

BULGARGAZ EAD

INTERIM MANAGEMENT REPORT

INTERIM CONDENSED FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

30 JUNE 2018

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This Company Management Report for the first half of year 2018 presents interim financial statements' comments and analysis and other important information as regards to the financial position and results of Bulgargaz EAD's activity, comprising the period, 1st January, 2018 – 30th June, 2018.

This report has been made pursuant to Article 39 of the Accountancy Act, Article 187д, Article 247, Paragraph 1, 2 and 3 of the Commercial Act and Article 100(o), Paragraph 4, item 3 of the Public Offering of Securities Act.

I. COMPANY OVERVIEW

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

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

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

OWNERSHIP AND MANAGEMENT

Bulgargaz EAD is a sole shareholder joint stock company within the organizational structure of Bulgarian Energy Holding EAD (BEH). The registered share capital is distributed into 231 698 584 registered shares. The total amount of the Company share capital is subscribed and entirely paid in by the Bulgarian Energy Holding EAD. All shares are with a nominal value of BGN 1. The Company shares are ordinary, registered, unprivileged and voting shares. The sole owner of the Bulgargaz EAD share capital is Bulgarian Energy Holding EAD and the latter is 100% owned by the State. A share gives one voting right in the General Meeting of the Shareholders, a dividend right and a liquidation share that are equal to the nominal value of the share.

COMPANY STRUCTURE

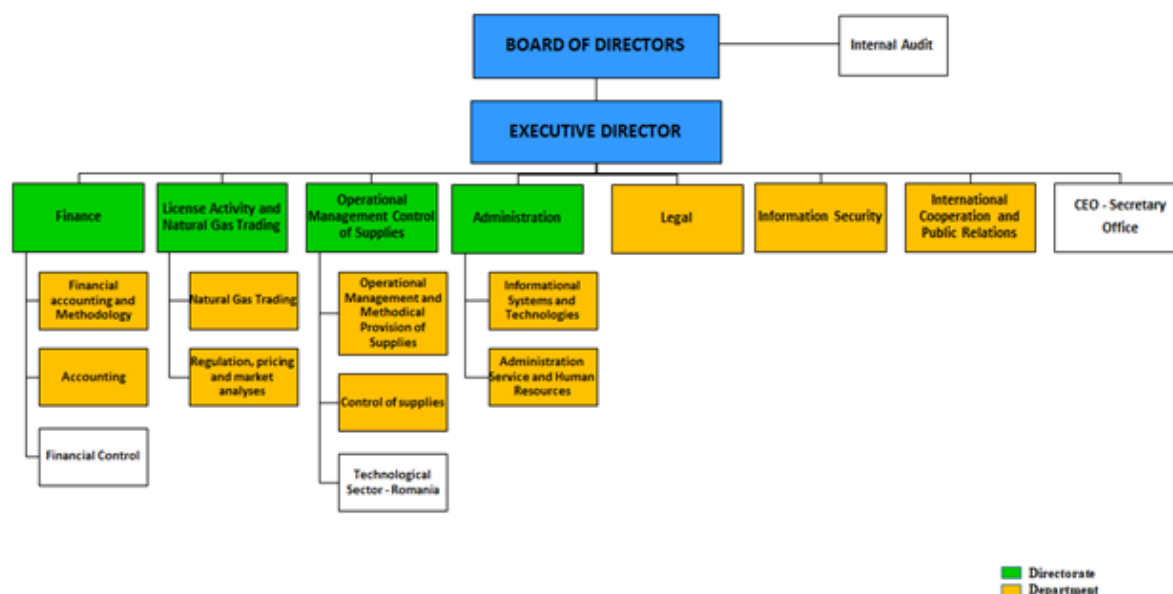
Bulgargaz EAD has one-tier system of management. The Company management bodies are:

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

On 22nd May, 2017, in the Commercial Register a Decision of BEH EAD's BoD was registered, for appointing of a new CEO of and a new BoD, respectively, comprising as follows:

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

BULGARGAZ EAD'S ORGANISATIONAL STRUCTURE



MANAGEMENT RESPONSIBILITY

The Management confirms that adequate accounting policy is applied during preparation of the Financial Statements for the first half of year 2018, and that the latter are prepared based on a going concern principle.

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

INFORMATION ABOUT BoD REMUNERATION UNDER MANAGEMENT AND CONTROL CONTRACTS

During the first half of year 2018 and the first half of year 2017, the BoD members received remuneration, as follows:

In thousand BGN

	As of 30 th June, 2018	As of 30 th June, 2017
BoD remunerations	97	86
Social security expenses	10	7
Compensation	-	3
Total:	107	96

INFORMATION ABOUT COMPANY SHARES' ACQUISITION AND OWNERSHIP BY BoD MEMBERS

BoD members do not own Company shares. There are no privileges and exclusive rights regarding shares and bonds acquisition foreseen for BoD members. BEH owns 100% of the shares.

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

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

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

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

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

Nikolay Angelov Pavlov – CEO, Member of the BoD from 19.02.2016:

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

INFORMATION ABOUT CONTRACTS UNDER ARTICLE 2406 OF THE COMMERCIAL ACT CONCLUDED DURING THE PERIOD

During the first half of year 2018, the BoD members or other related persons thereof had not concluded any contracts with the Company that were beyond its usual activity or significantly divert from the market conditions.

II. COMPANY ACTIVITY RESULTS FOR THE FIRST HALF OF YEAR 2018

During the first half of year 2018, Bulgargaz EAD carries out its activities in compliance with the regulations. The Company activity results represent a financial profit, after taxes amounting to BGN 2 428 thousand (as at 30th June, 2017: loss amounting to BGN 14 503 thousand).

GENERAL FACTORS AFFECTING COMPANY'S ACTIVITIES

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

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

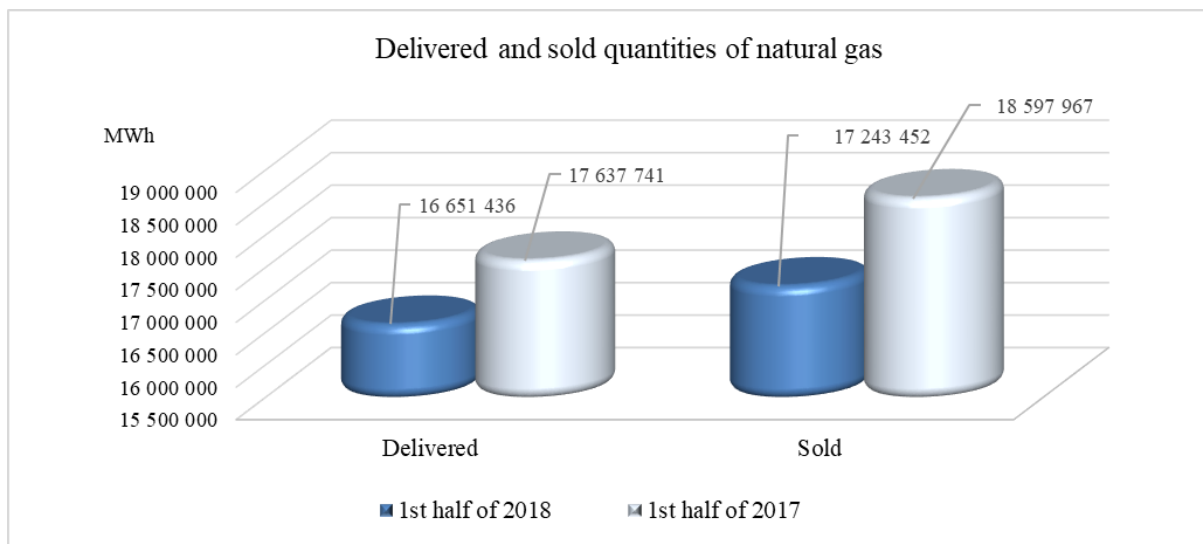
1. QUANTITATIVE INDICATORS IMPLEMENTATION

DELIVERED AND SOLD NATURAL GAS VOLUMES

The natural gas deliveries, securing needs of the Company's clients, during the reporting period, are carried out through long-term contracts. The natural gas volumes delivered and sold during the first half of year 2018, compared to 2017, are presented in Table 1:

Table No. 1:

Type of delivery	Unit	1 st half of year 2018	1 st half of year 2017	Volume change	% Change
Delivered	MWh	16 651 436	17 637 741	(986 305)	(5.59%)
Sold	MWh	17 243 452	18 597 967	(1 354 515)	(7.28%)



During the reporting period, deliveries totalled 16 651 436 MWh natural gas (1st half of 2017: 17 637 741 MWh), which is a decrease of 986 305 MWh, or 5.59%.

During the 1st half of year 2018, 17 243 452 MWh natural gas was sold, compared to 18 597 967 MWh during the first half of 2017, which is a decrease of 1 354 515 MWh, or 7.28%. The decrease is mainly due to the lower consumption of customers in the Chemistry, Energy and Construction materials sectors.

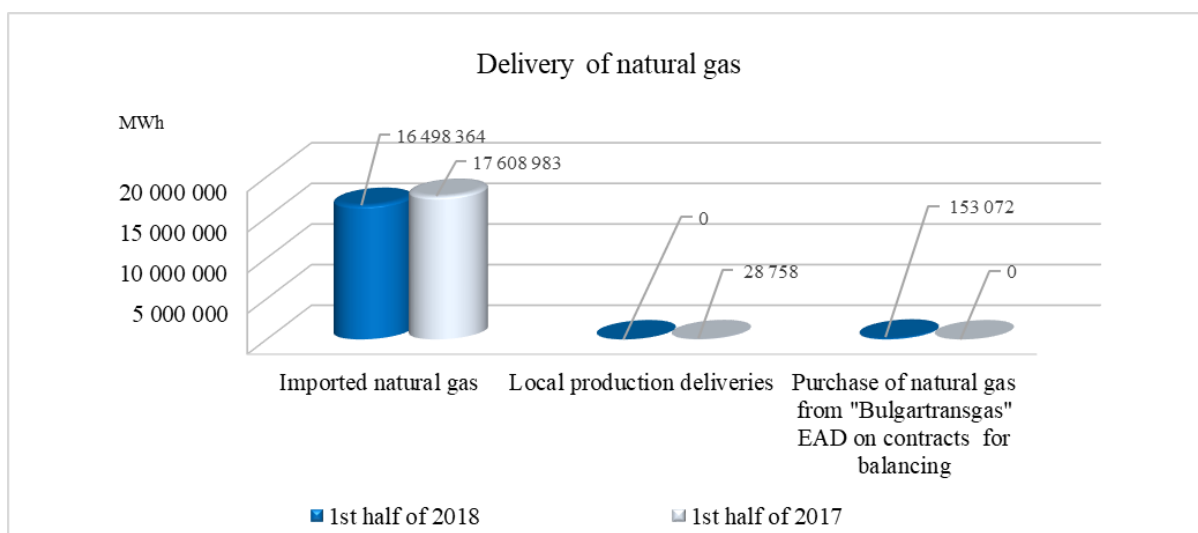
1.1. DELIVERED NATURAL GAS VOLUMES

The delivered natural gas volumes for the first half of 2018 and the first half of 2017 are presented in Table 2.

