recognition is carried at its cost less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Impairment losses 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 related.

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 recent 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 lease 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 import duties and non-refundable purchase 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 cost less any accumulated amortization and any accumulated impairment losses. Impairment losses are recognized in the statement of profit or loss and other comprehensive income for the respective period.

Subsequent expenditure on an intangible asset after its purchase or its completion is expensed as incurred unless it is probable that 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 carrying amount of the intangible asset.

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

Amortization 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 on the disposal 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. LEASES - THE COMPANY AS A LESSEE

In accordance with IAS 17 “Leases” (revised 2007), the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the 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. A corresponding amount is recognized 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. The finance lease liabilities are reduced by subsequent lease payments, which consist of repayment of principal and finance costs.

Assets acquired under the terms of finance lease are depreciated or 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 capital balance outstanding and is charged to profit or loss over 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 statement of profit or loss and other comprehensive income at the time they are incurred.

2.10. IMPAIRMENT TESTING 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 annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

An impairment loss is recognized for 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 costs to sell and 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 for indications that an impairment loss previously recognized may no longer exist or is decreased. An impairment charge, recognized in previous period is reversed 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 the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

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 those designated and effective as 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 review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial instruments that are recognized in profit or loss are presented within "Finance costs", "Finance income" in the statement of profit or loss and other comprehensive income, except for impairment of trade receivables which is presented within "Impairment losses".

LOANS AND RECEIVABLES

Loans and receivables originated by the Company are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortized cost using the effective interest method corrected with the amount of impairment. Any change in their value is recognized 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.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific 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 available feature of shared credit risk characteristics. In these cases the percentage of impairment is based on recent historical counterparty default rates for each identified group. Impairment of trade receivables are 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 the debtors or groups of debtors 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 indicating 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 the 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 recognized as part of financial income in the statement of profit or loss and other comprehensive income. Loans together with the associated provisions 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 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 derecognised 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 depreciated 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 proper 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 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 State Energy and Water Regulatory Commission, 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 are 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 expense recognized in profit or loss comprises 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 profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by 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 provided for 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. 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 includes 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 wages, 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, discounted with the long-term income percentage of risk free securities.

Management estimates the defined benefit obligations (DBO) 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 as a result of the unused entitlement.

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 still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, product warranties, granted 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 operating 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 to their present values, when the effect of time differences in money value of is significant.

Any reimbursement that the Company expects to collect from a third party with respect to the 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 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 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.

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

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 risks of certain price changes, as a result of the operating activity of the Company.

(A) FOREIGN CURRENCY RISK

Foreign currency denominated financial assets and liabilities which expose the Company to currency risk are disclosed below. The amounts shown are translated into Bulgarian lev at the closing rate:

Exposure to short-term risk	**(USD)**
AS AT 31 DECEMBER 2014	
Financial assets	1 262
Financial liabilities	(47 225)
Total exposure	**(45 963)**
AS AT 31 DECEMBER 2013	
Financial assets	61 819
Financial liabilities	(239 105)
Total exposure	**(177 286)**

The following tables illustrate the sensitivity of post-tax financial result for the year and equity in regards to exchange rate differences between the Bulgarian Lev (BGN) and US Dollars (USD) +/- 4% (for 2013 +/- 2.1%). All other variables are held constant. These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months.

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) (+/- 4 %)	(1 839)	(1 839)	1 839	1 839

AS AT 31 DECEMBER 2013	**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) (+/- 2.1 %)	(3 723)	(3 723)	3 723	3 723

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Company's exposure to currency risk.

(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 2014, the Company is exposed to changes in market interest rates through trade debts, which have fluctuating interest rate.

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

The following tables illustrate the sensitivity of the net financial result after tax for the year 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% (2013: +/- 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 at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

	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

	Net financial result		Equity	
AS AT 31 DECEMBER 2013	**Increase of interest rate**	**Decrease of interest rate**	**Increase of interest rate**	**Decrease of interest rate**
Borrowings (BIR 0.01%)	(3 567)	3 567	(3 567)	3 567

(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 SEWRC 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 SEWRC 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.

The Company is not exposed to other price risks associated with publicly owned traded stocks, 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 for 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	
	2014	**2013**
Classes of financial assets – carrying amounts (Note 6)		
Trade and other receivables	319 007	214 727
Cash and cash equivalents	554	13 373
Total financial assets	**319 561**	**228 100**

The Company has not provided any financial assets as collateral for other transactions.

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

As of 31 December 2014 and 31 December 2013, the Company is exposed to concentrations of credit risk with respect to receivables from Toplofikacia Sofia EAD that comprise more than 10% of the total short-and long-term net receivables:

	AS AT DECEMBER	
	2014	**2013**
Receivables from Toplofikacia Sofia EAD	191 513	74 687
Total trade and other receivables	319 007	216 038

Additional disclosures relating to credit risk are presented Notes 11 and 13.

3.1.3. LIQUIDITY RISK

Liquidity risk is the risk arising from the Company not being able to meet its obligations when they fall due. The Company manages its liquidity needs ensuring cash funds mostly by related party financing. Liquidity needs are monitored in 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. The Company maintains cash reserves to meet its outstanding liability obligations for 10-day periods.

As at 31 December 2014, the Company's non-derivative financial liabilities have the following contractual maturities as summarized below. The amounts presented are undiscounted contractual cash flows.

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**

AS AT 31 DECEMBER 2013		**Current**	**Non-current**		
	Within 6 months	**6 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Borrowings (without finance lease liabilities)	60 529	-	-	-	60 529
Finance lease liabilities	-	60	-	-	60
Trade and other payables	206 216	-	44 730	-	250 946
Total	**266 745**	**60**	**44 730**	**-**	**311 535**

The category of trade and other payables classified as financial liabilities does not include those arising from legal requirements (taxes 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.

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

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 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 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, with 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.

