



BULGARGAZ EAD

**ANNUAL ACTIVITY REPORT
NON-FINANCIAL STATEMENT
STATEMENT OF CORPORATE GOVERNANCE
ANNUAL FINANCIAL STATEMENTS
INDEPENDENT AUDITORS' REPORT**

31 DECEMBER 2022

This version of financial statements as at 31 December 2022 of Bulgargaz EAD is free translation from Bulgarian to English language. These financial statements have been prepared and audited as of 31 May 2023.

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ANNUAL ACTIVITY REPORT

of

Bulgargaz EAD for 2022

This report on Bulgargaz EAD's operations for 2022 presents an analysis of the financial statements and other material information regarding the financial position of the Company's operations, including and comparing the 2022 results with the 2021 results.

The report has been prepared in accordance with the requirements of Article 39 of the Accounting Act, Article 187e, Article 247, paragraphs (1), (2) and (3) of the Commerce Act, and Article 100 (n). paragraph (7), item (2) of the POSA.

I. GENERAL INFORMATION ABOUT THE COMPANY

Bulgargaz EAD is a sole owner joint stock company, registered in accordance with the Commerce Act with registered office and address of management in the Republic of Bulgaria, Sofia region, Sofia Capital Municipality, Serdika district, Sofia 1000, 47 Petar Parchevich St.

The Company has no registered branches in the country or abroad.

The registered capital is divided into 231 698 584 ordinary, registered, non-preference shares with voting rights with a nominal value of BGN 1 (one) each. The Company's capital is subscribed and fully paid up by the sole owner of the capital — Bulgarian Energy Holding EAD. The ownership rights of the State, as the sole owner of the capital of Bulgarian Energy Holding EAD, shall be exercised by the Minister of Energy.

The company is active in public supply of natural gas and related purchase and sale, purchase of natural gas for storage in a gas storage plant, market research and analysis of the natural gas market in the country. The Company does not carry out research and development activities.

Bulgargaz EAD holds a license for public supply of natural gas on the territory of the country issued by the State Energy and Water Regulatory Commission (EWRC) on 29 November 2006 for a period of 35 years.

Pursuant to Article 21, paragraph (1), item (1) and in connection with Article 39, paragraph (1), item (5), second proposal of the Energy Act, with a decision No JI-548-15 of the Energy and Water Regulatory Commission (EWRC) dated 16 September 2021 a license for trade in natural gas No A0435 for a period of 10 years is issued to Bulgargaz EAD.

The Company also holds a perpetual license for trading in natural gas in the territory of the Hellenic Republic under Decision No 247/2020 and Decision No 311/2022 for trading in natural gas in the territory of the Hellenic Republic for a period of 20 years.

The main European and national regulations applicable to the Company's activities are as follows:

- Law on Energy, promulgated in SG, issue No 107 of 09 December 2003, amend. No 102 of 23 December 2022, effective from 01 January 2023;
- Ordinance No 2 of 19 March 2013 on Natural Gas Price Regulation, issued by the State Energy and Water Regulatory Commission, promulg. State Gazette, Issue No 33 of 05 April 2013, amend. No 95 of 03 December 2019, in force from 03 December 2019 (Ordinance 2 of 19 March 2013);
- Ordinance No 3 of 21 March 2013 on Licensing the Activities in the Energy Sector, issued by the President of the State Energy and Water Regulatory Commission, promulgated by the State Gazette, No 33 of 05 April 2013, as amended and supplemented, No 18 of 24 February 2023, in force from 24 February 2023 (Ordinance No 3 of 21 March 2013);

- Rules for trading with natural gas, adopted by the EWRC by Decision under item 1 of Protocol No 137 of 07 July 2015, promulgated in SG No 59 of 04 August 2015, amend. No 57 of 19 July 2019, in force from 19 July 2019;
- Regulation (EU) 2017/1938 of the European Parliament and of the Council of 25 October 2017 concerning measures to safeguard the security of gas supply and repealing Regulation (EU) No 994/2010;
- Council Regulation (EU) 2022/1369 of 5 August 2022 on coordinated demand-reduction measures for gas;
- Council Regulation (EU) 2022/2578 of 22 December 2022 establishing a market correction mechanism to protect Union citizens and the economy against excessively high prices;
- Council Regulation (EU) 2022/2576 of 19 December 2022 on enhancing solidarity through better coordination of gas purchases, reliable price benchmarks and exchanges of gas across borders;
- Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005;
- Commission Regulation (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission Networks;
- Commission Regulation (EU) 2017/459 of 16 March 2017 establishing a Network Code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No 984/2013.

1. STRUCTURE OF THE COMPANY

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

- The sole owner of the capital who decides on the issues within the competence of the General Meeting;
- Board of Directors.

As at 27 January 2022 the composition of the Board of Directors is:

Diana Stoyanova Boneva	Chairman and member of the Board of Directors
Nikolay Angelov Pavlov	Member of the Board of Directors and Executive Director
Iliyan Kirilov Dukov	Member of the Board of Directors
Nikolay Atanasov Donchev	Member of the Board of Directors
Svetoslav Tanev Delchev	Member of the Board of Directors

On 28 January 2022 by Decision No 6-20-22 of the Board of Directors of Bulgarian Energy Holding EAD the following new members of the Board of Directors of Bulgargaz EAD were elected:

Ivan Dimitrov Topchiysky	Chairman and member of the Board of Directors
Lyudmil Ventsislavov Yotsov	Member of the Board of Directors and Executive Director
Anzhela Svetlozarova Slavova	Member of the Board of Directors
Anton Yordanov Adamov	Member of the Board of Directors
Stefan Pandov Voynov	Member of the Board of Directors

These circumstances were entered in the Trade Register on 03 February 2022.

On 16 August 2022 by Decision No 59-2022 of the Board of Directors of Bulgarian Energy Holding EAD the following new members of the Board of Directors of Bulgargaz EAD were elected:

Ivan Dimitrov Topchiysky	Chairman and member of the Board of Directors
Deniza Slatkova Slateva	Member of the Board of Directors and Executive Director

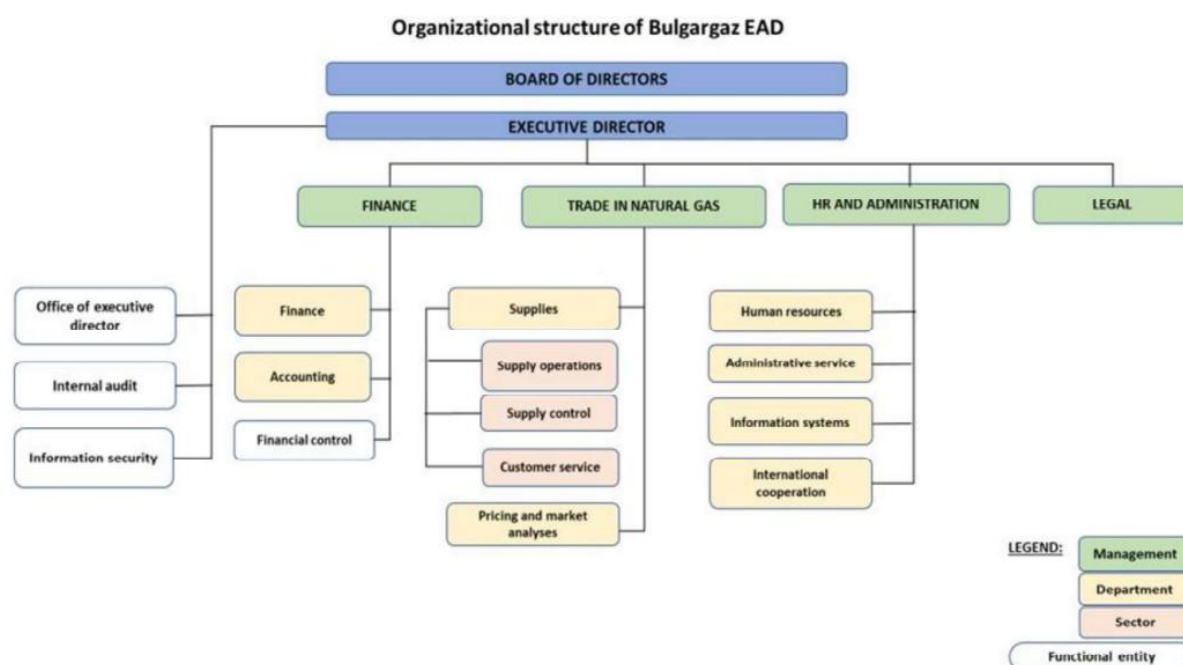
Dimitar Vladimirov Spasov	Member of the Board of Directors
Tatyana Angelova Petrova-Boyadzhieva	Member of the Board of Directors
Veselin Sashev Sinabov	Member of the Board of Directors;

These circumstances were entered in the Trade Register on 22 August 2022.

On 02 March 2023, following a competitive procedure, the following members of the Board of Directors of Bulgargaz EAD were elected by Decision No 17-2023 of the Board of Directors of Bulgarian Energy Holding EAD:

Ivan Dimitrov Topchiysky	Chairman and member of the Board of Directors
Deniza Slatkova Slateva	Member of the Board of Directors and Executive Director
Dimitar Vladimirov Spasov	Member of the Board of Directors
Tatyana Angelova Petrova-Boyadzhieva	Member of the Board of Directors
Veselin Sashev Sinabov	Member of the Board of Directors;

These circumstances were entered in the Trade Register on 10 March 2023.



2. RESPONSIBILITY OF MANAGEMENT

Management confirms that consistent accounting policies have been applied in the preparation of the annual financial statements as of 31 December 2022 and the statements have been prepared on a going concern basis. By the Decision of the Board of Directors of Bulgargaz EAD dated 31 March 2023 and the Decision No 28-2023 dated 20 April 2023 of the Board of Directors of Bulgarian Energy Holding, as of 01 January 2022, the Accounting Policy of Bulgargaz EAD was updated, which as a result of the new dynamic market conditions should reflect the approach applied to the new accounting objects in the financial statements of the Company as follows:

- accounting for the purchase and sale of natural gas under swap transactions and features of acquisition and accounting for LNG.
- a new approach to recognising revenue from the purchase and sale of natural gas under swap arrangements, and on the Company's revenue recognition obligation as a natural gas marketer and virtual trading point (VTP).

Management is responsible for the proper bookkeeping of accounting records for the proper management of assets and for taking the necessary measures to avoid and detect possible misuse and other irregularities.

3. INFORMATION ON ACQUISITION AND HOLDING OF SHARES OF THE COMPANY BY THE MEMBERS OF THE BOARD OF DIRECTORS

The Company does not possess own shares.

The members of the Board of Directors do not own shares of the Company. They are not provided with privileges or exclusive rights to acquire shares and bonds of the Company. All shares are owned by Bulgarian Energy Holding EAD.

Information on the participation of the members of the Board of Directors in companies as unlimited partners, the ownership of more than 25 percent of the capital of another company, as well as their participation in the management of other companies or cooperatives such as procurators or board members (in compliance with the requirements of Article 247, paragraph (2), item (4) of the Commerce Act is as follows:

Nikolay Angelov Pavlov — Executive Director and Member of the Board of Directors since 22 May 2017:

- does not participate as a general partner in business companies;
- does not own more than 25 percent of the capital of business companies;
- does not participate in the management of other cooperative companies as a procurator or manager or a member of board.

Diana Stoyanova Boneva — Chairman and member of the Board of Directors since 19 July 2021:

- does not participate as a general partner in business companies;
- does not own more than 25 percent of the capital of business companies;
- does not participate in the management of other cooperative companies as a procurator or manager or a member of board

Iliyan Kirilov Dukov — Member of the Board of Directors since 06 January 2015:

- does not participate as a general partner in business companies;
- owns more than 25 percent of the capital of Yapi Investments OOD, Lift Corp OOD, Nilis OOD, Imocorp EOOD and Inmax EOOD;
- participates in the management of Nilis OOD, Imocorp EOOD and Inmax EOOD as a manager.

Nikolay Atanasov Donchev — Member of the Board of Directors since 19 July 2021:

- does not participate as a general partner in business companies;
- does not own more than 25 percent of the capital of business companies;
- does not participate in the management of other cooperative companies as a procurator or manager or a member of board

Svetoslav Tanev Delchev — Member of the Board of Directors since 19 July 2021:

- does not participate as a general partner in business companies;
- owns more than 25 percent of the capital of Travel Academy OOD;
- participates in the management of Travel Academy OOD as a manager.

Lyudmil Ventsislavov Yotsov — Executive Director and Member of the Board of Directors since 03 February 2022:

- does not participate as a general partner in business companies;
- owns more than 25 percent of the capital of FEB 25 OOD;
- does not participate in the management of other cooperative companies as a procurator or manager or a member of board

Ivan Dimitrov Topchiysky — Chairman and member of the Board of Directors since 03 February 2022:

- does not participate as a general partner in business companies;
- does not own more than 25 percent of the capital of business companies;
- does not participate in the management of other cooperative companies as a procurator or manager or a member of board

Anzhela Svetlozarova Slavova — Member of the Board of Directors since 03 February 2022:

- does not participate as a general partner in business companies;
- owns more than 25 percent of the capital of In Mind OOD;
- does not participate in the management of other cooperative companies as a procurator or manager or a member of board.

Anton Yordanov Adamov — Member of the Board of Directors since 03 February 2022:

- does not participate as a general partner in business companies;
- does not own more than 25 percent of the capital of business companies;
- does not participate in the management of other cooperative companies as a procurator or manager or a member of board

Stefan Pandov Voynov — Member of the Board of Directors since 03 February 2022:

- does not participate as a general partner in business companies;
- owns more than 25 per cent of the capital of Net Investment OOD, Net Delivery AD, Via Smart Investment EOOD; participates in the management of Net Investment OOD as a manager, Net Delivery AD and Bulgartel AD as a representative and member of the Board of Directors and in Via Smart Investment EOOD as the sole owner of the company's capital.

Deniza Slatkova Slateva — Executive Director and Member of the Board of Directors since 22 August 2022

- does not participate as a general partner in business companies;
- does not own more than 25 percent of the capital of business companies;
- participates in the management of other companies as a member of the Board of Directors of the Red Rose-44 Cooperative (in liquidation).

Ivan Dimitrov Topchiysky — Chairman and member of the Board of Directors since 22 August 2022:

- does not participate as a general partner in business companies;
- does not own more than 25 percent of the capital of business companies;
- does not participate in the management of other cooperative companies as a procurator manager or a member of a board.

Dimitar Vladimirov Spasov — Member of the Board of Directors since 22 August 2022:

- does not participate as a general partner in business companies;
- does not own more than 25 percent of the capital of business companies;
- does not participate in the management of other cooperative companies as a procurator manager or a member of a board.

Tatyana Angelova Petrova-Boyadzhieva — Member of the Board of Directors 22 August 2022:

- does not participate as a general partner in business companies;
- owns more than 25 percent of the capital of Talenta EOOD and TB Line OOD;

- participates in the management of TB Line OOD as a manager; in Talenta EOOD as the sole owner of the company's capital.

Veselin Sashev Sinabov — Member of the Board of Directors since 22 August 2022:

- does not participate as a general partner in business companies;
- does not own more than 25 percent of the capital of business companies;
- does not participate in the management of other cooperative companies as a procurator manager or a member of a board.

4. INFORMATION ABOUT THE CONTRACTS UNDER ARTICLE 240B OF THE COMMERCE ACT CONCLUDED DURING THE YEAR

As at 31 December 2022, the Board of Directors or other related persons have not concluded contracts under Article 240B of the Commerce Act on behalf of the Company, which go beyond its usual activities or significantly deviate from market conditions.

II. RESULTS FROM THE ACTIVITY OF THE COMPANY AS AT 31 DECEMBER 2022

As of 31 December 2022 Bulgargaz EAD carries out its activities in compliance with all applicable regulations. According to the preliminary financial statement as of 31 December 2022 Bulgargaz EAD will make an operating profit of BGN 31 312 thousand before corporate tax. As a result of the impairment of inventories and trade receivables at the end of the reporting period, amounting to BGN 103 785 thousand and BGN 34 522 thousand, respectively, the financial result of the Company is a loss of BGN 100 431 thousand (as at 31 December 2021: profit in the amount of BGN 63 905 thousand) The loss for the period is mainly due to the fact that the Company recognised an impairment loss on the natural gas injected and available at the UGS Chiren at the year end.

1. GENERAL FACTORS AFFECTING THE ACTIVITY OF THE COMPANY

➤ ***Legal and regulatory framework***

The activity of Bulgargaz EAD being public supply of natural gas is regulated by the Energy Act and the statutory regulations.

By an Act for Amendment and Supplement of the Energy Act (AAS of the Energy Act) adopted on 25 September 2019 by the National Assembly and promulgated in State Gazette No 79 of 2019 it was established an organized stock market for natural gas, and its operation and the role of market participants thereon has been regulated.

As at 01 December 2019, a new obligation is created for Bulgargaz EAD to annually offer for sale on the organized stock market certain amounts of natural gas in accordance with the release program provided for in Article 176a Energy Act.

By the amendment of Article 30, paragraph (1), item (7) of the Energy Act (EA) promulgated in State Gazette No 79 of 2019, the circle of persons to whom Bulgargaz EAD sells natural gas at a regulated price is significantly narrowed. The change entered into force as of 01 January 2020 as Bulgargaz EAD, as a public supplier, sells natural gas at regulated prices only to:

- end suppliers of natural gas;
- a person who has been issued a license for the production and transmission of heat.

All other customers directly connected to the gas transmission network are excluded from the regulated market.

Following the amendments in the legislation, Bulgargaz EAD operates as follows:

- on a regulated market under contracts at the exit point of the Bulgarian gas transmission system — at prices regulated by the EWRC;
- on the free market under contracts at the exit point of the Bulgarian gas transmission system — at freely negotiated prices;
- under the Program for the release of natural gas on an organized exchange market — under the terms of the Program Implementation Agreement approved by the EWRC;
- on an organized exchange market — at freely negotiated prices;
- other, organized stock market (on the domestic market and on the international markets) — at freely negotiated prices.

At the end of 2022, Bulgargaz EAD supported the proposed and subsequently adopted amendment to the Energy Act, which repealed items 4 and 5 in par. 1 of Article 176a of the Energy Act and the Gas Release Programme was suspended.

The reasoning behind the suspension of the gas amounts release programme is that it cannot fulfil its objectives of contributing to liberalisation and increasing competition, but on the contrary — it creates the conditions for a shortage of natural gas and higher prices for other customers of the public supplier. Another motive is that the implementation of the concluded Contracts for the supply of exempted amounts in their current form leads to distortion of the natural gas market due to non-market pricing, including creating an opportunity for traders who purchased released amounts at a low price to sell them back to Bulgargaz EAD at a significantly higher price through the exchange.

In accordance with the Rules for Trading in Natural Gas, Bulgargaz EAD binds the terms of delivery under its contracts with its customers to the terms of its long-term contracts.

In 2022, the regulatory framework for pricing natural gas sales in the marketplace maintains the practice:

- To form a mix of supplies obtained at the lowest cost to meet the needs of the regulated market, the free market under point-of-delivery contracts, and the Natural Gas Amount Release Program. In this situation, the supplies with the highest delivery prices go for injection to the storage at the UGS Chiren. These injected amounts only enter the mix when there is a partial yield from storage during the winter months. Considering that the supplies with the highest prices are injected there, there is a risk that at the moment of the start of production these amounts are no longer price attractive for the price mix. At the same time, for accounting purposes, the Company calculates and applies a weighted average cost of all supplies and a significant mismatch occurs between book cost and selling price pricing.
- Due to the assumed calculation scheme of the ‘public supply’ component set at a maximum value of 2.5%, the actually obtained component is only 0.8%, extremely insufficient to cover penalties and payments that Bulgargaz EAD has in 2022 on the capacity products of OOO Gazprom Export, increased financial costs, etc.
- To use an average exchange rate from quotations 45 days before the beginning of the month in which Bulgargaz submits an application for approval of the gas price. Bulgargaz EAD shall submit an application for price approval on the 10th day of the month preceding the month of price application. Balancing invoices from suppliers shall be received after the end of the delivery month. The actual exchange rate at which the supply is made deviates significantly from that used in the calculation of the price submitted for approval by the Energy and Water Regulatory Commission. It is also possible that the final delivery may deviate in amount from the planned delivery.

➤ **Operational activity**

The main natural gas supplies guaranteeing the consumption of the Company's customers were secured through a long-term contract with OOO Gazprom Export. On 27 April 2022 OOO Gazprom Export unilaterally suspended the supply of natural gas to Bulgargaz EAD under the contract concluded between the parties. In order to secure the contracted amounts with the customers, to fulfil the company's obligations under the agreed Contingency Plan and to prevent the introduction of a restrictive regime in the Republic of Bulgaria, Bulgargaz EAD takes actions to secure alternative supplies of piped and liquefied natural gas (LNG) as well as the possibility of securing alternative supply routes.

In 2022, as a result of the changed geopolitical situation and the premature interruption of supplies from OOO Gazprom Export, Bulgargaz EAD has changed its business model from supplies under two main long-term pipeline gas contracts (with the right to irregular supplies with Gazprom Export), to supplies under multiple LNG purchase contracts on a regular supply basis.

Natural gas prices in 2022 have reached record high levels in European markets. Increased demand for natural gas in Europe after April 2022 in the context of an emergency has caused record price increases in an extremely short timeframe.

Natural gas supplies are beginning to be delivered at market prices significantly higher than the prices under the company's long-term contracts at that time. The alternative deliveries from suppliers for which Bulgargaz EAD is a new customer are mainly made at 50% to 100% prepayment. These deliveries shall be paid for in euros or US dollars. The exchange rate of the US dollar throughout 2022 had a steady upward trend, reaching levels above BGN 2 / USD. Eventually in 2022, Bulgargaz EAD organizes transparent and competitive tenders for LNG supply for the months of November and December 2022 and for the whole year 2023, as well as for the first time participates independently in the tenders of the LNG terminal operator in Greece for the allocation of regasification and storage slots for 2023. This enabled the tenderers to supply natural gas amounts both with slots provided by Bulgargaz EAD and with slots provided by the supplier. Through the tendering procedures, Bulgargaz EAD secured the necessary amounts to secure the contracts concluded with the customers and the amounts for injection into the UGS Chiren, achieving an extremely competitive price

As a result of negotiations and agreements signed on 29 December 2020, gas supplies from Azerbaijan under the 2013 contract started on 31 December 2020. According to the signed agreements, Bulgargaz EAD receives these supplies in a reduced amount, at a temporary delivery point in Greece and transports them through the Greek gas transmission network to the Bulgarian border. Following the signing of a supplementary agreement, effective from 01 July 2022, natural gas supplies from Azerbaijan are carried out in the full contracted volume, and as the IGB interconnector was not put into operation at that time, the capacity of the Kulata/Sidirokastro interconnector continued to be used, with a change in the price of supply in increase.

The long-term contract between Bulgargaz EAD and Azerbaijan for the supply of natural gas defines the delivery point as the interconnection point between TAP and the interconnector Greece — Bulgaria (IGB) — Komotini, Greece. The contract is strategic in terms of the construction of the IGB pipeline, in connection with the supply of natural gas from Azerbaijan via the Southern Gas Corridor route. The construction of the interconnector and the supply of natural gas under the contract are the two most important projects for the implementation of the state strategy for the diversification of the sources and routes of natural gas supply and are supported by the European Commission (EC) and the strategic partners of the Republic of Bulgaria.

In this regard, Bulgargaz EAD successfully participated in the procedures for expressing interest and reserving capacity in the IGB pipeline. As a result of its participation in the procedures, Bulgargaz EAD concluded an agreement for the transmission of natural gas with IGB AD for a period coinciding with the Contract period.

On 01 October 2022, the IGB interconnector was put into commercial operation and the deliveries of the full amounts under the contract with Azerbaijan are made at the original agreed price through entry point Komotini.

The provision of regasification and transmission capacity to an entry point in the Republic of Bulgaria represents a new component that has also started to be developed, reflecting the transmission needs of the supplies secured from alternative suppliers.

In line with the state strategy for diversification of the country's natural gas supply routes and sources and the Decision No 166 of 10 March 2020 of the Council of Ministers, Bulgargaz EAD has reserved the capacity of the LNG terminal near Alexandroupolis for the supply of 5 300 000 MWh/year for a period of 10 years. Pursuant to Decision No 661 of 15 September 2022 of the Council of Ministers (CM), Bulgargaz EAD has reserved additional capacity at the LNG terminal near the town of Alexandroupolis, Hellenic Republic — Gaztrade S.A., for 5 300 000 MWh/year (\approx 500 mcm/year) for a period of 10 years starting from the year of the commercial operation of the terminal (from 2024), bringing the total reserved capacity to 10 600 000 MWh/year.

On the basis of the signed on 30 December 2022 Agreement with BOTAŞ BORU HATLARI İLE PETROL TAŞIMA A.Ş., Bulgargaz EAD provides access to the LNG regasification terminals in Turkey and its subsequent transportation to the territory of the Republic of Bulgaria, subject to the flexibility of supply. The period of the Agreement between Bulgargaz EAD and Botash is 01 January 2023 — 31.12.2035, and it was foreseen that the same will become legally effective after a decision of the Council of Ministers and all relevant approvals for both parties. By Decision No 26 of 12 January 2023 the Council of Ministers of the Republic of Bulgaria approved the Agreement. The Agreement provides for regasification and transmission capacity of natural gas to the interconnection point at the border of the Republic of Turkey and the Republic of Bulgaria — Malkochlar/Stranja 1.

On 29 June 2022, Regulation (EU) 2022/1032 of the European Parliament amending Regulation (EU) 2017/1938 and Regulation (EC) No 715/2009 in relation to gas storage to meet the European Union's storage fill targets entered into force. In this regard, Bulgargaz, as well as other users of the gas storage in Chiren, injected amounts above the planned ones at significantly inflated prices. In order to achieve the storage fill target of 80%, as well as the relatively warm winter, production was severely constrained, resulting in large gas inventories at the end of the reporting period.

In accordance with the provision of IAS 2, respectively the accounting policy of the company, in determining the net realisable value of inventories (I) at the end of the reporting period, the prices approved by the EWRC for the month of the first reporting period of the following year — January are used. It is the judgement of the management of Bulgargaz EAD to follow the approach of applying the requirements of IAS 2 'Inventories', as recorded in the Company's Accounting Policy (approved by the sole owner of the company's capital), by charging an impairment charge to inventories of BGN 104 million.

This impairment has a material impact on the Company's financial performance in 2022, resulting in the amount of the Company's equity falling below the amount of shareholders' equity. As of 31 December 2022, the Company's equity capital of BGN 170 972 thousand is below the registered share capital by the amount of BGN 60 726 thousand, as the net value of its assets (the difference between the value of the Company's rights and obligations) according to Article 247a, paragraph 2 is positive and does not require action by the sole owner of the capital under Article 252 of the Commerce Act.

Pursuant to Article 6b(1) of Regulation (EU) 2022/1032, Member States shall take all necessary measures, including the provision of financial incentives or compensation to market participants, in order to achieve the backfilling targets set under Article 6a of the Regulation. In this regard, in addition to the accrual of the inventory impairment charge as of 31 December 2022, it should be noted that the Ministry of Energy is developing a mechanism to compensate for the high prices of the amounts injected in 2022 at the UGS Chiren, applicable to all companies with natural gas injected into the underground gas storage plant as of 01 November 2022. According to the compensation mechanism proposed for discussion in the working group, the amount of the expected compensation for the quantities injected by Bulgargaz as of 01 November 2022 would amount to no less than BGN 265 million. For the purposes of the payments envisaged under the mechanism developed, in 2023 each company should sign an individual contract with the Ministry of Energy. At the time of preparation of the Company's Annual Financial Report, the process of entering into these contracts has not been completed.

On 9 August 2022, Council Regulation (EU) 2022/1369 on coordinated demand-reduction measures for gas came into force, under which a 15% reduction in natural gas consumption is recommended. The Regulation is binding in its entirety and should be directly applicable in all Member States for a period of one year after its entry into

force (until 9 August 2023). Voluntary demand reduction means that Member States shall make every effort to reduce their gas consumption in the period from 01 August 2022 to 31 March 2023 by at least 15% compared to the average gas consumption for the period from 01 August to 31 March in the five consecutive years preceding the entry into force of the Regulation.

As a result, many of Bulgargaz EAD's customers claimed for the abolition of the clauses in the company's contracts for charging penalties for undrawn/overdrawn amounts of natural gas on an annual and daily basis. Due to the high natural gas prices, in the period from 01 September 2022 and the decision taken at an extended meeting of the Crisis Staff at the end of August 2022, the company agreed to approve the reduced daily customer orders for the supply of natural gas, outside the tolerances under the concluded purchase and sale agreements for 2022 at the exit points of the Bulgarian gas transmission network. This caused an additional financial burden for Bulgargaz EAD due to the specificity of the LNG supply (solid volumes with uniform daily delivery), the reduced amounts accepted from customers, the purchase of additional capacity for injection, storage and production, beyond the allocated by the operator under the contingency plan for the maximum filling of the UGS Chiren, as well as the formation of imbalances in the gas transmission system leading to losses for the company.

In November 2022, the company returned to compliance with the tolerances under the purchase and sale agreements concluded for 2022 at the exit points of the Bulgarian gas transmission network. In addition, at this point in 2022, there has been a downward trend in natural gas prices in European gas markets due to:

- The filling of gas storage plants;
- Provision of alternative LNG supplies;
- Building new LNG regasification terminals at more European ports;
- The relatively warm winter;
- Limiting economic activity in Asian markets.

In order to overcome the inconsistencies between the new market situation and the preserved regulatory framework, the Company has taken steps to change the accounting policy for 2023 in determining the cost of injection at the UGS Chiren of the amounts under the Contingency Plan to ensure security of natural gas supply to the Republic of Bulgaria. The objectives of the proposed change in accounting policy are:

- as a result of the Company's new business model of operation in 2022, to restore the correct comparability in the reporting of the Company's revenues and expenses;
- the delivered value of natural gas injected at Chiren is preserved, used at a later stage as a pricing element and the company's capital is recovered through the pricing mechanisms of the market.

2. PERFORMANCE OF QUANTITATIVE INDICATORS

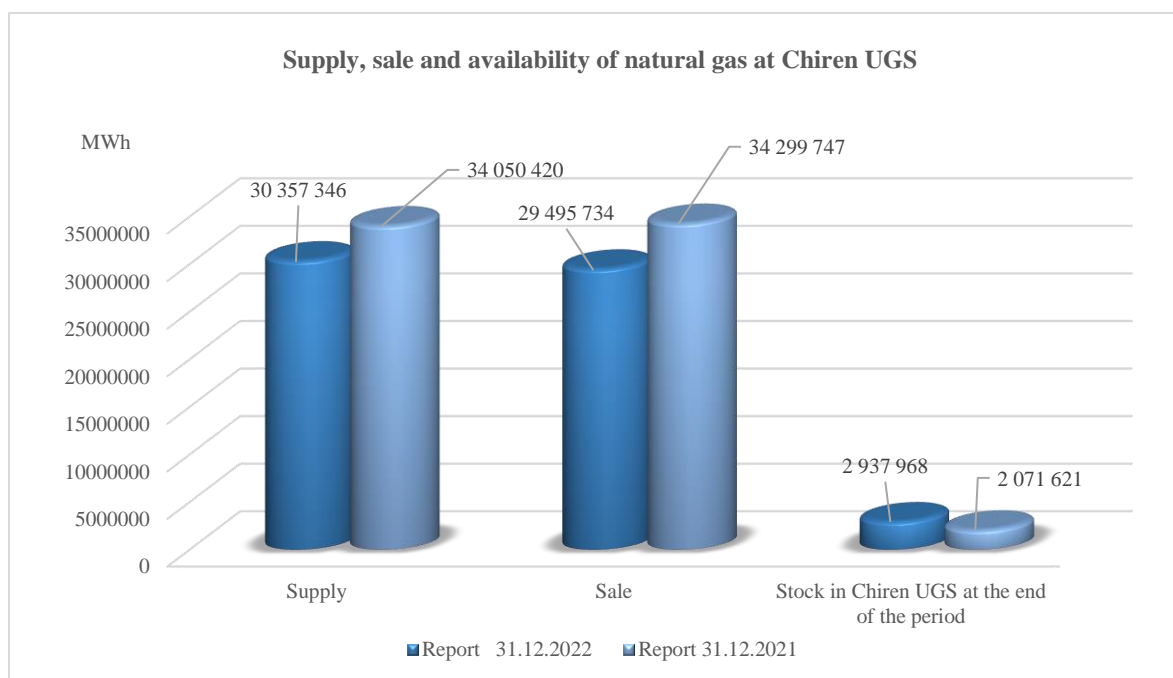
2.1. Purchased and sold amounts of natural gas

The amount of natural gas purchased and sold as of 31 December 2022, compared to 31 December 2021, are presented in Table 1:

Table No 1

MWh

Type of delivery	Unit	As at 31 December 2022	As at 31 December 2021	Change in amounts	Change in (%)
Purchase	MWh	30 357 346	34 050 420	(3 693 074)	(10.85%)
Sale	MWh	29 495 734	34 299 747	(4 804 013)	(14.01%)
Stock in UGS Chiren at the end of the period	MWh	2 937 968	2 071 621	866 346	41.82%



During the reporting period, total gas amounts delivered were 30 357 346 MWh (31 December 2021: 34 050 420 MWh), which is a decrease of 3 693 074 MWh or 10.85%

Gas sold as of 31 December 2022 is 29 495 734 MWh compared to 34 299 747 MWh for 2021, a decrease of 4 804 013 MWh or 14.01%.

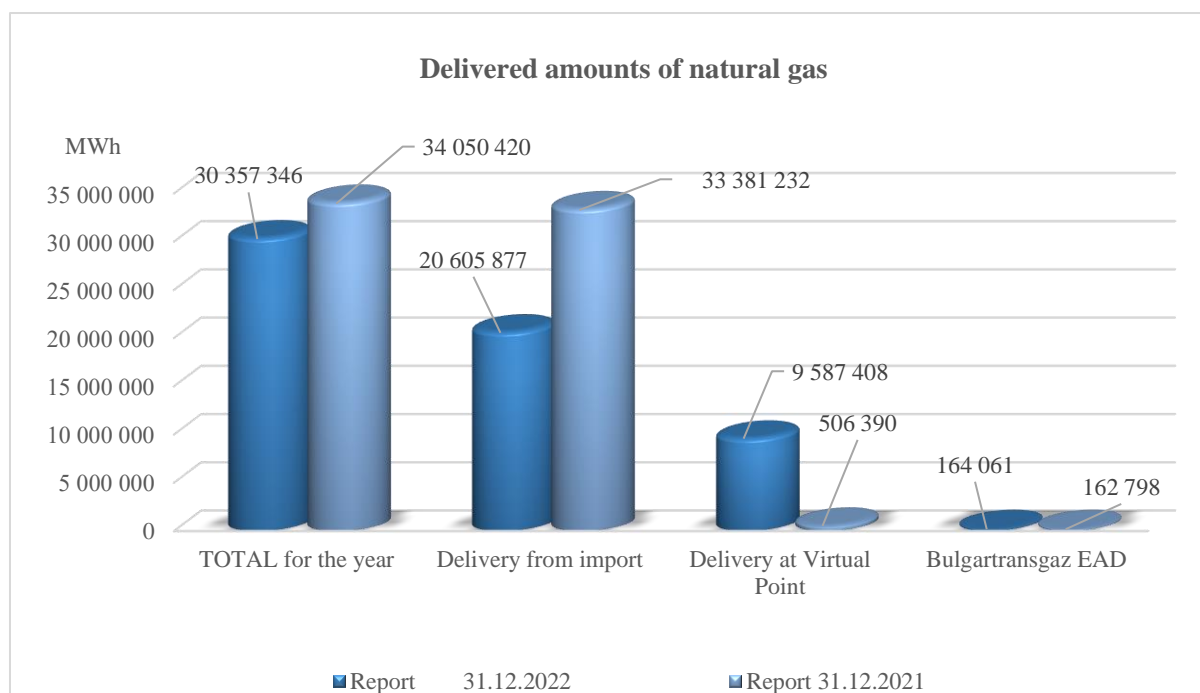
2.2 LNG amounts purchased

Purchased amounts of natural gas as of 31 December 2022 and 31 December 2021 are shown in Table 2.