Table No. 2:

MWh

No	Type of delivery	1 st half of 2018	1 st half of 2017	Relative Share		% Change
				1 st half of 2018	1 st half of 2017	
1	Imported natural gas	16 498 364	17 608 983	99.08%	99.84%	(6.31%)
2	Local production deliveries	-	28 758	-	0,16%	(100%)
3	Purchase of natural gas from Bulgartransgaz EAD on contracts for balancing	153 072	-	0,92%	-	-
	Total:	16 651 436	17 637 741	100%	100%	(5.59%)



To ensure the needs of natural gas to its customers, during the first half of 2018 Bulgargaz EAD imported 16 498 364 MWh of natural gas, which is 99.08% of the total supply, as well as the purchase of natural gas from Bulgartransgaz EAD under contracts for balancing the system – 153 072 MWh.

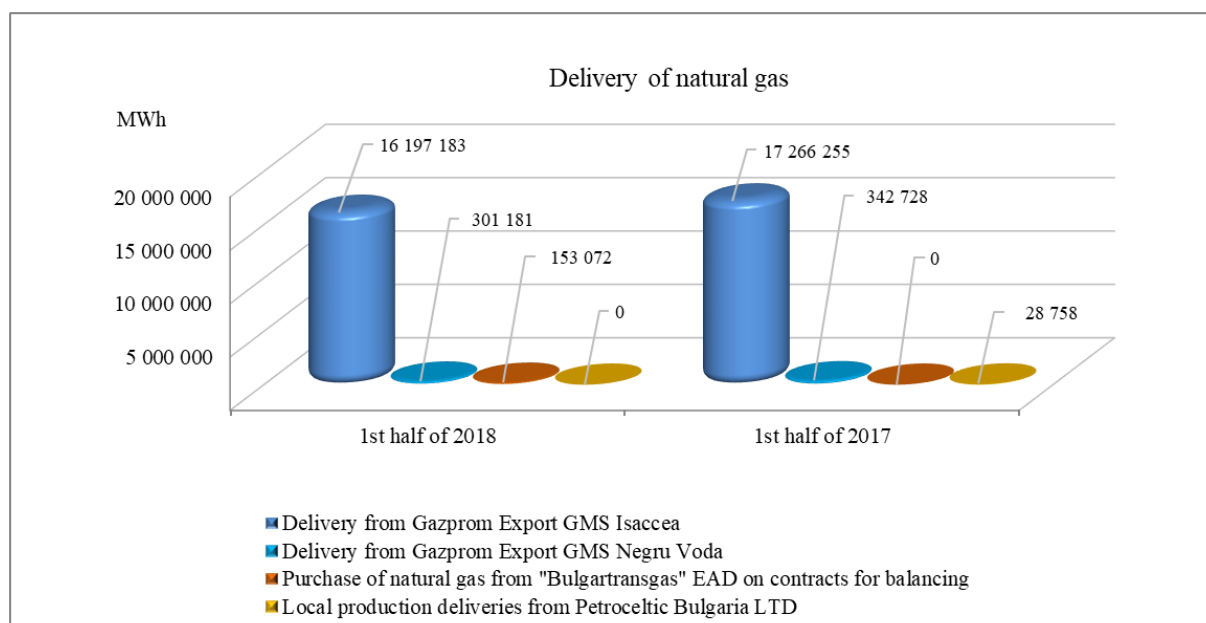
In March 2018, the amount of natural gas, subject to a contract with “D Commerce Bank” AD for the purchase and sale with repurchase concluded at the end of 2017, has been repurchased.

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

Table No.3:

MWh

No	Type of delivery	1 st half of 2018	1 st half of 2017	Relative share		Change (%)
				1 st half of 2018	1 st half of 2017	
1	Imported natural gas	16 498 364	17 608 983	99.08%	99.84%	(6.31%)
1.1.	Gazprom Export:	16 498 364	17 608 983	99.08%	99.84%	(6.31%)
1.1.1	GMS Isaccea	16 197 183	17 266 255	97.27%	97.90%	(6.19%)
1.1.2	GMS Negru Voda	301 181	342 728	1.81%	1.94%	(12.12%)
2	Local production deliveries	-	28 758	-	0.16%	(100%)
2.1.	Petroceltic Bulgaria EOOD	-	28 758	-	0.16%	(100%)
3	Purchase of natural gas from Bulgartransgaz EAD on contracts for balancing	153 072	-	0.92%	-	100%
	Total	16 651 436	17 637 741	100%	100%	(5.59%)



During the first half of 2018, Bulgargaz EAD purchased the necessary natural gas volumes from import via a long term contract with OOO Gazprom Export.

During the first half of 2018, there are no natural gas volumes purchased from Petroceltic Bulgaria EOOD (30.06.2017: 28 758 MWh).

1.2 NATURAL GAS PRODUCTION AND INJECTION

Natural gas volumes produced in UGS Chiren during the first half of 2018 and 2017 are represented in Table No. 4.

Table No. 4:

MWh

Period	1 st half of year 2018		1 st half of year 2017			Change Production		Change Injection	
	Production	Injection	Production	Sales to Kostinbrod Gas	Injection	MWh	%	MWh	%
Jan	955 710	-	949 050	-	-	6 660	0.70%	-	-
Feb	764 090	-	738 150	-	-	25 940	3.51%	-	-
Mar	510 190	-	527 250	-	-	(17 060)	(3.24%)	-	-
Apr	-	263 225	-	-	178 322	-	-	84 903	47.61%
May	-	547 508	-	-	542 268	-	-	5 240	0.97%
Jun	-	875 899	-	17 891	653 170	-	-	222 729	34.10%
Total	2 229 990	1 686 632	2 214 450	17 891	1 373 760	15 540	0.70%	312 872	22.77%

The production of natural gas in the first half of 2018 is 2 229 990 MWh (2017: 2 214 450 MWh), which is an increase of 15 540 MWh (by 0.70%), due to the application by Bulgartransgaz EAD of a different coefficient for recalculation of produced quantities from volume into energy.

2. NATURAL GAS SALES

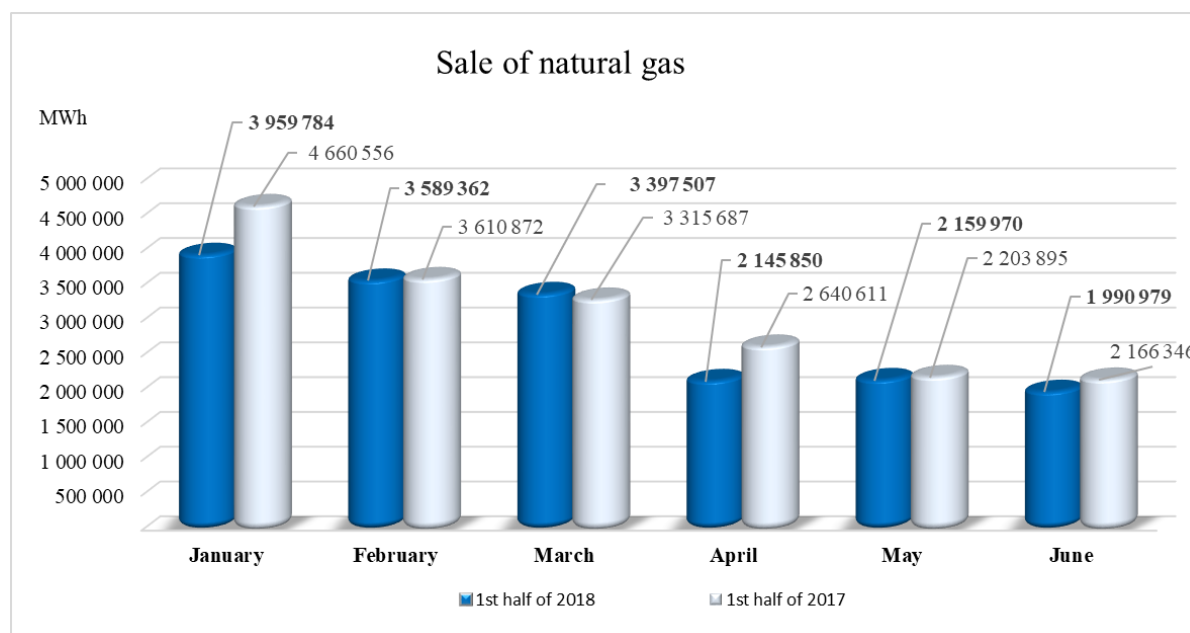
2.1. GENERAL CONSUMPTION

Bulgargaz EAD's ensures reliable supply of natural gas to its customers, in accordance with the quantity and quality contractual requirements. During the first half of 2018, the Company sold 17 243 452 MWh natural gas (during the first half of 2017: 18 597 967 MWh), which is a decrease of 1 354 515 MWh, or 7.28% than the gas sold during the same period in the preceding year. The decrease is due to the lower consumption of companies in the Energy, Chemistry and Construction materials sectors.