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

	AS AT 31 DECEMBER	
	2014.	**2013 Restated**
Equity	208 882	201 734
+ Subordinated debt	128 436	-
Adjusted capital	**337 318**	**201 734**
Total liabilities	238 760	363 775
- Cash and cash equivalents	(554)	(13 373)
Net debt	**238 206**	**350 402**
Adjusted capital to net debt	**1: 0.71**	**1:1.74**

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

3.3. FAIR VALUE MEASUREMENT

The Company has no financial instruments that are classified as measured 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 AND JUDGEMENTS

Estimates and judgements are continually reviewed and are based on historical data and other factors, including expectations of future events which are believed to be reasonable under the current circumstances.

4.1. SIGNIFICANT ESTIMATES AND ASSUMPTIONS

The Company makes estimates and assumptions relating to the future. Although these estimates are based on the best knowledge of the management in terms of events and activities for the period, actual results may differ from these estimates. The key assumptions concerning the future and other sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustments to the carrying amounts of assets and liabilities within the next financial year are outlined below:

4.1.1. 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 doubtful and bad debts 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 ability of the client changes to the agreed payment terms and other similar factors. If the financial condition and results of operations of customers deteriorate (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 2014 the best estimate of the necessary impairment of receivables amounted to BGN 205 686 thousand (2013: BGN 196 619 thousand). Additional information is provided in Note 11.

4.1.2. INVENTORIES

Impairment of natural gas stocks 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.

4.1.3. USEFULL LIVES OF DEPRECIABLE ASSETS

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

As at 31 December 2014 management assesses that the useful lives represent the expected utility of the assets to the Company. The carrying amounts are analysed in Notes 7 and 8. Actual results, however, may vary due to technical obsolescence, particularly relating to software and IT equipment.

4.1.4. DEFINED BENEFIT OBLIGATIONS

Management estimates the defined benefit obligations annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimate of its defined benefit obligation amounting to BGN 150 thousand (2013: BGN 134 thousand) 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 at the end of each year to the yield on long-term government securities with 10-year maturity, denominated in the currency in which it will be paid the defined benefits. 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.

4.1.5. 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.

4.2. SIGNIFICANT ASSESSMENT IF APPLYING THE COMPANY’S ACCOUNTING POLICIES

Significant management judgments in applying accounting policies of the Company that have the most significant impact on the financial statements are described below.

4.2.1. 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, that 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 by management assessed individually based on the specific facts and circumstances.

4.2.2. LEASES

In applying the classification of leases in IAS 17 “Leases”, management considers its leases of vehicles as finance lease arrangements. In some cases, the lease transaction is not always conclusive, and management uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership.

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

5. EFFECT FROM ACCOUNTING ERROR ADJUSTMENTS

In 2014 a difference between Bulgargaz EAD and Toplofikacia Sofia EAD balances has been identified, which is due to the different treatment of certain conditions of the contract for natural gas delivery concluded between the parties. This difference concerns prior reporting periods and it is related to additional revenue for penalties on overdue receivables accrued by Bulgargaz EAD. As a result, the Company has adjusted its financial information for year 2013 and therefore other revenue has been reduced by BGN 4 563 thousand. The relation between both the companies is characterized by specific arrangements which could affect their balances as of the date of the financial statements and in future periods.
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 2013 Restated**
Non-current assets	**24 404**	**-**	**24 404**
Current assets			
Trade and other receivables	314 751	(4 563)	310 188
Total current assets	**545 668**	**(4 563)**	**541 105**
TOTAL ASSETS	**570 072**	**(4 563)**	**565 509**
EQUITY AND LIABILITIES			
Equity			
Accumulated loss	(87 535)	(4 563)	(92 098)
Total equity	**206 297**	**(4 563)**	**201 734**
Non-current liabilities	**44 730**	**-**	**44 730**
Current liabilities	**318 961**	**-**	**318 961**
TOTAL LIABILITIES	**363 775**	**-**	**363 775**
TOTAL EQUITY AND LIABILITIES	**570 072**	**(4 563)**	**565 509**

Restatement of accumulated loss for 2013

Decrease of revenue for penalties on overdue receivables from Toplofikacia Sofia EAD	(4 563)
Total effect – increase of accumulated loss	**(4 563)**
Decrease of trade receivables from Toplofikacia Sofia EAD	(4 563)
Total effect – decrease of assets	**(4 563)**

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

6. CATEGORIES OF FINANCIAL INSTRUMENTS

AS AT 31 DECEMBER 2014

Financial assets	**Loans and receivables**
Trade and other receivables (Note 11)	319 007
Cash and cash equivalents (Note 13)	554
Total financial assets in Statement of financial position	**319 561**

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**

AS AT 31 DECEMBER 2013

Financial assets	**Loans and receivables**
Trade and other receivables (Note 11)	214 727
Cash and cash equivalents (Note 13)	13 373
Total financial assets in Statement of financial position	**228 100**

Financial liabilities	**Financial liabilities measured at amortized cost**
Borrowings (without Finance lease liabilities) (Note 16)	60 529
Finance lease liabilities (Note 16)	60
Trade and other payables (Note 17)	250 946
Total financial liabilities in Statement of financial position	**311 535**

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 fixtures. The carrying amount can be analysed as follows:

	Plant and equipment	Vehicles	Office equipment	Total
AS AT 01 JANUARY 2013				
Gross value	88	490	290	**868**
Depreciation	(30)	(347)	(223)	**(600)**
Carrying amount	**58**	**143**	**67**	**268**
YEAR ENDED 31 DECEBER 2013				
Additions	-	-	61	**61**
Disposals	(2)	(83)	(15)	**(100)**
Depreciation	(5)	(81)	(40)	**(126)**
Depreciation of written-off assets	2	58	15	**75**
Ending carrying amount	**53**	**37**	**88**	**178**
AS AT 31 DECEMBER 2013				
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	338	**831**
Depreciation	(37)	(406)	(289)	**(732)**
Carrying amount	**49**	**1**	**49**	**99**

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 (2013: BGN 276 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).

Vehicles include assets on financial lease agreements having the following amounts:

	AS AT 31 DECEMBER	
	2014	**2013**
Book value – capitalised financial lease	407	407
Accumulated depreciation	(406)	(370)
Carrying amount	**1**	**37**

Additional disclosures for vehicles leased a under finance lease are provided in Note 9.

The Company has no plant and equipment pledged as security for its liabilities, excluding assets hired under finance lease agreements, which effectively secured the corresponding liabilities to the lessor.