Table No 2

MWh

Purchase of natural gas	As at 31 December 2022	As at 31 December 2021	Change in quantities	Change in (%)
TOTAL purchase	30 357 346	34 050 420	(3 693 074)	(10.85%)
Purchased from imports	20 605 877	33 381 232	(12 775 355)	(38.27%)
Purchased on a virtual point of sale	9 587 408	506 390	9 081 018	1793.29%
Purchased under balancing contracts with Bulgartransgaz EAD	164 061	162 798	1 263	0.78%



In order to ensure the natural gas needs of its customers as of 31 December 2022, Bulgargaz EAD has purchased 30 357 346 MWh of natural gas (31 December 2021: 34 050 420 MWh). Purchased amounts of natural gas from imports as of 31 December 2022 amount to 20 605 877 MWh, as well as purchased amounts at virtual trading point 9 587 408 MWh and purchased natural gas from Bulgartransgaz EAD under balancing contracts amounting to 164 061 MWh.

2.3 Extraction and injection of natural gas

In order to guarantee the security and continuity of natural gas supplies and to cover the irregularity for its customers, Bulgargaz EAD uses the capacity of the underground gas storage plant in the UGS Chiren, owned by the combined operator Bulgartransgaz EAD. The operation of the gas storage plant is cyclical, with the natural gas injection period being 'April—October' and the production period being 'November—March'.

In accordance with the Contingency Plan for the storage of natural gas amounts to compensate for the seasonal unevenness of its customers, Bulgargaz EAD is obliged to inject, store and extract natural gas amounts by participating in Bulgartransgaz EAD's public procedure for the allocation of storage capacity at the UGS Chiren.

The extracted and injected amounts of natural gas in the UGS Chiren as at 31 December 2021 versus 2020 are presented in Table No 3.

Table No 3

MWh

Extraction and injection	As at 31 December 2022	As at 31 December 2021	Change in MWh	Change in %
Quantities available at the beginning of the period	2 071 621	2 322 800	(251 179)	(10.81%)
Extraction	2 507 553	3 247 567	(740 014)	(22.79%)
Injection	3 373 899	2 996 868	377 031	12.58%
Difference in the recalculation of quantities from extraction and injection in UGS Chiren	-	480	(480)	(100%)
Quantities available at the end of the period	2 937 968	2 071 621	866 346	41.82%

The extracted quantities of natural gas as at 31 December 2022 are 2 507 553 MWh, which is 740 014 MWh or 22.79% less compared to the previous period (31 December 2021: 3 247 567 MWh). The injected quantities of

natural gas as of 31 December 2022 are 377 031 MWh more, compared to 31 December 2021, when they were 2 996 868 MWh.

The Company has a gas stock of 2 937 968 MWh at the UGS Chiren as at 31 December 2022, which is an increase of 866 346 MWh or 41.82% more than the previous period (as of 31 December 2021: 2 071 621 MWh).

III. SALE OF NATURAL GAS

1. Sales

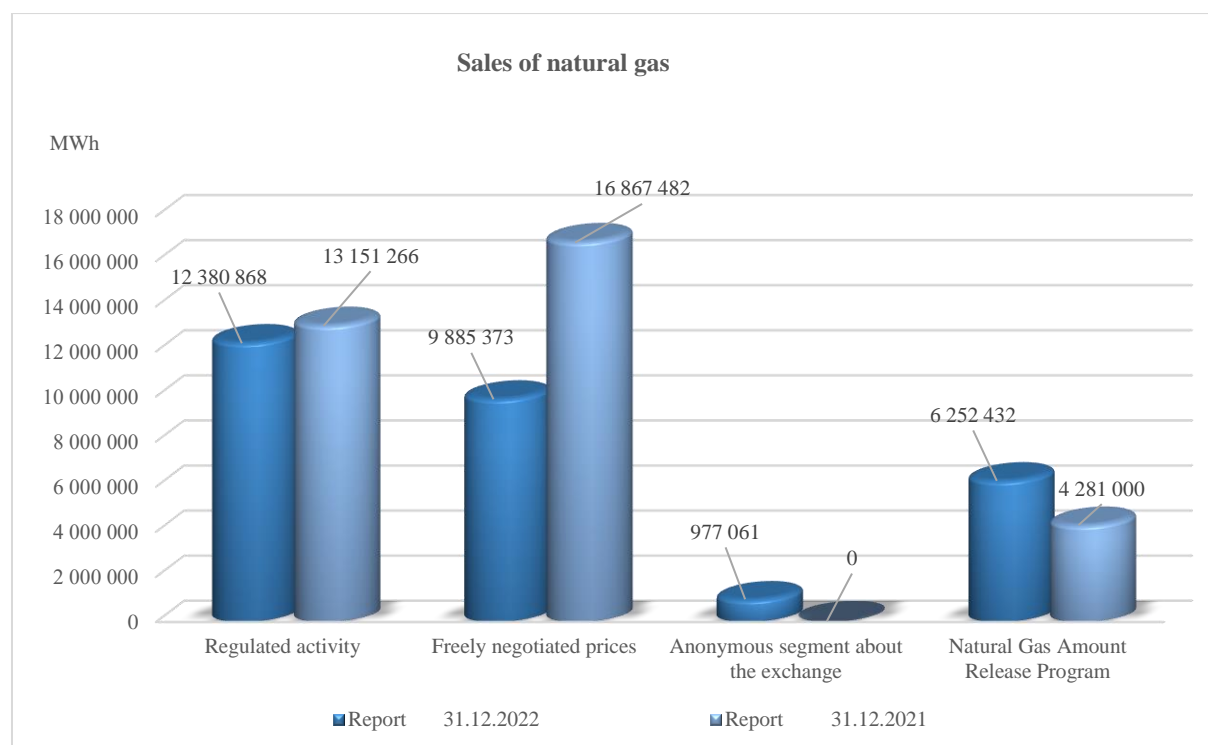
Bulgargaz EAD ensures reliable supply of natural gas to its customers in the country in accordance with the contractual requirements. As at 31 December 2022, 29 495 734 MWh of natural gas were sold, which is a decrease of 4 804 013 MWh or 14.01%, compared to the amounts sold in 2021 — 34 299 747 MWh.

Natural gas sales for the reporting period are presented in Table No 4:

Table No 4

MWh

Sales	As at 31 December 2022	As at 31 December 2021	Change in quantities	Change in (%)
Regulated activity	12 380 868	13 151 266	(770 398)	(5.86%)
Freely negotiated prices	9 885 373	16 867 482	(6 982 109)	(41.39%)
Anonymous segment about the exchange	977 061	-	977 061	-
Release program	6 252 432	4 281 000	1 971 432	46.05%
Total	29 495 734	34 299 747	(4 804 013)	(14.01%)



2. Structure of sales

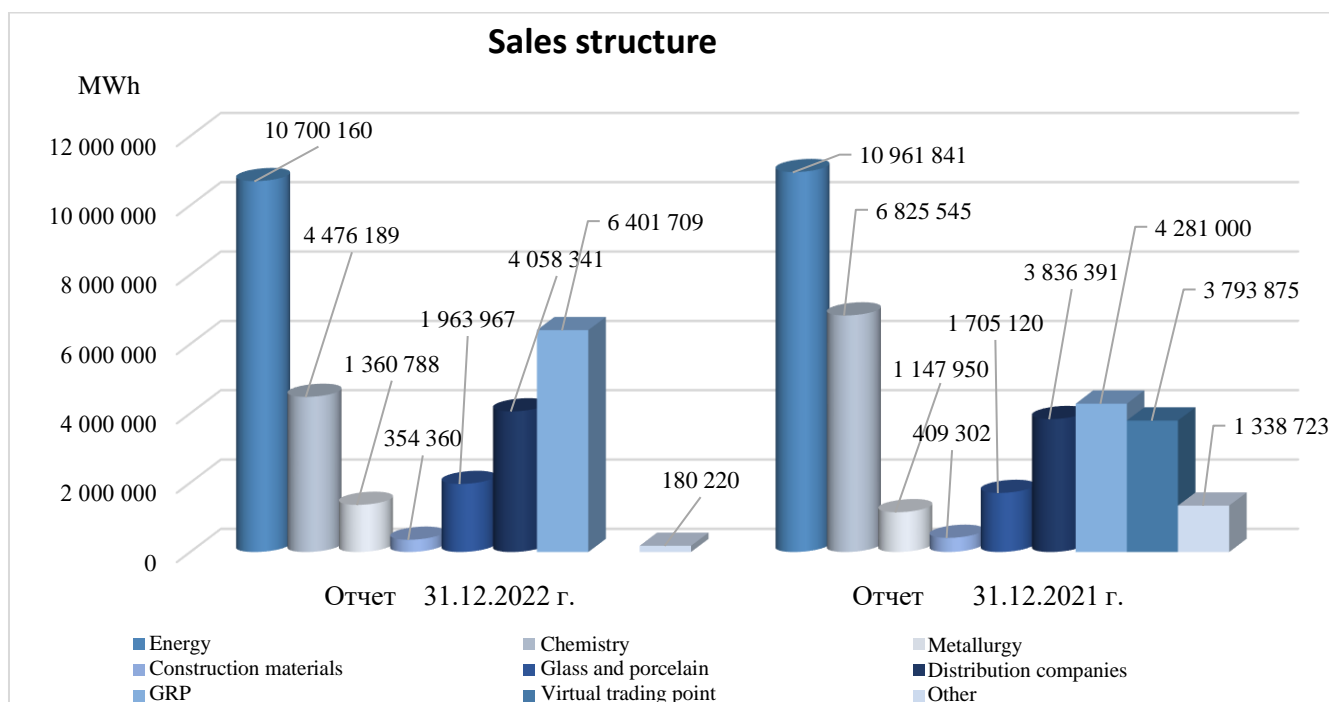
The quantities of natural gas sold to the Company's customers by main sectors of the economy as of 31 December 2022 and 31 December 2021 are presented in Table 5.

Table No 5

MWh

Industry sector	As at 31 December 2022	As at 31 December 2021	Change in quantities	Change in (%)
Energy	10 700 160	10 961 841	(261 681)	(2.39%)
Chemistry	4 476 189	6 825 545	(2 349 356)	(34.42%)
Metallurgy	1 360 788	1 147 950	212 839	18.54%
Construction materials	354 360	409 302	(54 942)	(13.42%)
Glass and porcelain	1 963 967	1 705 120	258 847	15.18%
Distribution companies	4 058 341	3 836 391	221 949	5.79%
Release program	6 401 709	4 281 000	2 120 709	49.54%
Virtual trading point	-	3 793 875	(3 793 875)	(100.00%)
Other	180 220	1 338 723	(1 158 503)	(86.54%)
Total	29 495 734	34 299 747	(4 804 012)	(14.01%)

As at 31 December 2022, the sales, compared to those as at 31 December 2021, decreased by 4 804 012 MWh or by 14.01%. This is a result of the decreased consumption of customers mainly from the Energy, Chemistry, Construction materials and Other.



The data presented in Table No 5 shown in the graph above show the following trend in the structure of natural gas consumption:

- ✓ the main consumers of natural gas remain the enterprises in the field of energy and chemistry;
- ✓ decrease in sales made in the energy and chemical industries.

IV. RISK FACTORS

The main risk factors in the activity of the Company are: regulatory/price risk (the sale of natural gas at a regulated price lower than the purchase price), currency risk, credit risk and liquidity risk.

The following types of risks exist in carrying out the Company's activities:

1. Regulatory/Price Risk

The specificity of the activity of Bulgargaz EAD stems from the fact that the Company is a public natural gas supplier. The Company purchases natural gas at market prices by selling some of the amounts purchased at regulated prices. The discrepancy between the purchase and sale price exposes the Company to the risk of losses and liquidity shortfalls in meeting its functional obligations. If regulated prices which are lower than the delivery prices are validated, sales revenue would not be sufficient to cover the actual cost for purchasing natural gas and the Company would experience difficulties in paying their liabilities towards suppliers.

The provisions of Ordinance 2 of 19 March 2013 on Natural Gas Price Regulation — for application to customers on a regulated market are:

- The rate at which the delivery value is calculated shall be the average rate 45 days prior to the submission of the price estimate on the 10th day prior to the month to which it relates. This formulation does not fit the dynamics of today's financial markets and results in uncollected revenue by the company;
- Contingent fixed costs — these costs are determined on the basis of a plan drawn up before the start of the financial year for which monthly regulated prices will be set. The total of these costs shall be allocated between regulated and unregulated markets based on the respective amounts scheduled for regulated and unregulated customers. Deviations from the notional fixed costs thus redefined can be substantial, especially when amounts change in the ratio of actual sales in regulated and unregulated markets;
- Determination of working capital for regulated activity — here a division by 8 is applied (instead of presenting a segmented report for regulated activity), which is a simple administrative solution and de facto reduces the basis for the price premium.
- Return on capital for regulated activity — set at the beginning of the year and not changed during the year — so new borrowing or new capital received in the current year is not taken into account, which de facto reduces the 'public supply' allowance to the regulated price.
- The amounts under the Gas Release Programme, until the end of 2022, are not included in the determination of return on capital and working capital, i.e. they are not a public commitment for Bulgargaz EAD, but their prices are regulated with the approval of the Energy and Water Regulatory Commission (EWRC) under the offer procedure.

All these limitations of Ordinance 2 of 19 March 2013 on Natural Gas Price Regulation should be addressed to the EWRC with a reasoned proposal to amend the current pricing mechanism.

2. Currency Risk

Currency risk is associated with changes in foreign exchange rates that result in a gain or loss on the revaluation of foreign currency assets.

The main risk for Bulgargaz EAD stems from the need to buy natural gas in US dollars and sell it in BGN. Thus, the Company is exposed to the risk of changes in the exchange rate. The approved marginal price set by the EWRC for each regulatory period is determined at a fixed exchange rate of the US dollar against Bulgarian lev, averaged for 45 days prior to the month of submission of the application for approval of the EWRC selling price for the next price period. Also, the Company is exposed to the risk of realizing a loss from the revaluation of its foreign exchange exposures due to the dynamic movement of the US dollar exchange rate.

3. Credit risk

The credit risk for the Company arises from receivables from customers and the risk of financial loss in cases where the customer does not fulfill its contractual obligations to pay for the gas supplied. The main customers of the Company are the district heating companies, which commonly claim to have issues with the collection of their receivables from customers and accordingly experience serious difficulties in repaying their liabilities due to maturity. The Company carries out current monitoring and analysis of its receivables, while monitoring the behaviour of its customers and reports in detail the activities of its major debtors. Additional rescheduling agreements are concluded with some of the customer who have difficulties in repaying their current liabilities after providing financial security. As a last resort, the supply of natural gas has been suspended and the receivables of Bulgargaz EAD were collected through the court.

In April 2023, a first contractual mortgage was established in favour of Bulgargaz EAD on a land property in the village of Ezerovo, municipality. Beloslav, Varna district, as security for the overdue liabilities of TPP Varna EAD to Bulgargaz EAD arising from the Natural Gas Supply Contract for 2022.

4. Liquidity risk

Liquidity risk arises when the Company is unable to meet its current obligations and financial commitments. They are reflected in the short-term liabilities of the Company, namely liabilities for transfer and storage, liabilities to the state in the form of taxes and excise duties, liabilities under trade loans and regular payments related to operating activities. Short-term liabilities require precise planning of cash flows based on monthly forecasts.

During the period from the beginning of September 2022 and to date, the Company has planned its cash flows rigorously and operated without delays in the payment of trade payables.

V. STRATEGIC, MARKET AND FINANCIAL GOALS

The development of the Company is related to the realization of the strategic and market goals.

The main strategic goals of BULGARGAZ EAD are related to the responsibilities and obligations for continuity and reliability of the supplies. Guaranteeing the supply of natural gas is of key importance for the energy security of the Republic of Bulgaria. In order to achieve these goals, Bulgargaz EAD makes every effort to provide alternative sources and routes for the supply of natural gas to help increase the security and reliability of gas supplies. This is related to maintaining constant financial stability and increasing the economic efficiency of the Company's operations, under the conditions of market uncertainty in the country and high intercompany indebtedness.

In September 2022, on its website, Bulgargaz EAD published tender notices for the supply of liquefied and piped natural gas for the months of November and December 2022, for 2023 and for the period 2024—2034. As a result of the open tenders, for the month of November 2022, increased interest from international natural gas traders was found, which resulted in very good price offers. Taking into account the methodology for the evaluation of the received offers, Bulgargaz EAD secured contracts for the supply of natural gas with the traders whose offers meet the methodology and the amount of quantities required by the company. The resulting prices for natural gas supply led to a significant price reduction for the Bulgarian market — from 353 BGN/MWh for September 2022 to prices below 146 BGN/MWh for December 2022.

In order to secure long-term supply contracts, Bulgargaz EAD announced a tender procedure for the selection of LNG suppliers for a period of 10 years, which is scheduled to be completed in early 2023. The conclusion of long-term LNG supply contracts with producers and traders within the reserved capacities of the Alexandroupolis terminal implies achieving stability and predictability, as well as a better financial framework of supply.

Bulgargaz EAD's market objectives are related to entering other gas markets. The market goals of Bulgargaz EAD are related to maintaining its market position in the country and entering new regional gas markets. In order to achieve these objectives, Bulgargaz EAD should secure registration as a natural gas trader and access to the gas transmission networks of neighbouring countries, as well as offer flexible and competitive commercial terms:

- Bulgargaz EAD holds a license for trading in natural gas on the territory of the Hellenic Republic under Decision No 247/2020 — indefinite and Decision No 311/2022 for wholesale trading in

natural gas on the territory of the Hellenic Republic for a period of 20 years and will be able to trade in natural gas on the Hellenic Energy Exchange (ENEX) after opening a clearing account with the National Bank of Greece.

- Bulgargaz EAD is a registered user of the gas transmission network of GASTRANS d.o.o. in the Republic of Serbia. The GASTRANS pipeline provides the gas interconnection between the gas systems of the Republic of Bulgaria and Hungary — from the exit point of the Zaichar gas transmission network to the exit point of the Horgos gas transmission network. Thus, the Company's ability to provide natural gas amounts to and from Hungary is guaranteed.
- Actions have been taken to register the Company as a wholesaler of natural gas and user of the gas transmission networks of Slovakia and Hungary.
- The procedure for the registration of Bulgargaz EAD as a wholesaler of natural gas and user of the gas transmission network of Romania is being examined;
- Bulgargaz EAD should directly negotiate long-term gas sales contracts with gas traders from outside the European Union (North Macedonia, Serbia, Ukraine and Moldova).

The financial objectives of Bulgargaz EAD are related to ensuring the financial stability of the Company. As regards the regulated market, the regulatory framework regulates the pricing of Bulgargaz EAD for sales on the regulated market. The implementation of 'excess profits' would be in violation of the Ordinance on Natural Gas Price Regulation, which caps the component for the 'public supply' activity at 2.5% per year. With regard to the free market, after 01 January 2020, Bulgargaz EAD, in order to ensure a level playing field between the company's customers, proposed a uniform approach to the formation of the prices at which it supplies natural gas on the regulated market and, respectively, the prices under the contracts, which were initially concluded under the conditions of regulated prices, and after the entry into force of the Act for amending and supplementing the EA should be executed at freely negotiated prices. In order to ensure a smooth transition and to protect the interests of both parties to the maximum extent, Bulgargaz EAD proposed to its customers that the formation of the sales prices under the Contracts be carried out in accordance with the provisions of Ordinance 2 of 19 March 2013. From 2022, the components forming the sales price set by the Ordinance shall include a surcharge covering the costs of Bulgargaz EAD, which are not included in the calculation of the regulated price. The approach applied by the Company ensures the objective and transparent formation of the gas price.

In case of a change of Ordinance 2 of 19 March 2013, Bulgargaz EAD should develop a pricing mechanism on the free market, taking into account the requirements of the market and in accordance with the terms of its contracts.

VI. FINANCIAL AND ECONOMIC POSITION

The financial and economic position of Bulgargaz EAD has been reviewed and analysed on the basis of the annual financial statements, which comprise the statement of financial position, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of equity of the Company as at 31 December 2022 compared to the same period in 2021.

The main effect on the financial position of Bulgargaz EAD as at 31 December 2022 was the impairment of inventories at the end of the reporting period.

According to the Company's accounting policy, in determining the net realisable value of inventories (I) at the end of the reporting period, the prices approved by the EWRC for the month of the first reporting period of the following year i.e. January of the following calendar year are used. The price at which the public supplier sells natural gas to the final suppliers of natural gas and to the persons who have been issued a license for production and transmission of heat energy in the amount of BGN 179.33/MWh (excluding excise duty and VAT) has been approved by the Decisions of the EWRC. for January 2023, and subsequently in the amount of BGN 124.34, BGN 106.74, BGN 98.16 and BGN 77.55. /MWh (excluding excise duty and VAT) for the months of February, March, April and May 2023.

The judgement of the management of Bulgargaz EAD is to follow the approach of applying the requirements of IAS 2 'Inventories' as adopted in the accounting policy of the company (approved by the sole owner of the

company's capital). As a result, an inventory impairment charge of BGN 103 785 thousand has been recognised for 2022. This impairment loss has a material impact on the Company's financial performance in 2022, resulting in the amount of the Company's equity falling below the amount of registered capital.

The provision accrued as of 31 December 2022 in Case COMP/B1/AT.39849-BEH Gas is BGN 52 720 thousand, representing one third of the total amount of the pecuniary sanction imposed on Bulgarian Energy Holding EAD, Bulgartransgaz EAD and Bulgargaz EAD. Case COMP/B1/AT.39849 — BEH gas concerns a possible violation of Article 102 of the Treaty on the Functioning of the European Union (TFEU) in connection with allegations by the European Commission (EC) concerning the actions of Bulgarian Energy Holding EAD and its subsidiaries — Bulgargaz EAD and Bulgartransgaz EAD aimed at:

- preventing their competitors from gaining an access to key gas infrastructure (gas transmission network and natural gas storage facility) in the Republic of Bulgaria, such as explicitly or implicitly denying third parties access or causing delays;
- preventing competitors from gaining an access to the main import pipeline by reserving capacity that remains unused. The proceedings were instituted in 2013 with a view to adopting a decision under Chapter 3 (Articles 7 to 10) of Regulation 1/2003. On 23 March 2015, the European Commission issued a Statement of Objections. Bulgarian Energy Holding EAD and its gas subsidiaries submitted their respective responses to the European Commission on 9 July 2015 (Bulgargaz EAD), 10 July 2015 (Bulgarian Energy Holding EAD) and 17 July 2015 (Bulgartransgaz EAD).

On 24 November 2017, a decision was adopted by the 44th National Assembly (NA) of the Republic of Bulgaria to take the necessary actions to close Case COMP/B1/AT.39849 — BEH gas, whereby the National Assembly supported the closure of the case under Article 7 of Regulation (EC) No 1/2003 without acknowledging the infringements alleged by the European Commission and without taking responsibility for them, fulfilling the obligations arising from a possible prohibition decision, including a possible financial penalty.

On 26 July 2018, a decision was adopted by the 44th National Assembly (NA) of the Republic of Bulgaria to take action to close Case COMP/B1/AT.39849 — BEH gas under Article 9 of Regulation (EC) No 1/2003 by undertaking commitments on the part of Bulgaria and reaching an agreement with the European Commission. The second decision of the National Assembly was motivated by the development of case COMP/B1/AT.39816 between the European Commission and PJSC Gazprom and OOO Gazprom Export, on which on 24 May 2018 the Commission announced that an agreement had been reached and closed under the provisions of Article 9 of Regulation (EC) No 1/2003 without imposing a financial sanction on PJSC Gazprom and OOO Gazprom Export.

On 17 December 2018, the European Commission announced its adopted Decision C(2018)8806 in Case COMP/B1/AT.39849–BEH Gas, whereby the European Commission imposed a fine on Bulgarian Energy Holding EAD, its supply subsidiary Bulgargaz EAD and its gas infrastructure subsidiary Bulgartransgaz EAD (BEH Group) in the amount of EUR 77 068 thousand for allegedly blocking competitors' access to key gas infrastructure in Bulgaria in violation of EU antitrust rules. The decision was received in the offices of the three companies on 19 December 2018, which determines the beginning of the period for appealing (two months and ten days from notification of the Decision to the Parties) and for payment of the fine (three months from the notification of Decision to the Parties), set out therein. An appeal against the decision shall not stay its execution and the corresponding sanction.

On 18 March 2019 a bank guarantee was issued by a selected banking institution through a procedure conducted by Bulgarian Energy Holding EAD. The bank guarantee covers 2/3 of the total amount of the fine in the amount of EUR 77 068 thousand, which secures the obligations of Bulgarian Energy Holding EAD and Bulgargaz EAD under the imposed fine.

On 4 July 2019, the Bulgarian state, through the Ministry of Foreign Affairs, submitted an application to intervene in the case.

On 26 August 2019, the European Commission presented its Defense before the General Court in response to a complaint filed by Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD.

On 29 November 2019, Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD filed a Response against the Defense of the European Commission. On 20 February 2020, the official position of the Republic of Bulgaria as a party in Case T-136/19, submitted by the Ministry of Energy, was filed with the General Court of the European Union through the Ministry of Foreign Affairs (MFA).

On 29 September 2022 a hearing on the Case BEH Gas (Case T-136/19 of the General Court of the EU) was held, at which the Court heard the parties and the position of the Republic of Bulgaria on the case was presented. After the hearing, the court asked the parties to submit additional documents, and the deadline for this was extended to 25 November 2022.

The forecast is for a favourable result of the appeal and refund of the provision cost in 2023. The assumption would only materialise provided that the EU General Court rules in favour of the BEH group and the decision is not appealed by the EC. If the decision is appealed to the Court of Justice of the European Union, the Bulgarian companies will have to continue to maintain the security/provision until the dispute is finally resolved.

As at 31 December 2022 the Company has entered into overdraft agreements in the total amount of BGN 58 100 thousand under agreements with banking institutions, of which no funds have been yet drawn down. The loans are unsecured, with market interest rate and due in March 2023.

As of 31 December 2022, the attracted funds in the Company's working capital received from Bulgarian Energy Holding EAD amount to BGN 717 515 thousand, fully utilized. This liability is formed by loan financing, including three loans — BGN 200 000 thousand, BGN 60 000 thousand and BGN 457 500 thousand.

By 31 December 2022 The Company has also drawn a cash loan from the Ministry of Energy for the amount of BGN 800 000 thousand.

VII. MAIN FINANCIAL INDICATORS

The main financial and economic results of the Company's activities as at 31 December 2022 and as at 31 December 2021 are presented as follows:

BGN thousand

Indicators	31 December 2022	31 December 2021	Change	Change (%)
Total operating revenue	4 927 370	2 135 224	2 792 146	130.77%
Total operating expenses	(5 025 407)	(2 050 505)	(2 974 902)	145.08%
EBITDA	(98 037)	84 719	(182 756)	(215.72%)
EBIT	(98 575)	84 202	(182 777)	(217.07%)
EBT	(111 259)	81 069	(192 328)	(237.24%)

Indicators	31 December 2022	31 December 2021	Change	Change (%)
Fixed tangible assets	465	314	151	48.09%
Total assets	2 076 828	601 033	1 475 795	245.54%
Current assets	2 060 748	599 001	1 461 747	244.03%
Current liabilities	1 046 430	219 653	826 777	376.40%
Cash balances	207 395	211	207 184	98191.47%
Working capital	1 014 318	379 348	634 970	167.38%
Equity	170 973	328 913	(157 940)	(48.02%)
Share capital	231 698	231 698	0	0.00%
Reserves	21 153	14 757	6 396	43.34%
Retained earnings	18 553	18 553	0	0.00%
Profit (loss) for the current period	(100 431)	63 905	(164 336)	(257.16%)
Number of personnel	51	54	(3)	(5.56%)

VIII. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

BGN thousand

STATEMENT OF COMPREHENSIVE INCOME	As at 31 December 2022		As at 31 December 2021		Change	
	BGN thousand	% of the total	BGN thousand	% of the total	BGN thousand	%
Revenue	4 927 370	100.00%	2 135 224	99.20%	2 792 146	130.77%
Revenue from sale of natural gas	4 898 139	99.41%	2 123 087	98.63%	2 765 941	130.28%
Regulated activity	1 892 264	38.40%	786 275	36.82%	1 105 989	140.66%
Unregulated activity freely negotiated prices	1 696 352	34.43%	1 066 500	49.95%	629 852	59.06%
Organized stock market — release program	1 200 910	24.37%	232 720	10.90%	968 190	416.03%
Related parties — BTG sale of natural gas for balancing	82 343	1.67%	20 433	0.96%	61 910	302.99%
Other penalties — sanctions for amounts	26 270	0.53%	17 159	0.80%	10 998	64.09%
Other revenue	29 231	0.59%	12 137	0.57%	17 094	140.84%
- penalties on overdue receivables/payables	28 157	0.57%	11 665	0.55%	16 492	141.38%
- other income	1 074	0.02%	472	0.02%	602	127.54%
Expenses by economic elements	(5 025 407)	100.00%	(2 050 505)	100.00%	(2 974 902)	145.08%
Cost of natural gas as sold	(4 847 784)	96.47%	(2 027 072)	98.86%	(2 820 712)	139.15%
Regulated activity	(1 893 721)	37.68%	(792 768)	38.66%	(1 100 953)	138.87%
Unregulated activity freely negotiated prices	(1 676 126)	33.35%	(982 796)	47.93%	(693 330)	70.55%
Organized stock market — release program	(1 212 071)	24.12%	(236 096)	11.51%	(975 975)	413.38%
Related parties — BTG at cost of natural gas for balancing	(65 866)	1.31%	(15 412)	0.75%	(50 454)	327.37%
Reversed/(accrued) impairment	(138 455)	2.76%	(6 077)	0.30%	(132 378)	2178.34%
Reversed/(accrued) impairment of receivables, net	(34 522)	0.69%	(4 094)	0.20%	(30 428)	743.23%
Reversed/(accrued) impairment of cash	(148)	(0.00%)	155	-0.01%	(303)	(195.48%)
Reversed/(accrued) impairment of natural gas	(103 785)	(2.11%)	(2 138)	0.10%	(101 647)	4754.30%
Cost of materials	(73)	(0.00%)	(123)	0.01%	50	(40.65%)
- basic materials	(3)	(0.00%)	(47)	0.00%	44	(93.62%)
- fuels and lubricants	(12)	(0.00%)	(16)	0.00%	4	(25.00%)
- office supplies and consumables	(21)	(0.00%)	(22)	0.00%	1	(4.55%)
- sanitary materials	(8)	(0.00%)	(8)	0.00%	-	0.00%
- promotional materials	(22)	(0.00%)	(16)	0.00%	(6)	37.50%
- other materials	(7)	(0.00%)	(14)	0.00%	7	(50.00%)
Hired services expenses	(19 311)	0.38%	(11 875)	0.58%	(7 436)	62.62%
- costs for storage of natural gas	(12 410)	(0.25%)	(8 748)	0.43%	(3 662)	41.86%
- costs under BEH management contracts	(1 015)	(0.02%)	(62)	0.00%	(953)	1537.10%
- license fees	(794)	(0.02%)	(163)	0.01%	(631)	387.12%
- fees for Balkan Gas Hub	(293)	(0.01%)	(389)	0.02%	96	(24.68%)
- insurances	(116)	(0.00%)	(108)	0.01%	(8)	7.41%
- rents	-	0.00%	(1)	0.00%	1	(100.00%)
- court fees and costs	(3 173)	(0.06%)	(1 096)	0.05%	(2 077)	189.51%
- consulting and auditing services	(611)	(0.01%)	(404)	0.02%	(207)	51.24%

STATEMENT OF COMPREHENSIVE INCOME	As at 31 December 2022		As at 31 December 2021		Change	
	BGN thousand	% of the total	BGN thousand	% of the total	BGN thousand	%
- communications	(195)	(0.00%)	(179)	0.01%	(16)	8.94%
- remunerations of audit committee members	(99)	(0.00%)	(104)	0.01%	5	(4.81%)
- building maintenance	(1)	(0.00%)	(2)	0.00%	1	(50.00%)
- utilities	(36)	(0.00%)	(30)	0.00%	(6)	20.00%
- subscription service	(14)	(0.00%)	(15)	0.00%	1	(6.67%)
- repair and technical maintenance	(6)	(0.00%)	(13)	0.00%	7	(53.85%)
- parking spaces and other costs for motor vehicles	(20)	(0.00%)	(20)	0.00%	-	0.00%
- visa services	(1)	(0.00%)	-	0.00%	(1)	-
- translation services	(20)	(0.00%)	(22)	0.00%	2	(9.09%)
- security	(98)	(0.00%)	(84)	0.00%	(14)	16.67%
- occupational medicine	(4)	(0.00%)	(5)	0.00%	1	(20.00%)
- fees — EWRC for price approval	(17)	(0.00%)	(17)	0.00%	-	0.00%
- other services	(389)	(0.01%)	(413)	0.02%	24	(5.81%)
Employee benefits and social security expenses	(3 913)	0.08%	(3 493)	0.17%	(420)	12.02%
- employee benefits expenses	(3 332)	(0.07%)	(2 965)	0.14%	(367)	12.38%
- compensated leaves costs	(165)	(0.00%)	(93)	-	-	0.00%
- employment service costs (retirement)	(18)	(0.00%)	(17)	0.00%	(1)	5.88%
- social security expenses	(398)	(0.01%)	(418)	0.02%	20	(4.78%)
Recognized (accrued) provision expenses	(754)	(0.02%)	(754)	0.04%	-	0.00%
Other expenses	(15 117)	0.30%	(1 111)	0.05%	(14 006)	1260.67%
- penalties on delayed payments	(461)	(0.01%)	(999)	0.05%	538	(53.85%)
- business trips and entertainment costs	(70)	(0.00%)	(16)	0.00%	(54)	337.50%
- trainings	(6)	(0.00%)	(2)	0.00%	(4)	200.00%
- one-off taxes	(17)	(0.00%)	(10)	0.00%	(7)	70.00%
- membership in the organization	(1)	(0.00%)	(5)	0.00%	4	(80.00%)
- donations	(5)	(0.00%)	(50)	0.00%	45	(90.00%)
- others	(14 557)	(0.30%)	(29)	0.00%	(14 528)	50096.55%
Profit before interest, depreciation, taxes	(98 037)		84 719		(182 756)	(215.72%)
Depreciation and amortisation charges	(538)	0.01%	(517)	0.03%	(21)	4.06%
Profit/(loss) from operating activities	(98 575)		84 202		(182 777)	(217.07%)
Financial income/(expenses)-net	(12 684)		(3 133)		(9 551)	(304.85%)
Financial income	1 330	100.00%	419	100.00%	911	217.42%
- interest accruing on foreign income	1 330	100.00%	-	0.00%	1 330	-
- interest income on long- term receivables	-	0.00%	419	100.00%	(419)	(100.00%)
Financial costs	(18 962)	100.00%	(1 648)	100.00%	(17 314)	1050.61%
- interest costs on payment of obligations according to defined benefit plans	(1)	0.01%	-	0.00%	(1)	-
Interest expense on loans to related parties	(12 541)	66.14%	-	0.00%	(12 541)	-
Interest expense on loans to banks	(417)	2.20%	(23)	1.40%	(394)	1713.04%
Interest expense on tax liabilities	(3 081)	16.25%	(17)	1.03%	(3 064)	18 023%

STATEMENT OF COMPREHENSIVE INCOME	As at 31 December 2022		As at 31 December 2021		Change	
	BGN thousand	% of the total	BGN thousand	% of the total	BGN thousand	%
- interest expenses under rental agreements	(16)	0.08%	(12)	0.73%	(4)	33.33%
- bank guarantee costs	(521)	2.75%	(521)	31.61%	-	0.00%
- bank fees	(2 385)	12.58%	(1 075)	65.23%	(1 310)	121.86%
Other financial income/expenses — currency differences	4 948	100.00%	(1 904)	100.00%	6 852	(359.87%)
Foreign exchange rate gain/loss	4 948	100.00%	(1 904)	100.00%	6 852	(359.87%)
Profit/(loss) before tax	(111 259)		81 069		(192 328)	(237.24%)
Income tax income/(expense)	10 828		(17 164)		27 992	(163.09%)
Net profit/(loss) for the period	(100 431)		63 905		(164 336)	(257.16%)

1. Revenue

The Company has realized revenues in the amount of BGN 4 927 370 thousand as at 31 December 2022 (as at 31 December 2021 BGN 2 135 224 thousand). The increase is of BGN 2 792 146 thousand or 130.77% and is mainly because of the price increase compared to the previous reporting period. The net result from the sale of natural gas as at 31 December 2022 amounts to BGN 50 355 thousand (as at 31 December 2021 it was BGN 96 015 thousand), which makes an increase of BGN 45 660 thousand.