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

Table No. 5:

Reporting period	1 st half of 2018		1 st half of 2017		Change 2018/ 2017	
	MWh	Share in %	MWh	Share in %	MWh	%
January	3 959 784	22.96%	4 660 556	25.10%	(700 772)	(15.04%)
February	3 589 362	20.82%	3 610 872	19.40%	(21 510)	(0.60%)
March	3 397 507	19.70%	3 315 687	17.80%	81 820	2.47%
April	2 145 850	12.44%	2 640 611	14.20%	(494 761)	(18.74%)
May	2 159 970	12.53%	2 203 895	11.90%	(43 925)	(1.99%)
June	1 990 979	11.55%	2 166 346	11.60%	(175 367)	(8.10%)
Total	17 243 452	100%	18 597 967	100%	(1 354 515)	(7.28%)



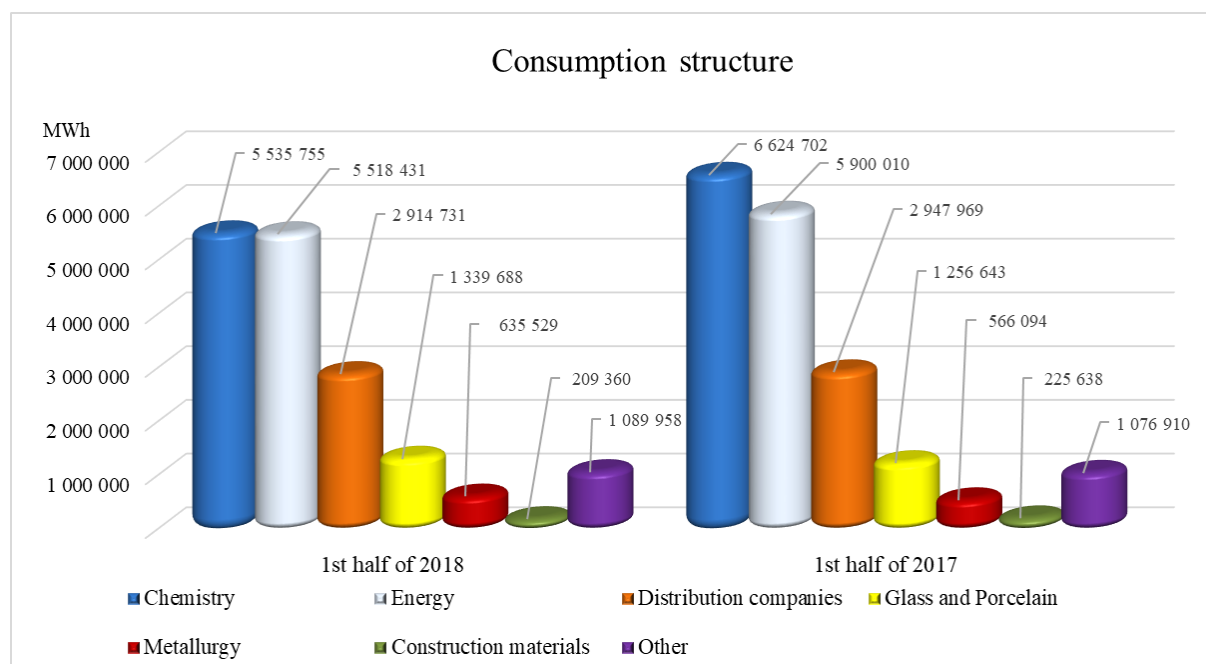
2.2. CONSUMPTION STRUCTURE

A comparison of the natural gas sales to the Company's clients in the first half of 2018 and 2017, allocated by main industry sectors, is presented in Table No. 6.

Table No. 6:

Sector	1 st half of 2018		1 st half of 2017		Change	
	MWh	Share in %	MWh	Share in %	MWh	Share in %
Chemistry	5 535 755	32.10%	6 624 702	35.62%	(1 088 947)	(16.44%)
Energy	5 518 431	32.00%	5 900 010	31.72%	(381 579)	(6.47%)
Metallurgy	635 529	3.69%	566 094	3.04%	69 435	12.27%
Construction materials	209 360	1.22%	225 638	1.21%	(16 278)	(7.21%)
Glass and Porcelain	1 339 688	7.77%	1 256 643	6.76%	83 045	6.61%
Distribution companies	2 914 731	16.90%	2 947 969	15.86%	(33 238)	(1.13%)
Other	1 089 958	6.32%	1 076 911	5.79%	13 047	1.21%
Total	17 243 452	100%	18 597 967	100%	(1 354 515)	(7.28%)

For the period January-June 2018 compared to the same period of 2017, sales decreased by 1 354 515 MWh (or by 7.28%). This is due to the decreased consumption of customers in the Energy, Chemistry and Construction materials sectors, due to the decrease in the consumption by district heating companies in the period January - March 2018 as a result of higher temperatures during the same period in 2017 as well as failure events to large consumers in the chemical industry.



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

- ✓ the major consumers of natural gas remain the companies in the field of chemical and energy industries and the gas distribution companies;
- ✓ the highest decrease in natural gas consumption is observed in the enterprises in the Energy and Chemistry industries.

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

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

Table No. 7

Period	Weighted average delivery price up to the entry of gas transmission system (BGN/MWh)	Weighted average sale price excluding access and transmission fee (BGN/MWh)	Change	
			BGN	BGN
First quarter of 2018	31.83	33.40	1.57	4.92%
Second quarter of 2018	35.27	34.07	(1.20)	(3.40%)
First half of 2018	33.47	33.64	0.17	0.51%
First half of 2017	30.86	29.51	(1.35)	(4.37%)

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

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

III. RISK FACTORS

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

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

REGULATORY/ PRICE RISK

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

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

CURRENCY RISK

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

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

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

CREDIT RISK

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

LIQUIDITY RISK

Liquidity risk occurs when the Company is not able to meet its current financial obligations and commitments. They are presented in short term liabilities of the Company, namely payment liabilities for transmission and storage, liabilities towards the State in the form of taxes and excise duties, liabilities under commercial loans and regular payments related to operational activity. Short term liabilities require a careful planning of all cash inflows and outflows, based on monthly forecasts.

IV. PROSPECTS AND DEVELOPMENT

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

STRATEGIC OBJECTIVES

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

- In order to achieve the objectives, the Company endeavors to provide alternative sources and routes for the supply of natural gas that will increase the geographic supply portfolio and help to increase the security and reliability of gas supply. At present, the supply of natural gas from import is still made from a single entry point, while the extraction of gas from local deposits in the country is scarce. The same can be extremely risky, given the conflict between Ukraine and the Russian Federation;
- Maintaining continuous financial stability and increasing the economic efficiency of the Company's activity;
- Entering the gas market of neighboring countries.

OPERATIONAL OBJECTIVES:

- Maintaining Company's financial stability;

- Development and implementation of a uniform automatic system for operational monitoring of import, consumption and balance of natural gas;
- Providing more flexible customer services in connection with changes in the Natural Gas Trading Rules and the Balancing Rules.

In the short-run, Company's major objective is securing Bulgargaz EAD financial stability in a situation of market uncertainty in Bulgaria and higher inter-company indebtedness. The Company is optimising its cash flow position by increasing Company's receivables collection from clients, receivables' sale to third parties, as well as funds securing in the form of loan.

V. FINANCIAL AND ECONOMIC STATUS

The financial and economic status of Bulgargaz EAD has been examined and analyzed on the basis of prepared financial and accounting statements: condensed statement of profit or loss and other comprehensive income and condensed cash flows statement for the first half of 2018 compared to the same period in 2017, as well as a condensed statement of the financial position of the Company as at 30/06/2018, compared with the previous period as at 31/12/2017.

MAIN FINANCIAL INDICATORS

The main financial and economic results from the activity of the Company for the first half of 2018 and the first half of 2017 are presented below:

In thousand BGN

Indicators	30/06/2018	30/06/2017	Change	Change (%)
Total revenues	635 689	588 873	46 816	7.95%
Total expenses	(630 412)	(589 818)	(40 594)	6.88%
EBITDA	5 369	(872)	6 241	715.71%
EBIT	5 277	(945)	6 222	658.41%
EBT	2 698	(14 460)	17 158	118.66%

In thousand BGN

Indicators	30/06/2018	31/12/2017	Change	Change (%)
Non-current fixed assets	83	90	(7)	(7.78%)
Total assets	284 898	329 164	(44 266)	(13.45%)
Current assets	268 024	313 945	(45 921)	(14.63%)
Current liabilities	39 037	73 104	(34 067)	(46.60%)
Cash	433	2 145	(1 712)	(79.81%)
Working capital	228 987	240 841	(11 854)	(4.92%)
Equity	245 809	247 640	(1 831)	(0.74%)
Share capital	231 698	231 698	-	-
Reserves	7 422	6 474	948	14.64%
Retained profit	4 261	2	4 259	212950.00%
Profit/(loss) for current period	2 428	9 466	(7 038)	(74.35%)
Number of personnel	54	54	-	-