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

Based on recent market transactions, adjusted according to the specific conditions relating to the assets, the Company assessed the fair value of all its assets as at 31 December 2014. The results of these tests and evaluations show that there are no significant fluctuations in the market value of the assets and therefore does not require further adjustments to their carrying amounts.

8. INTANGIBLE ASSETS

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

	Software	**Licence**	**Total**
AS AT 01 JANUARY 2013			
Gross value	296	15	**311**
Amortization	(265)	(3)	**(268)**
Carrying amount	**31**	**12**	**43**
YEAR ENDED 31 DECEMBER 2013			
Additions	162	-	**162**
Amortization	(40)	-	**(40)**
Ending carrying amount	**153**	**12**	**165**
AS AT 31 DECEMBER 2013			
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**

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

During 2014 software modules "Natural gas delivery" and "Data exchange between transmission system operators" and un updated web page of Bulgargaz EAD were acquired at the total amount of BGN 41 thousand VAT excluded.

No intangible assets have been pledged as security for liabilities.

9. LEASE

(A) FINANCIAL LEASE AS A LESSEE

On 19 June 2009 the Company entered into an agreement with BULGARIAN ENERGY HOLDING EAD for the use of seven vehicles. Under the terms of the contract and in accordance with IAS 17 "Leases", the contract is classified as a finance lease. Detailed description is presented in Note 31.

On 3 January 2013 was signed an addendum to the lease agreement, which terminates the usage of one of the vehicles in the agreement. The payments made up to the date of the termination addendum are considered as payments made under the conditions of an operating lease.

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

In 2014 the lease agreement expired and the ownership of six vehicles is transferred by the lessor to Bulgargaz EAD under Contract 458/13.08.2014.

Future minimum lease payments for the vehicles as at 31 December 2013 are as follows:

AS AT 31 DECEMBER 2013	**Minimum lease payments due With 1 year**
Lease payments	54
Discounting	(2)
Net present value	**52**

Lease agreements include fixed lease payments and purchase option at the end of the fifth year of the lease term. Leases are unavoidable, but do not contain other restrictions. The Company has not recognized expenses for contingent liabilities under the conditions of the lease agreements. No sub-lease income is expected, for all the assets under the lease agreements are used only by the Company.

(B) OPERATING LEASES AS A LESSEE

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 maturity 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 expected to be within the range of BGN 235 thousand (EUR 125 thousand) - BGN 282 thousand (EUR 143 thousand) per year.

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

	AS AT 31 DECEMBER	
	2014	**2013**
Within 1 year	258	258
1 to 5 years	1 402	1 379
After 5 years	70	352
	1 730	**1 989**

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% (2013: 10%), which is applicable for the year, which is expected to occur retroactively.

	AS AT 31 DECEMBER	
	2014	**2013**
Deferred tax assets		
– Deferred tax assets for recovery in more than 12 months	21 725	22 754
Total deferred tax assets	**21 725**	**22 754**
Deferred tax liabilities		
– Deferred tax liabilities for recovery in more than 12 months	7	4
Total deferred tax liabilities	**7**	4
Deferred tax assets, net	**21 718**	**22 750**

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

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

	YEAR ENDED 31 DECEMBER	
	2014	**2013**
AS AT 01 JANUARY	22 750	11 611
Recognized as income in profit or loss (Note 26)	(1 032)	11 136
Tax income, related to components of other comprehensive income (Note 26)	-	3
AS AT 31 DECEMBER	**21 718**	**22 750**

The amounts recognised in other comprehensive income relate to the remeasurements of defined benefit obligations.

The amount of unused tax losses for which no deferred tax asset is recognized in the statement of financial position is BGN 71 230 thousand. The date of expiry 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	
		2014	**2013**
2010	from 2011 to 2015	-	4 396
2011	from 2012 to 2016	42 952	65 080
2012	from 2013 to 2017	108 594	108 594
Total tax losses for carrying forward		**151 546**	**178 070**
Applicable tax rate		10 %	10 %
Expected deferred tax asset		**15 155**	**17 807**
Recognised deferred tax asset		**(8 032)**	**(10 684)**
Unrecognised deferred tax asset		**7 123**	**7 123**

After assessment of the Company's management on the probability of occurrence of future taxable profits against which to utilize tax losses, the Company has recognized a deferred tax asset in the amount of BGN 10 684 thousand as at 31 December 2013. In 2014 the amount of BGN 2 652 thousand is utilized against the respective carried forward tax loss for the period. As a result the deferred tax asset recognized as of 31 December 2014 amounts to BGN 8 032 thousand.

Assessment of the probability of future realized gains for the utilization of deferred tax assets is based on the latest approved budget forecast, considering a number of other relevant criteria.

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

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

DEFERRED TAX ASSETS	**Impairment of inventory**	**Impairment of trade and other receivables**	**Pension provisions**	**Unused paid leaves**	**Plant and Equipment**	**Tax loss**	**Total**
AS AT 01 JANUARY 2013	**(225)**	**(11 372)**	**(10)**	**(7)**	**-**	**-**	**(11 614)**
Expense/(Income) in profit or loss	(172)	(278)	(1)	(2)	-	(10 684)	**(11 137)**
Income in other comprehensive income	-	-	(3)	-	**-**	**-**	**(3)**
AS AT 31 DECEMBER 2013	**(397)**	**(11 650)**	**(14)**	**(9)**	**-**	**(10 684)**	**(22 754)**
Expense/(Income) in profit or loss	(320)	(1 302)	(1)	-	**-**	2 652	**1 029**
AS AT 31 DECEMBER 2014	**(717)**	**(12 952)**	**(15)**	**(9)**	**-**	**(8 032)**	**(21 725)**
DEFERRED TAX LIABILITIES							
AS AT 01 JANUARY 2013	**-**	**-**	**-**	**-**	**3**	**-**	**3**
Expense in profit or loss	-	-	-	-	**1**	-	**1**
AS AT 31 DECEMBER 2013	**-**	**-**	**-**	**-**	**4**	**-**	**4**
Expense in profit or loss	-	-	-	-	3	-	**3**
AS AT 31 DECEMBER 2014	**-**	**-**	**-**	**-**	**7**	**-**	**7**
DEFERRED TAX ASSETS AS AT 31 DECEMBER 2014, NET	**(717)**	**(12 952)**	**(15)**	**(9)**	**7**	**(8 032)**	**(21 718)**