2. Expenses

Expenses by nature include: cost of natural gas sold, impairment losses, costs of materials, costs of external services, depreciation and amortisation charges, employee benefits expenses, social security and allowance expenses, provision expenses and others. As at 31 December 2022 they amount to BGN 5 025 407 thousand (as at 31 December 2021: BGN 2 050 505 thousand), which makes an increase of BGN 2 974 902 thousand or 145.08%.

The largest relative share of the total expenses is the cost of natural gas sold as at 31 December 2022 in the amount of BGN 4 847 784 thousand (as at 31 December 2021: BGN 2 027 072 thousand).

The cost of materials as at 31 December 2022 is BGN 73 thousand (as at 31 December 2021: BGN 123 thousand), which makes a decrease of BGN 50 thousand or 40.65%. This was mainly due to the decrease in the cost of basic materials by BGN 44 thousand.

The cost of external services as at 31 December 2022 is BGN 19 311 thousand (as at 31 December 2021: BGN 11 875 thousand), which makes an increase of BGN 7 436 thousand or 62.62%. This was mainly due to increases in natural gas storage costs, management contract costs, licence fees, legal fees and expenses.

Other expenses as at 31 December 2022 are in the amount of BGN 15 117 thousand (as at 31 December 2021: BGN 1 111 thousand), which makes an increase of BGN 14 006 thousand. This is mainly due to capacity product costs on non-received deliveries from OOO Gazprom Export paid in the period May to September 2022.

As at 31 December 2022 — the date of the statement of financial position, the Company has analysed the circumstances that would lead to the availability of indications of impairment of the natural gas value. The main external source used as evidence for the indication of impairment are the EWRC's monthly gas pricing decisions. The judgement of the management of Bulgargaz EAD is to follow the approach of applying the requirements of IAS 2 'Inventories' as adopted in the accounting policy of the company (approved by the sole owner of the company's capital). As a result, an inventory impairment charge of BGN 103 785 thousand was recognised for 2022 (BGN 2 138 thousand for 2021), representing an increase of BGN 101 647 thousand over the prior year. This impairment loss has a material impact on the Company's financial result in 2022 and as a result of the impairment the amount of the Company's equity falls below the amount of registered capital.

All of the Company's finance receivables have been reviewed for events of default. For trade receivables, a simplified approach has been applied to determine the expected credit losses at the end of the period, with an

individual approach for some of them, which is based on judgements regarding their concentration for the Company, the financial position of the counterparty, collateral taken, specific repayment terms, historical information on the average number of days/period of collection and the performance of the agreed terms up to the date of the estimate. As a result of the analysis performed and actions taken, the Company's management has estimated that the expected credit losses and impairment losses on trade and legal receivables for 2022 amount to BGN 34 522 thousand. (BGN 4 094 thousand for 2021), net of recovery, representing an increase of BGN 30 428 thousand compared to the previous year.

In 2022, as a result of the increased credit exposure of Bulgargaz EAD, the amount of financial expenses (mainly interest payments) significantly increased compared to the previous year to BGN 18 962 thousand (BGN 1 648 thousand).

The result from operating activities is a loss of BGN 98 575 thousand as at 31 December 2022 (31 December 2021: profit of BGN 84 202 thousand), which makes a decrease of BGN 182 777 thousand or 217.07%.

After reflecting the financial income and expenses as at 31 December 2022, the financial result before taxes is a loss of BGN 111 259 thousand (as at 31 December 2021: profit of BGN 81 069 thousand), which makes a decrease of BGN 192 328 thousand or 237.24%.

IX. STATEMENT OF FINANCIAL POSITION

As at 31 December 2022 they amount to BGN 2 059 566 thousand (as at 31 December 2021: BGN 601 034 thousand). The changes in the structure of assets for both periods are shown in the following table:

BGN thousand

Assets	As at 31 December 2022		As at 31 December 2021		Change	
	BGN thousand	% of the total	BGN thousand	% of the total	BGN thousand	%
Non-current assets						
Plant and equipment	465	2.89%	314	15.45%	151	48.09%
Intangible assets	279	1.74%	281	13.83%	(2)	(0.71%)
Deferred tax assets	15 336	95.37%	1 437	70.72%	13 899	967.22%
Total amount of non-current assets	16 080	100.00%	2 032	100.00%	14 048	691.34%
Current assets						
Inventories	526 879	25.78%	123 031	20.54%	403 848	328.25%
- natural gas	526 866	25.78%	123 015	20.54%	403 851	328.29%
- materials	13	0.00%	16	0.00%	(3)	(18.75%)
Trade and other receivables	1 326 474	64.37%	475 759	79.43%	850 715	178.81%
- trade receivables from sale of natural gas	544 928	26.44%	94 511	15.78%	450 417	476.58%
- contract assets	55 698	2.70%	68 188	11.38%	(12 490)	(18.32%)
- court and awarded receivables	36 609	1.78%	785	0.13%	35 824	4563.57%
- prepaid advances for natural gas delivery	555 262	26.94%	277 177	46.27%	278 085	100.33%
- prepaid advances for delivery of fixed assets	12	0.00%	-	0.00%	12	-
- receivables from VAT and other taxes	0	0.00%	1 190	0.20%	(1 190)	(100.00%)
- receivables under contracts with Gazprom	44 055	2.14%	-	0.00%	44 055	
- receivables from related parties (natural gas, deposits and guarantees)	31 961	1.55%	27 583	4.60%	4 378	15.87%
- other financial and non-financial receivables	57 949	2.81%	6 325	1.06%	51 624	816.19%
Cash and cash equivalents	207 395	10.06%	211	0.04%	207 184	98191.47%
Total amount of current assets	2 060 748	100.00%	599 001	100.00%	1 461 747	244.03%
Total assets	2 076 828		601 033		1 475 795	245.54%

1. Non-current assets

The non-current assets as at 31 December 2022 amounted to BGN 16 080 thousand (31 December 2021: BGN 2 032 thousand), which makes an increase of BGN 14 048 thousand or 691.34%. Non-current assets during the reporting period are formed by non-current tangible and intangible assets in the amount of BGN 744 thousand and deferred tax assets for BGN 15 336 thousand.

2. Current assets

The current assets as at 31 December 2022 amounted to BGN 2 060 748 thousand (31 December 2021: BGN 599 001 thousand), representing an increase of BGN 1 461 747 thousand or 244.03% mainly as a result of an increase in court and adjudicated receivables and receivables from the sale of natural gas. Customer receivables are on the rise due to Toplofikacia Sofia EAD's delay in repaying its obligations regularly and on time. The increased price of natural gas compared to the previous reporting period also had an effect.

As of 31 December 2022, the outstanding gross liabilities under the natural gas supply contract of Toplofikacia Sofia EAD to Bulgargaz EAD amount to BGN 570 981 thousand.

In September 2022, a Tripartite Agreement was signed between Toplofikacia Sofia EAD, the Electricity System Security Fund, Bulgarian Energy Holding EAD and Bulgargaz EAD, under which the monthly amounts from the Fund's payments will be redirected to Bulgargaz EAD and Bulgarian Energy Holding EAD in an 80/20 ratio, with the exact amount not being determinable in advance. Toplofikacia Sofia EAD provides a monthly plan for electricity production and on this basis the payment amounts are determined by month.

Inventories as at 31 December 2022 amount to BGN 526 879 thousand (31 December 2021: BGN 123 031 thousand), which makes an increase of BGN 403 848 thousand or 328.25%. This is due to the seasonal nature of the business, with the Company injecting natural gas into the UGS Chiren during the summer months of the year and drawing down the inventory for sale during the winter months. A significant increase in the price of natural gas in 2022 also has an impact.

According to the provision of IAS 2, respectively the accounting policy of the company, when determining the net realisable value of the Inventory at the end of the reporting period, the prices that the EWRC has approved for the month of the first reporting period of the following year — January — are used. Bulgargaz has followed the approach of applying the requirements of IAS 2 Inventories as set out in the Company's Accounting Policy (approved by the company's equity owner) by charging an impairment charge of inventories of BGN 103 785 thousand.

In addition to the impairment charge for inventory as of 31 December 2022, it should be noted that the Ministry of Energy is developing a mechanism to offset the high prices of 2022 UGS Chiren amounts applicable to all companies with natural gas injected into underground storage as of 01 November 2022. According to the compensation mechanism proposed for discussion in the Working Group, the amount of the expected compensation for the quantities injected by Bulgargaz as of 01 November 2022 would amount to no less than BGN 265 479 thousand. For the purposes of the payments under the mechanism, each company signs a specific contract with the Ministry of Energy.

The prepaid advance for natural gas supply as of 31 December 2022 amounts to BGN 555 262 thousand (31 December 2021: BGN 277 177 thousand), which makes an increase of BGN 278 085 thousand or 100.33%.

The Company's cash in current accounts at the end of the reporting period amounted to BGN 207 395 thousand (31 December 2021: BGN 211 thousand), which makes an increase of BGN 207 184 thousand.

3. Changes in the structure of capital and liabilities

BGN thousand

Equity and liabilities	As at 31 December 2022		As at 31 December 2021		Change	
	BGN thousand	% of the total	BGN thousand	% of the total	BGN thousand	%
Equity						
Share capital	231 698	135.52%	231 698	70.44%	-	0.00%
Reserves	21 152	12.37%	14 757	4.49%	6 395	43.33%
incl. statutory reserves	21 167	12.38%	14 776	4.49%	6 391	43.25%
Other reserves	(15)	(0.01%)	(19)	(0.01%)	5	
Retained earnings	18 554	10.85%	18 553	0.06	1	0.01%
Profit/loss for the current period	(100 431)	(58.74%)	63 905	19.43%	(164 336)	(257.16%)
Total equity	170 972	100%	328 913	100%	(157 941)	(48.02%)
Liabilities						
Non-current liabilities	806 085	93.79%	-	0.00%	806 085	-
- borrowings from related parties	806 085	93.79%	-	0.00%	806 085	-
Lease obligation	121	0.01%	-	0.00%	121	-
Provisions	53 100	6.18%	52 346	99.77%	754	1.44%
Retirement benefits payables	120	0.01%	121	0.23%	(1)	(0.83%)
Total amount of non-current liabilities	859 426	6%	52 467	100%	874	1.67%
Current liabilities						
Borrowings	718 071	69.76%	2 603	1.19%	715 468	27486.29%
-related party borrowings	718 071	69.76%		0.00%	718 071	
- bank overdraft	-	0.00%	2 603	1.19%	(2 603)	(100.00%)
Trade and other payables	324 923	31.05%	215 144	97.95%	109 779	51.03%
- trade payables	253 149	24.19%	89 060	40.55%	164 089	184.25%
- liabilities to related parties	10 263	0.98%	5 149	2.34%	5 114	99.32%
- advances received from customers for the sale of natural gas	1 431	0.14%	32 213	14.67%	(30 782)	(95.56%)
- VAT payable	39 200	3.75%	86 991	39.60%	(47 791)	(54.94%)
- excise duty payable	962	0.09%	1 185	0.54%	(223)	(18.82%)
- payables to employees	171	0.02%	127	0.06%	44	34.65%
- liabilities to social insurance companies	93	0.01%	76	0.03%	17	22.37%
- other liabilities	19 654	1.88%	343	0.16%	19 311	5630.03%
Lease obligation	312	0.03%	253	0.12%	59	23.32%
Income tax liability	3 071	0.29%	1 593	0.73%	1 478	92.78%
Retirement benefits payables	53	0.01%	60	0.03%	(7)	(11.67%)
Total amount of current liabilities	1 046 430	100.00%	219 653	100.00%	826 777	
Total liabilities	1 905 856		272 120		1 633 736	600.37%
Total equity and liabilities	2 076 828		601 033		1 475 795	245.54%

3.1. Capital structure

The registered share capital as of 31 December 2022 amounted to BGN 231 698 thousand, as there is no change compared to the previous reporting period.

As at 31 December 2022, the retained earnings amounted to BGN 18 553 thousand (31 December 2021: retained earnings of BGN 18 553 thousand)

3.2. Non-current liabilities

The non-current liabilities as at 31 December 2022 amounted to BGN 859 426 thousand (31 December 2021: BGN 52 467 thousand). Non-current liabilities consist of a loan received from the Ministry of Energy, an accrued provision for a legal liability related to *Case COMP/B1/AT.39849 — BEH gas* and retirement benefit obligations, and a lease obligation — non-current portion.

3.3. Current liabilities

As at 31 December 2022 the current liabilities amount to BGN 1 046 430 thousand (31 December 2021: BGN 219 653 thousand), which makes an increase of BGN 826 777 thousand.

By 31 December 2022 the Company has utilized loans in the total amount of BGN 718 071 thousand to Bulgarian Energy Holding EAD

As at 31 December 2022, trade and other liabilities increased by BGN 109 779 thousand or 51.03% compared to 31 December 2021 due to the net effect of:

- increase in trade liabilities by BGN 164 089 thousand or by 184.25% compared to 31 December 2021.
- increase in liabilities to related parties by BGN 5 114 thousand or 99.32% more compared to 31 December 2021.
- reduction of tax liabilities by BGN 47 791 thousand or 54.94%.

X. STATEMENT OF CASH FLOWS

The table shows data on changes in cash flows as at 31 December 2022, compared to 31 December 2021:

BGN thousand

Statement of cash flows	As at 31 December 2022	As at 31 December 2021	Change	
	BGN thousand	BGN thousand	BGN thousand	%
Net cash flows from operating activity	(1 135 944)	(158 984)	(976 960)	(614.50%)
Net cash flows from investing activity	(300)	(351)	51	14.53%
Net cash flows from financing activity	1 343 879	(13 474)	1 357 353	10073.87%
Net change in cash and cash equivalents during the period	207 635	(172 809)	380 444	220.15%
Cash and cash equivalents at the beginning of the period	211	172 012	(171 801)	(99.88%)
Foreign currency gain/(loss) on cash and cash equivalents	(302)	1 008	(1 310)	(129.97%)
Impairment of cash under IFRS 9	(149)	-	(149)	-
Cash and cash equivalents at the end of the period	207 395	211	207 184	98380.32%

The net cash flow from operating activities of the Company as at 31 December 2022 was negative in the amount of BGN 1 135 944 thousand (31 December 2021: negative in the amount of BGN 158 984 thousand). It is formed by the difference between the proceeds from customers for sale of natural gas and the amounts paid to natural gas suppliers, as well as the payment of taxes and contributions for the period. The deficit in cash flow from operating activities for natural gas marketing is primarily derived as the difference between the amount paid in excess of natural gas delivered and the amount received for natural gas sales.

Net cash flows from investing activities are negative in the amount of BGN 300 thousand, which represents a decrease by BGN 51 thousand compared to 31 December 2021.

Net cash flows from financial activities are positive in the amount of BGN 1 343 879 thousand, (31 December 2021. negative in the amount of BGN 13 474 thousand), due to amounts drawn from bank overdrafts, as well as funds received under a credit line from Bulgarian Energy Holding EAD and the Ministry of Energy.

XI. FINANCIAL RATIOS

These are indicators based on the financial statements that aim to provide an overall assessment of the financial position, the profitability and the efficiency in the use of assets to meet operational goals. As at 31 December 2022, the financial ratios show the financial stability of the Company as they are optimal compared to market levels.

1. Liquidity

Liquidity ratios represent the ability of the Company to repay its current liabilities with available current assets.

Indicators	As at 31 December 2022	As at 31 December 2021
Current liquidity ratio	1.97	2.73
Quick liquidity ratio	1.47	2.17

The current liquidity ratio as at 31 December 2022 is 1.97, which shows that the available current assets can cover more than 2 times the current liabilities of the Company (as at 31 December 2021: 2.73).

The quick liquidity ratio is 1.47, which shows that the available current assets reduced by inventories can cover more than 1.47 times the current liabilities of the Company (as at 31 December 2021: 2.17).

2. Solvency

The indicators of solvency show the degree of financial autonomy (solvency) of the Company from creditors and its ability to meet payments on all liabilities in the long run.

Indicators	As at 31 December 2022	As at 31 December 2021
Solvency ratio	0.09	1.21
Debt ratio	11.15	0.83

When the financial autonomy ratio is below 1 (one) there is an excess of liabilities to equity. In this case the existing liabilities are not sufficiently secured by the assets of the Company.

When the ratio is above 1 (one) it shows the degree of solvency from the use of foreign funds. The solvency ratio as at 31 December 2022 is 0.09 (as at 31 December 2021: 1.21).

The debt 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 31 December 2022 is 11.15 (as at 31 December 2021: 0.83).

XII. FINDINGS AND CONCLUSIONS

The information as presented and analysed in the Activity Report of Bulgargaz EAD as at 31 December 2022 shows that the Company fulfills its license obligations as a public supplier of natural gas on the territory of the Republic of Bulgaria in full compliance with the requirements of the regulations.

The activity is directly dependent on the business environment, the regulatory requirements and the financial security of the Company.

Regardless of the dynamic market conditions during the period under review, Bulgargaz EAD responded adequately to market challenges while maintaining financial stability and increasing the economic efficiency of its activities.

Date:

Tatyana Petrova-Boyadzhieva

Director of
Finance and Accounting Directorate

Deniza Slateva

Executive Director

ADDITIONAL INFORMATION UNDER SECTION VI A OF APPENDIX NO 10 OF ORDINANCE NO 2 OF THE FSC

1. INFORMATION GIVEN IN TERMS OF VALUE AND AMOUNT, REGARDING THE MAIN CATEGORIES OF GOODS, PRODUCTS AND/OR SERVICES PROVIDED, INDICATING THEIR SHARE IN THE SALES REVENUES AS A WHOLE AND THE CHANGES THAT HAVE OCCURRED DURING THE REPORTING FINANCIAL YEAR;

Revenues of Bulgargaz EAD include revenues from the sale of natural gas and other revenues.

During the reporting period, the Company generated revenues from the sale of natural gas in the amount of BGN 4 898 139 thousand. Revenues from sales of natural gas represent 99.41% of the Company's sales for 2022.

The structure of the Company's revenues for 2022 and 2021 and their amendments are presented above in this report — **Section VII. MAIN FINANCIAL INDICATORS**

INFORMATION ON THE REVENUES DISTRIBUTED BY THE DIFFERENT CATEGORIES OF ACTIVITIES, INTERNAL AND EXTERNAL MARKETS, AS WELL AS INFORMATION ON THE SOURCES FOR SUPPLYING MATERIALS NECESSARY FOR THE PRODUCTION OF GOODS OR PROVISION OF SERVICES, REFLECTING THE DEGREE OF DEPENDENCE ON EACH INDIVIDUAL SELLER OR BUYER/CONSUMER, AND IN CASE THE RELATIVE SHARE OF ANY OF THEM EXCEEDS 10 PERCENT OF THE COSTS OR REVENUES FROM SALES, INFORMATION IS PROVIDED FOR EACH PERSON INDIVIDUALLY, FOR ITS SHARE IN THE SALES OR PURCHASES AND ITS RELATIONS WITH THE COMPANY;

The structure of revenues for 2022, compared to 2021 and their relative share of total revenues are presented above in this report — **Section VII. MAIN FINANCIAL INDICATORS**

Regarding the revenues from the sale of natural gas, representing 99.41% of the total amount of revenues for 2022, the sales on the territory of Bulgaria amount to BGN 4 898 140 thousand (29 495 734 MWh of natural gas). Revenues from the sale of natural gas from regulated activities amount to BGN 1 892 264 thousand (12 380 868 MWh of natural gas), from unregulated activity at freely negotiated prices in the amount of BGN 1 696 352 thousand (10 862 434 MWh of natural gas), and under a release program in the amount of BGN 1 200 910 thousand (6 252 432 MWh of natural gas).

Information on sales of natural gas to customers exceeding 10% of total revenues from sales of natural gas is as follows:

Customer	Sale of natural gas		
	Quantity MWh	BGN thousand	% of the total amount sold
Toplofikacia Sofia EAD	7 057 163	901 497	32.21%
Neochim AD	2 906 390	418 070	13.26%

In 2022, as a result of the changed geopolitical situation and the premature interruption of supplies from OOO Gazprom Export, Bulgargaz EAD has changed its business model from supplies under two main long-term pipeline gas contracts (with the right to irregular supplies with Gazprom Export), to supplies under multiple LNG purchase contracts on a regular supply basis, through conducting tender procedures for the supply of liquefied natural gas.

- 2. INFORMATION ON THE TRANSACTIONS CONCLUDED BETWEEN THE COMPANY AND RELATED PARTIES DURING THE REPORTING PERIOD, PROPOSALS FOR CONCLUDING SUCH TRANSACTIONS, AS WELL AS TRANSACTIONS THAT ARE OUTSIDE ITS USUAL ACTIVITY OR SIGNIFICANTLY DEVIATE FROM THE MARKET CONDITIONS UNDER WHICH THE COMPANY OR ITS SUBSIDIARY IS A PARTY WITH AN INDICATION OF THE VALUE OF THE TRANSACTIONS, THE NATURE OF THE RELATEDNESS AND EACH — THE FINANCIAL POSITION OF THE COMPANY;**

Information provided in value terms regarding transactions with related parties is presented in detail in the financial statements of the Company for 2022 — Explanatory Note 34 ‘Related party transactions and balances’. Related party transactions do not deviate from normal market conditions.

- 3. INFORMATION ON EVENTS AND INDICATORS OF AN UNUSUAL NATURE FOR THE COMPANY, HAVING A SIGNIFICANT IMPACT ON ITS ACTIVITY, AND THE REVENUES AND EXPENSES INCURRED THEREBY; ASSESSMENT OF THEIR IMPACT ON THE RESULTS IN THE CURRENT YEAR;**

There are no events and indicators of an unusual nature for Bulgargaz EAD in 2022, which have a significant impact on its activities and the revenues and expenses incurred thereby.

- 4. ANALYSIS OF THE RATIO BETWEEN THE ACHIEVED FINANCIAL RESULTS REFLECTED IN THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR, AND PREVIOUSLY PUBLISHED FORECASTS FOR THESE RESULTS.**

Bulgargaz EAD has not disclosed forecasts for financial results.

- 5. INFORMATION ON OFF-BALANCE SHEET TRANSACTIONS — NATURE AND BUSINESS PURPOSE, INDICATION OF THE FINANCIAL IMPACT OF THE TRANSACTIONS ON THE ACTIVITY, IF THE RISK AND BENEFITS OF THESE TRANSACTIONS ARE SIGNIFICANT FOR THE COMPANY, AND IF THE DISCLOSURE OF THIS INFORMATION IS ESSENTIAL FOR ASSESSING THE FINANCIAL POSITION OF THE COMPANY;**

The Company does not carry out off-balance-sheet transactions.

- 6. ASSESSMENT OF THE POSSIBILITIES FOR REALIZATION OF THE INVESTMENT INTENTIONS WITH INDICATION OF THE AMOUNT OF THE AVAILABLE FUNDS AND REFLECTION OF THE POSSIBLE CHANGES IN THE STRUCTURE OF FINANCING OF THIS ACTIVITY.**

Not applicable to the Company.

- 7. INFORMATION ON EQUITY PARTICIPATIONS OF THE COMPANY, ON ITS MAIN INVESTMENTS IN THE COUNTRY AND ABROAD (IN SECURITIES, FINANCIAL INSTRUMENTS, INTANGIBLE ASSETS AND REAL ESTATE), AS WELL AS INVESTMENTS IN EQUITY SECURITIES OUTSIDE ITS GROUP OF ENTERPRISES WITHIN THE MEANING OF THE ACCOUNTING ACT AND SOURCES / METHODS OF FINANCING;**

The Company has no shareholdings and investments in the country and abroad. Information on the assets held by the Company is presented above in this report in **Section IX. ‘Statement of financial position’**.

8. INFORMATION ON THE LOAN AGREEMENTS CONCLUDED BY THE COMPANY, ITS SUBSIDIARY OR PARENT COMPANY, IN THEIR CAPACITY AS BORROWERS, INDICATING THE CONDITIONS UNDER THEM, INCLUDING THE DEADLINES FOR REPAYMENT, AS WELL AS INFORMATION ON PROVIDED GUARANTEES AND COMMITMENTS;

As at 31 December 2022 — loan commitment to The Ministry of Energy in the amount of BGN 806 085 thousand with a maturity date of August 2025.

As at 31 December 2022 — loan commitment to BEH EAD in the amount of BGN 718 071 thousand

As at 31 December 2022 the Company has entered into overdraft agreements in the total amount of BGN 58 100 thousand under agreements with banking institutions, of which no funds have been yet drawn down. The loans are unsecured, with market interest rate and due in March 2023.

9. INFORMATION ON LOAN AGREEMENTS CONCLUDED BY THE COMPANY, ITS SUBSIDIARY OR THE PARENT COMPANY, IN THEIR CAPACITY AS LENDERS, INCLUDING THE PROVISION OF GUARANTEES OF ANY KIND, INCLUDING TO RELATED PARTIES, INDICATING THE SPECIFIC CONDITIONS THEREOF, INCLUDING THE PAYMENT DEADLINES AND THE PURPOSE FOR WHICH THEY WERE GRANTED;

Bulgargaz EAD has not entered into any loan agreements as a lender in 2022.

10. ANALYSIS AND ASSESSMENT OF THE POLICY REGARDING THE MANAGEMENT OF THE FINANCIAL RESOURCES WITH INDICATION OF THE POSSIBILITIES FOR SERVICING THE OBLIGATIONS, THE POSSIBLE THREATS AND MEASURES, WHICH THE COMPANY HAS TAKEN OR IS ABOUT TO TAKE WITH A VIEW TO THEIR ELIMINATION;

The objectives of the Company in connection with the management of financial resources are to ensure the continuation of its activities in the foreseeable future as a going concern, as well as to ensure return for the sole owner, economic benefits to other stakeholders. Risk management is carried out on an ongoing basis by the operational management under the supervision of the Board of Directors and the sole owner.

The main risk factors in the Company's activities are the regulatory risk arising from the establishment of marginal natural gas prices for the domestic market lower than supply prices, trade and other receivables and payables, as well as currency risk.

11. INFORMATION ON CHANGES THAT HAVE OCCURRED DURING THE REPORTING PERIOD IN THE BASIC PRINCIPLES OF MANAGEMENT OF THE COMPANY AND ITS GROUP OF ENTERPRISES WITHIN THE MEANING OF THE ACCOUNTING ACT;

In 2022, there were no changes in the basic principles of management of the Company.

12. INFORMATION ON THE CHANGES IN THE MANAGEMENT AND SUPERVISORY BODIES DURING THE REPORTING FINANCIAL YEAR.

Not applicable to the Company.

13. INFORMATION ON THE MAIN CHARACTERISTICS OF THE INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM APPLIED BY THE COMPANY IN THE PROCESS OF PREPARATION OF THE FINANCIAL STATEMENTS;

The Company has developed and approved internal rules and procedures regarding internal control and reporting systems.

The financial management and control system in Bulgargaz EAD has been developed in compliance with the requirements of the Financial Management and Control in the Public Sector Act.

The system for financial management and control is mandatory when spending all financial resources of the Company in order to ensure compliance with legal provisions and compliance with the principles of legality, expediency, efficiency, effectiveness, economy, transparency and publicity.

Financial management and control is performed through the Financial Management and Control System to ensure reasonable assurance that the objectives of the Company have been achieved through:

- compliance with the legislation, the internal acts of Bulgarian Energy Holding EAD and the Company on the one hand, and on the other hand, the concluded contracts or obligations assumed / expenses incurred with primary accounting documents;
- reliability and comprehensiveness of financial and operational information;
- economy, efficiency and effectiveness of activities;
- safekeeping and protection of assets and information.

The scope of the Financial Management and Control System includes the financial management of expenses in the Company.

14. INFORMATION ON THE AMOUNT OF REMUNERATION, REWARDS AND/OR BENEFITS OF EACH OF THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES FOR THE REPORTING FINANCIAL YEAR, ACCRUED BY THE COMPANY AND ITS SUBSIDIARIES, REGARDLESS OF WHETHER THEY WERE INCLUDED IN THE COMPANY'S EXPENSES, OR ARISE FROM THE DISTRIBUTION OF PROFITS, INCLUDING:

In 2022, the Company accrued the following employee benefits and related social security payments to the members of the Board of Directors:

BGN thousand

Short-term benefits to key management personnel	2022	2021
Remunerations	393	381
Social security costs	22	25
Total	415	406

15. INFORMATION ON THE ARRANGEMENTS KNOWN TO THE COMPANY (INCLUDING AFTER THE END OF THE FINANCIAL YEAR), AS A RESULT OF WHICH CHANGES MAY OCCUR IN THE FUTURE IN THE RELATIVE SHARE OF SHARES OR BONDS HELD BY CURRENT SHAREHOLDERS OR BONDHOLDERS.

No agreements are known as a result of which changes in the relative share of shares or bonds held by current shareholders or bondholders may occur in the future.

16. INFORMATION ON PENDING COURT, ADMINISTRATIVE OR ARBITRATION PROCEEDINGS CONCERNING LIABILITIES OR RECEIVABLES OF THE COMPANY IN THE AMOUNT OF AT LEAST 10 PER CENT OF ITS OWN CAPITAL; IF THE TOTAL VALUE OF THE LIABILITIES OR RECEIVABLES OF THE COMPANY ON ALL INITIATED PROCEEDINGS EXCEEDS 10 PER CENT OF ITS OWN CAPITAL, INFORMATION FOR EACH PROCEEDING SHALL BE SUBMITTED SEPARATELY;

Case COMP/B1/AT.39849 — BEH gas

Case COMP/B1/AT.39849 — BEH gas ('The Case') concerns a possible violation of Article 102 of the Treaty on the Functioning of the European Union (TFEU) in connection with allegations by the European Commission (EC) concerning the actions of Bulgarian Energy Holding EAD and its subsidiaries — Bulgargaz EAD and Bulgartransgaz EAD aimed at:

- preventing their competitors from gaining an access to key gas infrastructure (gas transmission network and natural gas storage facility) in the Republic of Bulgaria, such as explicitly or implicitly denying third parties access or causing delays;
- preventing competitors from gaining an access to the main import pipeline by reserving capacity that remains unused. The proceedings were instituted in 2013 with a view to adopting a decision under Chapter 3 (Articles 7 to 10) of Regulation 1/2003. On 23 March 2015, the European Commission issued a Statement of Objections. Bulgarian Energy Holding EAD and its gas subsidiaries submitted their respective responses to the European Commission on 9 July 2015 (Bulgargaz EAD), 10 July 2015 (Bulgarian Energy Holding EAD) and 17 July 2015 (Bulgartransgaz EAD).

On 24 November 2017, a decision was adopted by the 44th National Assembly (NA) of the Republic of Bulgaria to take the necessary actions to close Case COMP/B1/AT.39849 — BEH gas, whereby the National Assembly supported the closure of the case under Article 7 of Regulation (EC) No 1/2003 without acknowledging the infringements alleged by the European Commission and without taking responsibility for them, fulfilling the obligations arising from a possible prohibition decision, including a possible financial penalty.

On 26 July 2018, a decision was adopted by the 44th National Assembly (NA) of the Republic of Bulgaria to take action to close Case COMP/B1/AT.39849 — BEH gas under Article 9 of Regulation (EC) No 1/2003 by undertaking commitments on the part of Bulgaria and reaching an agreement with the European Commission. The second decision of the National Assembly was motivated by the development of case COMP/B1/AT.39816 between the European Commission and PJSC Gazprom and OOO Gazprom Export, on which on 24 May 2018 the Commission announced that an agreement had been reached and closed under the provisions of Article 9 of Regulation (EC) No 1/2003 without imposing a financial sanction on PJSC Gazprom and OOO Gazprom Export.

On 17 December 2018, the European Commission announced its adopted Decision C(2018)8806 in Case AT.39849 BEH-gas, whereby the European Commission imposed a fine on Bulgarian Energy Holding EAD (BEH EAD), its supply subsidiary Bulgargaz EAD and its gas infrastructure subsidiary Bulgartransgaz EAD (BEH Group) in the amount of EUR 77 068 000 for allegedly blocking competitors' access to key gas infrastructure in Bulgaria in violation of EU antitrust rules. The decision was received in the offices of the three companies on 19 December 2018, which determines the beginning of the period for appealing the EC Decision (two months and ten days from notification of the Decision to the Parties) and for payment of the fine (three months from the notification of Decision to the Parties), set out therein.

An appeal against the decision shall not delay payment of the fine. On 18 March 2019, a bank guarantee was issued by a credit institution selected through a procedure conducted by BEH EAD. The bank guarantee covers 2/3 of the total amount of the fine in the amount of EUR 77 068 000, which secures the obligations of BEH EAD and Bulgargaz EAD under the imposed fine.

On 4 July 2019, the Bulgarian state, through the Ministry of Foreign Affairs, submitted an application to intervene in the case in support of BEH EAD and its subsidiaries gas companies.

On 26 August 2019, the European Commission presented its Defense before the General Court in response to a complaint filed by Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD.

On 29 November 2019, Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD filed a Response against the Defense of the European Commission.

On 20 February 2020 within the specified period by the General Court of the European Union the Republic of Bulgaria through the Ministry of Foreign Affairs (MFA) filed the official position of the Republic of Bulgaria in case T-136/19, provided to the Ministry of Foreign Affairs by the Ministry of Energy, whereby the Bulgarian state intervenes in support of Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD v. European Commission before the General Court of the European Union.

The General Court examined additional documents and requested information in order to clarify all the circumstances attached to the case. By letter of 14 March 2022, the Court requested the European Commission to provide non-confidential versions of the documents listed by the Court. A response from the European Commission is expected.

It should be borne in mind that if the General Court decides to open the oral procedure, the President of the General Court of the EU sets the date of the hearing for the oral hearings.

On 29 September 2022 a hearing on the Case BEH Gas (Case T-136/19 of the General Court of the EU) was held, at which the Court heard the parties and Bulgaria's position on the case was presented. After the hearing, the court asked the parties to submit additional documents, and the deadline for this was extended to 25 November 2022.

The forecast is for a favourable result of the appeal and refund of the provision cost in 2023. The assumption would only materialise provided that the EU General Court rules in favour of the BEH group and the decision is not appealed by the EU. If the decision is appealed to the Court of Justice of the European Union, the Bulgarian companies will have to continue to maintain the security/provision until the dispute is finally resolved.

As at 31 December 2022 the Company has accrued a provision in the amount of BGN 53 100 thousand, representing 1/3 of the total amount of the imposed fine and interest on it in the amount of BGN 2 102 thousand, and the estimate is that it is expected settlement to take place after more than 12 months.

17. OTHER INFORMATION AT THE DISCRETION OF THE COMPANY

The Company considers that there is no other information that would be important for the users.

Date:

Tatyana Petrova-Boyadzhieva

Director of
Finance and Accounting Directorate

Deniza Slateva

Executive Director

BULGARGAZ EAD**NON-FINANCIAL DECLARATION, pursuant to Article 48 of the Accounting Act**

Description of the policies of the companies in the Bulgarian Energy Holding EAD with regard to the activities carried out in the field of ecology, social issues and those related to employees, human rights, the fight against corruption.