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE

INCOME

In thousands BGN

	30/06/2018		30/06/2017		Change	
		%		%		%
Revenues	635 689	100%	588 873	100%	46 816	7.95%
Revenues from sale of natural gas	626 732	98.59%	579 934	98.48%	46 798	8.07%
Other income	8 957	1.41%	8 939	1.52%	18	0.20%
- penalties under overdue receivables/liabilities	7 644	1.20%	6 745	1.15%	899	13.33%
- sanctions for 105% volume	907	0.14%	1 829	0.31%	(922)	(50.41%)
- penalties for volumes not taken under Art.7.4 and 7.5	405	0.07%	256	0.04%	149	58.20%
- other income	1	-	109	0.02%	(108)	(99%)
Expenses as per economic elements	(630 412)	100%	(589 818)	100%	(40 594)	6.88%
Cost of sold natural gas	(609 691)	96.71%	(586 610)	99.46%	(23 081)	3.93%
Recovered/ (accrued) impairment	(16 768)	2.66%	142	(0.02%)	(16 910)	(11908.45 %)
- recovered/ (accrued) impairment of receivables	(16 768)	2.66%	142	(0.02%)	(16 910)	(11908.45 %)
Costs of materials	(38)	0.01%	(42)	0.01%	4	(9.52%)
-fuel gas	(14)	0.00%	(16)	0.00%	2	(12.50%)
-main materials	(1)	0.00%	(4)	0.00%	3	(75.00%)
- fuels and lubricants	(11)	0.00%	(10)	0.00%	(1)	10.00%
- stationary and consumables	(7)	0.00%	(6)	0.00%	(1)	16.67%
- sanitary materials	(3)	0.00%	(2)	0.00%	(1)	50.00%
- advertising materials	-	-	(2)	0.00%	2	(100%)
- other materials	(2)	0.00%	(2)	0.00%	-	-
Hired services costs	(2 271)	0.36%	(1 955)	0.33%	(316)	16.16%
- natural gas storage costs	(1 111)	0.18%	(1 045)	0.18%	(66)	6.32%
- expenses on management contracts	(46)	0.01%	(82)	0.01%	36	(43.90%)
- license fees	(292)	0.05%	(262)	0.04%	(30)	11.45%
- insurances	(51)	0.01%	(43)	0.01%	(8)	18.60%
- rents	(127)	0.02%	(120)	0.02%	(7)	5.83%
- court charges and expenditures	(459)	0.07%	(235)	0.04%	(224)	95.32%
- communications	(45)	0.01%	(47)	0.01%	2	(4.26%)
- audit committee remuneration	(35)	0.01%	(28)	0.00%	(7)	25%
- consulting and audit services	(27)	0.00%	(29)	0.00%	2	(6.90%)
- repair and technical maintenance	(7)	0.00%	(5)	0.00%	(2)	40%
- building maintenance	(3)	0.00%	-	-	(3)	-
- public utilities	(11)	0.00%	(11)	0.00%	-	-
- subscription service	(13)	0.00%	(11)	0.00%	(2)	18.18%
- parking and other vehicle expenses	(10)	0.00%	(9)	0.00%	(1)	11.11%
- translation services	(2)	0.00%	(1)	0.00%	(1)	100%
- security	(23)	0.00%	(20)	0.00%	(3)	15%
- labour medicine service	(1)	0.00%	(1)	0.00%	-	-
- EWRC's fee – price approval	(2)	0.00%	(2)	0.00%	-	-
- other charges	(6)	0.00%	(4)	0.00%	(2)	50%
Depreciation/amortization expenses	(92)	0.01%	(73)	0.01%	(19)	26.03%
Employee benefit expenses	(1 418)	0.22%	(1 249)	0.21%	(169)	13.53%
- remuneration expenses	(1 246)	0.20%	(1 083)	0.18%	(163)	15.05%
- social security expenses	(172)	0.02%	(166)	0.03%	(6)	3.61%
Other expenses	(134)	0.02%	(31)	0.01%	(103)	332.26%
- penalties for overdue payments	(103)	0.02%	-	-	(103)	-
- business trips and representation expenses	(13)	0.00%	(18)	0.00%	5	(27.78%)
- training	(3)	0.00%	(1)	0.00%	(2)	200%

	30/06/2018		30/06/2017		Change	
		%		%		%
- one-off taxes	(7)	0.00%	(4)	0.00%	(3)	75%
- membership fees	(3)	0.00%	(2)	0.00%	(1)	50%
- others	(5)	0.00%	(6)	0.00%	1	(16.67%)
Profit/ (loss) from operating activity	5 277		(945)		6 222	658.41%
Net financial income / (costs)	(2 579)		(13 515)		10 936	(80.92%)
Financial income	12	100%	1	100%	11	1100%
- interest income on long-term receivables	12	0.00%	1	0.00%	11	1100%
Financial costs	(2 591)	100%	(13 516)	100%	10 925	(80.83%)
- interest expenses under trade payables to related parties	(384)	(0.06%)	(668)	(0.11%)	284	(42.51%)
- interest expenses under repurchase agreements	(61)	(0.01%)	-	-	(61)	-
- loss from foreign exchange rate differences	(2 115)	(0.33%)	(12 843)	(2.18%)	10 728	(83.53%)
- bank charges	(31)	(0.00%)	(5)	(0.00%)	(26)	520%
Profit/ (loss) before tax	2 698		(14 460)		17 158	118.66%
Income Tax (expense)/ revenue	(270)	(0.04%)	(43)	(0.01%)	(227)	527.91%
Net profit/ (loss) for the period	2 428		(14 503)		16 931	(116.74%)

REVENUE

In the first half of 2018, the Company sold 17 243 452 MWh of natural gas, amounting to BGN 626 732 thousand (in the first half of 2017: 18 597 967 MWh, BGN 579 934 thousand). The net revenue from natural gas sales for the first half of 2018 amounts to BGN 17 041 thousand (in the first half of 2017: loss of BGN 6 676 thousand), which is an increase amounting to BGN 10 365 thousand. In the first half of 2018, there is a positive difference between natural gas average weighted sale price and average weighted delivery price, amounting to BGN 0.17, while in 2017 the difference is a negative one amounting to BGN 1.35 (*Table 7*).

EXPENSES

Expenses as per economic types include: cost of natural gas sold, impairment expenses, material costs, hired services expenses, depreciation/amortization expenses, labour remunerations expenses, social security and allowances expenses, etc. In the first half of 2018 they amounted to BGN 630 412 thousand (in the first half of 2017: BGN 589 818 thousand), which is an increase of BGN 40 594 thousand, or 6.88%.

The largest relative share in the total expenses represents the cost of natural gas sold for the first half of 2018 amounting to BGN 609 691 thousand (first half of 2017: BGN 586 610 thousand). In the first half of 2018 compared to 2017, the cost of natural gas as sold is 3.93% higher.

In the first half of 2018, the cost of impairment of receivables amounted to BGN 16 768 thousand (first half of 2017: reintegrated impairment of BGN 142 thousand).

Hired services costs in the first half of 2018 amounted to BGN 2 271 thousand (in the first half of 2017: BGN 1 955 thousand), which is an increase of BGN 316 thousand, or 16.16%. This is due to an increase in the costs of court fees and expenses and the costs of natural gas storage.

In the first half of 2018 the other expenses amounted to BGN 134 thousand (in the first half of 2017: BGN 31 thousand), which is an increase of BGN 103 thousand. This is due to penalty expenses for delayed payments on a dividend due in 2016 to Bulgarian Energy Holding EAD. Cost of business trips and representation expenses have been optimized.

The operating result is positive, amounting to BGN 5 277 thousand for the first half of 2018 (first half of 2017: negative of BGN 945 thousand).

The net result of financial income and expenses for the first half of 2018 is negative at the amount of BGN 2 579 thousand (first half of 2017: negative BGN 13 515 thousand), which represents an increase of BGN 10 936 thousand.

During the reporting period there is a decrease in interest expense on trade payables to related parties by BGN 284 thousand.

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

After reflecting the financial revenues and expenditures for the first half of 2018, the financial result before tax is a profit of BGN 2 698 thousand (first half of 2017: a loss of BGN 14 460 thousand), which is an increase of BGN 17 158 thousand.

CONDENSED STATEMENT ON FINANCIAL POSITION

As at 30th June, 2018, the Company's total assets amounted to BGN 284 898 thousand (as at 31st December, 2017: BGN 329 164 thousand). Changes in the structure of the assets for the period are presented in the table below.

In thousand BGN

	30/06/2018		31/12/2017		Change	
		%		%		%
Assets						
Non-current assets						
Plant and equipment	83	0.49%	90	0.59%	(7)	(7,78%)
Intangible assets	174	1.03%	189	1,24%	(15)	(7,94%)
Deferred tax assets	16 617	98.48%	14 940	98,17%	1 677	11,22%
Total non-current assets	16 874	100%	15 219	100%	1 655	10,87%
Current assets						
Inventories	63 310	23.62%	75 994	24.21%	(12 684)	(16.69%)
- natural gas	63 290	23.61%	75 974	24.20%	(12 684)	(16.70%)
- materials	20	0.01%	20	0.01%	-	0.00%
Trade and other receivables	204 281	76.22%	235 806	75.11%	(31 525)	(13.37%)
-trade receivables from natural gas sales	114 835	42.85%	153 736	48.97%	(38 901)	(25.30%)
- court and awarded receivables	241	0.09%	160	0.05%	81	50.63%
- court Corporate Commercial Bank AD	561	0.21%	561	0.18%	-	0.00%
- prepaid advances for supply of natural gas	56 334	21.02%	68 492	21.82%	(12 158)	(17.75%)
- receivables from related parties (deposits and guarantees)	7 848	2.93%	10 826	3.45%	(2 978)	(27.51%)
- other receivables	24 462	9.12%	2 031	0.64%	22 431	1104.43%
Cash and cash equivalents	433	0.16%	2 145	0.68%	(1 712)	(79.81%)
Total current assets	268 024	100%	313 945	100%	(45 921)	(14.63%)
Total assets	284 898		329 164		(44 266)	(13.45%)

NON-CURRENT ASSETS

As at 30th June, 2018, the non-current assets amounted to BGN 16 874 thousand (as at 31st December, 2017: BGN 15 219 thousand), which is an increase of BGN 1 655 thousand or 10.87%. As at 30th June, 2018, the non-current assets were comprised from non-current tangible and intangible assets, amounting to BGN 257 thousand and deferred tax assets of BGN 16 617 thousand.

CURRENT ASSETS

As at 30th June, 2018, the current assets amounted to BGN 268 024 thousand (as at 31st December, 2017: BGN 313 945 thousand), which is a decrease of BGN 45 921 thousand, or 14.63% as a result of a decrease in inventories and trade receivables.

The following assignment agreements were concluded in the first half of 2018:

In thousand BGN

Receivable from	Principal	Penalty	Total value of sold receivables
Toplofikatsia Sofia EAD	71 701	5 136	76 837
Toplofikatsia Pleven EAD	24 180	1 246	25 426
Toplofikatsia Burgas EAD	10 334	246	10 580
Toplofikatsia Petrich EAD	1 136	4	1 140
Total	107 351	6 632	113 983

The receivables have been sold at face value.

As at 30th June, 2018, the inventories amounted to BGN 63 310 thousand (as at 31st December, 2017: BGN 75 994 thousand), which represents a decrease of BGN 12 684 thousand, or 16.69%.

As at 30th June, 2018, the trade and other receivables amounted to BGN 204 281 thousand (as at 31st December, 2017: BGN 235 806 thousand), which is a decrease of BGN 31 525 thousand or 13.37% compared to the end of 2017.

The prepaid advance for natural gas supply as at 30th June, 2018, amounting to BGN 56 334 thousand (as at 31st December, 2017: BGN 68 492 thousand) represents a decrease by BGN 12 158 thousand or 17.75%, compared to 31st December 2017.

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

In thousand BGN

Counterparty	Total receivables	Of which overdue receivables
Toplofikatsia Sofia EAD	90 007	90 007
Toplofikatsia Pleven EAD	19 885	19 885
LUKOIL Neftohim Burgas AD	10 631	-
Toplofikatsia Vratsa EAD	3 896	3 896
Toplofikatsia Burgas EAD	3 414	3 414
Citygas Bulgaria EAD	2 048	-
Aresgas AD	1 478	-
Other:	7 606	3 116
Total:	138 965	120 318

As at 30th June, 2018, there have been accrued BGN 44 523 thousand depreciation of overdue receivables and integrated impairment of BGN 27 755 thousand.