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

11. TRADE AND OTHER RECEIVABELS

	AS AT 31 DECEMBER	
	2014	**2013 Restated**
Trade receivables	297 853	218 838
Minus: Accumulated impairment of trade receivables	(18 077)	(6 926)
Trade receivables, net	**279 776**	**211 912**
Court and awarded receivables	209 402	192 083
Minus: accumulated impairment of court and awarded receivables	(187 609)	(189 693)
Court and awarded receivables, net	**21 793**	**2 390**
Prepaid advances for natural gas delivery	46 101	96 636
Unpaid advance for natural gas delivery	44 317	-
Restricted cash amounts in Corporate Commercial Bank AD	5 052	-
Receivables under cession contract	12 386	-
Related party receivables (Note 31)	-	425
Other receivables - prepaid expenses, guarantees and deposits	104	136
Total trade and other receivables	**409 529**	**311 499**
Minus non-current portion:		
- Trade receivables	-	1 311
- Restricted cash amounts in Corporate Commercial Bank AD	5 052	-
Current trade and other receivables	**404 477**	**310 188**

Unpaid advance for natural gas delivery at BGN 44 317 thousand represents an amount which is contractually obligated to be paid by Bulgargaz EAD 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 the advance paid.

Corporate Commercial Bank AD was placed under special supervision by Bulgarian National Bank (BNB) on 20 June 2014. On 6 November 2014 Bulgarian National Bank revoked the bank’s license and took a decision to request for bankruptcy proceeding against Corporate Commercial Bank AD according to Bank bankruptcy act to be submitted to a competent court.
On 30 March 2015 5-member panel of the Supreme Administrative Court gave the final ruling. This ruling rejected as inadmissible the appeals against the decision of BNB for revoking of bank license of Corporate Commercial Bank AD.

The Company’s restricted cash in Corporate Commercial Bank AD amounts to BGN 5 052 thousand as of 31 December 2014. On 4 November 2014 Bulgargaz EAD transferred to CNG Maritza OOD receivables under a contract for current account signed between Bulgargaz EAD and Corporate Commercial Bank AD in amount of BGN 12 386 thousand. As at 31 December 2014 the receivable is reclassified as current receivables.

The restriction on cash amounts in Corporate Commercial Bank AD would not lead to prevention of Company’s activity and/or failures or difficulties of the Company to meet its current financial liabilities to partners and counterparties. As a result Company’s management judged that the restricted amounts should be presented as non-current other receivables.

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

Reclassified restricted cash amounts in Corporate Commercial Bank AD as of 31 December 2014 can be analysed as follows:

	AS AT 31 DECEMBER	
	2014	**2013**
Non-current other receivables reclassified from “restricted cash amounts in Corporate Commercial Bank AD”	17 423	-
Other current receivables under a cession contract reclassified from “restricted cash amounts in Corporate Commercial Bank AD”	(12 386)	-
Gain from exchange differences	6	-
Interest income for the period	9	-
Restricted cash amounts in Corporate Commercial Bank AD as of 31 December 2014	**5 052**	-

Unpaid within 30 days trade receivables are not considered overdue. Some of unimpaired current trade receivables are past due as at the reporting date. These receivables are from several clients in relation to whom there are no cases of default on obligations to the Company. The age structure of unimpaired, neither past due and overdue trade receivables is as follows:

Current trade receivables	**Neither overdue nor impaired**	**Overdue but not impaired**		**Total**
		From 31 to 180 days	**Over 180 days**	
As at 31 December 2014	154 630	13 042	251	167 923
As at 31 December 2013	120 248	81 889	13 027	215 164

As at 31 December 2014, trade receivables with a book value of BGN 18 077 thousand (2013: BGN 6 934 thousand) are impaired. The amount of impairment losses on trade receivables (excluding impairment of court and awarded receivables) accrued as of 31 December 2014 is equal to BGN 14 304 thousand (2013: BGN 4 575 thousand). Trade receivables that are individually determined to be impaired at the end of the reporting period are receivables from specific customers, which have financial difficulties at the date of the preparation of these financial statements. It is estimated that some of these receivables will be received. The aging analysis of these trade receivables is as follows:

	AS AT 31 DECEMBER	
	2014	**2013**
Within 3 months	6 129	977
Between 3 and 6 months	4 183	3 122
Over 6 months	7 765	2 835
Total	**18 077**	**6 934**

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

	YEAR ENDED 31 DECEMBER	
	2014	**2013**
AS AT 01 JANUARY	**196 619**	**233 934**
Impairment losses from receivables	16 561	4 920
Written-off uncollectable receivables	(3 836)	(40 097)
Reversals of impairment losses	(3 666)	(2 211)
Discount effect	8	73
AS AT 31 DECEMBER	**205 686**	**196 619**

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 recognized 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.

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

Other groups of trade and other receivables do not include impaired receivables.

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, right to receive natural gas after the corresponding advance paid and the prepaid expenses. 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	
	2014	**2013**
Bulgarian Lev (BGN)	317 487	155 281
United states dollar (USD)	91 628	156 218
Euro (EUR)	414	-
Total trade and other receivables	**409 529**	**311 499**

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	
	2014	**2013**
Natural gas at cost	148 664	221 495
Impairment to net realisable value	(4 610)	(3 976)
Natural gas – net realisable value	144 054	217 519
Materials	19	25
Total inventories	**144 073**	**217 544**

In 2014 a total of BGN 1 509 048 thousand of inventories has been reported as expenses in profit or loss (2013: BGN 1 432 627 thousand).