1. Main activity Mission and Goals.

Company name	Brief description of the main activity	Mission and goals
Bulgargaz EAD	The Company's principal activities include public supply of natural gas and related purchases and sales, purchase of natural gas for storage in a gas storage plant, market research and analysis of the natural gas market. By virtue of Article 21, para. 1, item 1 and in conjunction with Article 39, para. 1, item 5, second sentence of the Energy Act, by decision of the Energy and Water Regulatory Commission (EWRC) of 16 September 2021 / No JI-548-15 Bulgargaz EAD was issued a licence for trading in natural gas / No A0435 for a period of 10 years.	As a public supplier of natural gas, Bulgargaz EAD has as its main strategic objective to ensure the interests of society through the long-term supply of natural gas to the country.

2. Environmental systems, policies and regulations.

Company name	Environmental systems, policies and regulations
Bulgargaz EAD	Bulgargaz EAD, as a public supplier of natural gas, does not carry out any production activities and does not have any production facilities with environmental impact. The Company does not own infrastructure facilities (linear and site facilities), but only uses services in connection with the operation of these facilities, provided by the operator of these facilities — Bulgartransgaz EAD. 'Bulgargaz' EAD carries out only commercial activity — purchase of natural gas for the purpose of its sale to customers.

3. Funds from environmental protection projects implemented in 2022.

Not applicable

Company name	Environmental protection projects implemented	Value / BGN thousand /

4. Monitoring of environmental indicators and resources used in the production process.

Not applicable.

Indicators	Unit of measurement	Value
Radiation indicators:		
(at the discretion of the company, not more than five)		
Emitted pollutants in ambient air:		
CO ₂		
SO ₂		
NO _x		
Particulate matter		
Other (at the company's discretion)		
Resources used:		
Lignite coal		
Water resources		
Electricity		
Indicators	Unit of measurement	Value
Other (at the company's discretion)		
Other indicators:		
...		

5. Staff allocation.

Allocation of staff according to the national classification of occupations and positions:

	Number
Heads	16
including women	10
Specialists	28
including women	20
Technicians and application specialists	-
including women	-
Administrative support staff	2
including women	2
Personnel engaged in public services, trade and security	-
including women	-
Skilled workers in agriculture, forestry, hunting and fishing	-
including women	-
Skilled workers and related craftspeople	-
including women	-
Machine operators and assemblers	3
including women	-
Occupations not requiring special qualifications	2
including women	2

5.1. Distribution of staff according to education completed:

	Number
Higher education	43
including women	30
Secondary education	8
including women	4
Primary education	-
including women	-

5.2. Distribution of staff according to age:

	Number
Age 18—30 years	3
including women	2
Age 31—40 years	15
including women	9
Age 41—50 years	15
including women	11
Age 51—60 years	14
including women	8
Age over 60 years	4
including women	4

6. Professional development and social costs. Reported results.

Indicators	Value / BGN thousand/
Training, qualifications and seminars	6
Donations and social events	5
Social costs including:	1078
Free food, work clothes, personal protective equipment	385
Medical service	26
Other	667

Indicators	Number
Training conducted	10
Medical examinations conducted	1
Measurement of work environment factors	1
Occupational accidents	0
Other	

7. Collective employment agreements.

Indicator	Unit of measurement	Value
Existence of an existing Collecting employment agreements (CEA)	-	No
Number of members as of 31 December 2020	number	
% of the staff establishment at 31 December 2020	%	
New members in 2020	number	
Employees withdrawn from the terms of the CEA in 2020.	number	

8. Energy Sector Anti-Corruption Plan.

Company	Measures to implement the Energy Sector Anti-Corruption Plan
Bulgargaz EAD	<p>In Bulgargaz EAD, according to the current 'Internal Rules for Registration and Handling of Reports of Corruption and/or Conflict of Interest and for the Protection of Whistleblowers', the interaction is carried out in subordination with the CEO of the company.</p> <p>Bulgargaz EAD has clearly written and effective Internal Rules with anti-corruption orientation, which guarantee the protection and security of the 'whistleblowers', which is a prerequisite for them to be submitted without concern.</p> <p>In Bulgargaz EAD, the cooperation is carried out in coordination with the CEO of the company.</p> <p>In Bulgargaz EAD the employees, in accordance with the current Internal Anti-Corruption Rules, have familiarized themselves with them, which they have certified with their signature. Any violation of the same is grounds for disciplinary action under the Labour Code.</p>

8.1. Reported results:

Indicators	Number
Reports of corruption received	0
Established cases of corruption	0
Whistleblowers Protected	0
Other	0

9. Key risks relating to environmental and social issues, employees, respect for human rights, anti-corruption and bribery that are relevant to the company's activities and that are likely to cause adverse impacts in these areas, and how the company manages these risks.

➤ Regarding risks related to environmental issues, accidents and disasters:

As a public supplier and trader of natural gas, Bulgargaz EAD does not carry out any production activities and has no production facilities that have an impact on the environment. The Company does not own infrastructure facilities (linear and non-linear), but only uses services related to their operation provided by the operators of these facilities. Bulgargaz EAD carries out only commercial activity — purchase of natural gas for the purpose of its sale to customers. In view of this, the company is not subject to environmental requirements.

The Company has developed a 'Disaster and Accident Protection Plan' based on the Disaster Protection Act which is updated as and when required. The main objectives in developing the plan are:

- ✓ Performing disaster risk analyses and assessments for disasters occurring on the Company's premises and identifying preventive measures to reduce the adverse impact resulting from disasters, organizing and coordinating actions to prevent or reduce the consequences of the disaster;
- ✓ Establishment of a preliminary organization of a working group at Bulgargaz EAD to implement a package of preventive measures to protect the life and health of the Company's personnel and/or reduce the impact of harmful factors arising as a result of disasters.
- ✓ Orders have been issued in connection with the Disaster Protection Act and the Ordinance on Fire Safety Rules for Operation of Establishments, regulating the procedure and the persons responsible for general management, coordination and control, in order to protect the company's employees in the event of disasters and accidents.
- ✓ The company has provided twenty-four hour, continuous physical security with access control.

This ensures the implementation of the measures set out in the National Disaster Protection Plan of the Republic of Bulgaria.

➤ *On risks related to social issues, respect for human rights, anti-corruption and anti-bribery:*

We have a Human Resource Management Strategy for the Company in place;

The working environment in the office of Bulgargaz EAD is standard and is not characterized by increased risk to health and safety at work.

The Company complies with the legal requirements for ensuring healthy and safe working conditions introduced by the current regulations in this area. To this end, we have a contract with the Occupational Health Service, which provides regular preventive examinations of employees as well as measurements of certain factors in the office environment. Also in accordance with the statutory provisions of the Occupational Health and Safety Act (OHSA), all employees of the company undergo any relevant instruction/training to comply with the OHSA.

In order to cover the social needs of the employees under Article 294 of the Labour Code, the employer has issued an internal order providing for a social package for the employees of the company within the framework of the above-mentioned legal provisions.

The Company observes and promotes respect for internationally recognised human rights and considers the protection of the integrity, health, rights and welfare of its employees to be an element of paramount importance to the performance and development of its business.

The Company's activity is guided by established ethical rules of conduct, and to this end, the Company is committed to managing its human resources activities in accordance with established standards, not to use or support the exploitation of child labour, to provide equal development opportunities for each of its employees, and not to tolerate discriminatory behaviour and actions.

In this regard, the Company has adopted and implemented internal rules and procedures, in particular:

- ✓ Recruitment, selection and appointment rules;
- ✓ Internal payroll rules;
- ✓ Internal Rules of Procedure;
- ✓ A code of ethics with an established complaint mechanism.
- ✓ Adopted and in force 'Internal Rules for Registration and Handling of Reports of Corruption and/or Conflict of Interest and for the Protection of Whistleblowers to Bulgargaz EAD', duly introduced by order, regulation and reporting deadlines.

This ensures a good environment for the Company's staff to perform their work duties.

10. Analysis of the impact of the military conflict in Ukraine on the Company's operations.

The main natural gas supplies until 27 April 2022 were provided by OOO Gazprom Export. Due to Russia's invasion of Ukraine in February 2022 and the complicated situation, the United States and the European Union imposed a package of sanctions on the Russian Federation in response to the unprecedented military attack. The measures aim to impose economic and political burdens, namely individual sanctions, economic, diplomatic measures, restrictions on the media, etc. As a result of the sanctions imposed on the Russian Federation, fuel and natural gas prices on world markets have soared. Decree No 172 of 31 March 2022 of the President of the Russian Federation 'On the special procedure for the performance of obligations by foreign buyers to Russian suppliers of natural gas' unilaterally imposed a change to the existing contract for payment in roubles on a special account in a Russian bank. In connection with a letter of the Deputy Minister of Energy notifying the Company of a decision adopted at an operational meeting of the Council of Ministers held on 13 April 2022, Bulgargaz EAD refused to accept this unilaterally imposed change, as a result of which the supply of piped natural gas from Russia was suspended on 27 April 2022. The suspension of natural gas supplies from Russia has had serious concomitant shocks on global capital and financial markets, respectively on banks.

Following the suspension of supplies by OOO Gazprom Export on 27 April 2022, in order to secure the agreed amounts with customers and prevent the introduction of a restrictive regime in the Republic of Bulgaria, Bulgargaz EAD is taking action to secure alternative supplies and transmission routes.

As a result of the uncertainty on the international gas markets and high prices in 2022, natural gas consumption in Bulgaria has dropped significantly. The reduction in total consumption in Bulgaria in 2022 is 18% lower than the previous year. There has been a sustained reduction in purchases at regulated prices by customers as well as industrial customers on one-year contracts at free price starting points.

In 2022, price dynamics in the sector have caused major shocks in the natural gas market. The volatility of TTF quotes in the summer of 2022 reached unprecedented peaks of 238 EUR/MWh.

In order to secure the national security of supply in 2022, in conditions of rapidly rising natural gas prices, Bulgargaz EAD received several loans from Bulgarian Energy Holding EAD and the Ministry of Energy.



**STATEMENT
OF CORPORATE GOVERNANCE
OF
BULGARGAZ EAD**

31 December 2022

I. GENERAL PROVISIONS

This Statement of Corporate Governance provides information on the business model of Bulgargaz EAD (the Company), a description of the policies followed, the outcome of the policies and the principal risks relevant to the Company's activities, non-financial key performance indicators relevant to the specific business.

This Statement of Corporate Governance has been prepared in compliance with the requirements of Article 40, paragraph 1 of the Accounting Act and according to Article 100n, paragraph 8 in conjunction to paragraph 7, item 1 of the Public Offering of Securities Act (POSA) and it is published as an Annex to the annual report of the company for the year 2022.

II. DESCRIPTION OF THE COMPANY'S BUSINESS MODEL

Bulgargaz EAD (the Company) is a sole owner joint stock company, registered in accordance with the Commerce Act with registered office and address of management in the Republic of Bulgaria, Sofia region, Sofia Municipality, Sofia 1000, Serdika district, 47 Petar Parchevich St.

Bulgargaz EAD shall operate in accordance with the provisions of the Commerce Act, the Public Enterprises Act, the Regulations for the Implementation of the Public Enterprises Act and other regulations in force in the Republic of Bulgaria. BULGARGAZ EAD is a sole-owned joint stock company, whose share capital is 100% owned by Bulgarian Energy Holding EAD. The ultimate owner of the Company is the Bulgarian Republic, through the Minister of Energy. The Company has a one-tier management system. The Company's authorities are:

- The sole owner of the capital who decides on the issues within the competence of the General Meeting;
- Board of Directors, which has managerial, representative and control functions.

It is represented by an executive member of the Board of Directors (Executive Director).

The registered capital of the Company is divided into 231 698 584 ordinary, registered, non-preference shares with voting rights with a nominal value of BGN 1 (one lev) each. The amount of the capital is subscribed and fully paid by the sole owner of the capital — Bulgarian Energy Holding EAD.

The company is active in public supply of natural gas and related purchase and sale, purchase of natural gas for storage in a gas storage plant, market research and analysis of the natural gas market in the country. The Company does not carry out research and development activities.

Bulgargaz EAD holds a license for public supply of natural gas on the territory of the country issued by the State Energy and Water Regulatory Commission (EWRC) on 29 November 2006 for a period of 35 years.

Pursuant to Article 21, paragraph (1), item (1) and in connection with Article 39, paragraph (1), item (5), second proposal of the Energy Act, with a decision of the Energy and Water Regulatory Commission (EWRC) dated 16 September 2021, No JI-548-15 a license for trade in natural gas No A0435 for a period of 10 years is issued to Bulgargaz EAD.

The Company also holds a perpetual license for trading in natural gas in the territory of the Hellenic Republic under Decision No 247/2020 and Decision No 311/2022 for trading in natural gas in the territory of the Hellenic Republic for a period of 20 years.

Regulatory acts governing the Company's activities:

- Energy Act (EA), promulgated in SG, issue no. 107 of 09 December 2003, amend. No 102 of 23 December 2022, effective from 01 January 2023;
- Ordinance No 2 of 19 March 2013 on Natural Gas Price Regulation, issued by the State Energy and Water Regulatory Commission, promulg. State Gazette, Issue No 33 of 05 April 2013, amend. No 95 of 03 December 2019 (Ordinance 2 of 19 March 2013);
- Ordinance No 3 of 21 March 2013 on Licensing the Activities in the Energy Sector, issued by the President of

the State Energy and Water Regulatory Commission, promulgated by the State Gazette, No 33 of 05 April 2013, as amended and supplemented, No 25 of 29 March 2022 (Ordinance 3 of 21 March 2013);

- Rules for trading with natural gas, adopted by the EWRC by decision under Minutes No 137 of 07 July 2015 under item 1, promulg. SG, No 59 of 04 August 2015, amend. No 57 of 19 July 2019;
- Regulation (EU) 2017/1938 of the European Parliament and of the Council of 25 October 2017 concerning measures to safeguard the security of gas supply and repealing Regulation (EU) No 994/2010;
- Council Regulation (EU) 2022/1369 of 5 August 2022 on coordinated demand-reduction measures for gas;
- Council Regulation (EU) 2022/2578 of 22 December 2022 establishing a market correction mechanism to protect Union citizens and the economy against excessively high prices;
- Council Regulation (EU) 2022/2576 of 19 December 2022 enhancing solidarity through better coordination of gas purchases, reliable price benchmarks and exchanges of gas across borders;
- Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005;
- Commission Regulation (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission Networks;
- Commission Regulation (EU) 2017/459 of 16 March 2017 establishing a Network Code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No 984/2013.

III. INFORMATION UNDER ARTICLE 100n, PARAGRAPH 8, ITEM 1 of the POSA

Bulgargaz EAD shall, as appropriate, comply with the National Code of Corporate Governance in the edition adopted by the by the National Corporate Governance Commission on 1 July 2021, approved by the Financial Supervision Commission under Article 100n, paragraph 8, item 1 of the Public Offering of Securities Act with Decision No 850-KKY of 25 November 2021.

The Code is applied on the ‘observe or explain’ principle, i.e. in case of deviation the management shall clarify the reasons for this.

The implementation of the National Code of Corporate Governance is an expression of management's commitment to introduce and implement the Standards for Good Corporate Governance included in the Organisation for Economic Co-operation and Development Guidelines on Corporate Governance of Public Enterprises. The Company complies with the established principles and norms of corporate governance and fulfils the disclosure and transparency obligations set out in the regulations applicable to its activities. The Company will continue to strictly comply with these norms and principles.

IV. INFORMATION UNDER ARTICLE 100n, PARAGRAPH 8, ITEM 2 of the POSA

The bylaws of the sole owner of the capital of the Company — Bulgarian Energy Holding EAD, do not specify the number of companies in which the members of the Board of Directors may hold management positions, nor do they limit the number of consecutive mandates of independent members of the Board of Directors. However, good practices are followed, without a legal requirement, to prevent a high concentration of control functions in one person in terms of individual companies.

The remuneration of the Board of Directors of Bulgargaz EAD is determined by the terms and conditions of the Regulations on the implementation of the Public Enterprises Act. Remunerations other than those specified in the Regulations are not allowed.

Bulgargaz EAD protects the rights of shareholders described in Chapter Three of the National Code of Corporate Governance, as long as there are no restrictions in their application in connection with the presence of one shareholder — Bulgarian Energy Holding EAD (the ultimate owner — the Bulgarian state).

Bulgargaz EAD has no approved disclosure policy. The Company strictly observes the requirements for disclosure of information regarding the term and completeness in accordance with the Bulgarian legislation and observing the

instructions of the Minister of Energy. Information on the annual, half-yearly and quarterly financial statements, activity reports is published on the Company's website, on the website of the Ministry of Finance and through the web-based electronic information system for public enterprises of the Agency for Public Enterprises and Control.

Important and substantial information for its activity —which constitutes public information in terms of the Access to Public Information Act — is periodically published on the Company's website.

Bulgargaz EAD does not have approved rules for taking into account the interests of the stakeholders, but on all issues that directly or indirectly concern them, the relevant conciliation procedures are carried out.

V. INFORMATION UNDER ARTICLE 100n, PARAGRAPH 8, ITEM 3 of the POSA

1. Internal Audit Unit

By decision of the Board of Directors dated 18 June 2015, Bulgargaz EAD has established an Internal Audit Unit, which has been established as an independent department under the direct supervision of the Executive Director. The internal audit activity is performed in accordance with the requirements of the Internal Audit in the Public Sector Act. By decision of the Board of Directors of Bulgargaz EAD under item 2.1 of Minutes No 321 dated 21 December 2017 the statute of the Internal Audit Unit was approved, respectively the current statute of the Internal Audit Department was revoked /item 2.3 of Minutes No 321 dated 21 December 2017. Audit engagements for assurance and consulting are performed in Bulgargaz EAD.

The internal audit assists the management and employees of Bulgargaz EAD to achieve its objectives by:

- Identifying and assessing the risks in the Company with a view to allocating audit resources for maximum coverage of the audit environment;
- Assessing the adequacy and effectiveness of the financial management and control system with regard to:
 - a) the identification, assessment and risk management by the management of Bulgargaz EAD;
 - b) compliance with legislation, internal acts and contracts;
 - c) the reliability and comprehensiveness of financial and operational information;
 - d) the efficiency, effectiveness and economy of the activities;
 - e) protection of assets and information;
 - f) fulfillment of tasks and achievement of goals.
- Giving recommendations for improving the activities of Bulgargaz EAD.

2. Financial Management and Control System

By Decision under item 1.1 of Minutes No 210 dated 14 April 2016 of the Board of Directors the Financial Management and Control System of Bulgargaz EAD was adopted (FMCS).

By Decision under item 2.1 and item 2.2 of Minutes No 322 dated 29 December 2017 of the Board of Directors of Bulgargaz EAD, the Financial Management and Control System of Bulgargaz EAD, adopted by a decision under item 1.1 of Minutes No 210 dated 14 April 2016 of the Board of Directors of Bulgargaz EAD has been revoked.

On 29 December 2017, the Financial Management and Control System of Bulgargaz EAD was approved by Decision under item 2.1 and item 2.2 of Minutes No 322 dated 29 December 2017 of the Board of Directors, which entered into force on 09 January 2018, amended and supplemented by Decision under item 2 of Minutes No 774/10 March 2023 of the Board of Directors, approved by order of the Executive Director on 13 March 2023.

The purpose of the FMCS is to provide reasonable assurance that the Company's objectives have been achieved through:

- compliance with the legislation, the internal acts of the Company and the concluded contracts, reliability and comprehensiveness of financial and operational information,
- economy, efficiency and effectiveness of activities,
- protection of assets and information.

The control environment includes:

- personal integrity and professional ethics of the employees in the Company,
- management philosophy and style of work,
- organizational structure ensuring division of responsibilities, hierarchy and clear rules, rights, obligations and levels of reporting,
- human resources management policy,
- competence of the staff.

3. БДС EN ISO 9001:2015 management system

Since 04 June 2019, in connection with the implementation of its activities Bulgargaz EAD has been certified under BDS EN ISO 9001: 2015 Management System in accordance with the procedures of the Certification Body for Management Systems at TÜV NORD Bulgaria EOOD. The main procedure 610-01 'Context of the organization and management of risks and opportunities' concerning the risk management policies in the Company is an integral part of the management system.

An integral part thereof are the risk management policies and procedures in Bulgargaz EAD.

The risk management policy aims to regulate the general framework of risk management processes. In general, it is a set of measures aimed at reducing the risk of errors at the stage of management decision-making and to minimize the possible negative consequences of the adopted decision at other stages of activity. In addition, the policy sets out the basic principles and practices for implementing risk management processes. The risk management policy identifies, assesses and manages the risks in the Company, assesses the adequacy and effectiveness of the financial management and control systems in the Company. The risk management strategy provides:

- Systematic and synchronous application of a unified risk management model in Bulgargaz EAD with common terminology, rules and procedures;
- Creating the necessary prerequisites for a successful risk management process; Raising awareness of risk management and focusing on key risk areas in the implementation of management functions;
- Stimulating the introduction and implementation of adequate and effective control mechanisms;
- Focusing the attention of the Company's managers on potential events that may negatively affect the achievement of strategic and operational objectives, possible ways to reduce their negative impact and the likelihood of their occurrence;
- Providing information about potential events, possible ways to reduce their negative impact and the likelihood of occurrence;
- Identification of the risks that may affect the lawful, efficient, effective and economical course of activities in the Company;
- Optimal use of the resources necessary for the implementation of the Company's activities;
- Protection of the institutional image and reputation of Bulgargaz EAD.

Control activities include written policies and procedures designed to give reasonable responsibility that risks are limited within the tolerances set in the risk management process. Control activities include:

- authorization and approval procedures,
- division of responsibilities in a way that does not allow one employee to have responsibility for approval, implementation, accounting and control at the same time,
- a double-signature system which does not allow a financial commitment or payment to be made without the signatures of the Executive Director and the person responsible for the accounting entries,
- rules for access to assets and information,
- procedures for full, accurate, correct and timely accounting of all transactions,
- reporting and verification of activities — evaluation of the efficiency and effectiveness of operations,

- monitoring procedures,
- rules for human resources management,
- rules for documenting all operations and actions related to the activity of the Company,
- rules for respecting personal integrity and professional ethics,
- the financial controller performs preliminary control for legitimacy before assuming an obligation and making an expense in Bulgargaz EAD.

VI. INFORMATION UNDER ARTICLE 100n, PARAGRAPH 8, ITEM 4 of the POSA

1. Information under Article 10, paragraph (1), item (c) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 (Directive 2004/25/EC)
Not applicable to the Company.
2. Information under Article 10, paragraph (1), item (d) of Directive 2004/25/EC
Not applicable to the Company.
3. Information under Article 10, paragraph (1), item (e) of Directive 2004/25/EC
There are no restrictions on voting rights.
4. Information under Article 10, paragraph (1), item (h) of Directive 2004/25/EC
The rules governing the appointment or replacement of board members are described in section VII of this Declaration. The sole owner of the capital amends and supplements the Articles of Association of the Company.
5. Information under Article 10, paragraph (1), item (i) of Directive 2004/25/EC
The powers of the members of the Board of Directors are described in section VII of this Declaration.

VII. INFORMATION UNDER ARTICLE 100n, PARAGRAPH 8, ITEM 5 of the POSA

The governing bodies of Bulgargaz EAD are:

- Sole owner of the capital;
- Board of Directors.

The company has appointed an Audit Committee under Article 07 of the Independent Financial Audit Act.

1. Sole owner of the capital

1.1. Statute

The sole owner of the capital of the Company is Bulgarian Energy Holding EAD with UIC 831373560 (the 'Holding').

The rights of the Holding as Sole owner of the capital in the Company are exercised by the person (persons) representing the Holding as the principal of the Company and is the body authorized to take all decisions granted in the competence of the sole owner of capital under the law or the Articles of Association.

1.2. Competence

- The sole owner of the capital has all the rights of a shareholder of the Company in accordance with the law and the Articles of Association. The sole owner of the capital decides on all issues that the law places within the

competence of the general meeting of shareholders. In the cases provided by law, the sole owner of the capital seeks and receives from the State Energy and Water Regulatory Commission or other competent regulator the necessary permits or consents, if necessary for the exercise of its competence.

- The sole owner of the capital:
 - amends and supplements the Articles of Association of the Company;
 - increases and decreases the capital of the Company;
 - transforms and terminates the Company;
 - elects and dismisses the members of the Board of Directors and determines their remuneration; second the members of the Board of Directors abroad;
 - approve and update the company's business programme;
 - elects and dismisses the independent statutory auditor;
 - approves the annual financial statements after certification by the appointed independent statutory auditor;
 - takes decisions for the bonds issuance;
 - appoints the liquidators upon termination of the Company (except in case of insolvency), participates in the election of a statutory manager in the event that the circumstances for the appointment of a statutory manager under the Energy Act by the Energy and Water Regulatory Commission are present and concludes contracts with them;
 - releases from liability the members of the Board of Directors;
 - takes decisions for opening, transferring or closing branches of the Company;
 - gives permission for: disposal transactions with fixed assets and for the establishment of property rights over real estate, the value of which exceeds the lower of BGN 500 thousand or 5 per cent of the book value of fixed assets as at 31 December of the previous year; for contracts for the use or lease of real estate or assets, the book value of which exceeds 5 per cent of the book value of fixed assets as at 31 December of the previous year or for transactions for which (regardless of the value of the assets) authorization from the Energy and Water Regulatory Commission is required; receiving loans or credits, granting loans, granting guarantees (except for guarantees granted under the Public Procurement Act), assuming surety obligations and providing earmarked financing, granting guarantees to third parties, in cases where the value of each of the above exceeds the lower of BGN 500 thousand or 5 per cent of the total book value of fixed assets as at 31 December of the previous year; acquisition of shares and/or stocks in other companies, as well as for disposal of shares and/or stocks owned by the Company in other companies; conclusion of joint activity agreements (the so-called joint venture); the assumption of promissory notes; the securing of obligations of the Company by the creation of a mortgage or pledge of fixed assets of the Company; the conclusion of a judicial or extrajudicial settlement recognizing obligations or forgiving a debt of the Company or forgiving a claim of the Company against third parties; a material change in the business of the Company; material organizational changes, for long-term cooperation of material importance to the Company, and for the termination of such cooperation;
 - approves the election of insurer when concluding contracts for compulsory insurance;
 - approves the decision of the Board of Directors to start public procurement procedures with an estimated value of over BGN 500 000 (five hundred thousand Bulgarian levs), excluding VAT;
 - authorizes the conclusion of contracts for the sale, exchange and lease of fixed assets, as well as the establishment of property rights, to be carried out by direct negotiation, with the initial price to be determined by an independent assessor.
 - authorize the sale and exchange of homes, studios, offices and garages to employees of the Company;
 - coordinates the acquisition of assets or the conclusion of contracts, as well as amendments to the same, of a single or total value over BGN 500 000 (five hundred thousand Bulgarian levs), excluding VAT, excluding contracts for purchase, sale of natural gas and any other transactions with natural gas at freely negotiated prices on the organized stock exchange market and outside the organized stock exchange

market (domestic and international markets) contracts for and related to natural gas storage in gas storage facilities, contracts for and related to storage and regasification at LNG terminals, contracts for and related to access to, transmission and reservation of capacity from gas transmission networks, balancing contracts, as well as contracts concluded in fulfillment of a legal and/or licensing obligation at regulated prices, including the amendment of these contracts. Contracts, outside the conciliation regime, are concluded in compliance with the requirements for risk management, affordability and cost-effectiveness;

- Adopts and submits to the Board of Directors Corporate Governance Policy, Financial and Accounting Policy, Information Technology Policy, Human Resources Management Policy, Investment and Project Management Policy, Public Procurement Policy (including Policy on organizing tenders, competitions and direct negotiation for delivery of goods and performance of works and services); Policy for conducting tenders, competitions and direct negotiation for concluding contracts for sale, exchange and lease of fixed assets, Policy for risk management and internal audit, and other policies that are mandatory for the Company (the 'Policies');
- decides on the distribution of the Company's profit and its payment, the replenishment of the Reserve Fund and the payment of dividends and the payment of bonuses to the members of the Board of Directors, and determines their amount;
- gives consent for election of a procurator of the Company and approves in advance the conditions of the power of attorney;
- gives prior consent for the decisions under the previous points (except for the secondment abroad of the members of the Board of Directors), which the Company takes in respect of its subsidiaries and project companies (if any and according to the type of company), as well as for the conclusion of any contracts between the Company and its subsidiaries and project companies, if any;
- decides other issues provided within its competence by the law and the Articles of Association.

1.3. Decision making

- The sole owner of the capital shall take decisions within the competence of a regular annual general meeting once a year, and within the competence of an extraordinary general meeting — depending on the necessity. An invitation in the Trade Register and the Register of Non-Profit Legal Entities shall not be announced for the exercise of the competence of a general meeting by the sole owner of the capital. The sole owner of the capital may take decisions within the competence of the general meeting at any time in writing.
- The Board of Directors shall fulfill its obligations under Article 223, respectively under Article 251 of the Commerce Act by sending a written application to the sole owner of the capital regarding the necessity, respectively the readiness, to take decisions by the sole owner of the capital. The written application contains proposals on the issues on which the Board of Directors proposes to the sole owner of the capital to make decisions. The proposals do not bind the sole owner of the capital to consider and resolve the issues raised, nor do they limit him to the range of issues on which he can make decisions.
- Minutes in writing shall be drawn up for the decisions of the sole owner of the capital, which shall be signed by the principal of the Company.
- In case the sole owner of the capital wishes members of the Board of Directors to be present at the decision-making, they shall be obliged to do so. The sole owner of the capital may request from the present members of the Board of Directors or other persons invited by him to re-sign the minutes with the decisions taken by him. In the cases provided by law, the employees of the Company shall participate in decision-making in the appropriate manner.
- The application for entry of the decisions of the sole owner of the capital, when these decisions are subject to entry shall be assigned to the executive director, who in such case has the right to authorize a person for that.

2. Board of Directors

2.1. Composition

- As at 31 December 2021, the Board of Directors of Bulgargaz EAD consists of:
Svetoslav Tanev Delchev
Nikolay Atanasov Donchev
Iliyan Kirilov Dukov
Nikolay Angelov Pavlov (Executive Director)
Diana Stoyanova Boneva
- By decision of the Board of Directors of Bulgarian Energy Holding EAD, the current Board of Directors has been constituted and entered in the Trade Register on 03 February 2022, as follows:
Ivan Dimitrov Topchiysky Chairman of the Board of Directors)
Lyudmil Ventsislavov Yotsov (Executive Director)
Anzhela Svetlozarova Slavova
Anton Yordanov Adamov
Stefan Pandov Voynov
- By decision of the Board of Directors of Bulgarian Energy Holding EAD, the current Board of Directors has been constituted and entered in the Trade Register on 22 August 2022, as follows:
Ivan Dimitrov Topchiysky (Chairman)
Deniza Slatkova Slateva (Executive Director)
Tatyana Angelova Petrova-Boyadzhieva
Dimitar Vladimirov Spasov
Veselin Sashev Sinabov

2.2. Statute

- The Board of Directors reports to the sole owner of the capital for the management of the Company, including for the strict compliance with the Policies. It meets as needed, but at least once every three months.
- The Board of Directors shall consist of at least five members — natural persons, who shall be elected and appointed after a competition under the conditions and in accordance with the procedure laid down in the Regulations for the Implementation of the Public Enterprises Act.
- The Board of Directors elects one or two of its members as executive members and the rest are non-executive members. The term of office of the Board of Directors shall be from 3 to 5 years, starting from the entry of the Board of Directors in the Commercial Register and the Register of Non-Profit Companies, and the members of the Board of Directors shall continue to exercise their duties until the entry of a new Board of Directors and after the expiration of their term of office.
- With the prior written approval of the Principal, the Board of Directors may replace an Executive Director at any time, and replace him or her with another member of the Board of Directors.
- A member of the Board of Directors of the Company may be a Bulgarian citizen or a citizen of the European Union, a State party to the Agreement on the European Economic Area, or the Swiss Confederation who:
 - has a university degree;
 - has at least 5 years of professional experience;
 - is not placed under prohibition;
 - has not been convicted of any intentional offence of a general nature;
 - shall not be disqualified from holding office;
 - is not declared bankrupt as a sole trader or unlimited partner in a bankrupt company if there are unsatisfied creditors;

- has not been a member of the management or supervisory body of a company or cooperative dissolved by reason of insolvency in the last two years prior to the appointment, if there are unsatisfied creditors;
- is not the spouse or a person related in fact, by consanguinity or affinity up to and including the fourth degree, and by affinity up to and including the second degree, of a manager or a member of a collective management and control body of the same public undertaking;
- does not hold a senior public office under Article 1, paragraph 1, items 1—38 and 41—45 of the Act on Counteracting Corruption and Seizure of Illegally Acquired Property, is not a member of a political cabinet and is not a municipal secretary;
- does not carry out commercial transactions on their own behalf or on behalf of others similar to the Company's business;
- is not a partner in general partnerships, limited partnerships or limited liability companies where they carry on a similar business to that of the Company;
- is not a director or member of the executive or supervisory body of another public undertaking;
- meets other requirements provided for by law;
- Persons who are employed under an employment contract or under a service relationship may not be executive members of the Board of Directors;
- The company may have proxies, for which may be elected persons who meet the above requirements.
- Each member of the Board of Directors shall enter into a management and control agreement with the Sole owner of the capital. The contract shall be concluded for the term until the end of the term of office of the Board of Directors and shall contain the rights and obligations of the parties, the amount of the remuneration and the manner of its payment, the liability of the parties in the event of non-performance, the grounds for termination of the contract, the amount of the monetary guarantee they give for their management and the amount of the penalty for early termination of the contract for no fault of the member of the Board of Directors, as well as the relationship between the parties in the period from the termination of the contract until the deletion of the name of the released member
- The management contract with a member of the Board shall be terminated early:
 - by mutual consent of the parties;
 - at the request of the person with not less than 3 months' notice;
 - at the request of the principal of the COMPANY with a written notice of 1 (one) month.
 - in case of transformation or dissolution of the COMPANY and in case of change of the owner of the capital;
 - in case of death;
 - upon the placement of the natural person under disability, respectively upon the bankruptcy of the legal entity or upon its dissolution;
 - due to a de facto inability of the person to carry out his/her duties lasting more than 6 months;
 - in other cases provided for by law.
- The contract may be terminated early and without notice by the Sole owner of the capital for the fault of the member of the Board of Directors:
 - in the event of a circumstance giving rise to incompatibility with the requirements under Article 23(4) and Article 26(2) of the Statutes;
 - on conviction of a common offence committed with intent;
 - upon the entry into force of an act establishing a conflict of interest under the Act on Countering Corruption and on Seizure of Illegally Acquired Property;
 - in the event of serious misconduct or persistent failure to comply with official duties;
 - for any violation of law, statute, Board Rules or Policies committed in the course of or in connection with the performance of the member's duties;
 - in the event of actions by the person that have led to a deterioration in the financial performance of the

- COMPANY or from which damage to the COMPANY has resulted;
 - in the event of a material non-performance of the economic or financial indicators, according to the approved business programme.
- A material failure to perform shall be deemed to be a significant deterioration in the economic performance set out in the business programme in accordance with the development strategy and the Company's internal rules and a failure to perform due to the actions or inactions of the Trustee, unless the failure to perform is wholly due to external factors beyond the Trustee's reasonable control.
- The assessment of achievement or non-achievement of the key performance indicators is made on the basis of the annual financial statements, after certification by the Company's appointed independent registered auditor and approval by the sole shareholder.
- The members of the Board of Directors shall receive remuneration determined in accordance with the applicable regulations and the management and control agreements of the members of the Board of Directors.

2.3. Structure

- The composition of the Board of Directors shall also include the independent members, who shall be not less than one-third but not more than one-half thereof. The Board of Directors shall elect from among its members a President and one or two Executive Members (Executive Directors). An Executive Member may not also be President of the Board of Directors. The President of the Board of Directors must be an independent member.
- The independent members must comply with the requirements of Article 20 of the Public Enterprises Act and Article 23(4) of the Company's Statute. An independent member cannot be:
 - an employee of the public undertaking;
 - a shareholder/partner in the same public undertaking;
 - a person who, personally or through related parties, has a commercial relationship with the public undertaking;
 - a sole trader, shareholder or partner in a commercial company which has the same or similar business as the public company;
 - a person related to another member of the management or control body of the public undertaking.
- The State's representatives on the Company's Board of Directors are not independent members.
- The President of the Board of Directors shall direct and organize the work of the Board. In the event of the President's inability to perform his/her duties and in the absence of his/her authorization, they shall be assumed by the Executive Director. Any member of the Board of Directors may request the President to call a meeting of the Board.