The Company's cash on current accounts as at 30th June, 2018, amounted to BGN 433 thousand (as at 31st December, 2017: BGN 2 145 thousand), which is a decrease of BGN 1 712 thousand.

CHANGES IN EQUITY AND LIABILITIES STRUCTURE:

In thousand BGN

	30/06/2018		31/12/2017		Change	
		%		%		%
Equity and liabilities						
Equity						
Share capital	231 698	94.26%	231 698	93.56%	0	0.00%
Statutory reserves	7 367	3.00%	6 420	2.59%	947	14.75%
Other reserves	55	0.02%	54	0.02%	1	1.85%
Retained earnings	6 689	2.72%	9 468	3.83%	(2 779)	(29.35%)
Total equity	245 809	100%	247 640	100%	(1 831)	(0.74%)
Liabilities						
Non-current liabilities						
Trade and other payables	-	-	8 368	99.38%	(8 368)	(100%)
- Liabilities to related parties	-	-	8 368	99.38%	(8 368)	(100%)
Liabilities for retirement employee benefits	52	100%	52	0.62%	-	-
Total non-current liabilities	52	100%	8 420	100%	(8 368)	(99.38%)
Current liabilities						
Loans	-	-	9 956	13.62%	(9 956)	(100%)
- Financing under repurchase contracts for natural gas	-	-	9 956	13.62%	(9 956)	(100%)
Trade and other payables	37 003	94.79%	63 060	86.26%	(26 057)	(41.32%)
- Trade payables	1 673	4.29%	567	0.78%	1 106	195.06%
- Payables to related parties	18 609	47.67%	33 767	46.19%	(15 158)	(44.89%)
- Received advances from clients for sale of natural gas	2 652	6.79%	1 637	2.24%	1 015	62.00%
- VAT to be paid	13 331	34.15%	25 282	34.58%	(11 951)	(47.27%)
- Excise duty to be paid	517	1.32%	1 469	2.01%	(952)	(64.81%)
- Payables to personnel	98	0.25%	120	0.16%	(22)	(18.33%)
- Liabilities to insurance companies	65	0.17%	70	0.10%	(5)	(7.14%)
-Other liabilities	58	0.15%	148	0.20%	(90)	(60.81%)
Corporate tax payables	1 946	4.99%	-	-	1 946	-
Liabilities for retirement employee benefit	88	0.22%	88	0.12%	-	-
Total current liabilities	39 037	100%	73 104	100%	(34 067)	(46.60%)
Total liabilities	39 089		81 524		(42 435)	(52.05%)
Total equity and liabilities	284 898		329 164		(44 266)	(13.45%)

SHARE CAPITAL STRUCTURE

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

As at 30th June, 2018, the retained profit amounted to BGN 6 689 thousand (as at 31st December, 2017: BGN 9 468 thousand). The change as of 30th June, 2018 amounts to BGN 2 779 thousand.

NON-CURRENT LIABILITIES

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

CURRENT LIABILITIES

The current liabilities have a greater relative share than the non-current liabilities. As at 30th June, 2018, the current liabilities amounted to BGN 39 037 thousand (as at 31st December, 2017: BGN 73 104 thousand), which is a decrease of BGN 34 067 thousand, or 46.60%.

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

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

Trade and other payables decreased by BGN 26 057 thousand or 41.32% compared to 2017. Payables to NRA amounted to BGN 13 331 thousand (as at 31st December, 2017: BGN 25 282 thousand), which is due to the decreased volume of natural gas sold.

In the first half of 2018, the liabilities to related parties have been reduced. An increase is observed in the trade payables for natural gas deliveries by BGN 1 106 thousand.

CONDENSED STATEMENT OF CASH FLOWS

In the table below is stated data for changes in the cash flows as at 30th June, 2018 compared to 30th June, 2017.

In thousand BGN

	30/06/2018	30/06/2017	Change	
Net cash flows from operating activity	28 030	7 434	20 596	277.05%
Net cash flows from investing activity	(89)	(24)	(65)	270.83%
Net cash flows from financing activity	(29 653)	(555)	(29 098)	5242.88%
Net change in cash and cash equivalents during the period	(1 712)	6 855	(8 567)	(124.97%)
Cash and cash equivalents at the beginning of the period	2 145	66 847	(64 702)	(96.79%)
Cash and cash equivalents at the end of the period	433	73 702	(73 269)	(99.41%)

The net cash flow from operating activities of the Company in the first half of 2018 is at the amount of BGN 28 030 thousand (as at 30th June, 2017: BGN 7 434 thousand) – there is an increase of BGN 20 596 thousand, or

277.05%. It is formed by the difference between receipts from customers for natural gas sold and payments to suppliers of purchased natural gas.

In the first half of 2018, Bulgargaz EAD has paid for VAT and excise duty the amount of BGN 136 363 thousand (as at 30th June, 2017: BGN 125 587 thousand).

EVENTS OCCURRING AFTER THE END OF THE REPORTING PERIOD

The events are described in Note 21 of the interim condensed financial statements as at 30th June, 2018.

FINANCIAL RATIOS

These are indicators, based on financial statements, which aim to present the overall assessment for the Company's financial performance, profitability and effectiveness in utilising its assets to achieve its operational objectives.

In the first half of 2018 the financial ratios show financial stability of the Company and are optimal compared to market levels.

PROFITABILITY

Indicators	30/06/2018	30/06/2017
Sales profitability	0.39%	(2.50%)
Return on equity	0.99%	(6.48%)
Return on assets	0.85%	(4.76%)

SALES PROFITABILITY

The sales profitability indicator is calculated as percentage ratio between the profit after tax and sales revenues. It reveals net profit of BGN 100 income. As at 30th June, 2018, the sales profitability indicator amounts to 0.39% (as at 30th June, 2017: negative 2.50%).

RETURN ON EQUITY

This indicator reveals the equity profitability level. In the first half of 2018, the return on equity ratio is 0.99% (as at 30th June, 2017: negative 6.48%).

RETURN ON ASSETS

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

As at 30th June, 2018, the return on assets is 0.85% (as at 30th June, 2017: negative 4.76%).

LIQUIDITY

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

Indicators	30/06/2018	30/06/2017
Current liquidity ratio	6.87	4.50
Quick liquidity ratio	5.24	3.76
Immediate liquidity ratio	0.01	1.15

As at 30th June, 2018, the current liquidity ratio is 6.87, therefore, the current liabilities of the Company may be covered, more than 6 times, by the available current assets (as at 30th June, 2017: 4.50).

The quick liquidity ratio is above 1 (one), therefore, with the available current assets, decreased by the inventories, the current liabilities of the Company can be covered more than 5 times.

The immediate liquidity ratio reveals the monetary means that cover Company's short-terms liabilities. As at 30th June, 2018, the immediate liquidity ratio is 0.01.

FINANCIAL INDEPENDENCE

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

Indicators	30/06/2018	30/06/2017
Financial autonomy ratio	6.29	2.76
Indebtedness ratio	0.16	0.36

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

When the indicator is above 1 (one), it shows the level of financial independence from using funds from other parties. As at the first half of 2018 the financial autonomy ratio is 6.29 (as at 30th June, 2017: 2.76).

The indebtedness ratio expresses the degree of dependence of the Company on creditors. When the ratio is greater than 1 (one), the company's dependence on external sources of funds is greater. This indicator as at the end of the first half of 2018 is 0.16.

01/08/2018




Nikolay Pavlov

Executive Director




Katya Tsaneva

Head of Financial Reporting and
Methodology Department

BULGARGAZ EAD

CONDENSED STATEMENT OF FINANCIAL POSITION 30 JUNE 2018

(All amounts are in thousands BGN)

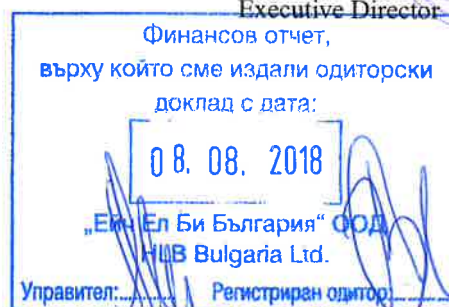
	NOTE	AS AT 30 JUNE 2018	AS AT 31 DECEMBER 2017
ASSETS			
Non-current assets			
Plant and equipment	7	83	90
Intangible assets	8	174	189
Deferred tax assets	12	16 617	14 940
		16 874	15 219
Current assets			
Inventories	9	63 310	75 994
Trade and other receivables	10	204 281	235 806
Cash and cash equivalents	11	433	2 145
		268 024	313 945
TOTAL ASSETS		284 898	329 164
EQUITY AND LIABILITIES			
Equity			
Share capital	13	231 698	231 698
Reserves	14	7 422	6 474
Retained earnings		6 689	9 468
		245 809	247 640
Non-current liabilities			
Trade and other payables	15	-	8 368
Liabilities for retirement employee benefits		52	52
		52	8 420
Current liabilities			
Borrowings		-	9 956
Trade and other payables	15	37 003	63 060
Income tax payables		1 946	-
Liabilities for retirement employee benefits		88	88
		39 037	73 104
TOTAL LIABILITIES		39 089	81 524
TOTAL EQUITY AND LIABILITIES		284 898	329 164

The condensed interim financial statements were authorized for issue by the Board of Directors on 6 August 2018.

Liliya Ivanova
Head of Accounting Department

Nikolay Pavlov
Executive Director

Compiled on 1 August 2018



The accompanying notes on pages 5 to 23 are an integral part of these interim financial statements.