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

	YEAR ENDED 31 DECEMBER	
	2014	**2013**
AS AT 01 JANUARY	**3 976**	**2 253**
Impairment losses	4 610	3 976
Reversal of impairment	(1 410)	(2 253)
Written-off impairment of natural gas sold	(2 566)	-
AS AT 31 DECEMBER	**4 610**	**3 976**

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 SEWRC № TS-7/25.03.2014, № TS-10/30.06.2014, № TS-15/26.09.2014 and № TS-25/19.12.2014. As a result, the value of the amount of natural gas pipeline in Romania and in gas storage Chiren was estimated to net realizable value and an impairment expense amounting to BGN 4 610 thousand (2013: BGN 3 976 thousand) is recognized for the period.

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

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 2014, a decrease in costs as a result of the reversal of impairment, which were recognized is at the amount of BGN 1 410 thousand (2013: BGN 2 253 thousand).

No inventories are provided as collateral for liabilities.

As at the date of the financial statements the Company holds in custody 12 888 971 normal cubic meters natural gas under the agreement for sale and repurchase of natural gas.

13. CASH AND CASH EQUIVALENTS

	AS AT 31 DECEMBER	
	2014	**2013**
Cash in bank accounts	547	13 365
Cash on hand	7	8
Total cash and cash equivalents	**554**	**13 373**

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	
	2014	**2013**
Cash and cash equivalents	**554**	**13 373**
Total	**554**	**13 373**

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

	AS AT 31 DECEMBER	
	2014	**2013**
Bulgarian lev (BGN)	403	10 654
US dollars (USD)	51	2 236
Euro (EUR)	97	480
British pounds (GBP)	2	1
Romanian lei (RON)	1	2
Total cash and cash equivalents	**554**	**13 373**

In 2014 cash amounting to 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 by cession agreement. Those amounts are presented as short-term other receivables (Note 11).

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

14. SHARE CAPITAL

As of 31 December 2014, 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.

Issued and authorized shares for the reporting periods can be represented as follows:

	Number of shares	Amount
AS AT 01 JANUARY 2013	**257 691 067**	**257 691**
AS AT 31 DECEMBER 2013	**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**	**51 394**
AS AT 31 DECEMBER 2014	**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 via their 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.

15. RESERVES

	Legal reserves	Revaluation reserves of non-financial assets	Reserve from remeasurement of defined benefit obligation	Total
AS AT 01 JANUARY 2013	**36 097**	**62**	**11**	**36 170**
Derecognition of reserve for written-off assets, gross	-	(6)	-	**(6)**
Other comprehensive income for the year before tax	-	-	(26)	**(26)**
Tax benefit	**-**	**-**	3	**3**
AS AT 31 DECEMBER 2013	**36 097**	**56**	**(12)**	**36 141**
Covering losses	(36 097)	-	-	(36 097)
Other comprehensive income for the year after tax	-	-	(3)	(3)
AS AT 31 DECEMBER 2014	**-**	**56**	**(15)**	**41**

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

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 share capital authorized.

In 2014 under Protocol №30-2014/27.06.2014 of the Board of Directors of BEH EAD, was decided to cover the loss from previous years amounting to BGN 98 261 thousand. The loss was covered on behalf of the reserve fund at BGN 36 097 thousand and on behalf of net current profit at BGN 62 164 thousand.

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 REMEASUREMENT OF DEFINED BENEFIT OBLIGATIONS

Amendments to IAS 19 effective from 01.01.2013 eliminate the corridor approach and calculate the financial costs and revenues on a net basis. Actuarial gains and losses are renamed and revaluation should be recognized immediately in other comprehensive income. They are not reclassified to profit or loss in subsequent periods.

16. BORROWINGS

	AS AT 31 DECEMBER	
	2014	**2013**
Current		
Related party borrowings (Note 31)	128 436	-
Financing under repurchase agreements of natural gas	7 012	60 529
Finance lease liabilities to related parties (Note 31)	-	52
Total current	**135 448**	**60 581**
Total borrowings	**135 448**	**60 581**

The Company's borrowings as at 31 December 2014 amounting to BGN 128 436 thousand include obligations to Bulgarian Energy Holding EAD.
Obligations under loans from Bulgarian Energy Holding EAD are based on the loan contract and Addendum on cession agreement. For detailed information disclosure is stated in Note 31. The loans are not secured.

Financing under repurchase agreements of natural gas amounting to BGN 7 012 thousand (2013: BGN 60 529 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.

Finance lease obligations are effectively secured by the leased assets, the rights to which will be transferred to the lessor in case of default on lease obligations.

Additional information about the minimum lease payments related to finance lease liabilities is disclosed in Note 9.

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

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

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

	AS AT 31 DECEMBER	
	2014	**2013**
Bulgarian lev (BGN)	135 448	52
US dollars (USD)	-	60 529
Total borrowings	**135 448**	**60 581**

17. TRADE AND OTHER PAYABLES

	AS AT 31 DECEMBER	
	2014	**2013**
VAT payable	101 404	29 336
Related party payables (Note 31)	75 676	58 555
Liabilities on unpaid advance for natural gas delivery	44 317	-
Trade payables	4 984	192 304
Advances received for sale of natural gas	2 837	22 553
Excise duty	457	131
Payables to employees	74	68
Liabilities to insurance companies	16	13
Other liabilities	1 833	100
Total trade and other payables	**231 598**	**303 060**
Minus non-current portion:		
- Related party payables (Note 31)	32 940	44 730
Non-current trade and other payables	**32 940**	**44 730**
Current trade and other payables	**198 658**	**258 330**

Obligations 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 on 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.

Employee obligations represent obligations to Company's employees, to be settled in 2015. They occur mainly in relation to accumulated unused leave at the end of the reporting period and amounted to BGN 74 thousand (2013: BGN 68 thousand). Obligations to insurance companies include the social security payables related to accrued unused compensation leave in the amount of BGN 16 thousand (2013: BGN 13 thousand).

Major part of other liabilities are liabilities for interest on overdue tax payables amounting to BGN 1 336 (2013: BGN 0 thousand).

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

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").