2.4. Functions

- The Board of Directors carries out the operational management of the Company and controls the activities of the Executive Director(s), including with regard to compliance with the Policies. He performs all functions and resolves all issues that are not within the exclusive competence of the sole owner of the capital by virtue of the law or the Articles of Association of the Company. The Board of Directors adopts Rules of Procedure, which are approved by the sole owner of the capital.
- The Board of Directors may establish special committees from among its members, such as remuneration or risk management committees. The committees prepare decisions to be adopted by the Board of Directors. Decision-making powers shall not be delegated to the committee. The committees shall be chaired by an independent member of the Board.
- The Board of Directors shall prepare annual self-assessments of its activities and performance, which shall be submitted to the authority exercising the rights of the State and to the Agency for Public Enterprises and Control.

2.5. Competence

- The Board of Directors shall exercise the entire competence of the Board of Directors in accordance with the law and this Articles of Association.
- The Board of Directors:
 - organizes, manages and controls the overall activity of the Company;
 - prepares a business program of the Company for the entire mandate and separately for each year, presents it to the sole owner of the capital for approval and ensures its implementation;
 - implements the investment policy of the Company and decides on the acquisition of property and other rights over real estate, which are not of the exclusive competence of the sole owner of the capital;
 - is responsible for the implementation of the Policies and draws up procedures for their implementation by the Company and its subsidiaries (if any), for the implementation of the conditions under the licenses of the Company and the Company's subsidiaries (if any) and their maintenance, for the implementation of the production and business programs of the Company, monitors and is responsible for the good economic position of the Company;
 - elects one or two of its members as executive directors and authorizes them to manage and represent the Company before third parties. In case two executive directors are elected, they represent the Company jointly.
 - takes unanimously decisions for all transactions provided for in Article 236, paragraph (2) of the Commerce Act;
 - upon request of the principal seeks and receives from the Energy and Water Regulatory Commission or other competent regulator the necessary permits or consents, makes proposals to the principal to resolve issues within the competence of the sole owner of capital and decides on all other issues that fall within the competence of the Board of Directors as set out in the Articles of Association of the Company.

2.6. Status of the executive member of the Board of Directors

- The Board of Directors assigns the Executive Director (correspondingly — jointly to the Executive Directors) to manage and represent the Company under the terms and conditions of Article 31. The non-executive members of the Board of Directors control the activities of the Executive Director(s).
- The Executive Director represents the Company independently and has the right to perform all actions and transactions related to the activities of the Company, as well as to compile and sign documents on behalf of the Company and to authorize other persons to perform individual actions and transactions. Upon election of two Executive Directors, they represent the Company under the terms and conditions of joint representation.
- The Executive Director organizes the activity of the Company in accordance with the law, the Articles of Association, the Council's Rules of Procedure, the Policies and decisions of the sole owner of the capital, as well as the decisions of the Board of Directors. He takes over the operational management of the Company's activities, concludes and terminates the employment and other contracts with employees and associates of the Company and is responsible for the reporting and the archives of the Company. The Executive Director also decides on all other issues that are not within the exclusive competence of the sole owner of the Capital or the Board of Directors in accordance with the law, the Articles of Association of the Company, or which are assigned to him by decision of the sole owner of capital.
- The management and control contract with the Executive Director, as well as the management and control contracts of the members of the Board of Directors, shall be signed by the representative of the sole owner, unless the Board of Directors of the sole owner authorizes another member.

2.7. Representation of the Company

- The Company shall be represented before third parties by the sole Executive Director independently (even if a procurator is appointed).
- In case of election of two Executive Directors — jointly by the Executive Directors. Likewise, the Executive

Directors may authorize other persons to carry out certain actions or to conclude separate transactions (including to authorize one person).

- A procurator may represent the Company within the framework of the power of attorney granted to him.

3. Audit committee

3.1. Composition as at 31 December 2022

Ilin Georgiev Krivoshiev — Chairman;
Irena Milcheva Mihaylova — Member;
Dimitar Milenov Milev — Member.

3.2. Statute

The Committee is a specialized, supervisory, advisory body. The members of the Committee are elected by Bulgarian Energy Holding EAD in its capacity of sole owner of the capital of Bulgargaz EAD.

The Committee consists of 3 members, one of them acting as the chairman.

By Minutes No 25-2018 dated 10 May 2018, the Board of Directors of Bulgarian Energy Holding EAD approved the *Statute of the Audit Committee of Bulgargaz EAD*.

3.3. Remuneration

The remuneration of the members of the Audit Committee is determined by the Board of Directors of Bulgarian Energy Holding EAD and is at the expense of Bulgargaz EAD. By Minutes No 34-2021 dated 06 July 2021, the Board of Directors of Bulgarian Energy Holding EAD determines the remuneration of the members of the Audit Committee as follows:

- for a member of the Audit Committee in the amount of 80 percent of the monthly remuneration of a member of the Management Board of the Company;
- for chairman of the Audit Committee in the amount of 85 percent of the remuneration of a member of the Management Board of the company, elected under Article 105, paragraph (6) of the Independent Financial Audit Act.

3.4. Obligations and powers

- The Audit Committee carries out its activities in accordance with the requirements of the Independent Financial Audit Act, Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding the statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (Regulation (EU) No 537/2014), Directive 2014/56 and Directive 2006/43 of the European Parliament and of the Council and these Articles of Association.
- The Committee shall have the following powers:
 - to monitor the financial reporting process and make recommendations or suggestions to ensure its effectiveness;
 - to review and, at its discretion, express an opinion on the accounting policy of the Holding and its application in the financial reporting;
 - to monitor the effectiveness of the adopted current controls during the monthly review of the financial position of Bulgargaz EAD;
 - to monitor the timely and reliable provision of financial information by the subsidiaries during the preparation of the annual consolidated financial statements of Bulgargaz EAD;
 - to monitor the effectiveness of the internal control system, the risk management system and the internal audit activity with regard to the financial reporting in Bulgargaz EAD;

- to review and express an opinion on the risk management strategy, the risk register of the Holding and the annual report on the condition of the financial management and control system;
- to express an opinion on the status and number of staff of the Internal Audit Unit and on the strategic and annual plans for the internal audit activity;
- to discuss and adopt the Annual Internal Audit Activity Report and, if necessary, to get acquainted and give opinions on individual audit reports from performed audit engagements, as well as on all significant issues related to the internal audit;
- to be responsible for the selection procedure of the registered auditor, except in cases where the audited entity has a selection committee, and recommend its appointment;
- to check and monitor the independence of the statutory auditor and to take decisions in the cases provided by law, in accordance with the requirements of Chapters Six and Seven of the Independent Financial Audit Act, as well as pursuant to Article 6 of Regulation (EU) No 537/2014, including the expediency of providing services outside the audit under Article 5 of the same Regulation;
- to monitor the mandatory audit of the annual and consolidated financial statements, including its implementation, taking into account the findings and conclusions of the Commission for Public Oversight of Statutory Auditors on the application of Article 26, paragraph (6) of Regulation (EU) No 537/2014;
- to get acquainted with the audit strategy and the audit plan of the statutory audit and expresses an opinion on them, assessing the arguments in support of important decisions and choices made at the planning stage;
- to monitor the implementation of the audit plan by giving recommendations to the management of the Company and the auditors to eliminate any difficulties;
- to review the draft audit reports under Article 59 and Article 60 of the Independent Financial Audit Act and the identified key audit issues, the findings and the audit opinion expressed, as well as to form an opinion on the annual work of the statutory auditor, which includes: independence of the auditor; objectivity and professional scepticism; composition of the audit team; findings from inspections of the Commission for Public Oversight of Statutory Auditors; communication and relations with the management of Bulgargaz EAD. The annual opinion is formed on the basis of criteria adopted by the Audit Committee and communicated in advance with the auditor;
- to discuss the additional report of the auditor (prepared in accordance with Article 11, item (2) of Regulation (EU) No 537/2014) and make recommendations to the management of Bulgargaz EAD to eliminate the significant weaknesses and shortcomings identified in the report;

VIII. INFORMATION UNDER ARTICLE 100n, PARAGRAPH 8, ITEM 6 of the POSA

The Board of Directors is appointed by minutes decision of Bulgarian Energy Holding EAD. When electing new members of the Board of Directors, the provisions of Chapter Five 'Requirements for Management and Control Bodies' of the Law on Public Enterprises shall apply, observing the principle of matching the competence of the candidates with the nature of the Company's business.

DENIZA SLATEVA
EXECUTIVE DIRECTOR

BULGARGAZ EAD
STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2022

(All amounts are in BGN'000)

	Note	AS AT 31 DECEMBER	
		2022	2021
ASSETS			
Non-current assets			
Property, plant and equipment	7, 9	465	314
Intangible assets	8	280	281
Deferred tax assets	10	15 336	1 437
		16 081	2 032
Current assets			
Inventories	12	526 879	123 031
Trade and other receivables	11	1 270 775	407 571
Contract assets	20	55 698	68 188
Cash and cash equivalents	13	207 395	211
		2 060 747	599 001
TOTAL ASSETS		2 076 828	601 033
EQUITY AND LIABILITIES			
Equity			
Share capital	15	231 698	231 698
Reserves	16	21 152	14 757
(Accumulated loss)/Retained earnings		(81 878)	82 458
		170 972	328 913
Non-current liabilities			
Borrowings	17	806 085	-
Lease payables	9	121	-
Provisions	33	53 100	52 346
Retirement benefits obligations	19	120	121
		859 426	52 467
Current liabilities			
Borrowings	17	718 071	2 603
Trade and other payables	18	324 923	215 144
Lease payables	9	312	253
Income tax payables		3 071	1 593
Retirement benefits obligations	19	53	60
		1 046 430	219 653
TOTAL LIABILITIES		1 905 856	272 120
TOTAL EQUITY AND LIABILITIES		2 076 828	601 033

Prepared on: 20 April 2023. The annual financial statements were approved by the Board of Directors on 19 May 2023 and signed on 31 May 2023.

Liliya Ivanova
Head of Accounting Department

Deniza Slateva
Executive Director

Auditor's report issued by the joint auditors:
Grant Thornton OOD, Audit Firm No 032
Mariy Apostolov
Managing partner

Zaharinoва Nexia EOOD, Audit Firm No 138
Dimitrina Zaharinoва
Manager

Emilia Marinova
Registered auditor responsible for the audit

Stoycho Milev
Registered auditor responsible for the audit

The notes on pages 5—61 are an integral part of these annual financial statements.

This version of financial statements as at 31 December 2022 of Bulgargaz EAD is free translation from Bulgaria to English language. These financial statements have been prepared and audited as of 31 May 2023.

BULGARGAZ EAD
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

<i>(All amounts are in BGN'000)</i>	Note	YEAR ENDED 31 DECEMBER	
		2022	2021
Revenues from sales of natural gas	20	4 898 139	2 123 087
Other income	21	29 231	12 137
Cost of natural gas as sold		(4 847 784)	(2 027 072)
Expected credit losses and impairment losses on financial assets	22	(34 670)	(3 939)
Impairment losses on inventories	12	(103 785)	(2 138)
Hired services expenses	23	(19 311)	(11 875)
Employee benefits and social security expenses	24	(3 913)	(3 493)
Cost of materials	25	(72)	(123)
Depreciation and amortization expenses on non-financial assets	7,8	(539)	(517)
Provision expenses	26	(754)	(754)
Other expenses	27	(15 117)	(1 111)
Operating (loss)/profit		(98 575)	84 202
Interest income	28	1 330	419
Interest expense and bank charges and commissions	28	(18 962)	(1 648)
Foreign exchange gain/(loss), net	29	4 948	(1 904)
Financial costs, net		(12 684)	(3 133)
(Loss)/Profit before tax		(111 259)	81 069
Income tax income/(expense)	30	10 828	(17 164)
Net (loss)/profit for the year		(100 431)	63 905
Other items of the comprehensive income:			
Items that will not be reclassified in profit or loss:			
Remeasurement of defined benefit retirement plans	19	6	(13)
Income tax related to items that will not be reclassified in profit or loss	30	(1)	1
Other comprehensive income/(loss) for the year, net of tax		5	(12)
Total comprehensive (loss)/income for the period		(100 426)	63 893

Prepared on: 20 April 2023

The annual financial statements were approved by the Board of Directors on 19 May 2023 and signed on 31 May 2023.

Liliya Ivanova
Head of Accounting Department

Deniza Slateva
Executive Director

Auditor's report issued by the joint auditors:
Grant Thornton OOD, Audit Firm No 032
Mariy Apostolov
Managing partner

Zaharinova Nexia EOOD, Audit Firm No 138
Dimitrina Zaharinova
Manager

Emilia Marinova
Registered auditor responsible for the audit

Stoycho Milev
Registered auditor responsible for the audit

The notes on pages 5—61 are an integral part of these annual financial statements.

This version of financial statements as at 31 December 2022 of Bulgargaz EAD is free translation from Bulgarian to English language. These financial statements have been prepared and audited as of 31 May 2023.

BULGARGAZ EAD
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

(All amounts are in BGN'000)

	Share capital	Reserves	Retained earnings/ (accumulated loss)	Total
AS AT 01 JANUARY 2022	231 698	14 757	82 458	328 913
Net loss for the year	-	-	(100 431)	(100 431)
Other items of the comprehensive income, net of tax	-	5	-	5
Total comprehensive loss	-	5	(100 431)	(100 426)
Transactions with the sole owner				
Dividend distribution	-	-	(57 515)	(57 515)
Total transactions with the sole owner	-	-	(57 515)	(57 515)
Reserve Fund distribution	-	6 390	(6 390)	-
AS AT 31 DECEMBER 2022	231 698	21 152	(81 878)	170 972
AS AT 01 JANUARY 2021	231 698	7 360	40 237	279 295
Net profit for the year	-	-	63 905	63 905
Other items of the comprehensive income, net of tax	-	(12)	-	(12)
Total comprehensive income	-	(12)	63 905	63 893
Transactions with the sole owner				
Distribution for dividend	-	-	(14 275)	(14 275)
Total transactions with the sole owner	-	-	(14 275)	(14 275)
Reserve Fund distribution	-	7 409	(7 409)	-
AS AT 31 DECEMBER 2021	231 698	14 757	82 458	328 913

Prepared on: 20 April 2023

The annual financial statements were approved by the Board of Directors on 19 May 2023 and signed on 31 May 2023.

Liliya Ivanova
Head of Accounting Department

Deniza Slateva
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BULGARGAZ EAD
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

(All amounts are in BGN'000)

	Note	YEAR ENDED 31 DECEMBER	
		2022	2021
CASH FLOWS FROM OPERATING ACTIVITY			
Proceeds from customers from sales of natural gas		4 738 098	2 444 483
Proceeds from transactions with related parties		43 161	9 332
Income tax payments		(1 594)	(4 223)
Payments to suppliers, including:		(5 587 934)	(2 301 577)
For purchase of natural gas		(5 414 567)	(2 171 993)
Under transactions with related parties		(146 558)	(120 494)
Payments to other trade counterparties		(26 809)	(9 090)
Taxes paid, different from the income tax		(558 725)	(304 199)
Payments for personnel benefits and social security		(3 947)	(3 632)
Proceeds under a compensation programme by resolution of the Council of Ministers (CoM)		234 355	-
Interests received on deferred trade receivables		-	419
Other proceeds from operating activity, net		642	413
NET CASH FLOWS FROM OPERATING ACTIVITY		(1 135 944)	(158 984)
CASH FLOWS FROM INVESTING ACTIVITY			
Acquisition of intangible assets		(8)	(304)
Acquisition of plant and equipment		(292)	(47)
Net cash flows from investing activity		(300)	(351)
CASH FLOWS FROM FINANCING ACTIVITY			
Dividend payments	32	-	(14 275)
Principal payments on lease contracts	9	(343)	(263)
Interest payments on lease contracts	9	(16)	(12)
Loans received	14	1 547 813	-
Payments on loans received	14	(192 509)	-
Proceeds from bank overdraft	14	150 769	29 999
Payments of bank overdraft	14	(153 372)	(27 396)
Payments of interest and fees on loans received	14	(8 463)	(1 527)
Net cash flows from financing activity		1 343 879	(13 474)
Net increase/(decrease) of cash and cash equivalents during the year		207 635	(172 809)
Cash and cash equivalents at the beginning of the year		211	171 857
Foreign currency (losses)/gains on cash and cash equivalents, net		(302)	1 008
(Accrued)/Recovered expected credit losses on cash and cash equivalents		(149)	155
Cash and cash equivalents at the end of the year	13	207 395	211

Prepared on: 20 April 2023. The annual financial statements were approved by the Board of Directors on 19 May 2023 and signed on 31 May 2023.

Liliya Ivanova
Head of Accounting Department

Deniza Slateva
Executive Director

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The notes on pages 5—61 are an integral part of these annual financial statements.

This version of financial statements as at 31 December 2022 of Bulgargaz EAD is free translation from Bulgarian to English language. These financial statements have been prepared and audited as of 31 May 2023.

BULGARGAZ EAD
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
31 DECEMBER 2022

(All amounts are in BGN'000, unless otherwise stated)

1. GENERAL INFORMATION

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

The Company's main activity is the public supply of natural gas as well as purchases and sales related thereto.

The main strategic goals of BULGARGAZ EAD are related to the responsibilities and obligations for continuity and reliability of natural gas supply. Guaranteeing the supply of natural gas is of key importance for the energy security of Bulgaria. To achieve these goals, BULGARGAZ EAD makes every effort for providing alternative sources and routes for natural gas.

The Company operates under an individual license for public supply of natural gas on the territory of Republic of Bulgaria — License No JI-214-14 of 29 November 2006, issued by the State Energy and Water Regulatory Commission for a period of 35 years. As at 16 September 2021 the Company holds Natural Gas Trading Licence No JI-548-15 of 16 September 2021 issued by the Energy and Water Regulatory Commission by virtue of Article 31, paragraph 1, item 1, in connection with Article 39, paragraph 5, second sentence of the Energy Act.

BULGARGAZ EAD is a sole-owned joint stock company, whose share capital is owned by Bulgarian Energy Holding EAD. The ultimate owner of the Company is the Bulgarian Republic, through the Minister of Energy.

The Company has a one-tier management system, with governing bodies being the sole owner of the capital and the Board of Directors. As at 31 December 2022 and as at the date of the preparation of the financial statements, the Company is managed and represented by the Executive Director Deniza Slateva and has a Board of Directors with the following members:

- Deniza Slateva — Executive Member of the Board of Directors;
- Ivan Topchiysky — Chairman of the Board of Directors;
- Veselin Sinabov — Member of the Board of Directors;
- Dimitar Spassov — Member of the Board of Directors;
- Tatyana Petrova-Boyadzhieva — Member of the Board of Directors.

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

As at the date of preparation of the present financial statements, the Company has an Audit Committee with the following members:

- Ilin Krivoshev — Chairman
- Irena Mihaylova — Member
- Dimitar Milev — Member

2. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and adopted for use in the European Union by the European Commission ('European Commission'). By virtue of paragraph 1, item 8 of the Additional Provisions of the Accounting Act applicable in Bulgaria, the term 'IFRS as adopted by the EU' means the International Accounting Standards (IAS) as adopted in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council.

The financial statements have been prepared on a historical cost basis, modified with respect to the valuation of items of plant and equipment at revalued amount.

BULGARGAZ EAD
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
31 DECEMBER 2022

(All amounts are in BGN'000, unless otherwise stated)

The annual financial statements are presented in Bulgarian lev (BGN), which is also the functional currency of the Company. Unless otherwise stated, all amounts are presented in thousand Bulgarian lev (BGN'000), including the comparative information for 2021.

Going Concern Principle

As at 31 December 2022, the financial statements are prepared on a going concern principle, which assumes that the Company will continue its operations in the foreseeable future. As disclosed in Note 1 'General information', the Company has an individual license for public supply of natural gas in the Republic of Bulgaria, issued by the State Energy and Water Regulatory Commission for a period of 35 years and holds Natural Gas Trading Licence No JI-548-15 of 16 September 2021.

The future operations of the Company as a public supplier and trader of natural gas depend on the business environment, the regulatory requirements, valid contracts in place for ensuring natural gas supplies as per consumer needs, contracts in place for sales of natural gas to the customers of the Company, as well as maintaining the necessary financial resources for implementation of its activity.

The Company reports a net loss of BGN (100 431) thousand for 2022. As of 31 December 2022 the accumulated loss is BGN (81 878) thousand, the net cash flow from operating activities is negative, amounting to BGN (1 135 944) thousand, but the current assets exceed the current liabilities by BGN 1 014 317 thousand. The loss for the period is mainly due to the fact that the Company recognised an impairment loss on the natural gas injected and available at the UGS Chiren at the year end.

As of 31 December 2022, the Company's equity of BGN 170 972 thousand is below the registered share capital by the amount of BGN 60 726 thousand, as the net value of its assets (the difference between the value of the Company's rights and obligations) according to Article 247a, paragraph 2 is positive and does not require action by the sole owner of the capital under Article 252 of the Commerce Act.

The year 2022 was an extremely dynamic year for the Company's operations and resulted in significant transformations in the Company's business model, supply chains and contractual relationships. A series of events and circumstances beyond the Company's control resulted in the need to secure natural gas reserves at prices that were extremely volatile during the year and which began to decline towards the end of 2022.

The Management of the Company, with the support of the sole owner BEH EAD, as well as the Bulgarian Government, make every endeavour and take the necessary measures to ensure the performance of the continued operation of the Company in a manner that ensures the fulfilment of the main purpose of Bulgargaz EAD, namely to continue its role as the main public supplier of natural gas in the country. Therefore, the management believes that, based on the information currently available on the basis of which projections have been made for the future development of the Company, and due to the continued financial and operational support from the sole owner, it will be able to continue its operations and repay its liabilities without selling any assets and without undertaking any material changes to its operations and, therefore, the going concern basis has been adequately and appropriately applied in the preparation of the 2022 annual financial statements. The Company will continue to operate as a going concern and will settle its liabilities in accordance with their terms and conditions as they fall due. Given the importance and strategic significance of the activities performed by Bulgargaz EAD, Bulgarian Energy Holding EAD, as the parent company, has neither the intention nor the legal necessity to liquidate the company, regardless of its liquidity indicators as of 31 December 2022. The sole shareholder is committed to supporting Bulgargaz EAD to achieve a sustainable financial and business development model.

Taking into account the assessment of expected future cash flows and Bulgarian Energy Holding's (BEH) group strategy for the development of the energy sector in Bulgaria, including the potential opportunities to secure alternative supplies through alternative routes to those currently used, the Company's management believes that it is appropriate to prepare the financial statements on a going concern basis.

The Company's management has made its assessment of the events, facts and circumstances and as a result of the analysis has concluded that the going concern basis has been appropriately applied in the preparation of the financial statements for 2022.

BULGARGAZ EAD
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
31 DECEMBER 2022

(All amounts are in BGN'000, unless otherwise stated)

Detailed information regarding the material events that occurred in 2022 that had the most significant impact on the Company's operations, financial condition and future development is also presented below as follows:

1/ On 21 February 2022, by a decree of the President of the Russian Federation (RF), the Donetsk People's Republic and the Lugansk People's Republic were recognized as independent states. On 24 February 2022, the Ministry of Defence of the Russian Federation announced a 'special military operation' on the territory of the Republic of Ukraine. The military actions have received widespread international condemnation and multiple countries imposed sanctions on assets and operations owned by the Russian state and by certain individuals. The invasion triggered a refugee crisis of Ukrainian citizens. Because of Russia's invasion of Ukraine and the complicated situation, the United States and the European Union have imposed several packages of sanctions on the Russian Federation in response to the unprecedented military attack. The measures are aimed at imposing economic and political burdens, namely individual sanctions, economic, diplomatic measures, restrictions on the media, etc. The economic sanctions include restricted access of certain Russian banks and companies to primary and secondary capital markets in the EU, banned export of dual-use goods, restricted Russia's access to certain sensitive technologies and services, exclusion of certain banks from the international SWIFT system, etc. The Russian rouble (RUB) started depreciating in value after 24 February 2022, and from RUB 95.71 per euro it reached RUB 117.20 per euro on 01 March 2022 according to the European Central Bank exchange rate. After this date, the Bank stopped publishing the RUB/EUR reference exchange rate.

The economic consequences of the military conflict in Ukraine have had extremely serious effects on the overall global economy. Energy and commodity prices have risen significantly, thus imposing additional burden on the inflation pressure from supply chain disruptions and from the recovery from the COVID-19 pandemic. Price shocks had a significant impact worldwide. The economic damage from the conflict is significant and has affected all sectors of the economy, both in Bulgaria and in the EU, and has had an impact on the global economy and financial markets.

This event had a material, direct effect on the operations of Bulgargaz EAD as the Company's main natural gas supplier Gazprom Export OOO ceased supplying natural gas as of 27 April 2022. The Bulgarian Party has fully complied with its obligations and has made all payments required under the natural gas supply contract with Gazprom Export OOO in a timely, strict and compliant manner. Bulgargaz EAD was offered a new payment scheme under the existing supply contract, which, after analysis by the Company's management and Bulgarian Energy Holding, was not approved as it was considered to be inconsistent with the existing contract until the end of 2022 and posed significant risks to the Bulgarian side, including making payments without receiving any gas supplies from the Russian side. In order to limit the consequences of the actions of OOO Gazprom Export, Bulgargaz EAD has taken all necessary actions, not contrary to Bulgarian legislation, to ensure the integrity of the country's gas transmission system and the continuity of supplies to Bulgarian domestic and industrial consumers.

As a result of the changed geopolitical situation and the premature interruption of supplies from OOO Gazprom Export, Bulgargaz EAD has changed its business model from supplies under two main long-term pipeline gas contracts (with the right to irregular supplies with Gazprom Export), to supplies under multiple LNG purchase contracts on a regular supply basis.

The Ministry of Energy, Bulgarian Energy Holding, Bulgargaz and Bulgartransgaz, with the support of the Bulgarian authorities, have taken steps to secure supplies of natural gas from alternative sources by using the supply capacity of the existing transmission infrastructure and to address the situation.

An additional agreement was signed at the end of June 2022 under the contract with the Azerbaijani supplier, effective from 01 July 2022, natural gas supplies to be made in the full contracted volume, using the capacity of the Kulata/Sidirokastro interconnector, with a change in the price of supply in increment.

The long-term contract between Bulgargaz EAD and Azerbaijan for the supply of natural gas defines the delivery point as the interconnection point between TAP and the interconnector Greece — Bulgaria (IGB) — Komotini, Greece. The contract is strategic in terms of the construction of the IGB pipeline, in connection with the supply of natural gas from Azerbaijan via the Southern Gas Corridor route. The construction of the interconnector and the supply of natural gas under the contract are the two most important projects for the implementation of the state strategy for the diversification of the sources and routes of natural gas supply and are supported by the European Commission (EC) and the strategic partners of the Republic of Bulgaria.

BULGARGAZ EAD
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
31 DECEMBER 2022

(All amounts are in BGN'000, unless otherwise stated)

In this regard, Bulgargaz EAD successfully participated in the procedures for expressing interest and reserving capacity in the IGB pipeline. As a result of its participation in the procedures, Bulgargaz EAD entered into an agreement for the transmission of natural gas with ICGB AD for a period coinciding with the period of the contract for the supply of natural gas from Azerbaijan.

On 01 October 2022, the IGB interconnector was put into commercial operation and deliveries of the full amounts under the contract with Azerbaijan started to be made at the original agreed price through entry point Komotini.

By virtue of the agreement signed on 30 December 2022 with BOTAŞ BORU HATLARI İLE PETROL TAŞIMA A.Ş., Bulgargaz EAD secures access to the LNG regasification terminals in Turkey and its subsequent transportation to the territory of the Republic of Bulgaria under the flexibility of supply. The period of the Agreement between Bulgargaz EAD and Botash is 01 January 2023 — 31 December 2035. It was envisaged that the agreement would become legally effective after a decision of the Council of Ministers and all relevant approvals for both parties. By Decision No 26 of 12 January 2023 the Council of Ministers of the Republic of Bulgaria approves the signed Agreement. The Agreement provides for regasification and transmission capacity of natural gas to the interconnection point at the border of the Republic of Turkey and the Republic of Bulgaria — Malkochlar/Stranja 1.

2/ Natural gas prices in 2022 have reached record high levels in European markets. Natural gas supplies are beginning to be delivered at market prices significantly higher than the prices under the company's long-term contracts at that time. The alternative deliveries from suppliers for which Bulgargaz EAD is a new customer are mainly made at 50% to 100% prepayment. These deliveries shall be paid for in euros or US dollars. The exchange rate of the US dollar throughout 2022 had a steady upward trend, reaching levels above BGN 2 / US dollar.

Subsequently, in September 2022, Bulgargaz EAD organised transparent and competitive tenders for LNG supply for the months of November and December 2022 and for the whole year 2023, and for the first time participated independently in the tenders held by the LNG terminal operator in Greece for the allocation of regasification and storage slots for 2023. This enabled the tenderers to supply natural gas amounts both with slots provided by Bulgargaz EAD and with slots provided by the respective LNG supplier. Through the tendering procedures, Bulgargaz EAD achieved an extremely competitive price and secured the necessary amounts to secure the contracts concluded with the local customers, as well as amounts for injection into the UGS Chiren.

3/ The provision of regasification and transmission capacity to the entry point of the Republic of Bulgaria is a new component, which also started to be developed in 2022, reflecting the transmission needs of secured supplies from alternative suppliers. In line with the state strategy for diversification of the country's natural gas supply routes and sources and the Decision No 166 of 10 March 2020 of the Council of Ministers, Bulgargaz EAD has reserved the capacity of the LNG terminal near Alexandroupolis for the supply of 5,300,000 MWh/year for a period of 10 years. Pursuant to Decision No 661 of 15 September 2022 of the Council of Ministers (CM), Bulgargaz EAD has reserved additional capacity at the LNG terminal near the town of Alexandroupolis, Hellenic Republic — Gaztrade S.A., for 5,300,000 MWh/year (\approx 500 mln. m³/year) for a period of 10 years starting from the year of the commercial operation of the terminal (from 2024), bringing the total reserved capacity to 10,600,000 MWh/year.

4/ On 9 August 2022, Council Regulation 2022/1369 of the European Union (EU) on coordinated demand-reduction measures for gas came into force, according to which a 15% reduction in natural gas consumption is recommended. The Regulation is binding in its entirety and should be directly applicable in all Member States for a period of one year after its entry into force (until 9 August 2023). Voluntary demand reduction means that Member States shall make every effort to reduce their gas consumption in the period from 01 August 2022 to 31 March 2023 by at least 15% compared to the average gas consumption for the period from 01 August to 31 March in the five consecutive years preceding the entry into force of the Regulation.

As a result, many of Bulgargaz EAD's customers claimed for the abolition of the clauses in the company's contracts for charging penalties for undrawn/overdrawn amounts of natural gas on an annual and daily basis. Due to the high natural gas prices, in the period from 01 September 2022 and the decision taken at an extended meeting of the Crisis Staff at the end of August 2022, the Company agreed to approve the reduced daily customer orders for the supply of natural gas, outside the tolerances under the concluded purchase and sale agreements for 2022 at the exit points of the Bulgarian gas transmission network. This caused an additional financial burden for Bulgargaz EAD due to the specificity of the LNG supply (solid volumes with uniform daily delivery), the reduced amounts accepted from

BULGARGAZ EAD
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
31 DECEMBER 2022

(All amounts are in BGN'000, unless otherwise stated)

customers, the purchase of additional capacity for injection, storage and extraction, beyond the allocated by the operator under the contingency plan for the maximum filling of the UGS Chiren, as well as the formation of imbalances in the gas transmission system leading to losses for the Company.

In November 2022, the Company returned to compliance with the tolerances under the purchase and sale agreements concluded for 2022 at the exit points of the Bulgarian gas transmission network. In addition, at this point in 2022, there has been a downward trend in natural gas prices in European gas markets due to:

- The filling of gas storage plants;
- Provision of alternative LNG supplies;
- Building new LNG regasification terminals at more European ports;
- The relatively warm winter;
- Limiting economic activity in Asian markets.

5/ In order to mitigate the economic consequences of the unexpected price volatility on the energy market, the Council of Ministers developed and adopted by its Decision No 31 of 25 January 2022 a Programme for compensation of household customers of natural gas and district heating companies using natural gas as their main fuel with a fixed amount of support per MWh. The Programme aims at protecting and assisting businesses and consumers in general to cope with the effects of fluctuating natural gas prices. The Programme has a compensatory effect and complements other temporary measures taken at national level to increase the transparency and improve the functioning of the energy market, as well as strengthening of the regulatory control. Initially, the Programme covered a support period from 1 December 2021 until 31 January 2022 inclusive, but subsequently the period was extended until the end of the heating season, i.e. until 30 April 2022. The adoption of the Programme is aimed at preserving the competitiveness of the industry and overcoming the additional inflationary pressure caused by high gas prices. Thus, the amount payable by the household customers was reduced. The compensation measure is in line with the European Commission's Communication of 13 October 2021 'Tackling rising energy prices: a toolbox of action and support' on energy prices. No possible negative effects on the competition on the electricity market and on the electricity trade are expected as a result of granting the aid.

Under the Programme, the compensation amount is calculated as 50% of the difference between the public supplier price approved by the EWRC for that month and the projected natural gas price for the first quarter or second quarter of 2022, respectively. As regards its implementation, a contract was concluded between Bulgargaz EAD as the Supplier and the Ministry of Energy. The implementation of the compensation programme was implemented by the Company by reducing the amount due for payment for natural gas supplies through the gas supply contracts through the relevant tax documents issued in March 2022 (invoices, debit and/or credit notes).

6/ On 29 June 2022, Regulation (EU) 2022/1032 of the European Parliament amending Regulation (EU) 2017/1938 and Regulation (EC) No 715/2009 in relation to gas storage to meet the European Union's storage fill targets entered into force. In this regard, Bulgargaz, as well as other users of the gas storage in Chiren, injected amounts above the planned ones at significantly inflated prices. In order to achieve the storage fill target of 80%, as well as the relatively warm winter, production was severely constrained, resulting in large gas inventories at the end of the reporting period. Pursuant to Article 6b(1) of the Regulation, Member States shall take all necessary measures, including the provision of financial incentives or compensation to market participants, in order to achieve the filling targets set under Article 6a of the Regulation. In this regard, management's expectation is that the Company will be compensated through a Mechanism for Compensation for High Prices of the quantities of natural gas injected in 2022 in the UGS Chiren, applicable to all companies with injected natural gas in the gas storage plant as of 01 November 2022, being developed by the Ministry of Energy. According to the compensation mechanism proposed for discussion in the working group, the amount of the expected compensation for the quantities injected in UGS Chiren by Bulgargaz as of 01 November 2022 would amount to no less than **BGN 265 million**. For the purposes of the payments envisaged under the mechanism developed, in 2023 each company should sign an individual contract with the Ministry of Energy. At the time of preparing these financial statements, the process of entering into these contracts has not been completed.

BULGARGAZ EAD
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
31 DECEMBER 2022

(All amounts are in BGN'000, unless otherwise stated)

The main strategic goals of Bulgargaz EAD are related to the responsibilities and obligations for continuity and reliability of the supplies. Guaranteeing the supply of natural gas is of key importance for the energy security of Bulgaria. In order to achieve these goals, Bulgargaz EAD makes every effort to provide alternative sources and routes for the supply of natural gas to help increase the security and reliability of gas supplies. This is related to maintaining constant financial stability and increasing the economic efficiency of the Company's operations, under the conditions of market uncertainty in the country and high intercompany indebtedness.