BULGARGAZ EAD

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

30 JUNE 2018

(All amounts are in thousands BGN)

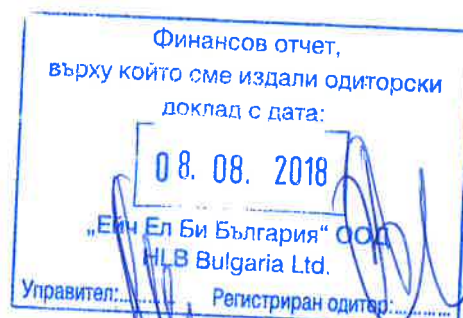
	NOTE	6-MONTH PERIOD ENDED AT 30 JUNE	
		2018	2017
Revenues from sale of natural gas		626 732	579 934
Cost of natural gas as sold		(609 691)	(586 610)
Recovered/(accrued) impairment losses, net	17	(16 768)	142
Hired services expenses		(2 271)	(1 955)
Employee benefits and social security expenses		(1 418)	(1 249)
Cost of materials		(38)	(42)
Depreciation/amortization expenses	7, 8	(92)	(73)
Other revenues		8 957	8 939
Other expenses		(134)	(31)
Operating activity profit/(loss)		5 277	(945)
Financial income		12	1
Financial costs		(2 591)	(13 516)
Financial income/(costs) – net		(2 579)	(13 515)
Profit/(loss) before tax		2 698	(14 460)
Income tax expense	18	(270)	(43)
Net profit/(loss) for the period		2 428	(14 503)
Total comprehensive income/(loss) for the period		2 428	(14 503)

The condensed interim financial statements were authorized for issue by the Board of Directors on 6 August 2018.

Liliya Ivanova
Head of Accounting Department

Nikolay Pavlov
Executive Director

Compiled on 1 August 2018



BULGARGAZ EAD

CONDENSED STATEMENT OF CHANGES IN EQUITY 30 JUNE 2018

(All amounts are in thousands BGN)

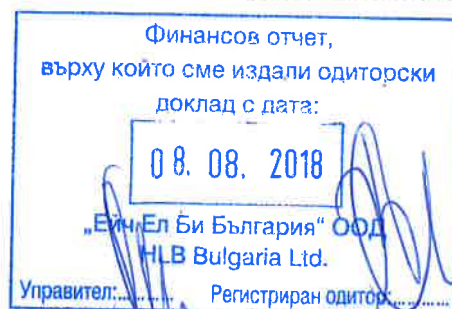
	Note	Share capital	Reserves	Retained earnings	Total
AS AT 1 JANUARY 2018	13, 14	231 698	6 474	9 468	247 640
Comprehensive income					
Profit for the period		-	-	2 428	2 428
Total comprehensive income		-	-	2 428	2 428
Transactions with the Sole-owner					
Transfer to Reserve Fund		-	948	(948)	-
Dividend distribution		-	-	(4 259)	(4 259)
Total transactions with the Sole-owner		-	948	(5 207)	(4 259)
AS AT 30 JUNE 2018		231 698	7 422	6 689	245 809
AS AT 1 JANUARY 2017					
AS AT 1 JANUARY 2017		214 450	2 807	37 424	254 681
Comprehensive loss					
Loss for the period		-	-	(14 503)	(14 503)
Total comprehensive loss		-	-	(14 503)	(14 503)
Transactions with the Sole-owner					
Transfer to Reserve Fund		-	3 668	(3 668)	-
Dividend distribution		-	-	(16 508)	(16 508)
Total transactions with the Sole-owner		-	3 668	(20 176)	(16 508)
Other changes		-	2	(2)	-
AS AT 30 JUNE 2017		214 450	6 477	2 743	223 670

The condensed interim financial statements were authorized for issue by the Board of Directors on 6 August 2018.

Liliya Ivanova
Head of Accounting Department

Nikolay Pavlov
Executive Director

Compiled on 1 August 2018



BULGARGAZ EAD

CONDENSED STATEMENT OF CASH FLOWS 30 JUNE 2018

(All amounts are in thousands BGN)

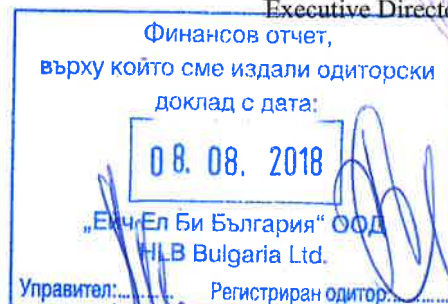
	NOTE 6-MONTH PERIOD ENDED AT 30 JUNE	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITY		
Proceeds from clients	793 492	746 896
Payments to suppliers	(624 762)	(603 976)
Payments to personnel and social security institutions	(1 486)	(1 320)
Taxes paid, different from corporate income tax	(136 363)	(125 587)
Profit/(loss) of exchange rate revaluation of cash and cash equivalents, net	(2 151)	(7 268)
Other proceeds/payments, net	(700)	(1 311)
Net cash flow from operating activity	28 030	7 434
CASH FLOWS FROM INVESTING ACTIVITY		
Payments for plant and equipment	(19)	(17)
Payments for intangible assets	(70)	(7)
Net cash flow from investing activity	(89)	(24)
CASH FLOWS FROM FINANCING ACTIVITY		
Dividends paid	(19 252)	-
Payments to loans and financing agreements	(9 924)	-
Payments of interest under loans and financing agreements	(93)	-
Payments of interest under deferred trade payables	(384)	(555)
Net cash flow from financing activity	(29 653)	(555)
Net increase/(decrease) of cash and cash equivalents during the period	(1 712)	6 855
Cash and cash equivalents at the beginning of the period	2 145	66 847
Cash and cash equivalents at the end of the period	433	73 702

The condensed interim financial statements were authorized for issue by the Board of Directors on 6 August 2018

Liliya Ivanova
Head of Accounting Department

Nikolay Pavlov
Executive Director

Compiled on 1 August 2018



NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 JUNE 2018

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

1. GENERAL INFORMATION

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

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

The major strategic goal of BULGARGAZ EAD, as a public gas supplier, is to ensure the public interests by providing long-term supplies of natural gas to Bulgaria. The Company has entered into a contract for the supply of natural gas with its major supplier OOO Gazprom Export. The Company is considering and assessing the opportunities for providing alternative sources and routes for natural gas.

The Company operates under an individual licence for public supply of natural gas on the territory of Republic of Bulgaria – licence No. JI-214-14 of 29th November 2006, issued by the State Energy and Water Regulatory Commission for a period of 35 years.

BULGARGAZ EAD is a sole-owned company whose ultimate parent company is Bulgarian Energy Holding EAD. The ultimate owner of the Company is the Bulgarian Republic, through the Minister of Energy.

The organizational structure of BULGARGAZ EAD includes a headquarters office and one technological unit in the Republic of Romania.

The Company does not present segment information by activities due to the fact that the supply of natural gas is the only activity for the period.

These condensed interim financial statements were authorized for issue by the Board of Directors on 6 August 2018.

2. BASIS FOR THE PREPARATION

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

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application in the European Union ("EU").

The interim condensed financial statements are presented in Bulgarian lev (BGN), which is also the functional currency of the Company. Unless otherwise stated, all amounts are presented in thousand Bulgarian lev (BGN thousand), including comparative information for 2017.

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

For the period ending 30 June 2018, the Company reported an accounting profit after tax of BGN 2 428 thousand, a positive cash flow from operating activities amounting to BGN 28 030 thousand, and a net decrease in cash and cash equivalents for the period to the amount of BGN 1 712 thousand.

As at 30 June 2018, the financial statements are prepared on a going concern basis, implying that the Company will continue its operations for the foreseeable future.

As disclosed in Note 1 "General information", the Company has an individual license for public supply of natural gas in the Republic of Bulgaria, issued by the State Energy and Water Regulatory Commission for a period of 35 years. The future operations of the Company as a public supplier of natural gas depend on the business environment, the regulatory requirements, contracts for ensuring natural gas supplies in place, the contracts for natural gas sales to the clients of the Company, as well as from ensuring the financing on the part of the principal company – Bulgarian Energy Holding EAD, in case of necessity. Given the assessment of the expected future cash flows and the group strategy for the activity development in Bulgaria, the Company's management believes that it is appropriate the financial statements be prepared on the going concern principle.

3. ACCOUNTING POLICIES

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

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

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

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

These standards and interpretations include:

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

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

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

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

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

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

Amendments to IAS 40 "Investment property" - Adopted by the EU on 14 March 2018 - Transfers of investment properties - (effective for annual periods beginning on or after 1 January 2018);

IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration" - Adopted by the EU on 28 March, 2018 (effective for annual periods beginning on or after 1 January 2018);

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

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

- (i) the beginning of the reporting period in which an entity applies the clarification for the first time, or
- (ii) the beginning of the previous reporting period presented as comparative information in the financial statements for the reporting period in which the Company applies the clarification for the first time.

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

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

- purchase of natural gas

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

in the Statement of Profit or Loss - an increase or decrease in the cost of natural gas during the reporting period and respectively an increase or decrease in the financial income/expense from exchange rate changes for the period.

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

- sales of natural gas

in the Statement of Profit or Loss - increase or decrease in revenues from sales of natural gas during the reporting period and a corresponding increase or decrease in financial income/expenses from changes in foreign exchange rates for the period.

As the received advances are made by the customers in the same or the previous month, the Company does not expect an effect on the financial result, but only on the presentation method.

- purchases of services

in the Statement of Profit or Loss, increase or decrease in service costs over the reporting period and a corresponding increase or decrease in financial income/expense from changes in foreign exchange rates for the period.

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

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

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

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

This standard has a completely changed concept and introduces significant changes in the reporting of leases, especially on the part of lessees. It introduces new principles for the recognition, measurement and presentation of leases in order to better represent these transactions. The Standard will replace the

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

In addition, IFRS 16 requires lessees and lessors to make more detailed disclosures than IAS 17. The management is in the process of assessing the effect of applying the Standard but cannot yet provide quantitative information.

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

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

The Management considers it appropriate to disclose that the following new or revised standards, new interpretations and amendments to existing standards that have already been issued by the International Accounting Standards Board (IASB) at the reporting date but have not yet been approved by the EU and accordingly, are not taken into account when preparing these interim condensed financial statements. The dates of entry into force will depend on EU approval decisions.

IFRIC 23 "Uncertainty relating to Income Taxes" - (effective for annual periods as of 1 January 2019);

Amendment to IAS 28 "Investments in Associates and Jointly Controlled Undertakings" - Long-term Investments in Associates or Jointly Controlled Entities - (effective for annual periods as of 1 January 2019);

Amendments to Different Standards Improvements to IFRS (Cycle 2015-2017) - (effective for annual periods as of 1 January 2019);

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

Changes in the Financial Framework Conceptual Framework - (effective for annual periods as of 1 January 2020);

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

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4. ESTIMATES

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

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

5. FINANCIAL RISK MANAGEMENT

5.1. FINANCIAL RISK FACTORS

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

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

5.2. FAIR VALUE ASSESSMENT

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

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

6. SEASONALITY OF OPERATIONS

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

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

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

The realization of natural gas in the first six months of 2018 is 17 243 452 MWh (first six months of 2017: 18 597 967 MWh).