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

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	
	2014	**2013**
Present value of obligations	150	134
Liability at the end of the reporting period	**150**	**134**

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

	YEAR ENDED 31 DECEMBER	
	2014	**2013**
AS AT 01 JANUARY	**134**	**98**
Current service costs (Note 21)	8	6
Interest expenses (Note 25)	5	4
Total expenses	**13**	**10**
Remeasurements:		
-Actuarial gains from changes in demographic assumptions	(13)	(3)
-Actuarial loss from changes in financial assumptions	16	29
Total other comprehensive income	**3**	**26**
AS AT 31 DECEMBER	**150**	**134**

The main actuarial assumptions used are as follows:

	AS AT 31 DECEMBER	
	2014	**2013**
Discount rate	4%	4%
Future salaries increase	2%	2%

These assumptions were developed by management with the assistance of independent actuaries. 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.

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

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 calculation of the net defined benefit liability is sensitive to these assumptions. The following table summarises the effects of changes in these actuarial assumptions on the defined benefit liability at 31 December 2014:

AS AT 31 DECEMBER 2014	**Change in the actuarial assumptions**	**Effect on obligation in BGN**	**Change in the actuarial assumptions**	**Effect on obligation in BGN**
Discount rate	+ 0.25 %	(1 724)	– 0.25 %	1 794
Future salary increase	+ 1 %	7 713	– 1 %	(6 688)
Staff turnover	+ 1 %	(6 812)	– 1 %	6 451
Average life expectancies	+1 year	756	-1 year	(838)

The present value of the defined benefit obligation calculated with the same method (project unit credit) as the defined benefit obligation recognised in the statement of financial position. The sensitivity analyses are based on a change in one assumption while not changing all other assumptions. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in the assumptions would occur in isolation of one another as some of the assumptions may be correlated. The sensitivity of the obligation under a defined benefit plan to the changes in the major actuarial assumptions is determinated using the same method used to estimate recognized in the statement of financial position obligation. The assessment of the present value of obligations under defined benefit plan is through using the method of projected credit units.

As of 31 December 2014 the weighted average duration of the obligation to pay 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 2014	**2013**
Impairment loss accrued for the period for trade and other receivables, net (note 11)	(12 895)	(2 709)
Impairment loss accrued for the period for sold trade receivables (Note 31)	(1 142)	(1 052)
Impairment loss accrued for the period for natural gas, net (Note 12)	(3 200)	(1 723)
Total impairment losses on assets	**(17 237)**	**(5 484)**

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

20. HIRED SERVICES EXPENSES

The hired service expenses include:

	YEAR ENDED 31 DECEMBER	
	2014	**2013**
Cost of services, related to activity which is not regulated	(2 521)	(2 583)
Court fees and legal advices	(1 465)	(3 996)
Natural gas storage expenses	(1 048)	(2 532)
License fees	(812)	(1 009)
Rent	(258)	(276)
Other fees	(207)	(227)
Insurance	(151)	(231)
Management contract expenses	(79)	(967)
Communications	(77)	(83)
Remunerations of audit committee members	(40)	(41)
Subscription service	(25)	(26)
Consulting services	(3)	(8)
Total hired services expenses	**(6 686)**	**(11 979)**

21. EMPLOYEE BENEFIT EXPENSES AND SOCIAL SECURITY EXPENSES

The employee benefit expenses and social security expenses of the Company include:

	YEAR ENDED 31 DECEMBER	
	2014	**2013**
Wages, salaries	(1 859)	(1 695)
Social security expenses	(282)	(241)
Compensated leaves costs	(26)	(31)
Cost of defined retirement benefit obligations (Note 18)	(8)	(6)
Total employee benefit expenses and social security expenses	**(2 175)**	**(1 973)**

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

	YEAR ENDED 31 DECEMBER	
	2014	**2013**
Hired employees at the end of the period	49	51
Average number of hired employees throughout the year	55	49

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

22. COST OF MATERIALS

The Company's cost of materials include:

	YEAR ENDED 31 DECEMBER	
	2014	**2013**
Fuel gas	(38)	(41)
Fuel and lubricants	(32)	(32)
Stationery and consumables	(13)	(15)
Main materials	(11)	(10)
Other	(9)	(8)
Total cost of materials	**(103)**	**(106)**

23. OTHER EXPENSES

Other expenses of the company include:

	YEAR ENDED 31 DECEMBER	
	2014	**2013**
Interest on delayed payments	(6 171)	(14 812)
Business trips and entertainment expenses	(56)	(54)
Trainings	(17)	(13)
Taxes over expenses	(16)	(12)
Others	(101)	(39)
Total other expenses	**(6 361)**	**(14 930)**

24. OTHER REVENUE

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

	YEAR ENDED 31 DECEMBER	
	2014	**2013**
		Restated
Penalties on overdue receivables	7 161	10 699
Revenue from services, related to activity which is not regulated	2 521	2 583
Other	407	33
Total other revenue	**10 089**	**13 315**

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

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	
	2014	**2013**
Financial income		
Interest income on cash and cash equivalents	269	902
Interest income on long-term receivables	233	372
Interest income on deposits from related party	-	9
Finance income – interest income from financial assets carried at amortized cost	**502**	**1 283**
Exchange gain on receivables, payables and cash and cash equivalents	16 129	3 853
Total finance income	**16 631**	**5 136**
Finance costs		
Interest expense on borrowings due to related parties	(2 880)	(5 186)
Interest expense on trade payables due to related parties	(2 221)	(2 074)
Interest expense on repurchase agreements	(579)	(2 805)
Other interest expense	(4)	-
Interest expense on finance leases	(2)	(9)
Effect of discounting of financial assets	(8)	(73)
Interest expense on financial liabilities carried at amortized cost	**(5 694)**	**(10 147)**
Interest expense on tax liabilities	(2 321)	(77)
Bank charges	(34)	(47)
Interest expense on defined benefit obligations (note 18)	(5)	(4)
Total finance costs	**(8 054)**	**(10 275)**
Finance income/(costs), net	**8 577**	**(5 139)**

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

26. TAX (EXPENSE)/ INCOME

The relationship between the expected tax income/(expense) based on the applicable tax rate in Bulgaria of 10 % (2013: 10 %) and the reported tax expense actually in profit or loss can be reconciled as follows:

	YEAR ENDED 31 DECEMBER	
	2014	**2013 Restated**
Profit before tax	8 183	46 465
Tax rate	10%	10%
Expected tax expense	(818)	(4 647)
Tax effect on income tax expense on:		
Adjustments for expenses not deductible for tax purposes	(2 375)	(538)
Adjustments for income exempt from taxation	541	997
Tax loss carried forward	2 652	5 562
Recognised deferred tax asset on tax loss	-	10 684
Income taxes	**-**	**-**
Effect of the change in deferred taxes (Note 10)	(1 032)	11 136
Tax expense/ income	**(1 032)**	**11 136**
Deferred tax income (expense) recognized directly in other comprehensive income	**-**	**3**

27. NON-CASH TRANSACTIONS

In 2014 the Company entered into the following non-cash investing and financing activities which are not reflected in the statement of cash flows:

- The Company has settled its obligation under the funding contract for purchase of natural gas amounting to BGN 3 183 thousand by offsetting with its claim in which cash or cash equivalent are not used.