The market goals of Bulgargaz EAD are related to maintaining its market position in the country and entering other gas markets. In order to achieve these goals, Bulgargaz EAD will continue to offer flexible and competitive commercial terms on the market.

The financial objectives of Bulgargaz EAD are related to ensuring the financial stability of the Company.

The natural gas market in Bulgaria is relatively small, and at present natural gas trading can be considered to be fully liberalised. It is also essential to improve the functioning of the regulated market as well as of the gas exchange (trading platform 'Gas Hub Balkan' EAD) in order to have predictability in the supply, and to secure and guarantee the execution of the natural gas transactions. The solutions require joint actions by Bulgargaz EAD, the independent regulator and the State.

The management of the Company has prepared a business plan and development projections, which are based on forecast customer requests, the applicable regulations governing natural gas pricing, obligations under existing contracts with natural gas suppliers, current enactments and forecast quotations provided by Argus Media for the European gas hubs and S&P Global Platts for the alternatives to natural gas fuels — fuel oil and gas oil and in accordance with the assumptions set out in the natural gas supply contracts.

The main challenges faced by Bulgargaz EAD are related on the one hand to the Company's role as a public supplier and trader of natural gas on a liberalised market, and on the other hand to its role in the transition to a carbon-neutral economy (Green Deal). Under these terms and conditions, Bulgargaz EAD should continue to operate as a European natural gas trader that supplies gas at free prices and (like each of its competitors) aims for a leading role on the Bulgarian market, but also for an increasingly significant presence on the markets in the region. The security of the supplies offered by Bulgargaz EAD, its financial stability and reputation as a reliable partner should be used to its advantage in a freely competitive environment.

3. ACCOUNTING POLICY AND CHANGES DURING THE PERIOD

3.1. CHANGES IN THE ACCOUNTING POLICY

3.1.1. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS EFFECTIVE FROM 1 JANUARY 2022

The Company applies the following new standards, amendments and interpretations to IFRSs, developed and published by the International Accounting Standards Board, which have an effect on the Company's financial statements and are required to be applied from the annual period beginning on 1 January 2022:

The following standards and interpretations shall apply for the first time to financial and reporting periods beginning on or after 1 January 2022, but shall not have any material effect of their application on the financial result and financial position of the Company:

- Amendments to IFRS 4 Insurance Contracts — deferral of IFRS 9, effective from 1 January 2021, adopted by the EU;
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16 Interest Rate Benchmark Reform — Phase 2, effective from 1 January 2021, adopted by the EU.

3.1.2. STANDARDS, AMENDMENTS AND CLARIFICATIONS WHICH HAVE NOT BEEN ENTERED INTO FORCE AND WERE NOT APPLIED FROM AN EARLY DATE BY THE COMPANY

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As of the date of approval of these financial statements, new standards, amendments and interpretations have been published to existing standards but have not entered into force or been adopted by the EU for the financial year beginning on 1 January 2022, and were not applied from an earlier date by the Company. They are not expected to have any material effect on the financial statements of the Company. The Management expects that all standards and amendments are adopted in the accounting policy of the Company in the first period beginning after their effective date.

The changes are related to the following standards:

- Amendments to IAS 1 Presentation of Financial Statements: Classification of liabilities as current and non-current, effective from 1 January 2023, not yet adopted by the EU
- Amendments to IFRS 3 Business Combinations, IAS 16 Property, plant and equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, effective from 1 January 2022, not yet adopted by the EU
- Annual improvements 2018—2020, effective from 1 January 2022, not yet adopted by the EU
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies, effective from 1 January 2023, not yet adopted by the EU
- Amendments to IAS 8 Accounting Policies, changes in accounting assessments and errors: Definition of accounting estimate, effective from 1 January 2023, not yet adopted by the EU
- Amendments to IFRS 16 Lease Contracts: Covid-19-Related Rent Concessions, after 30 June 2021, effective from 1 April 2021, not yet adopted by the EU
- IFRS 14 'Regulatory Deferral Accounts', effective from 1 January 2016, not yet adopted by the EU
- IFRS 17 'Insurance Contracts', effective from 1 January 2023

3.2. GENERAL PROVISIONS

The most significant accounting policies used in the preparation of these financial statements are set out below.

The financial statements have been prepared in accordance with the IFRS valuation principles for all types of assets, liabilities, income and expenses. The valuation bases are disclosed in greater detail in the accounting policies of the financial statements.

It should be noted that accounting estimates and assumptions were used in the preparation of the presented financial statements. Although they are based on information provided to management at the date of preparation of the financial statements, actual results may differ from estimates and assumptions made.

3.3. PRESENTATION OF FINANCIAL STATEMENTS

These financial statements are presented in accordance with IAS 1 'Presentation of Financial Statements'. The Company presents the Statement of profit or loss and other comprehensive income in a single statement.

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

In order to achieve a financial statement presentation that provides more relevant information about the nature of the business and the effect of operations and other events or conditions on the Company's financial position, certain items on the statement of financial position have been presented differently from the 2021 financial statements.

The changes to the Statement of Financial Position relate to the reclassification of a separate contract asset line. As at 31 December 2021 the carrying amount of contract assets amounts to BGN 68 188 thousand and are reclassified from Trade and other receivables to Contract assets.

The change only concerns the way individual items are presented for 2021 and does not concern the way they are assessed.

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3.4. FOREIGN CURRENCY TRANSACTIONS

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

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

3.5. REVENUE

RECOGNITION AND MEASUREMENT OF REVENUE FROM CONTRACTS WITH CUSTOMERS

The main revenue generated by the Company is related to the sale of natural gas.

The Company's three main areas of natural gas sales are as follows:

- on a regulated market — at prices regulated by the Energy and Water Regulatory Commission (EWRC);
- on an organized exchange market — at freely negotiated prices;
- under the Program for the release of natural gas on an organized exchange market — under the terms of the Program Implementation Agreement approved by the EWRC;
- organized stock market (on the domestic market and on the international markets) — at freely negotiated prices.

In its capacity as a public supplier, Bulgargaz EAD provides a service of public interest — supply of natural gas to a range of persons stipulated in the Energy Act, at prices approved by the EWRC ('regulated prices'). Regulated prices shall be determined pursuant to Ordinance No 2 of 19 March 2013 on the regulation of natural gas prices issued by the State Energy and Water Regulatory Commission, promulgated in the State Gazette, Issue No 33 of 05 April 2013 ('Ordinance No 2').

Since 01 January 2020 Bulgargaz EAD has been supplying natural gas at regulated prices only to end suppliers of natural gas and to a person who had been issued a licence for production and transmission of thermal energy (Energy Act, Article 30, paragraph 1, item 7). The Energy Act obliges Bulgargaz EAD to supply natural gas to the heating and gas distribution companies, but they are not obliged to purchase gas from Bulgargaz EAD and may prefer other suppliers, as they may also purchase gas from the gas exchange.

For all other customers connected to the gas transmission network — production enterprises, thermal power plants, greenhouses, etc. ('industrial customers'), Bulgargaz EAD supplies natural gas at freely negotiated prices. Under contracts with customers at freely negotiated prices, Bulgargaz EAD performs the function of a natural gas trader on competitive terms.

As of 01 December 2019, the Energy Act has introduced an obligation for Bulgargaz EAD to offer on an annual basis for sale on the organized exchange market certain amounts of natural gas under the Natural Gas Exemption Program (Article 176a of the Energy Act under the terms of the Agreement for the implementation of the Natural Gas Exemption Program approved by the Energy and Water Regulatory Commission).

To determine whether and how to recognize revenue, the Company uses the following 5 steps:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation.

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Revenue is recognized either at a given time or over time when, or until the Company fulfills, its obligations to transfer the promised goods or services to its customers.

The Company recognizes revenue for each individual obligation to perform at the level of an individual contract with a customer by analysing the type, term and conditions for each specific contract. For contracts with similar characteristics, revenue is recognized on a portfolio basis only if grouping it into a portfolio would not have a materially different impact on the financial statements.

MEASUREMENT

Revenue is measured on the basis of the sales prices on the regulated and free market.

The transaction price is the amount of remuneration to which the Company expects to be entitled in exchange for the transfer of the promised goods or services to the customer, except for the amounts collected on behalf of third parties (for example, value added tax and excise duty). The remuneration promised in the contract with the customer may include fixed amounts, variable amounts, or both.

APPROACH FOR RECOGNITION OF MAIN TYPES OF REVENUE FROM CONTRACTS WITH CUSTOMERS

A. REVENUE FROM SALES OF NATURAL GAS

As a public supplier of natural gas, Bulgargaz EAD carries out the supply of natural gas all year round under a continuous routine of operation. The customer:

- simultaneously receives and consumes all of the benefits;
- receives control of the commodity (natural gas) by way of transfer of the legal title to the asset;
- bears the significant risks and rewards related to the ownership of the asset;
- accepts the asset.

As a result of the Company's activity, no asset with an alternative use is created for the Company and the Company has an enforceable right to payment for performance completed to date.

Sales revenue is recognized on each transfer of control over the assets sold when they are delivered to the buyer and there are no outstanding commitments that could affect the purchaser's acceptance of natural gas. Delivery occurs for each asset dispatch to the specific place (pick-up point) and when the risks of potential losses have been transferred to the buyer and he has accepted the assets in accordance with the sales contract.

The amount of natural gas delivered to the customer on each of the days of the respective month is reflected in a Monthly Report containing information about the delivery obligations of Bulgargaz EAD and the customer's acceptance obligations.

The consideration from the customer for the sale of natural gas includes fixed and variable amounts.

The fixed amount is the sale price of the natural gas for each quarter of the year and is formed according to the Ordinance on Natural Gas Price Regulation. It is cost-oriented and consists of the following components: delivery price, a 'public provision component' (Article 17, paragraph 6 of the Ordinance on Natural Gas Price Regulation) and 'public service obligation' (Article 11a, paragraph 2 of the Ordinance on Natural Gas Price Regulation).

The charge for capacity and transmission of natural gas is determined in accordance with the Method for Determining the Access and Transmission Price published by the State Energy and Water Regulatory Commission in accordance with the tariffs of the Combined Operator, for the benefit of which it is collected on behalf of the customer.

The variable consideration is related to:

- deviations between the declared and actually delivered minimum annual amount of gas;
- deviations in the daily agreed amount of gas;
- delivered natural gas of deteriorated quality.

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Sales payments are payable within 12 days of the issuance of the final invoice for the supply of natural gas, which is in line with market practice. It is therefore considered that there is no financing component in the sales of natural gas.

A receivable is recognized when assets are delivered, as this is the moment when the right to receive consideration becomes unconditional and only the passage of time is required before payment becomes due.

The provisions of IAS 16 on like-kind swaps apply to transactions for the purchase and sale of natural gas under the conditions of swaps. The exchange does not generate a financial result.

In case of acquisition of LNG, if there is any difference between the original cost of LNG cargoes acquired and their cost after processing, the difference shall be charged to the reduction/increase in the cost of conventional natural gas and in proportion to the regasified natural gas delivered at the relevant point of delivery/gas pipeline. The value of LNG delivered or dispensed when sold as material is not recognised as revenue.

The Table below provides information about the accounting policy applied by the Company for revenue recognition and the timing of satisfaction of obligations for performance of the contracts with customers under IFRS 15.

Product/ Service type	Nature and timing of satisfaction of performance obligations, including material payment terms	Revenue recognition under IFRS 15
Revenues from the sale of natural gas (including revenues from penalties on unaccepted or over-collected amounts of gas)	<p>As a public supplier and trader of natural gas, Bulgargaz EAD carries out the supply of natural gas all year round under a continuous routine of operation. The customer:</p> <ul style="list-style-type: none"> • simultaneously receives and consumes all of the benefits; • receives control of the commodity (natural gas) by way of transfer of the legal title to the asset; • bears the significant risks and rewards related to the ownership of the asset; • accepts the asset. <p>As a result of the Company's activity, no asset with an alternative use is created for the Company and the Company has an enforceable right to payment for performance completed to date.</p>	<p>Sales revenue is recognized on each transfer of control over the assets sold when they are delivered to the buyer and there are no outstanding commitments that could affect the purchaser's acceptance of natural gas. Delivery occurs for each asset dispatch to the specific place (pick-up point) and when the risks of potential losses have been transferred to the buyer and he has accepted the assets in accordance with the sales contract.</p> <p>The amounts of natural gas delivered to the customer on each of the days of the respective month is reflected in a Monthly Report containing information about the delivery and the customer's acceptance obligations.</p> <p>The transaction price is the amount of remuneration to which the enterprise expects to be entitled in exchange for the transfer of the promised goods or services to the customer, except for the amounts collected on behalf of third parties (value added tax and excise duty).</p> <p>The consideration from the customer for the sale of natural gas includes fixed and variable amounts. The fixed amount is the selling price of the natural gas. The variable consideration is related to:</p> <ul style="list-style-type: none"> - deviations in the daily agreed amounts of gas - deviations between the declared and actually delivered minimum annual amount of gas; - delivered natural gas of deteriorated quality.

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Product/ Service type	Nature and timing of satisfaction of performance obligations, including material payment terms	Revenue recognition under IFRS 15
		Sales payments are payable within 12 days of the issuance of the final invoice for the supply of natural gas, which is in line with market practice.
Revenues from sale of natural gas for balancing	For the performance of the supply of natural gas to the customers Bulgargaz EAD has a contract for access and transmission of natural gas through the territory of Bulgaria with the combined operator Bulgartransgaz EAD. There is a gas purchase and sale agreement for balancing, which is an integral part of the access and transmission agreement. The balancing is also of continuous nature and the customer receives and consumes the benefits simultaneously. The revenue is recognized over time, as with the sale of natural gas described above.	<p>The remuneration from the customer for the sale of natural gas for balancing includes fixed amounts and is based on the price for the sale of natural gas for the current month + a balancing cost component determined and fixed by the EWRC for the gas year.</p> <p>There is no financing component to balancing gas sales, as the payment for the sales is due within 20—25 days of invoice issuance, which is in accordance with the market practice.</p>

B. REVENUES FROM SALE OF NATURAL GAS FOR BALANCING

For the performance of the supply of natural gas to the customers Bulgargaz EAD has a contract for access and transmission of natural gas through the territory of Bulgaria with the combined operator Bulgartransgaz EAD. There is a gas purchase and sale agreement for balancing, which is an integral part of the access and transmission agreement. The balancing is also of continuous nature and the customer receives and consumes the benefits simultaneously. The revenue is recognized over time, as with the sale of natural gas described above.

The remuneration from the customer for the sale of natural gas for balancing includes fixed amounts and is based on the price for the sale of natural gas for the current month + a balancing cost component determined and fixed by the EWRC for the gas year.

There is no financing component to balancing gas sales, as the payment for the sales is due within 20—25 days of invoice issuance, which is in accordance with the market practice.

A receivable is recognized when assets are delivered, as this is the moment when the right to receive consideration becomes unconditional and only the passage of time is required before payment becomes due.

C. PENALTIES ON OVERDUE RECEIVABLES

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

D. INTEREST INCOME

Interest income is calculated by applying the effective interest rate on the gross carrying amount of financial assets except for financial assets impaired (Phase 3) for which interest income is calculated by applying the effective interest rate on their depreciated value (the gross carrying amount adjusted for the provision for expected credit losses).

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Determining whether the Company acts as a principal or an agent

When a third party is involved in providing goods or services to a customer, the Company determines whether the nature of his promise is an obligation to perform related to the provision of the particular goods or services (principal) or to the arranging for the other party to provide those goods or services (agent).

The company is the principal when controlling the promised commodity or service before transferring it to the customer. However, the Company does not necessarily act as the principal if it receives the ownership of an asset only temporarily before the ownership right is transferred to the customer.

The Company is an agent if the Company's obligation to perform is to arrange the delivery of the goods or services from a third party. When an agent company fulfils an obligation to perform, it recognizes revenue at the amount of a fee or commission it expects to be entitled to in exchange for arranging for the goods and services to be provided by another party. The fee or commission of the Company may be the net amount of remuneration the Company retains after paying to the other party the consideration received in exchange for the goods or services to be provided by that party.

The indicators that the Company is an agent include the following elements:

- A third party has primary responsibility for fulfilling the contract;
- The company has no inventory risk before or after the goods have been ordered by the customer, during shipping or on return;
- The company does not have discretion to establish pricing for the other party's goods or services, therefore, the benefit the entity can receive from those goods or services is limited;
- The company's consideration is in the form of a commission;
- The company is not exposed to credit risk for the amount receivable in exchange for the goods or services.

Contractual balances

Trade receivables and contract assets

Receivable is the right of the Company to receive remuneration at a certain amount, which is unconditional (i.e., before the payment of the remuneration becomes due, it is only necessary to expire a certain period of time).

The contract asset is the right of the Company to receive consideration in exchange for the goods or services it has transferred to the customer but which is not unconditional (the accrual for the receivable). If, through the transfer of the goods and/or the provision of services, the Company fulfils its obligation before the customer pays the relevant consideration and/or before the payment becomes due, a contract asset is recognized for the earned remuneration (which is conditional). Recognized contract assets are reclassified as a trade receivable when the right to remuneration becomes unconditional.

Contract liabilities

As a contract liability, the Company presents the payments received by the customer and/or an unconditional right to receive a payment before fulfilling its contractual obligations. Contract liabilities are recognized as income when (or as) it settles the obligations to perform.

Assets and liabilities arising from a contract are presented net in the statement of financial position even if they are the result of different contractual obligations for performance of the contract.

After initial recognition, contract trade receivables and assets are subject to an impairment review in accordance with the IFRS 9 Financial Instruments.

3.6. OPERATING EXPENSES

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

Impairment losses on assets include reported impairments for receivables and impairment expenses for inventories and non-current tangible and intangible assets.

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DEVIATIONS WITHIN 'UNCERTAINTY' CLASS OF THE MEASUREMENT SYSTEMS

Deviations within the 'uncertainty' class of the measurement systems are reported monthly on the basis of a gas balance report prepared by the Operational control and balance of natural gas and, the relevant protocols and monthly reports for the supply and consumption of gas. The value of these differences is based on the amounts and the average weighted cost of gas for the month.

3.7. INTEREST EXPENSES AND BORROWING COSTS

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

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

3.8. PROPERTY, PLANT AND EQUIPMENT

The Company's property consists of a leased building classified as a right-of-use asset. Plant and equipment are initially recognized at cost, including purchase price and any directly attributable costs of bringing the asset to working condition. Subsequent measurement after initial recognition is applied to a whole class of identical assets as follows:

No	Class of property, plant and equipment	Subsequent evaluation model
1	Plant and equipment	Revaluation model
2	Computer systems	Acquisition price
3	Vehicles	
	• Trucks	Revaluation model
	• cars	Acquisition price
	• special vehicles	Revaluation model
4	Office equipment and inventory	Acquisition price
5	Spare parts, recognized as plant and equipment	Revaluation model
6	Other plant and equipment	Acquisition price
7	Leased buildings, real estate	Acquisition price determined by virtue of IFRS 16

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

Revaluations are carried out according to the following frequency:

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

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

In this regard, when performing the annual stock-taking at the end of the reporting period (end of financial year) the Company reviews the plant and equipment for indications that if their carrying amount differs materially from their fair value. As a significant deviation is assumed a deviation of the asset's carrying amount from its fair value at the date of preparation of the financial statements with more than 5%. Significant deviation is also a deviation

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below 5%, but the difference between the plant and equipment's carrying amount and its fair value, as a cumulative value, is significant for the purposes of preparation of the financial statements.

Plant and equipment for which revaluation model is not applied, are subsequently valued at purchase price less the accumulated depreciation and impairment losses. Impairment made is calculated as a cost and are recognized in the statement of profit or loss and other comprehensive income for the relevant period.

Subsequent expenditures relating to an item of plant and equipment are added to the carrying amount of the asset when it is probable that the Company has economic benefits in excess of the asset's originally assessed effectiveness. All other subsequent expenditure is recognized as such for the period it is made.

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

Plant and equipment	2—7 years
Vehicles	2—12 years
Computers	2 years
Leased buildings	For the term of the lease agreement

Plant and equipment is written-off upon their sale or when no expected future economic benefits from its use or disposal. Profit or loss arising out from writing off of the asset representing the difference between the net disposal proceeds, if any, and the carrying amount of the asset, are recognized in Statement of profit or loss and other comprehensive income, when the asset is written-off.

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

Materiality threshold for Company's property, plant and equipment amounts to BGN 500.

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

3.9. INTANGIBLE ASSETS

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

Subsequent recognition is carried out at purchase price less any accumulated depreciation and any accumulated impairment losses. Impairment made is calculated as a cost and are recognized in the statement of profit or loss and other comprehensive income for the relevant period.

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

Intangible assets' residual values and useful lives are reviewed by the management at each reporting date.

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

Public supplier licences	35 years
Software applications	10 years

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

The materiality threshold as adopted by the Company for the intangible assets amounts to BGN 500.00.

3.10. REPORTING OF LEASE CONTRACTS

A. THE COMPANY AS A LESSEE

For all contracts, the Company assesses whether the contract is or consists of a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Company assesses whether the contract meets three key assessments, which are:

- the contract contains a specific asset that is either explicitly identified in the contract, or; is implicitly specified by being identified at the time that the asset is made available for use to the Company;
- the Company is entitled to receive substantially all the economic benefits from the use of the specified asset throughout the period of use, taking into account its rights within the defined scope of the contract;
- The Company has the right to direct the use of the designated asset throughout the period of use. The Company assesses whether it is entitled to direct the 'how and for what purpose' of the asset to use throughout the period of use.

At the inception of the lease, the Company recognizes an asset with a right to use and a lease payable in the balance sheet. The asset with a right to use is measured at cost, which consists of the initial assessment of the lease liability, all initial direct costs incurred by the Company, an estimate of all costs for dismantling and disposal of the asset at the end of the lease and any lease payments made before the start date of the lease (without any incentive received).

The Company depreciates assets with the right to use on a straight-line basis from the date of inception of the lease to the earlier of the useful life of the asset with the right to use or the end of the lease term. The Company also performs a review of impairment of the asset with the right to use when such indicators exist.

At the inception date, the Company estimates the lease payable at the current amount of the lease payments outstanding at that date discounted using the interest rate included in the lease contract. If this rate cannot be directly determined, the company uses the interest rate it would have to pay to borrow for a similar period of time with similar collateral the funds needed to obtain an asset of similar value in a similar economic environment.

The lease payments included in the measurement of the lease payable consist of fixed payments, variable payments based on an index or a percentage, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to exercise.

After the inception date, the Company measures the lease liability by increasing its carrying amount to reflect interest on the leasing liability and reducing its carrying amount to reflect the lease payments made, and remeasures the carrying amount of the liability to reflect revaluations or changes in the lease or to reflect the substantially adjusted lease payments.

The Company is exposed to potential future increases in variable lease payments based on an index or interest rate that are not included in the lease liability until they enter into force. When adjustments to lease payments take effect, based on an index or interest, the lease liability is remeasured and adjusted against the asset with a right to use.

When the lease liability is revalued, the relevant adjustment is reflected in the asset with a right to use or in profit and loss if the asset with a right to use is already reduced to zero.

The Company has chosen to account for short-term leases and lease contracts, the main asset of which is of low value, using exemptions from recognition requirements. Instead of recognizing an asset with a right to use and a lease obligation, the related payments are recognized as an expense in the profit or loss on a straight line over the lease term.

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In the statement of financial position, the assets with a right to use are included in Property, plant and equipment assets, and lease payables are included in lease payables.

B. THE COMPANY AS A LESSOR

The Group's accounting policies under IFRS 16 have not changed since the comparative period.

The Company is not a lessor. In case of transactions occurred as a lessor, the Company classifies its leases as operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership of the underlying asset and is classified as an operating lease if it does not.

3.11. NON-CURRENT ASSETS IMPAIRMENT TESTS

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

All assets and cash-generating units are tested for impairment at least once per year. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that their carrying amount cannot be recovered.

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

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

3.12. FINANCIAL INSTRUMENTS

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

A financial asset is any asset that represents: cash, an equity instrument of another entity, a contractual right to receive or exchange, on potentially favourable terms, cash or financial instruments with another entity, and a contract that will be settled by instruments of The Company's equity is a non-derivative in which it may or will receive a variable number of its equity instruments, or a derivative that may or may be settled by exchange of a fixed amount of cash or other assets. financial assets, against a fixed number of equity instruments.

A financial liability is any liability that represents: a contractual right to grant or exchange, on potentially unfavourable terms, cash or financial instruments with another entity, as well as a contract that will be settled by the issuer's equity instruments and is a non-derivative in which the Company may or will receive a variable number of the entity's equity instruments, or a derivative that may or may be settled, other than by exchanging a fixed amount of cash or other financial assets, cf. vs. fixed number of equity instruments of the entity.

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3.12.1. FINANCIAL ASSETS

Initial recognition and qualification

The Company initially recognizes a financial asset at the time it becomes a party to a contractual arrangement and classifies it according to the business model for managing financial assets and the characteristics of the contracted cash flows.

The Company classifies its financial assets according to their subsequent measurement in three categories: 'financial assets measured at depreciated cost', 'financial assets measured at fair value through other comprehensive income' or 'financial assets at fair value through profit or loss', as appropriate, under the contractual terms of the instruments and established business models in the Company in accordance with IFRS 9.

The business model of the Financial Assets Management Company refers to the way in which it manages its financial assets to generate cash flows. The business model determines whether cash flows will result from the collection of contractual cash flows, the sale of financial assets, or both.

The management of the Company has determined that the financial assets representing cash in bank, trade receivables, other receivables, court and awarded receivables and receivables from related parties are held by the Company in order to obtain the agreed cash flows and are expected to generate cash flows, representing only payments of principal and interest (business model applied). These financial assets are classified and subsequently measured at depreciated cost.

Initial measurement

Initially, all financial assets, excluding trade receivables, are measured at their fair value plus direct transaction costs if they are not carried at fair value through profit or loss when initially recognized as net of transaction costs. Trade receivables that do not have a significant component of financing and for which the Company applies the practically feasible measure under IFRS 15 in this respect are initially measured at the transaction price in accordance with IFRS 15.

Subsequent measurement and presentation

For the purposes of subsequent assessment and presentation, financial assets shall be classified in one of the following categories: 'financial assets measured at amortized cost' (debt instruments), 'financial assets measured at fair value through other comprehensive income with reclassification of accumulated profits and losses' (debt instruments), 'financial assets measured at fair value through other comprehensive income, without reclassification of accumulated profits or losses on write-off' (capital instruments) or 'financial assets measured at fair value in profit or loss' (debt and capital instruments).

Financial assets at amortized cost (debt instruments)

This category includes cash in banks, trade receivables, other receivables, court and awarded receivables and receivables from related parties. This category of financial assets is the most significant for the Company.

The Company measures and measures financial assets at depreciated cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets to collect the contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent measurement is carried out using the 'effective interest' method through which interest income is calculated using the effective interest rate applied to the gross carrying amount of the instruments. For purchased or originated assets with initial credit impairment and those with a subsequently recognized credit impairment, the credit-adjusted effective interest rate, respectively the effective interest rate, is applied to the depreciated cost of the asset.

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Financial assets in this category are subject to impairment testing at the date of each financial statement of the Company, the changes being reflected in profit or loss.

Profit or loss are recognized in profit or loss when the asset is written-off, changed or impaired.

Derecognition

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognized when the contractual rights to the cash flows of the asset have expired or the Company has transferred its rights to receive cash flows from the asset underwent the obligation to pay all the cash flows received without significant delay to a third party under a 'transfer' arrangement.

When a financial asset is derecognized in its entirety, the difference between 1) the carrying amount (measured at the date of derecognition) and 2) the consideration received (including any new asset received without the new assumption of a new liability) is recognized in profit or loss.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a transfer agreement, it assesses whether and to what extent the risks and rewards of ownership are preserved. When neither transfers nor substantially retains all the risks and rewards of the asset nor transfers control over the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In this case, the Company recognizes a related liability. The transferred asset and the related liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Impairment of financial assets

The Company recognizes provisions for expected credit losses for all debt instruments, which are not reported at fair value in the profit or loss by applying the approach set out in the Table below:

	Type of financial asset	Category under IFRS 9	Impairment approach
1	Short-term trade receivables	Debt instruments measured at depreciated cost	Simplified approach
2	Trade receivables with a financing component	Debt instruments measured at depreciated cost	Standardized approach
3	Short-term receivables from related parties	Debt instruments measured at depreciated cost	Simplified approach
4	Receivables from related parties with a financing component	Debt instruments measured at depreciated cost	Standardized approach
5	Receivables under loans granted	Debt instruments measured at depreciated cost	Standardized approach
6	Cash and cash equivalents	Debt instruments measured at depreciated cost	Standardized approach
7	Other financial, court and awarded receivables	Debt instruments measured at depreciated cost	Simplified approach

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the current amount of each shortage of money) over the expected term of the financial instrument. Monetary deficiency is the difference between the cash flows payable to the Company in accordance with the contract and the cash flows that the Company expects to receive. Because the expected credit losses account for the amount and timing of payments, an expected credit loss is recognized even if the Company expects the asset to be fully paid but later than the due date.

Impairment and losses on financial instruments are dealt with in three stages, the first two being the expected credit losses for losses that may arise as a result of default events, and the third as credit impairment (loss), based on evidence of potential or actual default under the instruments.

Expected credit losses for exposures for which there is no significant increase in the credit risk compared to the initial recognition are recognized for credit losses that may arise as a result of default events over the next 12 months. For credit exposures for which there is a significant increase in the credit risk after initial recognition, a loss

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adjustment for the expected credit losses over the remaining life of the exposure is required, irrespective of the timing of the default (lifetime ECL).

For trade receivables and contract assets arising from transactions in the scope of IFRS 15 that do not contain a significant component of finance, the Company applies a simplified approach in accordance with IFRS 9 by recognizing a provision for impairment loss for expected credit losses based on the expected credit loss for the lifetime of the receivables at each reporting date. The Company applies a matrix that calculates the expected credit losses on trade receivables. Receivables are classified by days in arrears and are grouped by type and customer segments with different credit loss models.

For baseline data on trade receivables, the Company uses its accumulated experience of credit losses on such instruments to measure expected credit losses. The historical data used is for periods of 3 to 5 years back, grouped by type and corresponding customer segment models, and adjusted by forecast factors specific to debtors and the industry concerned.

For cash in banks, the Company recognizes impairment for expected credit losses by applying the Standardized Approach and the credit rating of the financial institutions in which the Company has deposited its cash is used to determine the loss from default in the model parameters.

At each reporting date, the Company sets the depreciation allowance for each instrument to the amount of expected lifetime losses if the credit risk for that instrument has increased significantly since the initial recognition.

If, at the reporting date, the credit risk on a financial instrument has not increased significantly from the time of initial recognition, the impairment for that financial instrument is equal to the expected 12-month credit losses.

3.12.2. FINANCIAL LIABILITIES

Initial recognition, classification and measurement

The Company recognizes a financial liability in the statement of financial position only when it becomes a party to the contractual terms of the financial instrument.

Upon initial recognition, financial liabilities are classified as: 'financial liabilities subsequently measured at depreciated cost' (loans and borrowings, trade and other payables) or 'financial liabilities measured at fair value through profit or loss'.

Initial recognition occurs at the settlement date and is carried at fair value plus, in the case of financial liabilities that are not carried at fair value through profit or loss, directly attributable to the acquisition or issue of the financial liability. Received loans management fees are deferred over the borrowing period using the effective interest method and are included in the depreciated cost of the loans.

The financial liabilities of the Company include borrowings, trade and other payables and payables to related parties.

According to their repayment term, financial liabilities are classified as long-term and short-term.

Subsequent measurement

Subsequent measurement of financial liabilities depends on their classification as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated at their initial recognition at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are made for redemption purposes in the near future.

Profit or loss on liabilities held for trading are recognized in profit or loss and other comprehensive income.

Financial liabilities designated at their initial recognition at fair value through profit or loss are determined at the initial recognition date and only if the criteria in IFRS 9 are met.

The Company has not designated financial liabilities as measured at fair value through profit or loss.

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Financial liabilities measured at amortised cost

The category „financial liabilities at amortised cost” includes loans received, trade payables and other payables where the Company has become a party to a contract or arrangement and should be settled in net cash. This category has the most significant share for the Company’s financial instruments and for it as a whole.

Financial liabilities are subsequently measured at amortised cost using the effective interest method. The amortised cost is calculated, taking into account any discount or premium on acquisition, also charges or expenses that are an integral part of the effective interest rate. Expenditure (calculated using the effective interest method) is included as financial expense in the separate profit or loss account and other comprehensive income in line ‘Financial expenses’.

For financial liabilities that are measured at amortised cost, profit or loss is recognized in profit or loss for the period when the financial asset or financial liability is derecognized or impaired through the amortisation process.

Trade payables are initially recognized at their nominal value and are subsequently measured at amortised cost less payment to settle.

Dividends payable to the sole shareholder are recognized when the dividends are approved at the General Meeting.

Derecognition

The Company derecognises a financial liability only when the instrument fulfils (settles) the obligation, the liability expires or the creditor waives its rights.

Where an existing financial liability has been replaced by another by the same lender under substantially different conditions or the terms of an existing obligation have been materially changed, such an exchange or change is treated as a write-off of the original liability and recognition of a new liability. The difference in the appropriate carrying amounts is recognized in the profit or loss.

The difference between the carrying amount of a financial liability settled or transferred to another party and the consideration paid for settlement, including cash and the transfer of non-monetary assets, is recognized in profit or loss for the period.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is recognized in the statement of financial position if there is a legally enforceable right to offset the amounts recognized and the Company intends to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

3.13. INVENTORIES

Inventories include materials and commodities — natural gas.

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

In compliance with a Methodology for price formation for access and transmission of natural gas through the gas transmission network of the operator (Bulgartransgaz EAD), and the decisions of the Energy and Water Regulatory Commission (EWRC) for the approval of the prices for the operator’s services in the MWh unit of measurement, Bulgargaz EAD takes into account the sales of natural gas in the same unit of measurement.

GAS IN UNDERGROUND GAS STORAGES

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

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

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

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

Costs for the storage of natural gas in an underground storage are reported as current expense.

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

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

3.14. INCOME TAXES

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

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

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

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

Deferred tax liabilities are recognized in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. As for management's assessment of the probability of future taxable income to utilize against deferred tax assets, see Note 5.

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

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

3.15. CASH AND CASH EQUIVALENTS

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

3.16. EQUITY AND RESERVES

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

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

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

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

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

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

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

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

Actuarial profit or loss are recognized in other comprehensive income.

Interest expenses related to pension obligations are included in line 'Financial costs' in the Statement of profit or loss and other comprehensive income. All other post-employment benefit expenses are included in 'Employee benefits expenses'.

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

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

3.18. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

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

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

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

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

4. FINANCIAL RISK MANAGEMENT

4.1. FINANCIAL RISK FACTORS

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

Risk management of the Company is carried out by the headquarters of the Company, in cooperation with the Board of Directors and Bulgarian Energy Holding EAD. A priority of management is to provide short and medium term cash flows by minimizing the exposure to financial markets. The Company is not trading with financial assets for speculative purposes, does not issue options and does not take speculative or hedging positions on the financial markets. In 2022, there was no change to the risk management objectives, policies and procedures and the methods by which they are measured.

The most significant financial risks to which the Company is exposed are described below.

4.1.1. MARKET RISK

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

(A) FOREIGN CURRENCY RISK

A large part of the transactions mainly related to sales to the Company's customers are executed in Bulgarian leva (BGN). Another significant portion of the Company's transactions are connected with the purchase of natural gas and are denominated in EUR and mostly in US dollars. They place the Company at foreign exchange risk.

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

	Exposure to short-term risk
	USD thousand
31 December 2022	
Financial assets	280 962
Financial liabilities	(84 126)
Total exposure to risk	196 836
31 December 2021	
Financial assets	277 180
Financial liabilities	(84 126)
Total exposure to risk	193 054

The tables below show the sensitivity of the annual net financial result after taxes and equity to a probable change in the exchange rates of the Bulgarian lev against the following foreign currencies (<https://www.ecb.europa.eu/stats>):

- US dollar +/- 8.6% (for 2021 +/- 3.8%)

All other parameters are considered constant.