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

7. PLANT AND EQUIPMENT

	Plant and equipment	Vehicles	Office equipment	Total
AS AT 1 JANUARY 2018				
Gross carrying amount	86	441	284	811
Depreciation	(47)	(420)	(254)	(721)
Carrying amount	39	21	30	90
6-MONTH PERIOD ENDED AT 30 JUNE 2018				
Additions	-	-	14	14
Depreciation	(2)	(4)	(15)	(21)
Carrying amount	37	17	29	83
AS AT 30 JUNE 2018				
Gross carrying amount	86	441	298	825
Depreciation	(49)	(424)	(269)	(742)
Carrying amount	37	17	29	83

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

8. INTANGIBLE ASSETS

	License	Software	Total
AS AT 1 JANUARY 2018			
Gross carrying amount	15	853	868
Amortization	(5)	(674)	(679)
Carrying amount	10	179	189
6-MONTH PERIOD ENDED AT 30 JUNE 2018			
Additions	25	31	56
Amortization	(1)	(70)	(71)
Carrying amount	34	140	174
AS AT 30 JUNE 2018			
Gross carrying amount	40	884	924
Amortization	(6)	(744)	(750)
Carrying amount	34	140	174

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

9. INVENTORIES

	AS AT 30 JUNE 2018	AS AT 31 DECEMBER 2017
Natural gas at cost	63 290	75 974
Natural gas, net realisable value	63 290	75 974
Materials	20	20
Total inventories	63 310	75 994

The accrued impairment movement of natural gas is the following:

	6-MONTH PERIOD ENDED AT 30 JUNE	
	2018	2017
At the beginning of the period	-	324
Written-off impairment of natural gas sold	-	(324)
At the end of the period	-	-

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

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

At the date of the condensed statement of financial position, the Company has analysed the circumstances that would lead to the existence of impairment in the value of natural gas and on the basis of this assessment it was established that the net realizable value of the natural gas is higher than its carrying value, and as of 30 June 2018, no impairment loss was incurred. The main external sources used as an impairment indicator is decision № II-8/29.06.2018 issued by EWRC.

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

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10. TRADE AND OTHER RECEIVABLES

	AS AT 30 JUNE 2018	AS AT 31 DECEMBER 2017
Trade receivables	138 965	161 096
Accumulated impairment of trade receivables	(24 130)	(7 360)
Trade receivables, net	114 835	153 736
Court and awarded receivables	201 392	201 313
Accumulated impairment of court and awarded receivables	(201 151)	(201 153)
Court and awarded receivables, net	241	160
Receivable from Corporate Commercial Bank AD - insolvent	17 463	17 463
Accumulated impairment of receivable from Corporate Commercial Bank AD-insolvent	(16 902)	(16 902)
Receivable from Corporate Commercial Bank AD-insolvent, net	561	561
Prepaid advances for natural gas delivery	56 334	68 492
Receivables from related parties (Note 20)	7 848	10 826
Other receivables - prepaid expenses, guarantees and deposits	24 462	2 031
Total trade and other receivables	204 281	235 806
Current trade and other receivables	204 281	235 806

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

	6-MONTH PERIOD ENDED AT	
	2018	30 JUNE 2017
At the beginning of the period	225 415	228 296
Accrued losses from impairment of receivables	44 523	9 816
Written-off uncollectible receivables	-	(152)
Reversals of impairment losses	(27 755)	(9 397)
Accrued/(reintegrated) losses on impairment of Corporate Commercial Bank AD - insolvent	-	(561)
At the end of the period	242 183	228 002

The accrual of impairment losses and the reversal of accruals are recognized as such in the condensed profit or loss and other comprehensive income (Note 17).

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

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

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

When calculating the impairment amount of trade receivables as at 30 June 2018, the management

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took into consideration overdue trade receivables settled after the date of the interim condensed financial statements and the date of its preparation.

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

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

In 2017 a statement from a partial accounting was published in the Commercial Register for the distribution of the available amounts among the creditors of the bank by the syndics of the CCB AD (insolvent). According to the distribution of the syndics, Bulgargaz EAD should be recovered the amount of BGN 561 thousand. On the basis of this information and decisions of the Board of Directors of BEH EAD under Protocol No. 21-2017/07.03.2017 and of Bulgargaz EAD under Protocol No. 280/29.05.2017, as at 30 June 2017 a reversal of impairment of receivables from the Corporate Commercial Bank AD – insolvent was made up to the amount of the recoverable amount determined by the syndics, namely BGN 561 thousand.

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

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

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

11. CASH AND CASH EQUIVALENTS

	AS AT 30 JUNE 2018	AS AT 31 DECEMBER 2017
Cash on hand	15	23
Cash in bank accounts	418	2 122
Total cash and cash equivalents	433	2 145

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

Liabilities arising from financial activities	On 1 January	Cash flows from financial activities		Changes of non-cash nature - dematerialized	On 30 June
		Receipts	Payments	Additions (increases)	
Short-term bank loans	9 956	-	(10 017)	61	-
Long-term commercial loans related parties	-	-	(384)	384	-
Total liabilities from financial activities:	9 956	-	(10 401)	445	-

12. DEFERRED TAX ASSETS AND LIABILITIES

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

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

	6-MONTH PERIOD ENDED AT	
	2018	2017
AS AT 1 JANUARY	14 940	15 240
Recognized as (expense)/ income in the condensed statement of profit or loss and other comprehensive income (Note 18)	1 677	(43)
AS AT 30 JUNE	16 617	15 197

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

DEFERRED TAX ASSETS	Impairment of inventories	Impairment of trade and other receivables	Pension provisions	Unused paid leaves	Plant and Equipment	Total
AS AT 1 JANUARY 2018	-	(14 917)	(14)	(14)	-	(14 945)
Expense/(Income) in profit or loss	-	(1 677)	-	-	-	(1 677)
AS AT 30 JUNE 2018	-	(16 594)	(14)	(14)	-	(16 622)
DEFERRED TAX LIABILITIES						
AS AT 1 JANUARY 2018	-	-	-	-	5	5
Expense/(Income) in profit or loss	-	-	-	-	-	-
AS AT 30 JUNE 2018	-	-	-	-	5	5
DEFERRED TAX ASSETS, NET	-	(16 594)	(14)	(14)	5	(16 617)

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13. SHARE CAPITAL

	6-MONTH PERIOD ENDED AT 30 JUNE 2018	
	Number of shares	Value
At the beginning of the period	231 698 584	231 698
At the end of the period	231 698 584	231 698

14. RESERVES

	6-MONTH PERIOD ENDED AT 30 JUNE 2018			
	Statutory reserves	Revaluation reserves of non- financial assets	Reserve of revaluations of defined benefit plans	Total
At the beginning of the period	6 420	53	1	6 474
Deductions to Fund "Reserve"	948	-	-	948
At the end of the period	7 368	53	1	7 422

15. TRADE AND OTHER PAYABLES

	AS AT 30 JUNE 2018	AS AT 31 DECEMBER 2017
Related party payables (Note 20)	18 609	42 135
VAT payable	13 331	25 282
Advances received from clients for sale of natural gas	2 652	1 637
Trade payables	1 673	567
Excise duty	517	1 469
Payables to employees	98	120
Liabilities to insurance companies	65	70
Other liabilities	58	148
Total trade and other payables	37 003	71 428
Less non-current part:		
- Related party payables (Note 20)	-	8 368
Non-current trade and other payables	-	8 368
Current trade and other payables	37 003	63 060

16. UNUSUAL ITEMS

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

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17. IMPAIRMENT LOSS

	6-MONTH PERIOD ENDED	
	AT 30 JUNE	
	2018	2017
Impairment loss accrued and recovered on trade and other receivables (Note 10)	16 768	419
Accrued and recovered impairment losses on receivables from Corporate Commercial Bank - insolvent (Note 10)	-	(561)
Total impairment losses of assets	16 768	(142)

18. INCOME TAX EXPENSES

	6-MONTH PERIOD ENDED	
	AT 30 JUNE	
	2018	2017
Current corporate tax expense	(1 947)	-
Effect of the change in deferred taxes (Note 12)	1 677	(43)
Income tax (expense) / revenue	(270)	(43)

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

19. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Procedures of the European Commission

Case COMP/B1/AT.39849 – BEH Gas

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

- preventing their competitors from getting access to key gas infrastructure (gas transmission network and the gas storage facility) in Bulgaria, such as explicitly or tacitly refusing third party access or delaying;
- preventing competitors from getting access to a major gas import pipeline via booking a capacity, which remains unused.

The proceedings were instigated in 2013 with view of adopting a decision under Chapter 3 (Art.7 and 10 of Regulation 1/2003).

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

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

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

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

Legal claims

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

20. RELATED PARTY TRANSACTIONS

The Company discloses the following related parties:

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

BULGARIAN ENERGY HOLDING EAD

Sole shareholder of the Parent company

The Bulgarian State through the Minister of Energy

Companies under common control with the Company (entities within the group)

Natsionalna Elektricheska Kompania EAD, TPP Maritsa East 2 EAD, Mini Maritsa - Iztok EAD, Kozloduy NPP EAD, Kozloduy NPP – NB EAD, HPP Kozloduy EAD, Interpriborservice OOD, Bulgartel EAD, Bulgartransgaz EAD, Electricity System Operator EAD, TPP Maritsa East 2 (9 and 10) EAD, PFC Beroe – Stara Zagora EAD, Bulgartel-Skopje DOOEL, Energy Measurement and Information Technology Operator EAD (in liquidation), Independent Bulgarian Energy Exchange EAD as of 15.02.2018, Energy Investment Company EAD as of 26.04.2018.

Associates for BEH Group

ConturGlobal Maritsa Iztok 3 AD

BULGARGAZ EAD

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ConturGlobal Operations Bulgaria AD

ZAD Energy

POD ALIANZ BULGARIA AD

HEK Gorna Arda AD

Joint ventures for BEH Group

ICGB AD

South Stream Bulgaria AD

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

Others – all enterprises related to the State.