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 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-30-2014/06.27.2014 of the Board of Directors of BEH EAD and in compliance with Authorisation №5 Council of Ministers from 11 June 2014 and the State Budget Act for 2014, the financial result for 2013 amounts to BGN 62 164 thousand allocated to cover part of the losses of previous years.

In 2013 and 2014 Company has not paid dividends to the sole shareholder.

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

29. CONTIGENT ASSETS AND CONTIGENT LIABILITIES

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.

On 29 July 2014 , the Commission for Protection of Competition issued Decision № 1054 which states that Bulgargaz EAD has committed a violation of Art. 21 of the Law on Protection of Competition, in the form of imposing unfair trading conditions. As a result, the Commission imposed a penalty to the company amounting to BGN 23 378 thousand. Management of Bulgargaz EAD has taken all necessary legal and factual actions on the appeal of the decision to the Supreme Administrative Court (SAC). As at the date of preparation of financial statements the proceedings are pending in front of three-member panel of the SAC (first instance) and the next hearing is scheduled for 12 May 2015.

Tax authorities may initiate tax inspection revision of the Company within 5 years after the end of the financial year and may impose additional tax liabilities and penalties. 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 2014, the Company has no commitments under irrevocable operating lease agreements. Commitments and the basic conditions of lease agreements are disclosed in Note 9. Costs of operating leases are recognized in the profit or loss and other comprehensive income and presented in Note 20. Costs of operating leases do not include contingent payments.

31. RELATED PARTY TRANSACTIONS

The related parties of the Company include the sole owner BULGARIAN ENERGY HOLDING EAD and the companies that are in the structure and under common control with the sole owner and key management personnel.

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**	
	2014	**2013**
Companies under common control		
BULGARTRANSGAZ EAD	91 776	16 825
Total	**91 776**	**16 825**

(B) INTEREST INCOME	**YEAR ENDED 31DECEMBER**	
	2014	**2013**
Companies under common control		
BULGARTRANSGAZ EAD	-	9
Total	**-**	**9**

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

(C) REVENUE FROM SOLD ASSETS	**YEAR ENDED 31DECEMBER**	
	2014	**2013**
Companies under common control		
NEK EAD	1	-
Total	**1**	**-**

(D) PURCHASE OF GOODS AND SEVICES	**YEAR ENDED 31 DECEMBER**	
	2014	**2013**
Parent company		
BULGARIAN ENERGY HOLDING EAD	94	1 000
Companies under common control		
BULGARTRANSGAZ EAD	45 052	50 369
BULGARTEL EAD	22	21
Total	**45 168**	**51 390**

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

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

Purchases of services from BULGARTEL EAD include technical support.

(E) ACCRUED PENALTY CHARGES	**YEAR ENDED 31 DECEMBER**	
	2014	**2013**
Companies under common control		
BULGARIAN ENERGY HOLDING EAD	13	-
BULGARTRANSGAZ EAD	3 048	2 607
Total	**3 061**	**2 607**

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

(F) RECEIVABLES FROM SALE OF GOODS AND SERVICES	**YEAR ENDED 31 DECEMBER**	
	2014	**2013**
Companies under common control		
BULGARTRANSGAZ EAD	-	425
Total	**-**	**425**

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

(G) PAYABLES FOR PURCHASES OF GOODS AND SERVICES	**YEAR ENDED 31 DECEMBER**	
	2014	**2013**
NON-CURRENT		
Companies under common control		
BULGARTRANSGAZ EAD	32 940	44 730
Total non-current	**32 940**	**44 730**
CURRENT		
Parent company		
BULGARIAN ENERGY HOLDING EAD	138	86
Companies under common control		
BULGARTRANSGAZ EAD	42 596	13 739
BULGARTEL EAD	2	-
Total current	**42 736**	**13 825**
Total	**75 676**	**58 555**

Trade payables of the Company to BULGARTRANSGAZ EAD are related to transmission and storage of natural gas.
As at 31 December 2014 the Company has 3 agreements for reschedule of overdue trade payables, related to transmission and storage of natural gas.

Obligations are extinguished periodic payments in accordance with the repayment schedules concluded as follows:

- Agreement 1 – start date from 1 January 2015 to 31 December 2018. From the signing date of the agreement (15 March 2013) until the date of final payment, the company owes annual interest rate of BIR + 3, 5%, based on 365 days.
- Agreement 2 – start date from 11 May 2012 until 31 March 2016. From the signing date of the agreement (11 May 2012) until the date of final payment, the company owes annual interest rate of 5%, based on 365 days.
- Agreement 3 – start date from 30 June 2014 until 31 December 2014. From the signing date of the agreement until the date of final payment, The Company owes annual interest rate of 4%, based on 365 days. As at 31 December 2014 the Company has not repaid the last instalment according to this agreement.

As at 31 December 2014 the long-term portion of rescheduled trade payables is estimated to BGN 32 940 thousand (31 December 2013: BGN 44 730 thousand) and the short-term part to BGN 16 670 thousand principal (31 December 2013: BGN 7 920 thousand) and BGN 165 thousand interest. 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 25 761 thousand.