These rates are based on average exchange rates over the last 12 months. The sensitivity analysis is based on the investments of the Company in foreign currency financial instruments held at the end of the reporting period.

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31 December 2022	Increase of the exchange rate of BGN		Decrease of the exchange rate of BGN	
	Net financial result	Equity	Net financial result	Equity
BGN thousand				
US dollar (+/- 8.6%)	4 297	4 297	(4 297)	(4 297)

31 December 2021	Increase of the exchange rate of BGN		Decrease of the exchange rate of BGN	
	Net financial result	Equity	Net financial result	Equity
BGN thousand				
US dollar (+/- 3.8%)	3 197	3 197	(3 197)	(3 197)

The Company does not present a currency risk of changing the exchange rate of the Bulgarian lev against the euro because the exchange rate is fixed.

Exposure to exchange rate fluctuations varies throughout the year depending on the volume of international transactions performed. However, the analysis presented above is considered to represent the Company's exposure to foreign currency risk.

(B) INTEREST RATE RISK

The Company's policy is to minimize interest rate risk in long-term financing. As at 31 December 2022, the Company has entered into several bank overdraft agreements and loan agreements from the sole owner and the Ministry of Energy that are at a fixed interest rate.

The Company has no financial assets or liabilities with variable interest rates as at 31 December 2022. It is therefore considered that the Company is not exposed to the risk of changes in market interest rates.

(B) OTHER PRICE RISKS

The Company is exposed to a price risk associated with the activities under the license for public supply of natural gas. The specificity of the activity of Bulgargaz EAD stems from the fact that the Company is a public natural gas supplier. In accordance with the applicable legal requirements, as a public supplier, the prices at which natural gas is sold to end suppliers of natural gas are subject to regulation by the EWRC.

The Company purchases natural gas at market prices by selling some of the amounts purchased at regulated prices. The discrepancy between the purchase and sale price bears risks to the Company when performing its functional obligations. If regulated prices approved are lower than the delivery prices, sales revenue would not be sufficient to cover the actual cost for purchasing natural gas and the Company would experience difficulties in paying its liabilities towards suppliers.

Significant market volatility occurred in 2022 and due to the dynamics and specifics of the market, the Company is unable to assess the sensitivity to this risk. The management of the Company is making efforts to manage this risk through supply diversification.

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

4.1.2. CREDIT RISK

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

The Company's policy is that all customers, which wish to trade under deferred payment agreements are subject to verification procedures of their solvency. Moreover, the balance of trade receivables are monitored on an on-going

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basis. The credit risk arising from other financial assets of the Company, such as cash and other financial assets represents the Company's credit exposure arising from the possibility of its counterparties to fail to meet their obligations.

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

	AS AT 31 DECEMBER	
	2022	2021
Trade and other financial receivables (including Related party receivables Note 34)	685 850	278 782
Cash and cash equivalents	207 395	211
Carrying amount	893 245	278 993

The Company has provided financial assets to secure its obligations. They represent current and future trade receivables from Toplofikacia Sofia EAD under a loan received from the Ministry of Energy in the amount of BGN 800 million.

A first contractual mortgage was established in favour of the Company on a real estate to secure the obligations of the counterparty TPP Varna EAD, the market valuation of which, determined by the three experts at the time of its acquisition into the capital of the mortgagor, is BGN 43 734 thousand. (according to an independent valuation of the property as of July 2022, the market value amounts to BGN 47 946 thousand).

By 31 December 2022, the Company holds collateral as security for trade receivables for natural gas supply (deposits granted) in the amount of BGN 113 thousand. (2021: BGN 137 thousand.)

As at 31 December 2022 and 31 December 2021, the Company is exposed to concentration of credit risk with respect to receivables from Toplofikacia Sofia EAD that comprise more than 70% of the total amount of net trade receivables:

	AS AT 31 DECEMBER	
	2022	2021
Receivables from Toplofikacia Sofia EAD	534 411	46 736
Trade receivables from customers	554 157	100 812

Additional disclosures relating to credit risk are presented in Note 11.

4.1.3. LIQUIDITY RISK

Liquidity risk is the risk arising from the Company not being able to meet its obligations. The Company meets its liquidity needs by carefully keeping track of payments to be made under long-term financial liabilities and cash inflows and outflows, arising in the course of the operating activity. Liquidity needs are monitored for various time periods, on a day-to-day basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly.

Non-derivative financial liabilities have the following remaining contractual maturities, as the amounts shown are the undiscounted contractual cash flows:

AS AT 31 DECEMBER 2022				
	Up to 6 months	Current Between 6 and 12 months	Non-current Between 1 and 5 years	Total
Lease	60	61	312	433
Borrowings	200 557	517 514	806 085	1 524 156
Trade and other payables	263 412	-	-	263 412
Total	464 029	517 575	806 397	1 788 001

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AS AT 31 DECEMBER 2021		Current	
	Up to 6 months	Between 6 and 12 months	Total
Lease	253	-	253
Borrowing	2 603	-	2 603
Trade and other payables	94 209	-	94 209
Total	97 065	-	97 065

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

There are no non-derivative financial liabilities for which the cash flows are expected to occur significantly earlier than indicated in the table above. The amounts disclosed in the maturity analysis of liabilities represent the undiscounted cash flows on the contracts, which may differ from the carrying amounts of the liabilities at the reporting date.

Financial assets used for managing liquidity risk

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

4.2. CAPITAL MANAGEMENT

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

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

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

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

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

	AS AT 31 DECEMBER	
	2022	2021
Equity (net assets)	170 972	328 913
Subordinated debt (unsecured loans)	718 071	-
Adjusted capital	889 043	328 913
Total liabilities less subordinated debt and deferred income:	1 170 636	272 121
- Cash and cash equivalents	(207 395)	(211)
Net debt	963 241	271 910
Ratio of net debt to adjusted capital	1,08	0,827

The Company has not changed its objectives, policies and processes for managing capital, as well as the ways of determining capital during the presented reporting periods. The increase in the ratio is due to significant loan commitments, including unsecured, owed to related parties as part of actions taken by management, the sole owner and the Ministry of Energy following the changes in the model and supply chains.

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4.3. FAIR VALUE MEASUREMENT

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

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

5. SIGNIFICANT ESTIMATES IN APPLYING THE ACCOUNTANCY POLICY OF THE COMPANY. KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS WITH HIGH UNCERTAINTY

Upon preparing the financial statements, the Management makes a number of assumptions, estimates and assumptions regarding the recognition and measurement of assets, liabilities, revenue and costs. The actual results may differ from the Management's assumptions, estimates and assumptions and, in rare cases, are fully consistent with pre-estimated results.

Upon preparing the presented financial statements, the Management's significant judgements in applying the Company's accounting policies and the main sources of uncertainty in accounting estimates do not differ from those disclosed in the Company's annual financial statements as at 31 December 2021. Information about the significant assumptions, estimates and assumptions having the most significant effect on the recognition and measurement of assets, liabilities, income and expenses is presented below.

5.1. IMPAIRMENT OF FINANCIAL ASSETS

Recognition and measurement of expected credit losses of debt instruments measured at amortised cost

Approach for impairment of short-term trade and other receivables and receivables from related parties

The Company applies a simplified approach to calculate the expected credit losses for trade receivables that do not contain a financing component.

For the purpose of determining the expected credit losses the company applies models at the level of customer's industry. The models allow the inherent assessment of financial risk that customers bring to companies in the Company.

Expected credit losses are calculated for each single receivable (invoice, interest rate, etc.) that puts a counterparty in a debt, adjusted on the basis of past due dates and the standard counterparty payment cycle. The average number of days of customer's delay is determined on the basis of historical information about the customer's coverage period. The retrospective review is for a period of 3 to 5 years.

For the purpose of calculating the expected credit losses for financial assets arising from contracts with customers from the energy industry, the Company has determined the existence of additional risk. Trade receivables arising from counterparties in the above industry are therefore considered to be of higher risk.

The additional risk is identified on the basis of a historical experience of the Company's receivables with counterparties from this industry, including deteriorated financial condition, liquidity problems and other difficulties, especially for traders of electricity.

The identified risk factors are considered an indication of a possible increase in credit risk. The quantitative effect of credit risk growth on counterparties from the energy industry is determined by separating an additional industry, 'Energy – High Risk', which adds the 'specific risk' component that is involved in determining the discount rate used for the calculation of the amount of impairment. The assessment of the ratio between observed historical default data, estimated economic conditions, industry risk rating, and the amount of expected credit losses is a significant estimate. Information on impairment of expected credit losses of the Company is presented in Note 11.

In reviewing the annual estimates associated with the application of the ECL model, management has made a judgment that for counterparties with elevated credit risk or with the presence of a concentration for credit risk, it is

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permissible to apply an individual approach. This judgement is based on market developments, the behaviour of the relevant counterparty up to and including the date of the estimates, circumstances that arise such as the existence of legal actions, the taking of collateral and the like. In this regard, in calculating the impairment losses on trade receivables as at 31 December 2022, management has considered the receivables settled up to the date of assessment, prepared a detailed historical analysis of recoveries over a three-year period and determined an appropriate discount factor to reflect the risks of the industry, counterparty, its geographical location and other specific risk characteristics.

Approach for impairment of granted loans, trade receivables and receivables from related parties with a financial component

The Company applies an individual approach for impairment of receivables with a financial component and of granted credits. The impairment model is based on the cash flows agreed in the financial instrument, as well as the assumptions and estimates of expected cash flows and the realization of the financial asset adopted by the management in the preparation of the financial statements.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the current amount of each shortage of money) over the expected term of the financial instrument. Monetary deficiency is the difference between the cash flows payable to the Company in accordance with the contract and the cash flows that the Company expects to receive. Because the expected credit losses account for the amount and timing of payments, an expected credit loss is recognized even if the Company expects the asset to be fully paid but later than the due date.

Depending on the characteristics of the asset and the counterparty, the expected future cash flows from the asset may materially differ from the contracted assets. This would also lead to significant levels of expected credit losses on the asset.

Revision of expected future cash flows for each specific asset is made at each reporting date.

Approach for impairment of court and awarded receivables

In cases where the Company has undertaken legal actions to satisfy its claims, these are classified as court receivables. This type of receivables is characterized by an absolute default — i.e. unwillingness or inability of the customer to settle its obligation. For this reason, irrespective of the existence of decisions of judicial authorities and the started enforcement procedures, the collection of these receivables and respectively the expected future cash flows are determined as such at a low level of probability, and the probability of default has already occurred with respect to the original asset, i.e. it is equal to 100%.

In 2022, the Company has reviewed the methodology and assumptions used to determine the estimate of expected credit losses on court and awarded receivables in the prior reporting period. The analysis is intended to reduce the differences between estimates and actual credit losses. In connection with the review, the Company determined that all court receivables that were from customers declared bankrupt had to be impaired at 100%.

Approach for impairment of cash in banks

Cash and cash equivalents are the most liquid financial instruments. They do not carry any settlement risk, and the liquidity risk they carry is limited to the technical possibility for their disposal not to be fulfilled. However, cash deposited with banks carry a counterparty credit risk (risk of default). Counterparty risk is the likelihood that the counterparty in a financial transaction will not fulfil its contractual obligations. The Company applies the standardized approach for calculating the expected credit losses of cash in banks and the credit rating of the financial institutions in which the Company has deposited its cash is used to determine the loss given default in the model parameters. As at 31 December 2022, the management's best estimate of expected credit losses on cash in banks was that such credit losses were anticipated to the amount of BGN 149 thousand (31 December 2021: none) (Note 3.12.1 and Note 13).

Expected credit losses are the sum of the expected credit losses for each court and awarded receivable based on the historical collection of this asset class. Further information is also provided in Note 11.

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5.2. INVENTORIES

Impairment of natural gas stocks is recognized up to its net realizable value. The determination of impairment requires the Management to assess the turnover of stocks of natural gas and its possible realization through sale. The Company's Management believes that the carrying amount of inventories consisting of natural gas represents the best estimate of its net realizable value as at the date of the statement of financial position according to IAS 2 Inventories. Additional information is disclosed in Note 12.

The net realisable value of the natural gas stored in the UGS Chiren is based on the most recent information on the sales price of natural gas on the regulated market, approved by the State Agency of Energy Regulation. The assessment also takes into account the Company's forecasts for the period of realization, the seasonal nature of the production and injection of this type of specific inventory, and other relevant information expected to be relevant regarding the realization of the stored natural gas.

5.3. USEFUL LIFE OF DEPRECIABLE ASSETS

Financial reporting of plant and equipment and intangible assets involves the use of estimates of their expected useful lives and residual values that are based on judgments by the Company's Management. The Management reviews the useful life of depreciable assets at the end of each reporting period.

As at 31 December 2022, the Management assesses the useful life of assets that represented the expected term of their use. The carrying amounts of the assets are analysed in Notes 7 and 8. The actual useful life, however, may vary due to technical obsolescence, particularly relating to software and IT equipment.

5.4. REVENUE FROM CONTRACTS WITH CUSTOMERS

On recognizing revenue from contracts with customers the management makes various judgments, estimates and assumptions that affect the reported revenue, expense, assets and liabilities under contracts. Key estimates and assumptions that have a material impact on the amount and timing of recognizing revenue from contracts with customers are disclosed in detailed in Note 3.5. These mainly relate to the determination of variable remuneration in the events of deviations in the daily contracted gas amounts; deviations between the minimum annual gas amounts requested and actually delivered; penalties for deliveries of natural gas of poor quality.

5.5. DEFINED BENEFIT OBLIGATIONS

The Management assesses once a year with the help of an independent actuary the obligation to pay defined benefit. The actual value of the liability may differ from the preliminary assessment due to its uncertainty. The amount of the assessed obligation for payment of defined benefit is BGN 173 thousand (31 December 2021: BGN 181 thousand) and is based on inflation statistics, cost of healthcare service and mortality. Another factor that has an impact is the future salary increases predicted by the Company. Discount factors are determined at the end of each year to the yield on long-term government guarantees with 10-year maturity, denominated in the currency in which the defined benefits will be paid. There is uncertainty in the estimate particularly in terms of the tendency to change healthcare costs, which may vary significantly in future assessments of the value of the obligations for defined benefit.

5.6. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

As impairment loss is recognized the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less the sale cost of an asset and its value-in-use. To determine the value-in-use, the management of the Company estimates expected future cash flows from each cash-generating unit and determines a suitable discount factor in order to calculate the current amount of those cash flows. In calculating expected future cash flows, management makes assumptions about future gross profits. These assumptions are related to future events and circumstances. Actual results may differ and may require significant adjustments in the assets of the Company in the next accounting year. In most cases, when determining the applicable discount factor, the appropriate market risk adjustments and asset-specific risk factors are assessed.

The Company did not report any impairment losses on non-current assets during the current and the previous period.

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5.7. PROVISIONS

The Company is a defendant on several lawsuits as at 31 December 2022, the outcome of which may lead to liabilities of a value other than the amount of provisions recognized in the financial statements. Provisions will not be considered here in more detail in order to avoid prejudices related to the Company's position in the above-mentioned disputes.

As at 31 December 2022, the best estimate of the required provision for claims against the Company amounted to BGN 53 100 thousand (31 December 2021: BGN 52 346 thousand). Additional information is disclosed in Note 33.

5.8. DEFERRED TAX ASSETS

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

6. FINANCIAL INSTRUMENTS BY CATEGORIES

The carrying amounts of the Company's financial assets and liabilities may be presented in the following categories:

AS AT 31 DECEMBER 2022

Financial assets	Debt instruments measured at amortised cost
Trade and other financial receivables (Note 11, Note 34)	685 850
Cash and cash equivalents (Note 13)	207 395
Total financial assets in the statement of financial position	893 245
Financial liabilities	Financial liabilities at amortised cost
Borrowings (Note 17)	1 524 156
Lease (Note 9)	433
Trade and other payables (Note 18)	263 412
Total financial payables in the statement of financial position	1 788 001
AS AT 31 DECEMBER 2021	
Financial assets	Debt instruments measured at amortised cost
Trade and other financial receivables (Note 11, Note 34)	278 782
Cash and cash equivalents (Note 13)	211
Total financial assets in the statement of financial position	278 993
Financial liabilities	Financial liabilities at amortised cost
Borrowings (Note 17)	2 603
Lease (Note 9)	253
Trade and other payables (Note 18)	94 209
Total financial payables in the statement of financial position	97 065

See Note 3.12. for accounting policy information for each category of financial instruments. A description of the Company's risk management policies and objectives regarding financial instruments is set out in Note 4.

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

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those arising from legal requirements (other tax liabilities and liabilities to social security companies), as well as, obligations to employees and advances received from customers.

7. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment include vehicles, computers and the related equipment, office equipment and furniture. The carrying amount may be analysed as follows:

	Plant and equipment	Vehicles	Office equipment	Right-of-use assets	Total
AS AT 01 JANUARY 2021					
Book value	55	468	355	546	1 424
Depreciation	(27)	(455)	(327)	(485)	(1 294)
Carrying amount	28	13	28	61	130
CHANGES IN 2021					
Newly acquired	-	-	39	434	473
Written-off	(1)	(48)	(115)	(546)	(710)
Depreciation	(7)	(7)	(28)	(247)	(289)
Written-off depreciation	1	48	115	546	710
Closing carrying amount	21	6	39	248	314
AS AT 31 DECEMBER 2021					
Book value	54	420	279	434	1 187
Depreciation	(33)	(414)	(240)	(186)	(873)
Carrying amount	21	6	39	248	314
CHANGES IN 2022					
Newly acquired	-	-	7	510	517
Written-off	-	(163)	(104)	-	(267)
Depreciation	(3)	(6)	(28)	(329)	(366)
Written-off depreciation	-	163	104	-	267
Closing carrying amount	18	-	18	429	465
AS AT 31 DECEMBER 2022					
Book value	54	257	182	944	1 437
Depreciation	(36)	(257)	(164)	(515)	(972)
Carrying amount	18	-	18	429	465

All depreciation costs are included in the statement of profit or loss and other comprehensive income in line 'Depreciation and amortisation of non-financial assets'.

As at 31 December 2022, no assets of the group of property, plant and equipment are pledged as collateral of Company's liabilities. As at 31 December 2022, the Company has no contractual obligation to purchase any assets.

As at 31 December 2022, the plant and equipment were evaluated and the outcome from these tests and evaluations show that there are no significant fluctuations in their market values and therefore there is no need of correcting their carrying values.

The right-of-use assets include an office building, a highly reliable IT structure, and a communication system (31 December 2021: leased office building). As at 31 December 2022, the lease agreement for the office building has been completed and the use of the asset has been renegotiated for a further time period until 31 December 2023.

The liabilities for leases, which correspond to the right-of-use assets, are presented in Note 9 Leases.

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8. INTANGIBLE ASSETS

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

	Software applications	Licenses	Total
AS AT 01 JANUARY 2021			
Book value	1 318	41	1 359
Amortisation	(1 156)	(13)	(1 169)
Carrying amount	162	28	190
CHANGES IN 2021			
Newly acquired	302	17	319
Amortisation	(224)	(4)	(228)
Closing carrying amount	240	41	281
AS AT 31 DECEMBER 2021			
Book value	1 620	58	1 678
Amortisation	(1 380)	(17)	(1 397)
Carrying amount	240	41	281
CHANGES IN 2022			
Newly acquired	169	3	172
Written-off	(22)	-	(22)
Written-off amortisation	22	-	22
Amortisation	(168)	(5)	(173)
Closing carrying amount	241	39	280
AS AT 31 DECEMBER 2022			
Book value	1 767	61	1 828
Amortisation	(1 526)	(22)	(1 548)
Carrying amount	241	39	280

All amortisation costs are included in the statement of profit or loss and other comprehensive income in line 'Depreciation and amortisation of non-financial assets'.

The intangible assets acquired in 2022 relate to a change in the functionality of the 'Supplies' software and Windows Server licenses. No intangible assets are pledged as collateral of Company's liabilities.

The Company has no contractual obligation to purchase any intangible assets to be realized in 2023.

9. LEASES

This note provides information on leases when the Company is a lessee.

9.1. AMOUNTS RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION

The statement of financial position shows the following amounts related to leases:

	Note	AS AT 31 DECEMBER 2022	2021
Right-of-use assets			
IT structure, communication system	7	429	248
		429	248
Lease payables			
Current		312	253
Non-current		121	-
		433	253

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With the exception of short-term leases and leases of low-value assets, each lease is reflected in the statement of financial position as a right-of-use asset and a lease liability. Variable lease payments, which do not depend on an index or variable rates (e.g. lease payments based on a percentage of the Company's sales) are excluded from the initial measurement of the liability and asset under the lease. The Company classifies its right-of-use assets in a consistent manner in Note 7.

Under the contractual terms, termination of the lease is excluded during the term of validity of the lease relations. In the event that either party terminates the lease early, it must do so by sending a six-month written notice, and the terminating party shall owe the other party a penalty of a specified amount. The Office Building Lease does not contain an option for direct asset purchase. The Company is not permitted to sell or pledge the leased asset as security. According to the Office Building Lease, the Company must maintain the leased property in good condition and return the property to its original condition upon expiration of the Lease. The Company is obliged to insure the leased property and to pay maintenance fees in accordance with the lease agreements. As at 31 December 2022 the lease agreement for the office building has not been renewed as long-term.

The company has recognized two other assets with right to use during the current period, a highly reliable IT structure and a communication system under lease agreements with terms expiring on 31 December 2026 and 31 December 2027.

The future minimum lease payments as at 31 December 2022 shall be as follows:

	Minimum lease payments due		
	Up to 1 year	1—2 years	Total
31 December 2022			
Lease payments	325	133	458
Financial costs	(13)	(12)	(25)
Net current amount	312	121	433
31 December 2021			
Lease payments	259	-	259
Financial costs	(6)	-	(6)
Net current amount	253	-	253

9.2. AMOUNTS RECOGNIZED IN THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The statement of profit or loss and other comprehensive income shows the following amounts related to leases:

	Note	AS AT 31 DECEMBER	
		2022	2021
Costs for depreciation of right-of-use assets			
Office building, a highly reliable IT structure	7	(329)	(186)
Communication system			
		(329)	(186)
Interest expenses (included in financial expenses)	28	(16)	(12)
Operating lease expense (included in the cost of hired services)	23	-	(1)

The total cash outflow for leasing in 2022 amounts to BGN 359 thousand (2021: BGN 275 thousand).

The Company has decided not to recognize any liability under lease contracts if they are short-term (leases with an expected term of 12 months or less) or if they are for low-value lease assets. Payments made under these lease contracts are recognized as an expense on a straight-line basis.

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10. DEFERRED TAX ASSETS

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% (2021: 10%), applicable for the year, when they are expected to occur retroactively.

	AS AT 31 DECEMBER	
	2022	2021
Deferred tax assets		
– Deferred tax assets for recovery after 12 months	15 342	1 438
Total deferred tax assets	15 342	1 438
Deferred tax liabilities		
– Deferred tax liabilities for recovery after 12 months	(6)	(1)
Total deferred tax liabilities	(6)	(1)
Deferred tax assets, net	15 336	1 437

The total movement of deferred income tax may be presented as follows:

	YEAR ENDED 31 DECEMBER	
	2022	2021
AS AT 1 JANUARY	1 437	13 506
Recognized as tax revenue/(expense) in profit or loss (Note 30)	13 900	(12 070)
Tax (expense)/revenue related to components of other comprehensive income (Note 30)	(1)	1
AS AT 31 DECEMBER	15 336	1 437

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

As at 31 December 2022 and 31 December 2021, the Company has no unused tax losses that may be used in subsequent reporting periods.

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

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	Impairment of inventory	Impairment of financial assets — receivables	Pension provisions	Unused paid leaves	Lease	Property, plant and equipment	Total
DEFERRED TAX (ASSETS)/LIABILITIES							
AS AT 01 JANUARY 2021	(31)	(13 441)	(19)	(16)	(1)	2	(13 506)
Expense/(revenue) in profit or loss	(197)	12 263		2	3	(1)	12 070
Expense/(revenue) in other comprehensive income	-	-	(1)	-	-	-	(1)
AS AT 31 DECEMBER 2021	(228)	(1 178)	(20)	(14)	2	1	(1 437)
AS AT 01 JANUARY 2022	(228)	(1 178)	(20)	(14)	2	1	(1 437)
Expense/(revenue) in profit or loss	(10 377)	(3 516)	-	(6)	(2)	1	(13 900)
Expense/(revenue) in other comprehensive income	-	-	1	-	-	-	1
AS AT 31 DECEMBER 2022	(10 605)	(4 694)	(19)	(20)	-	2	(15 336)
DEFERRED TAX ASSETS AS AT 31 DECEMBER 2021, NET	(228)	(1 178)	(20)	(14)	2	1	(1 437)
DEFERRED TAX ASSETS AS AT 31 DECEMBER 2022, NET	(10 605)	(4 694)	(19)	(20)	-	2	(15 336)

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11. TRADE AND OTHER RECEIVABLES

	AS AT 31 DECEMBER	
	2022	2021
Financial receivables		
Trade receivables from customers	577 674	100 670
Accumulated impairment of trade receivables	(31 779)	(6 160)
Trade receivables from customers related parties (Note 34)	8 262	6 302
Trade receivables, net	554 157	100 812
Receivable from natural gas supplier	53 809	-
Impairment of receivable from natural gas supplier	(9 755)	-
Guarantees provided under natural gas supply contracts	27 292	4 302
Guarantees and deposits given to related parties (Note 34)	23 699	21 281
Guarantees given under other contracts	39	1 047
	95 084	26 630
Court and awarded receivables	237 665	203 010
Accumulated impairment of court and awarded receivables	(201 056)	(202 225)
Court and awarded receivables, net	36 609	785
Receivable from Corporate Commercial Bank AD — insolvent	3 777	3 804
Accumulated impairment of receivables from Corporate Commercial Bank AD — insolvent	(3 777)	(3 804)
Receivable from Corporate Commercial Bank AD — insolvent, net	-	-
Total financial receivables	685 850	128 227
Non-financial receivables		
Prepaid advances for natural gas delivery	555 262	277 177
Prepaid expenses, guarantees and deposits	29 663	976
Total non-financial receivables	584 925	278 153
Total Trade and other receivables — current	1 270 775	406 380

Financial receivables

All receivables are short-term. The Company's trade receivables are related to the sale of natural gas and are due within 12 days of the issuance and receipt of the invoice from the relevant counterparty. The net carrying amount of trade and other receivables is assumed to be a reasonable estimate of their fair value.

A significant part of the financial receivables in the amount of BGN 53 809 thousand as at 31 December 2022 represents a receivable from OOO Gazprom Export, a supplier of natural gas, which arose in connection with an unrecognised amount by Bulgargaz EAD invoiced by OOO Gazprom Export for natural gas supplies for the first quarter of 2022. The amount relates to a trade dispute for undelivered but invoiced amounts of natural gas for that period. As at 31 December 2022, following an analysis, the management has identified indicators of impairment and an expected credit loss of BGN 9 755 thousand has been recognised.

Guarantees provided under natural gas supply contracts represent guarantee amounts to natural gas transportation service providers. As of 31 December 2022, they have been granted to DESFA A.E., GASTTRADE S.A. and TRANS ADRIATIC PIPELINE.

The Company's court and awarded receivables were primarily reclassified from trade receivables that were due from counterparties with financial difficulties. When the Company takes legal action, the receivables are reclassified from trade to court receivables. This category of receivables is fully impaired unless collateral or other

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security is obtained to cover the value of the receivable. As at 31 December 2022, the Company's most significant court receivable is from TPP Varna. Following procedural actions undertaken by Bulgargaz EAD, an agreement for the repayment of the receivables was concluded and a mortgage on real estate was established in favour of Bulgargaz. The fair value of the property exceeds the carrying value of the receivables.

All of the Company's finance receivables have been reviewed for events of default. For trade receivables, a simplified approach has been applied to determine the expected credit losses at the end of the period, with an individual approach for some of them, which is based on judgements regarding their concentration for the Company, the financial position of the counterparty, collateral taken, specific repayment terms, historical information on the average number of days/period of collection and the performance of the agreed terms up to the date of the estimate.

As a result of the analysis performed and actions taken, the Company's management has estimated that expected credit losses and impairment losses for trade and court receivables for 2022 amount to BGN 34 178 thousand, net of recoveries.

In forming its judgments and assumptions for the purpose of determining the expected credit losses on financial assets, the Company's management has considered the circumstances and factors available that have and are expected to have a material effect on the Company's operations. These factors are mainly related to the Decision No 594 of the Council of Ministers dated 11 August 2022 approving a loan from the Ministry of Energy for which current and future receivables of Toplofikacia Sofia EAD serve as collateral. The pledge was entered in the Central Register of Pledges in due course. In addition, the effects of the geopolitical crisis of the military conflict in Ukraine, which led to security difficulties in securing the necessary amounts of natural gas, upcoming rescheduling agreements with the debtor TPP Varna EAD and the like are also taken into account.

Accordingly, and in accordance with the requirements of accounting policies as well as applicable accounting standards, based on available, reasonable and supportable information about current conditions and projections of future economic conditions, the Company's management has made an estimate of the amount of expected credit losses on the Company's accounts receivable as of 31 December 2022 and accordingly, losses have been recognized for the period. The accrual for impairment losses and the reversal of impairment losses are presented on a separate line, net in the statement of profit or loss and other comprehensive income. 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 funds. In calculating the impairment of receivables, the concepts and approaches in the impairment models under IFRS 9 'Financial Instruments'; are considered. The calculations performed include impairment tests of financial assets based on 'models' and a classification approach adopted for court and awarded receivables, 'court and awarded receivables' and those 'in bankruptcy proceedings'.

The Company has receivables from Corporate Commercial Bank AD (CCB) — insolvent, which according to the Decision No 3БН66-8, 3БН66-39 dated 28 December 2015 of the receivers of CCB — insolvent, entered in the Commercial Register, amount to BGN 5 077 thousand. In 2017 and in the period 2020—2022, partial account statements for the distribution of the available amounts among the bank's creditors by the insolvency administrators of CCB — insolvent were published in the Commercial Register, and in accordance with the insolvency administrators' distribution, in the period 2019—2022, Bulgargaz EAD was reimbursed a total amount of BGN 1 301 thousand.

Non-financial receivables

Prepaid advances for natural gas supply represent amounts paid in advance by Bulgargaz EAD to natural gas suppliers.

The main part of other prepaid expenses as of 31 December 2022 is related to an amount paid for tender premium for access services provide from Bulgartransgaz AD to Bulgargaz AD for the gas year ending on 01 October 2023. The unutilised portion as of 31 December 2022 amounts to BGN 28 763 thousand.

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The following table provides information about the credit risk exposure of the Company's unrelated party customer receivables and natural gas supplier receivable using the expected credit loss allowance matrix as of 31 December 2022 and 31 December 2021, respectively:

31 December 2022	Relative share	Gross amount of receivables from customers	Impairment of expected credit loss	Net amount of receivables from customers
	%			
Receivables from customers				
Not due	27.42%	173,152	(15 994)	157,158
30—90 days	28.46%	179,730	(13 749)	165,981
90—180 days	35.03%	221,233	(707)	220,526
180—360 days	0.56%	3,554	(1 328)	2,226
More than 360 days	0.00%	5	(1)	4
		577,674	(31 779)	545,895
Receivable from supplier				
180—360 days GPE	8.52%	53,809	(9 755)	44,054
Total receivables	100%	631,483	(41 534)	589,949

31 December 2021	Relative share	Gross amount of customer receivables	Impairment of expected credit loss	Net amount of receivables from customers
	%			
Not due	89.30%	150 786	(2 385)	148 402
30—90 days	1.84%	3 103	(415)	2 688
90—180 days	8.81%	14 869	(3 356)	11 513
180—360 days	0.06%	101	(4)	96
	100%	168 859	(6 160)	162 699

The maturity structure of current trade and other receivables from unrelated parties is as follows:

As at 31 December 2022

	Not due	30—90 days	90—180 days	180—360 days	Total
Trade receivables	173 152	179 730	221 233	57 368	631 483
	173 152	179 730	221 233	57 368	631 483

As at 31 December 2021

	Not due	30—90 days	90—180 days	180—360 days	Total
Trade receivables	150 787	3 103	14 869	100	168 859
	150 787	3 103	14 869	100	168 859

The Company's judgment includes assumptions, such as days of delay, customer risk profile, industry risk modeling, correction factor based on the percentage of (non-)collectability and others, not described above.

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Some of the information used in the developed model for expected credit losses of the Company, such as counterparty country risk (Risk by country), the discount rate of risk-free securities (Risk free — T bonds), financing cost (Cost of debt), is based on ready data, and other — on the reporting data for the amount of the relevant financial asset at the end of the period and historical data on receivables collection.

The calculations made include financial asset impairment tests based on several 'models' based on the adopted Company's accounting policy. As at 31 December 2022, trade receivables with a book value of BGN 670 001 thousand (31 December 2021: BGN 100,670 thousand) were tested for impairment.

The aging analysis of trade receivables for which an impairment loss is recognized as at 31 December 2022 is as follows:

	AS AT 31 DECEMBER	
	2022	2021
Up to 3 months	29 743	2 800
Between 3 and 6 months	707	3 365
More than 6 months	11 084	4
Total	41 534	6 169

Changes in expected credit loss account on receivables are as follows:

	YEAR ENDED 31 DECEMBER	
	2022	2021
AS AT 1 JANUARY	212 189	208 095
Accrued impairment losses of trade receivables	28 051	16 401
Accrued impairment of trade receivable from supplier on a trade dispute	9 755	-
Written-off uncollectible receivables	(343)	-
Reversed impairment losses of receivables	(3 257)	(12 048)
Reversed impairment losses of CCB AD — insolvent	(28)	(259)
AS AT 31 DECEMBER	246 367	212 189

Impairment loss accrual and reversal are recognized in the Statement of profit or loss and other comprehensive income (Note 22). 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 funds.

The maximum exposure to credit risk at the end of the reporting period is the fair value of each of the groups of trade and other financial receivables mentioned above (see also Appendix 4.1.2).

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

	AS AT 31 DECEMBER	
	2022	2021
Bulgarian Lev (BGN)	852 362	124 902
US Dollar (USD)	280 962	277 177
Euro (EUR)	137 451	4 301
Total trade and other receivables	1 270 775	406 380

The Company's trade receivables from Toplofikacia Sofia EAD are provided as collateral for the loan received from the Ministry of Energy in the amount of BGN 800 million.

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12. INVENTORIES

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

	AS AT 31 DECEMBER	
	2022	2021
Natural gas at cost	630 651	125 153
Impairment to a net realizable value	(103 785)	(2 138)
Natural gas — net realisable value	526 866	123 015
Materials	13	16
Total inventories	526 879	123 031

In 2022, the value of the realized natural gas in the amount of BGN 4 847 784 thousand was reported as an expense in profit or loss (2021: BGN 2 027 072 thousand).

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

The main external source used as evidence for the indication of impairment are the EWRC's monthly gas pricing decisions.

The reversal of impairment losses on inventories is recognized as an adjustment to the cost of natural gas sold during the period. The new impairment losses accrued are presented as such in the statement of profit or loss and other comprehensive income in the line 'Impairment losses on inventories'.

The Company has no inventories that are provided as collateral for liabilities.

According to the Company's accounting policy, in determining the net realisable value of inventories at the end of the reporting period, the prices approved by the EWRC for the month of the first reporting period of the following year i.e. January of the following calendar year are used. The judgement of the management of Bulgargaz is to follow the approach of applying the requirements of IAS 2 'Inventories' as adopted in the accounting policy of the company (approved by the sole owner of the company's capital). As a result, an inventory impairment charge of BGN 103 785 thousand has been recognised for 2022. This impairment loss has a material impact on the Company's financial result for 2022, resulting in the amount of the Company's equity falling below its registered capital.