Key management personnel of the Company

Botyo Tomov Velinov – Chairman of the BoD

Iliyan Kirilov Dukov – Member of the BoD

Nikolay Angelov Pavlov – Member of the BoD and CEO

Key management personnel of the Parent Company

Petar Asenov Iliev – Chairman of the BoD

Zhivko Dimitrov Dinchev – Member of the BoD

Petyo Angelov Ivanov – Member of the BoD and CEO

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

(A) SALES OF GOODS AND SERVICES

	6-MONTH PERIOD ENDED AT 30 JUNE	
	2018	2017
Companies under common control		
BULGARTRANGAZ EAD	6 683	3 462
Total	6 683	3 462

Sales include natural gas sold for technology and balancing.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**30 JUNE 2018***(All amounts are in thousands BGN, unless otherwise stated)***(B) PURCHASES OF GOODS AND SERVICES**

	6-MONTH PERIOD ENDED	
	AT 30 JUNE	
	2018	2017
Parent company		
BULGARIAN ENERGY HOLDING EAD	74	84
Companies under common control		
BULGARTRANGAZ EAD	46 310	30 497
BULGARTEL EAD	10	10
Total	46 394	30 591

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

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

Purchases of services from BULGARTEL EAD include technical support.

(C) CEDING OF RECEIVABLES

During the reporting period, the Company ceded for consideration its receivables from Toplofikatsia Sofia EAD, Toplofikatsia Pleven EAD, Toplofikatsia Burgas EAD, Toplofikatsia Petrich EAD to the Natsionalna Elektricheska Kompania EAD, totalling BGN 113 982 thousand, on the basis of agreements concluded between the assignor and the assignees.

(D) ACCRUED CHARGES FOR PENALTIES

	6-MONTH PERIOD ENDED AT	
	30 JUNE	
	2018	2017
Parent company		
BULGARIAN ENERGY HOLDING EAD	103	-
Companies under common control		
BULGARTRANGAZ EAD	384	669
Total	487	669

Accrued penalty charges to BEH relate to the dividend obligation, and to Bulgartransgaz EAD – interest under an Agreement.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 JUNE 2018

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

(E) RECEIVABLES FROM SALES OF GOODS AND SERVICES

	AS AT 30 JUNE 2018	AS AT 31 DECEMBER 2017
Companies under common control		
BULGARTRANGAZ EAD	7 848	10 826
Total	7 848	10 826

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

(F) PAYABLES FOR PURCHASES OF GOODS AND SERVICES

	AS AT 30 JUNE 2018	AS AT 31 DECEMBER 2017
NON-CURRENT		
Companies under common control		
BULGARTRANGAZ EAD	-	8 368
Total non-current	-	8 368
CURRENT		
Parent company		
BULGARIAN ENERGY HOLDING EAD	27	14 929
Companies under common control		
BULGARTRANGAZ EAD	18 581	18 837
BULGARTEL EAD	1	1
Total current	18 609	33 767
Total	18 609	42 135

The Company trade payables to BULGARTRANGAZ EAD are related to transmission and storage of natural gas.

As at 30 June 2018 the Company has an agreement, concluded on 15 July 2015, consolidating 3 previous agreements of 11 May 2012, 15 March 2013 and 1 April 2015. As at the signing date of the agreement until the date of final payment of the debt – 30 June 2019, in accordance with a payback schedule, the Company owes interest amounting to 3.6 per cent per year, based on a 360-year basis.

As at 30 June 2018 the non-current portion of rescheduled trade payables is estimated at BGN 0 thousand (31 December 2017: BGN 8 368 thousand) and the current part to BGN 16 588 thousand principal (31 December 2017: BGN 16 293 thousand).

The rest of the current obligations to Bulgartransgaz EAD are related to current supply of transmission services and storage of natural gas amounting to BGN 1 993 thousand.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**30 JUNE 2018***(All amounts are in thousands BGN, unless otherwise stated)***(G) KEY MANAGEMENT PERSONNEL REMUNERATIONS**

Key management personnel include members of the Board of Directors.

Key management personnel remunerations are as follows:

	6-MONTH PERIOD ENDED AT	
		30 JUNE
	2018	2017
Short-term benefits to key management personnel		
- Remunerations	97	89
- Social security costs	10	7
Total	107	96

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

21. POST-REPORTING DATE EVENTS

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

By its decision, the Energy and Water Regulation Commission established the marginal prices of natural gas from the Public supplier to end suppliers and customers connected to the gas transmission network for the third quarter of 2018, as follows: BGN 37.79/MWh (BGN 400.95/1000 cubic meters), excluding excise duty and VAT.

22. DISCLOSURE ACCORDING TO LEGAL REQUIREMENTS

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

23. AUTHORIZATION OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements as at 30 June 2018 (including comparatives) were authorized and approved by the Board of Directors on 6 August 2018.

**INDEPENDENT AUDITOR'S REPORT
TO THE SOLE SHAREHOLDER OF
BULGARGAZ EAD**

Report on the Audit of the Interim Condensed Financial Statements

Qualified Opinion

We have audited the interim condensed financial statements of **BULGARGAZ EAD** (the Company), which comprise the condensed statement of financial position as at 30 June 2018, and the condensed statement of profit or loss and other comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the period then ended, and selected explanatory notes and information to the interim condensed financial statements.

In our opinion, except for the incomplete disclosure and the possible effect of the matter 1 and the possible effect of the matter 2, described in the "Basis for Qualified Opinion" section of our report the accompanying interim condensed financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2018, and its financial performance and its cash flows for the period then ended in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union (EU).

Basis for Qualified Opinion

1. As of 1 January 2018, IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* adopted by the European Union are effective and the application thereof is mandatory. As at the date of authorization for issue of the interim condensed financial statements as at 30 June 2018, the Company is in the process of adapting its accounting policy (Note 3 *Accounting Policies*) to comply with the requirements of these accounting standards and, respectively, the amounts and classification of assets, operations and results as well as the disclosures of the Company in the interim condensed financial statements as at 30 June 2018 were prepared and presented in accordance with the accounting policy applied as at 31 December 2017 that does not meet the requirements of paragraphs 28 and 29 of IAS 34 *Interim Financial Reporting* as well as of paragraphs 7.2.1, 7.2.17 and 7.2.15 of IFRS 9 *Financial Instruments* and paragraph C3, Appendix C to IFRS 15 *Revenue from Contracts with Customers*, with regard to comparative information.

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2. As disclosed in Note 19 *Contingent assets and contingent liabilities*, to the interim condensed financial statements, BULGARIAN ENERGY HOLDING EAD and its subsidiaries BULGARGAZ EAD and BULGARTRANGAZ EAD are litigants to Case COMP/B1/AT.39849 – BEH Gas (Case BEH Gas), brought by the European Commission (EC) in relation to the official procedure of investigation about whether BULGARIAN ENERGY HOLDING EAD (BEH EAD) and its subsidiaries BULGARGAZ EAD and BULGARTRANGAZ EAD have violated the competition rules of the EU natural gas market in the country. The procedure is initiated in relation to EC doubts that BEH EAD and its subsidiaries, try to prevent their potential competitors from getting access to the Bulgarian gas transmission network and to the plant for natural gas storage by explicit or implicit refusal or delay for access to third parties as well as eventually preventing competitors from getting access to the main gas import pipeline through overbooking the capacity of the pipes on the territory of Romania.

As at the date of the Company interim condensed financial statements issuance, the EC has not taken official decision for closing of the Case BEH Gas as well as for the eventual amount of financial penalty to BULGARIAN ENERGY HOLDING EAD and its subsidiaries BULGARGAZ EAD and BULGARTRANGAZ EAD. The Company management carried out analysis and estimation of available information about the likely outcome of the Case BEH Gas and is not able to reliably estimate the possible value of the liability related to BULGARGAZ EAD.

Because of the inherent uncertainty about the final outcome of Case BEH Gas and the existence of significant judgment for determination of the potential impact of the liability, including the fact that there are three litigants in the Case - BULGARIAN ENERGY HOLDING EAD, BULGARGAZ EAD and BULGARTRANGAZ EAD, we were unable to become convinced with sufficient assurance about the amount of the possible liability related to BULGARGAZ EAD in Case COMP/B1/AT.39849 – BEH gas, and consequently we were unable to determine whether any adjustments are necessary and their effect on the Company interim condensed financial statements as at 30 June 2018.

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

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

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

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

In connection with our audit of the interim condensed financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the interim condensed financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

As described in the "Basis for Qualified Opinion" section above, the Company is in the process of adapting its accounting policy that complies with the requirements of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* adopted by the EU in force on 1 January 2018 (Matter 1), we were also unable to obtain sufficient and appropriate audit evidence about the amount of the potential liability at Case COMP/B1/AT.39849 – BEH Gas (Matter 2) as at 30 June 2018. Accordingly, we were unable to conclude whether or not the other information is materially misstated with regard to financial indexes and respective disclosures referring to these matters.

Key Audit Matters

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

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

Management is responsible for the preparation and fair presentation of the interim condensed financial statements in accordance with IAS 34 *Interim Financial Reporting*, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of interim condensed financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Interim Condensed Financial Statements

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

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

- Identify and assess the risks of material misstatement of the interim condensed financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the interim condensed financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the interim condensed financial statements, including the disclosures, and whether the interim condensed financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the “Information Other than the Interim Condensed Financial Statements and Auditor’s Report Thereon” section, in relation to the interim management report, we have also performed the procedures added to those required under ISAs in accordance with “Guidelines about new and expanded auditor’s reports and communications from the auditor’s side” of

the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming opinions about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act (Art. 100n, paragraph 4 (2) of the POSA), applicable in Bulgaria.

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

Based on the procedures performed, our opinion is that:

- a) The information included in the interim management report referring to the period for which the interim condensed financial statements have been prepared is consistent with those interim condensed financial statements on which we have expressed a qualified opinion in "Report on the Audit of the Interim Condensed Financial Statements" section above.
- b) The interim management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100(n), paragraph 4 (2) of the Public Offering of Securities Act.

Audit firm

HLB BULGARIA OOD

Manager:

Milena Hristova

Registered auditor, responsible for the audit:

Vaska Gelina



The image shows two handwritten signatures in blue ink. To the right of the signatures is a blue circular stamp. The stamp contains the text: "АУДИТОРСКО ДРУЖЕСТВО" (Auditors' Association) at the top, "София" (Sofia) in the center, "Reg. № 017" below it, and "ЕЛ БИ БЪЛГАРИЯ ООД" (HLB Bulgaria OOD) at the bottom.

8 August 2018