(H) BORROWINGS DUE TO RELATED PARTIES

Borrowing due to the parent company	**YEAR ENDED 31 DECEMBER**	
	2014	**2013**
AS AT 01 JANUARY	**-**	**116 457**
Amounts received	140 593	-
Paid (settled under cession agreement)	(15 000)	(100 000)
Accrued interest and penalties in the Statement of profit and loss and other comprehensive income	2 880	5 186
Payments of interest and penalties (settled under cession agreement)	(37)	(21 643)
AS AT 31 DECEMBER	**128 436**	**-**

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

In 2013 the borrowings of BULGARGAZ EAD from BULGARIAN ENERGY HOLDING under loan agreement № 219/БГ signed on 11 September 2008 were settled.

On July 8, 2013, under a cession agreement between BULGARIAN ENERGY HOLDING EAD and the Company, an unconditional offsetting of Company's receivables from TOPLOFIKACIA SOFIA EAD with Company's payables to BULGARIAN ENERGY HOLDING EAD, is committed.

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 repaid 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 2014 and finish on 30 November 2015.. The loan is unsecured.

As at 31 December 2014 the outstanding balance is BGN 47 167 thousand, which includes BGN 47 000 thousand – principal and BGN 167 thousand accumulated interest.

The rest of the payables due to BULGARIAN ENERGY HOLDING amounting to BGN 81 269 thousand is related to an Annex to Contract for the sale of receivables № БГ 432/32-2014-BEH signed on 26.03.2014 (cession agreement).

In regard to the above mentioned annex, the Company is obliged to repay part of the amount to the parent company. This obligation is also subject to the settlement of the relations between BULGARGAZ EAD and TOPLOIFKACIA SOFIA. The obligation is transferred to loan, which at 31.12.2014 includes principal of BGN 78 593 thousand and interest of BGN 2 676 thousand. Annual interest rate agreed is 4.49%. The maturity date is in 2015. The loan is unsecured.

(I) FINANCIAL LEASE LIABILITIES

	YEAR ENDED 31 DECEMBER	
	2014	**2013**
AS AT 01 JANUARY	**52**	**139**
Paid amounts	(52)	(63)
Written off payables for a principal and interest on a returned car	-	(25)
Accrued interest expense in the Statement of profit and loss and other comprehensive income	2	9
Interest paid	(2)	(8)
AS AT 31 DECEMBER	**-**	**52**
Current finance lease liabilities	**-**	**52**

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

(J) 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	
	2014	**2013**
Short term benefits to key management personnel		
- Remunerations	(110)	(123)
- Social security costs	(12)	(11)
Total	**(122)**	**(134)**

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 adjusting or non-adjusting events have occurred after the end of the current reporting period that have effect on the annual financial statements as at 31 December 2014, except for the establishment of selling prices of natural gas for the first quarter of 2015, applicable for ultimate consumers connected to the transmission network.

The State Commission for Energy and Water Regulation approved the selling prices of natural gas for the first quarter of 2015, as follows: BGN 603,14 per 1000 cubic meters without excise duty and VAT and BGN 610,86 per 1000 cubic meters without excise duty and VAT (for customers connected to the low pressure networks).

With a decision № 61-2014/23.12.2014 issued on 23 December 2014 by Bulgarian Energy Holding EAD Iliyan Dukov was voted member of Board of Directors. This circumstance was published in the Commerce register on 06 January 2015.

With a decision № 164/02.02.2015 issued on 2 February 2015 by Board of Directors of Bulgargaz EAD Mr. Petyo Ivanov was voted Executive director of the Company. This circumstance was published in the Commerce register on 10 February 2015.

33. AUTHORIZATION OF THE FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2014 (including comparatives) were approved by the Board of Directors on 24 April 2015.

Grant Thornton

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INDEPENDENT AUDITOR'S REPORT

To: The sole owner of Bulgargaz EAD
Sofia

Report on the Financial Statements

We have audited the accompanying financial statements of **Bulgargaz EAD**, which comprise the statement of financial position as of 31 December 2014, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by EU and Bulgarian legislation 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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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:

Basis for Qualified Opinion

As disclosed in Note 11 "Trade and other receivables", as at 31 December 2014 the Company has restricted cash in Corporate Commercial Bank AD, presented with a carrying amount of BGN 5 052 thousand and receivables on cession agreement with a carrying amount of BGN 12 386 thousand. Due to the uncertainty regarding the future development of the Corporate Commercial Bank AD and possible effects on the Company's operations, we were not able to ensure a sufficient degree of certainty when and in what amount cash deposited in Corporate Commercial Bank AD, as well as claims subject of cession agreement, will be available and reimbursed to the Company.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for qualified opinion" paragraph, the financial statements give a true and fair view of the financial position of **Bulgargaz EAD** as of 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by EU and Bulgarian legislation.

Emphasis of matter

We draw attention to Note 3.1.2 "Credit risk" where disclosed the carrying amount of trade receivables from Toplofikacia Sofia EAD of BGN 191 513 thousand. As at the date of preparation of the financial statements, the parties are in a process of negotiating their balances, taking into account the cession agreement signed with the Bulgarian Energy Holding EAD (BEH EAD) on 17 March 2015. As a result, the signing of a supplementary agreement between two companies is expected. This could affect the balances between both parties as to the date of the financial statements and in the future.

We draw attention to note 29 "Contingent assets and contingent liabilities" where disclosed that in accordance with Decision № 1054 of 29 July 2014 issued by the Commission for Protection of Competition, was imposed a penalty to Bulgargaz EAD amounting to BGN 23 378 thousand for violation of Art. 21 of the Law on Protection of Competition. The Company's management has taken the necessary legal and factual actions to appeal against the Decision in front of Supreme Administrative Court. As at the date of preparation of financial statements, legal proceedings are pending.

Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements – Management's report for the year ended 31 December 2014

We have reviewed the management's report for the year ended 31 December 2014 of **Bulgargaz EAD**, which is not part of the financial statements. The historical financial information in the management's report complies in its main aspects with the financial information, presented in the financial statements for the year ended 31 December 2014, prepared in accordance with International Financial Reporting Standards, as adopted by EU and Bulgarian legislation. The preparation of the management's report is responsibility of the management.

Mariy Apostolov
Registered auditor responsible for the audit

Managing partner

Grant Thornton Ltd.
Auditing Company

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №032
"Грант - Торнтон" ООД

27 April 2015
Bulgaria, Sofia