13. CASH AND CASH EQUIVALENTS

	AS AT 31 DECEMBER	
	2022	2021
Cash in current bank accounts	207 544	211
Impairment	(149)	-
Total cash and cash equivalents in the statement of financial position	207 395	211

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

	AS AT 31 DECEMBER	
	2022	2021
Bulgarian Lev (BGN)	207 539	206
US Dollar (USD)	3	3
Euro (EUR)	2	2
Total cash and cash equivalents	207 544	211

As at 31 December 2022, the Company has no restricted cash.

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Changes in expected credit losses account are as follows:

	YEAR ENDED 31 DECEMBER	
	2022	2021
At the beginning of the period	-	(155)
Accrued expected credit losses on cash and cash equivalents	(149)	-
Reversed expected credit losses on cash and cash equivalents	-	155
At the end of the period	(149)	-

14. RECONCILIATION OF INITIAL AND ENDING BALANCES IN THE STATEMENT OF FINANCIAL POSITION OF LIABILITIES ARISING FROM FINANCIAL ACTIVITIES

The reconciliation between the initial and closing balances in the statement of financial position as at 31 December 2022 of the liabilities, arising from financial activities may be presented as follows:

	As at 1 January 2022	Cash flows from financing activity		Non-monetary changes		As at 31 December 2022
		Proceeds	Payments	Offsetting/newly incurred liabilities	Accrued interest and fees	
Bank loans — overdrafts	2 603	150 769	(153 372)	-	-	-
Bank loans — overdrafts — fees	-	-	(2 147)	-	2 147	-
Short-term loans from related parties (BEH)	-	852 509	(192 926)	57 514	974	718 071
Long-term loans from related parties (Ministry of Energy)-	-	695 304	(5 899)	104 696	11 984	806 085
Lease payables	253	-	(359)	523	16	433
Total liabilities from financing activities:	2 856	1 698 582	(352 556)	162 733	12 974	1 524 589

The reconciliation between the initial and closing balances in the statement of financial position as at 31 December 2021 of the liabilities, arising from financial activities may be presented as follows:

	As at 1 January 2021	Cash flows from financing activity		Non-monetary changes		As at 31 December 2021
		Proceeds	Payments	Acquired (increases)	Other changes	
Short-term bank loans	-	29 999	(27 396)	-	-	2 603
Lease payables	71	-	(263)	445	-	253
Interest on lease contracts	-	-	(12)	12	-	-
Interest and commissions on loans received	-	-	(1 527)	-	1 527	-
Total liabilities from financing activities:	71	29 999	(29 198)	457	1 527	2 856

15. SHARE CAPITAL

As at 31 December 2022, the registered share capital of the Company consists of 231 698 584 ordinary shares with a par value of BGN 1 per share. All shares are entitled to dividend and liquidation share and represent one vote of the General Meeting of Shareholders of the Company. All issued shares are fully paid.

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There is no change in the number of shares for the reporting periods.

The sole owner of the Company's capital is Bulgarian Energy Holding EAD, the capital of which is owned by the Bulgarian State through the Ministry of Energy.

16. RESERVES

	Statutory reserves	Revaluation reserves of non-financial assets	Reserve of revaluations of defined benefit plans	Total
AS AT 01 JANUARY 2021	7 367	35	(42)	7 360
Contributions to the 'Reserve' Fund from retained earnings	7 409	-	-	7 409
Revaluations of defined benefit plans	-	-	(12)	(12)
AS AT 31 DECEMBER 2021	14 776	35	(54)	14 757
Contributions to the 'Reserve' Fund from retained earnings	6 390	-	-	6 390
Revaluation of defined benefit plans	-	-	5	5
AS AT 31 DECEMBER 2022	21 166	35	(49)	21 152

STATUTORY RESERVES

Statutory reserves comprise the 'Reserve' Fund, a source for the formation of which is 1/10 of the profit, while the funds in the Fund reach at least 1/10 of the registered capital.

According to Decision No 3-2021/26 January 2021 of the Board of Directors of BEH EAD as the sole owner of the capital of Bulgargaz EAD, it was adopted that a part of the profit for 2019 to the amount of BGN 3 443 thousand is allocated to the 'Reserve' Fund.

According to Decision No 32-2021/22 June 2021 of the Board of Directors of BEH EAD as the sole owner of the capital of Bulgargaz EAD, it was adopted that a part of the profit for 2020 to the amount of BGN 3 966 thousand is allocated to the 'Reserve' Fund.

According to Decision No 83-2022/15 November 2022 of the Board of Directors of BEH EAD as the sole owner of the capital of Bulgargaz EAD, it was adopted that a part of the profit for 2021 to the amount of BGN 6 390 thousand is allocated to the 'Reserve' Fund.

REVALUATION RESERVES OF NON-FINANCIAL ASSETS

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

RESERVE OF REVALUATIONS OF DEFINED BENEFIT PLANS

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

17. BORROWINGS

	AS AT 31 DECEMBER	
	2022	2021
Non-current		
Loans from related parties	800 000	-
Interests to related parties	6 085	-
Total non-current	806 085	-

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Current		
Bank loans	-	2 603
Interests to related parties	556	-
Loans from related parties	717 515	-
Total current	718 071	2 603
Total borrowings	1 524 156	2 603

By 31 December 2022 the Company has liabilities under the following loans obtained to secure natural gas supplies:

- Loans from the sole owner BEH EAD with total availability of BGN 717 515 thousand, which is unsecured. The loans are granted in 2022, repayment period in 2023, in BGN. By 31 December 2022 the Company reports interest payable in the amount of BGN 556 thousand which is due in 2023.
- Loan from the Ministry of Energy in the amount of BGN 800 000 thousand, received after the Decree of the Council of Ministers No 245 of 11 August 2022 which approved additional payments from the budget of the Ministry of Energy in the amount of BGN 800 million for the purchase of natural gas and provision of working capital. The loan is secured by a pledge of present and future receivables from Toplofikacia Sofia EAD. The loan shall have a term of 36 months from the date of disbursement of the first tranche, with interest repayment due 18 months from the date of the first tranche. The total amount of the loan liability to the Ministry of Energy as at 31 December 2022 amounts to BGN 806 085 thousand, classified as long-term.
- Four unsecured bank loans, overdraft type, with a limit of BGN 58 100 thousand and market interest rate. The overdrafts are granted in BGN. The Company has no overdrafts drawn and outstanding as of 31 December 2022 (31 December 2021: BGN 2 603 thousand). The maturity date for repayment is 31 March 2023.

Detailed information on loans from related parties is presented in Note 34 'Related Party Transactions and Balances'. The fair values of current borrowings do not differ from their carrying amounts.

18. TRADE AND OTHER PAYABLES

	AS AT 31 DECEMBER	
	2022	2021
Trade payables	253 149	89 060
Payables to related parties (Note 34)	10 263	5 149
Total financial liabilities	263 412	94 209
Advances received from customers for sale of natural gas (liabilities under contracts with customers)	1 431	32 213
Deferred income	17 149	-
VAT payable	39 200	86 991
Excise duty payable	962	1 185
Payables to employees	171	127
Liabilities to insurance companies	93	76
Other liabilities	2 505	343
Total non-financial liabilities	61 511	120 935
Total current trade and other liabilities	324 923	215 144

The Company's trade payables mainly include payables to natural gas suppliers.

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

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The deferred income of BGN 17 149 thousand as at 31 December 2022 is related to the acquisition and subsequent sale of LNG to a natural gas supplier for regasification and transportation to an entry point of the country's gas transmission system. The amount will be reflected in revenue and cost of LNG, in the period of delivery of natural gas in a subsequent reporting period.

Payables to employees represent obligations to Company's employees, to be settled in 2023. They occur mainly in relation to accumulated unused leave at the end of the reporting period and amounted to BGN 171 thousand (31 December 2021: BGN 127 thousand).

Liabilities to social insurance companies amount to BGN 93 thousand (31 December 2021: BGN 76 thousand) include the social security payables related to accrued unused compensation leaves in the amount and social security payables over remunerations for December 2022 paid in January 2023.

The material amount of the Company's other payables represents compensation received of BGN 2 237 thousand in relation to litigation, details of which are disclosed in Note 33.

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

19. RETIREMENT BENEFITS PAYABLES

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

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

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

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

	AS AT 31 DECEMBER	
	2022	2021
Current amount of liabilities	173	181
Liability at the end of the reporting period	173	181

As of 31 December 2022 the recognized value of the liability of BGN 173 thousand includes a short-term part of BGN 53 thousand and a long-term part of BGN 120 thousand. (31 December 2021: short-term part — BGN 60 thousand, long-term part — BGN 121 thousand).

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

	YEAR ENDED	
	31 DECEMBER	
	2022	2021
AS AT 1 JANUARY	181	186
Current service costs (Note 24)	18	17
Interest expenses (Note 28)	1	1
Total expenses in profit or loss	19	18

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Revaluations:		
Gains from changes in financial assumptions	(4)	-
Profit/(loss) from the actual experience	-	6
Gains from changes in demographic assumptions	(2)	-
Total other comprehensive income	(6)	13
Paid benefits	(21)	(36)
AS AT 31 DECEMBER	173	181

The main actuarial assumptions used are as follows:

	AS AT 31 DECEMBER	
	2022	2021
Discount rate	5.5 %	0.6 %
Future increases of salaries	8.96 %	10 %

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

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

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

The significant actuarial assumptions for the determination of the defined benefit obligation are related to the discount rate, the expected salary growth rate and the average life expectancy.

The table below presents an analysis of the sensitivity and summarizes the effects of changes in these actuarial assumptions on the defined benefit liability as at 31 December 2022:

AS AT 31 DECEMBER 2022	Change in the actuarial assumption	Effect on the liability in BGN	Change in the actuarial assumption	Effect on the liability in BGN
Discount rate	+ 1 %	(8 491)	- 1 %	9 638
Salary increase	+ 1 %	7 699	- 1 %	(6 943)
Staff turnover	+ 1 %	(7 913)	- 1 %	8 913
Change of life expectancy	+1 year	866	-1 year	(886)

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

As at 31 December 2022, the weighted average duration of the obligation to pay compensation upon retirement is 5 years.

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20. REVENUE FROM SALES OF NATURAL GAS

REVENUE UNDER CONTRACTS WITH CUSTOMERS	YEAR ENDED	
	31 DECEMBER	
	2022	2021
Types of goods or services		
Revenue from the sale of natural gas, incl. by type of activities:	4 798 344	2 085 495
- Regulated	1 892 264	786 275
- Freely negotiated	1 705 170	1 066 500
- Stock market under release programme	1 200 910	232 720
Revenues from sale of natural gas for balancing	73 525	20 433
Revenue from penalties for non-performance under contracts with customers for unaccepted and over-collected amount of natural gas	26 270	17 159
Total revenues from sale of natural gas	4 898 139	2 123 087

The revenue under contracts with customers is realized in Bulgaria and recognized over time.

BALANCES UNDER CONTRACTS WITH CUSTOMERS	AS AT 31 DECEMBER	
	2022	2021
Trade receivables (Note 11)	545 895	94 510
Receivables from related parties (Note 34)	8 262	6 302
Contract assets — uninvoyed receivables	55 698	69 379
Liabilities		
Contract liabilities (Note 18)	1 431	32 213

CONTRACT ASSETS

Contract assets with customers represent the Company's uninvoyed receivables at the end of each reporting period for quantities for natural gas delivered during the month of December, which under the terms of the contracts are invoiced by Bulgargaz EAD by the 9th day of the month following the month of delivery. The invoicing of the receivables shall be carried out after the final preparation of a monthly statement for the quantities of natural gas delivered to the customer during each of the days of the respective month, containing information on Bulgargaz' obligations for delivery and the customer's obligations for acceptance of the natural gas. The value of the contract assets also includes the amount of excise tax to be re-invoiced to customers. As of 31 December 2022, the balance of contract assets amounted to BGN 55 698 thousand, including the right to remuneration for delivered but uninvoyed amounts of natural gas for the month of December 2022 in the amount of BGN 54 731 thousand and excise duty for re-invoicing in the amount of BGN 967 thousand. As of 31 December 2021, the balance of contract assets amounted to BGN 69 379 thousand, including BGN 68 188 thousand of uninvoyed deliveries for the month of December 2021 and BGN 1 191 thousand of excise duty.

The amount of contract assets and contract liabilities at the end of each reporting period is recognised in full as revenue from the sale of goods in the next reporting period as described above i.e. in accordance with the agreed terms with customers and the Company's accounting policy.

Customer contract liabilities represent payments made by customers during the month of delivery for contracted quantities of natural gas and capacity products.

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21. OTHER INCOME

The other income of the Company includes as follows:

	YEAR ENDED 31 DECEMBER	
	2022	2021
Penalties on overdue receivables	27 977	11 661
Recovered legal costs	1 226	465
Other	28	11
Total other income	29 231	12 137

The income from penalties on overdue receivables is recognized as a percentage of the amount due by the customer for delay for the period from the due date of the relevant invoice to the date of receipt in the Company's bank account.

22. EXPECTED CREDIT LOSSES AND IMPAIRMENT LOSSES ON FINANCIAL ASSETS, NET

The Company's expected credit losses related to depreciation of financial assets are as follows:

	YEAR ENDED 31 DECEMBER	
	2022	2021
Accrued impairment losses of trade receivables, net (Note 11)	(25 618)	(5 142)
Reversal of impairment losses on court and awarded receivables, net (Note 1)	824	789
(Accrued)/reversed loss from impairment of cash in banks, net (Note 13)	(149)	155
Reversed losses from impairment of receivables from CCB — insolvent (Note 11)	28	259
Accrued impairment loss on receivable from natural gas supplier	(9 755)	-
Total accrued expected credit losses and impairment losses on financial assets, net	(34 670)	(3 939)

23. HIRED SERVICES EXPENSES

The costs for hired services of the Company include as follows:

	YEAR ENDED 31 DECEMBER	
	2022	2021
Natural gas storage expenses	(12 410)	(8 748)
Court fees and legal advices	(3 720)	(1 419)
Costs under management contracts	(1 015)	(62)
License fees	(794)	(163)
Participation fee for a natural gas trading platform	(548)	(716)
Other fees	(237)	(196)
Communications	(195)	(179)
Insurances	(116)	(108)
Remunerations of audit committee members	(99)	(104)
Security	(98)	(84)
Consulting services	(64)	(80)
Subscription service	(15)	(15)
Rents	-	(1)
Total hired services expenses	(19 311)	(11 875)

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24. EMPLOYEE BENEFITS AND SOCIAL SECURITY EXPENSES

The costs for Company's employee benefits include as follows:

	YEAR ENDED 31 DECEMBER	
	2022	2021
Remunerations	(3 332)	(2 966)
Social security expenses	(398)	(418)
Compensated leaves costs	(165)	(92)
Cost of defined retirement benefit obligations (Note 19)	(18)	(17)
Total employee benefit expenses	(3 913)	(3 493)

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

	YEAR ENDED 31 DECEMBER	
	2022	2021
Hired employees at the end of the period	52	49
Average number of hired employees throughout the year	51	50

25. COST OF MATERIALS

The costs for materials of the Company include as follows:

	YEAR ENDED 31 DECEMBER	
	2022	2021
Basic materials	(3)	(31)
Fuels and lubricants	(12)	(16)
Office supplies and consumables	(21)	(22)
Other	(36)	(54)
Total cost of materials	(72)	(123)

26. PROVISION EXPENSES

	YEAR ENDED 31 DECEMBER	
	2022	2021
Costs for interests related to a provision under Case COMP/B1/AT.39849 – BEH gas (Note 33)	(754)	(754)
Total provision expenses	(754)	(754)

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27. OTHER EXPENSES

The other costs of the Company include as follows:

	YEAR ENDED 31 DECEMBER	
	2022	2021
Penalties on delayed payments	(456)	(999)
Business trips and entertainment costs	(70)	(16)
Trainings	(6)	(2)
One-off taxes	(12)	(10)
Other	(25)	(84)
Capacity expenses	(14 548)	-
Total other expenses	(15 117)	(1 111)

As a result of the military conflict in Ukraine and the subsequent suspension of natural gas supplies by OOO Gazprom Export, the Company also incurred an additional cost of BGN 14 548 thousand, which relates to reserved capacity under the Capacity Reassignment Agreement with OOO Gazprom Export, for the period m. 05.2022 – 30. 09. 2022, for the gas year ending 01 October 2022.

28. FINANCIAL INCOME AND COSTS

The financial income and costs of the Company for the presented reporting periods may be analysed as follows:

	YEAR ENDED 31 DECEMBER	
	2022	2021
Financial income		
Interest income on long-term receivables	-	419
Interest income on cash and cash equivalents	1 329	-
Interest income on related parties	1	-
Income from interests from financial assets carried at amortised cost	1 330	419
Total financial income	1 330	419
Financial costs		
Interest costs under leases	(16)	(12)
Interest costs under short-term loans	(12 958)	(23)
Interest costs under financial liabilities carried at amortised cost	(12 974)	(35)
Interest costs on overdue tax liabilities	(3 081)	(17)
Bank fees	(2 378)	(1 074)
Bank Guarantee commission fee under Case COMP/B1/AT.39849 – BEH gas	(528)	(521)
Interest costs on payment of obligations according to defined benefit plans (Note 19)	(1)	(1)
Total financial costs	(18 962)	(1 648)

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29. FOREIGN EXCHANGE GAIN/(LOSS), NET

	YEAR ENDED 31 DECEMBER	
	2022	2021
Foreign exchanges losses on receivables and payables and cash and cash equivalents	(18 174)	(16 735)
Foreign exchanges gains on receivables and payables and cash and cash equivalents	23 122	14 831
Other financial income/costs, net	4 948	(1 904)

30. INCOME TAX INCOME/(EXPENSE)

The expected income tax income/(expenses) based on the applicable tax rate of 10% (2021: 10%) and the tax income/expenses actually recognized in profit or loss may be aligned as follows:

	YEAR ENDED 31 DECEMBER	
	2022	2021
(Loss)/Profit before tax	(111 259)	81 069
Tax rate	10%	10%
Expected tax income/(expenses)	11 126	(8 107)
<i>Tax effect on:</i>		
Expenses not recognized for tax purposes	(14 632)	(970)
Income not recognized for tax purposes	435	3 983
Expenses on current corporate tax	(3 071)	(5 094)
Effect of the change in deferred taxes (Note 10)	13 900	(12 070)
Income tax income/(expense)	10 829	(17 164)
Deferred tax income recognized directly in the other comprehensive income	(1)	1

31. NON-CASH TRANSACTIONS

In 2022 the Company did not enter into any investment and financing transactions, in which cash and cash equivalents were not used and which are not reflected in the cash flow statement, except for:

- offsetting of dividend due to BEH EAD with a loan granted to the Company by BEH EAD in the amount of BGN 57 514 thousand.
- offsetting of VAT liabilities of Bulgargaz EAD with a loan granted by the Ministry of Energy in the amount of BGN 104 696 thousand.

32. DIVIDENDS

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

- at least 10% of the profit shall be set aside to 'Reserve' fund;
- by the proposal of the Board of Directors part of the profits attributable to certain funds of the Company may be set aside;
- the outstanding amount can be used to pay dividends.

Pursuant to Decision No 83-2022/15 November 2022 of the Board of Directors of Bulgarian Energy Holding EAD, a dividend of BGN 57 515 thousand has been distributed from the net profit for 2021 of Bulgargaz EAD in favour of the sole owner. The accrual and payment of the dividend did not give rise to any tax effects.

33. PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Provisions

European Commission procedures

BULGARGAZ EAD
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Case COMP/B1/AT.39849 — BEH gas

Case COMP/B1/AT.39849 — BEH gas ('The Case') concerns a possible violation of Article 102 of the Treaty on the Functioning of the European Union (TFEU) in connection with allegations by the European Commission (EC) concerning the actions of Bulgarian Energy Holding EAD and its subsidiaries — Bulgargaz EAD and Bulgartransgaz EAD aimed at:

- preventing their competitors from gaining an access to key gas infrastructure (gas transmission network and natural gas storage facility) in the Republic of Bulgaria, such as explicitly or implicitly denying third parties access or causing delays;
- preventing competitors from gaining an access to the main import pipeline by reserving capacity that remains unused. The proceedings were instituted in 2013 with a view to adopting a decision under Chapter 3 (Articles 7 to 10) of Regulation 1/2003. On 23 March 2015, the European Commission issued a Statement of Objections. Bulgarian Energy Holding EAD and its gas subsidiaries submitted their respective responses to the European Commission on 9 July 2015 (Bulgargaz EAD), 10 July 2015 (Bulgarian Energy Holding EAD) and 17 July 2015 (Bulgartransgaz EAD).

On 24 November 2017, a decision was adopted by the 44th National Assembly (NA) of the Republic of Bulgaria to take the necessary actions to close Case COMP/B1/AT.39849 — BEH gas, whereby the National Assembly supported the closure of the case under Article 7 of Regulation (EC) No 1/2003 without acknowledging the infringements alleged by the European Commission and without taking responsibility for them, fulfilling the obligations arising from a possible prohibition decision, including a possible financial penalty.

On 26 July 2018, a decision was adopted by the 44th National Assembly (NA) of the Republic of Bulgaria to take action to close Case COMP/B1/AT.39849 — BEH gas under Article 9 of Regulation (EC) No 1/2003 by undertaking commitments on the part of Bulgaria and reaching an agreement with the European Commission. The second decision of the National Assembly was motivated by the development of case COMP/B1/AT.39816 between the European Commission and PJSC Gazprom and OOO Gazprom Export, on which on 24 May 2018 the Commission announced that an agreement had been reached and closed under the provisions of Article 9 of Regulation (EC) No 1/2003 without imposing a financial sanction on PJSC Gazprom and OOO Gazprom Export.

On 17 December 2018, the European Commission announced its adopted Decision C(2018)8806 in Case AT.39849 BEH-gas, whereby the European Commission imposed a fine on Bulgarian Energy Holding EAD (BEH EAD), its supply subsidiary Bulgargaz EAD and its gas infrastructure subsidiary Bulgartransgaz EAD (BEH Group) in the amount of EUR 77,068,000 for allegedly blocking competitors' access to key gas infrastructure in Bulgaria in violation of EU antitrust rules. The decision was received in the offices of the three companies on 19 December 2018, which determines the beginning of the period for appealing the EC Decision (two months and ten days from notification of the Decision to the Parties) and for payment of the fine (three months from the notification of Decision to the Parties), set out therein.

An appeal against the decision shall not delay payment of the fine. On 18 March 2019, a bank guarantee was issued by a credit institution selected through a procedure conducted by BEH EAD. The bank guarantee covers 2/3 of the total amount of the fine in the amount of EUR 77,068,000, which secures the obligations of BEH EAD and Bulgargaz EAD under the imposed fine.

On 4 July 2019, the Bulgarian state, through the Ministry of Foreign Affairs, submitted an application to intervene in the case in support of BEH EAD and its subsidiaries gas companies. On 26 August 2019, the European Commission presented its Defense before the General Court in response to a complaint filed by Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD. On 29 November 2019, Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD filed a Response against the Defense of the European Commission.

On 20 February 2020 within the specified period by the General Court of the European Union the Republic of Bulgaria through the Ministry of Foreign Affairs (MFA) filed the official position of the Republic of Bulgaria in case T-136/19, provided to the Ministry of Foreign Affairs by the Ministry of Energy, whereby the Bulgarian state intervenes in support of Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD v. European Commission before the General Court of the European Union.

The General Court examined additional documents and requested information in order to clarify all the circumstances attached to the case. By letter of 14 March 2022, the Court requested the European Commission to provide non-confidential versions of the documents listed by the Court. A response from the European Commission is expected.

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On 29 September 2022, oral hearing between the parties was conducted. It should be borne in mind that oral hearings constitute the final phase of the proceedings. After the hearing, the court asked the parties to submit additional documents, and the deadline for this was extended to 25 November 2022.

As of 31 December 2022, the Company has accrued a provision of BGN 50 244 thousand (31 December 2021: BGN 50 244 thousand), representing one third of the total amount of the fine imposed and interest thereon amounting to BGN 2 856 thousand. (31 December 2021: BGN 2 102 thousand), and it is estimated that the final decision of the competent court is expected in more than 12 months. The admission would materialise only in case the General Court rules in favour of BEH EAD, Bulgartransgaz EAD and Bulgargaz EAD and the decision is not appealed by the EC. If the decision is appealed to the Court of Justice of the European Union, the Bulgarian companies will have to continue to maintain the security/provision until the dispute is finally resolved.

Contingent assets

In connection with a trade dispute from preceding periods, Bulgargaz EAD claimed the return of natural gas to fill the Transit 1 gas pipeline. The Company could not resolve extrajudicially the commercial dispute and its claims and initiated International Arbitration Case No 78/2019 before the International Commercial Arbitration Tribunal to the Romanian Chamber of Commerce and Industry, against Transgaz National Gas Company SA, Romania. By Decision No 120 of 09 December 2021 under the arbitration case brought before the International Commercial Arbitration Court of the Chamber of Commerce and Industry of Romania, Transgaz S.A., Romania was bound to reimburse Bulgargaz EAD for the amount of natural gas in kind or to refund its cash equivalent to the amount of USD 923 thousand, as well as the statutory interest on the amount, together with the costs incurred in connection with the arbitration. The defendant has applied to a Romanian court for the annulment of the arbitral award, which has become final and for suspension of its enforcement. Cases have been opened on the requests. The request for a stay of execution was rejected. On 09 March 2022 the amounts were received in favour of Bulgargaz EAD.

The decision of the Bucharest Court of Appeal dismissed the action for annulment of arbitral award No 120/09 December 2021 filed by Transgaz S.A., Romania against the defendant Bulgargaz EAD.

An appeal against the decision of the Bucharest Court of Appeal was submitted by Transgaz S.A., Romania before the Supreme Court of Romania.

Bulgargaz EAD is currently awaiting the announcement of the reasoning of the Supreme Court's decision annulling the decision of the Bucharest Court of Appeal rejecting the request of Transgaz S.A. Romania, for the annulment of the arbitral award (rendered in Arbitration Case No 78/2019).

It was ordered that the case be referred back to the Bucharest Court of Appeal for reconsideration of the claim of Transgaz S.A.

Due to the limited access to the natural gas at issue in the Transit 1 pipeline, it was devalued by the Company in 2021. The indemnification received pursuant to the judgments rendered to date has been recognized as other liabilities until the final settlement of the commercial dispute between the parties.

As at 31 December 2022, the Company has bank guarantees from commercial customers in the amount of BGN 20 million.

Contingent liabilities

There are legal claims initiated against the Company, but they are not of considerable material interest. With the exception of those for which provisions have already been accrued, the management of the Company considers that the claims are unfounded and that they are unlikely to incur expenses for the Company in settling them. This judgment of the management is supported by the opinion of an independent legal consultant.

None of the aforementioned claims is set out in detail here, so as not to have a serious impact on the Company's position in dispute resolution.

A natural gas transportation agreement was concluded with ICGB AD based on an advance reservation capacity agreement signed in 2019. In connection with this agreement, a corporate guarantee to the amount of EUR 12 million was issued by Bulgarian Energy Holding EAD in favour of ICGB AD. In 2022, the term of the guarantee was extended until 01 December 2023 and its amount equals to EUR 16 102 thousand.

Commitments

Pursuant to an agreement entered into in 2022 with a banking institution, the Company has been granted a credit product in the form of a bank guarantee issued in favour of a supplier and maturing on 30 November 2024.

As at 31 December 2022, the Company has concluded agreements with bank institutions for the provision of working capital financing in the form of overdrafts and credit line limits of up to BGN 58 100 thousand.

BULGARGAZ EAD
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Other

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

34. RELATED PARTIES TRANSACTIONS AND BALANCE

The Company discloses the following related parties:

Entity	Country of incorporation	Main activity.
<i>Sole owner of the Company, exercising control (Parent company)</i>		
Bulgarian Energy Holding EAD (BEH)		
<i>Sole owner of the Parent company</i>		
The Bulgarian State through the Minister of Energy		
<i>Companies under mutual joint control with the Company (entities within the group)</i>		
Kozloduy NPP EAD	Bulgaria	production of electricity and heat
HPP Kozloduy EAD	Bulgaria	generation and distribution of electricity from hydropower
Interpriborservice OOD	Bulgaria	installation and maintenance of automated systems
Kozloduy — New Builds EAD	Bulgaria	operation of a nuclear plant for electricity production
HPP Service EOOD	Bulgaria	Maintenance of automation tools
NPP Construction Supervision Ltd	Bulgaria	Conformity assessment of investment projects
Bulgargaz EAD	Bulgaria	public supply of natural gas
Bulgartransgaz EAD	Bulgaria	storage and transmission of natural gas
Balkan Gas Hub EAD	Bulgaria	building and operating an electronic trading platform for natural gas, energy products, green and white certificates, carbon emissions
Elektroenergien sistemen operator EAD	Bulgaria	electricity transmission
ESO Engineering EOOD	Bulgaria	Design, consultancy, construction of technologies and projects for energy facilities
ESO Proekt EOOD	Bulgaria	Design of energy objects
Bulgartel AD	Bulgaria	implementation of telecommunications
Bulgartel-Skopje DOOEL	Macedonia	implementation of telecommunications
Maritsa East Mines EAD	Bulgaria	extraction and sale of coal
Natsionalna Elektricheska Kompania EAD	Bulgaria	generation of electricity and public electricity supplier
TPP Maritsa East 2 EAD	Bulgaria	production of electricity and heat
PFC Beroe — Stara Zagora EAD (until 10 March 2022)	Bulgaria	football club
TPP Maritsa East 2 (9 and 10) EAD	Bulgaria	production and trade in electricity
<i>Jointly controlled entities</i>		
ICGB AD	Bulgaria	construction and operation of gas transmission system
South Stream Bulgaria AD	Bulgaria	construction and operation of gas transmission system
Transbalkan Electric Power Trading S.A. — NECO S.A.	Greece	sale of electricity

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Entity	Country of incorporation	Main activity.
<i>Associates</i>		
ContourGlobal Maritsa Iztok 3 AD	Bulgaria	electricity production
ContourGlobal Operations Bulgaria AD	Bulgaria	operation and maintenance of a thermal power plant
Energy Insurance JSC	Bulgaria	insurance company
VPI Allianz Bulgaria EAD	Bulgaria	pension insurance company
HEC Gorna Arda AD	Bulgaria	construction of hydroelectric power plants

Other related parties under joint control

Public sector enterprises under joint control of the Council of Ministers in the Republic of Bulgaria

Key management personnel of the Parent Company as at 31 December 2022

Ivan Todorov Andreev	Member of the Board of Directors and Executive Director of BEH EAD
Veselina Lachezarova Kanatova-Buchkova	Chairman and Member of the Board of Directors of BEH EAD
Angel Emilov Yankov	Vice Chairman and Member of the Board of Directors of BEH EAD
Diyan Stanimirov Dimitrov	Member of the Board of Directors of BEH EAD
Anton Georgiev Simeonov	Member of the Board of Directors of BEH EAD
Ivo Ivanov Todorov	Member of the Board of Directors of BEH EAD

Key management personnel of the Company since 22 August 2022 and as at 31 December 2022

- Ivan Topchiysky — Chairman of the Board of Directors;
- Deniza Slateva — Executive Member of the Board of Directors;
- Tatyana Petrova-Boyadzhieva — Member of the Board of Directors.
- Veselin Sinabov — Member of the Board of Directors;
- Dimitar Spassov — Member of the Board of Directors;

The sales and purchases to related parties are carried out at agreed prices. Outstanding balances at the end of the reporting period are unsecured, interest free (excluding loans and deferred trade payables) and their settlement is done in cash. For the receivables or obligations from/to related parties, no guarantees were granted or received, except for a guarantee amount of Bulgartransgaz EAD under a Contract for natural gas access and transmission, a Contract for natural gas balancing, and a Contract for natural gas storage.

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

(A) SALE OF GOODS

	YEAR ENDED	
	31 DECEMBER	
	2022	2021
Companies under common control		
Bulgartransgaz EAD	82 344	21 526
Total	82 344	21 526

Sales include natural gas for balancing and realized natural gas, in accordance with the Rules for Operation of the Organized Exchange Market of Balkan Gas Hub EAD.

(B) PURCHASE OF GOODS AND SERVICES

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	YEAR ENDED 31 DECEMBER	
	2022	2021
Parent company		
Bulgarian Energy Holding EAD	1 206	63
Companies under common control		
Bulgartransgaz EAD	156 314	102 151
ICGB AD	8 489	-
Bulgartel EAD	7	7
Balkan Gas Hub EAD	303	389
Total	166 319	102 610

The purchases of services from Bulgarian Energy Holding EAD include services under management and control agreement and others.

The purchases of services from Bulgartransgaz EAD include transmission, access (capacity) and storage of natural gas, and purchases of natural gas for balancing.

Purchases of services from ICGB AD include natural gas transportation service on the IGB pipeline.

The purchases of services from Bulgartel EAD include technical support.

The purchases of services from Balkan Gas Hub AD represent fees for access granted to the natural gas trading platform.

**(C) ACCRUED CHARGES FOR BANK COMMISSIONS AND
PENALTIES**

COMMISSIONS AND PENALTIES

YEAR ENDED 31 DECEMBER

	2022	2021
Companies under common control		
Bulgarian Energy Holding EAD	528	521
Bulgartransgaz EAD	91	-
Total	619	521

The accrued expenses for bank commissions are in connection with bank guarantee maintenance under case COMP/B1/AT.39849 – BEH gas.

(D) RECEIVABLES UNDER SALES OF GOODS AND SERVICES

AS AT 31 DECEMBER

	2022	2021
Companies under common control		
Bulgartransgaz EAD	31 961	27 584
Total current receivables	31 961	27 584

The receivables from Bulgartransgaz EAD represent financial collateral in the form of a credit limit and a guarantee granted in connection with a Contract for natural gas access and transmission on the gas transmission network and a Contract for balancing signed with Bulgartransgaz EAD, as well as a trade receivable for balancing settled in January 2023.

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(D) PAYABLES FOR PURCHASES OF GOODS AND SERVICES

	AS AT 31 DECEMBER	
CURRENT	2022	2021
Parent company		
Bulgarian Energy Holding EAD	16	16
Companies under common control		
Bulgartransgaz EAD	6 774	5 083
Bulgartel EAD	1	-
Balkan Gas Hub EAD	77	50
ICGB AD	3 395	-
Total current payables	10 263	5 149

The payables to Bulgartransgaz EAD are related to received current services for access, transmission and storage of natural gas and current supply of natural gas for balancing. Liabilities to ICGB AD include natural gas transmission services.

(F) BORROWINGS

	YEAR ENDED	
	31 DECEMBER	
	2022	2021
NON-CURRENT		
Ultimate owner		
Ministry of Energy		-
Loan received in cash	695 305	-
Accrued interest expenses	6 085	-
Loan received offsets against VAT payables	104 695	-
Borrowings at the end of the period	806 085	-
CURRENT		
Parent company		
Bulgarian Energy Holding EAD		-
Loan received	852 509	-
Payments on loans received	(192 509)	-
Accrued interest expenses	6 455	-
Interest paid	(5 899)	-
Offsets against dividend payables	57 515	-
Borrowings at the end of the period	718 071	-

In 2022, the Company received three loans from the parent company with limits of up to BGN 200 million, BGN 60 million, and BGN 457 million, respectively. The agreed annual interest rates are 3.275%/3.23%. The repayment periods are in February, 2023, July and December 2023 respectively. The loans are unsecured. The proceeds are used to secure natural gas supplies.

In 2022, the Company has received a loan from the Ministry of Energy in the amount of BGN 800 000 thousand, secured by a special pledge of current and future receivables from Toplofikacia Sofia EAD.

The loan bears interest at 2% per annum and matures on 12 March 2025. Principal and interest shall be paid in accordance with a repayment schedule. Interest shall become payable from February 2024.

(G) KEY MANAGEMENT PERSONNEL REMUNERATIONS

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

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	YEAR ENDED 31 DECEMBER	
	2022	2021
Short-term benefits to key management personnel		
Employee benefits expenses	(393)	(381)
Social security expenses	(22)	(25)
Total	(415)	(406)

As at the end of each of the reporting periods, the Company had no payables to key management personnel of the Company relating to their emoluments.

35. POST REPORTING DATE EVENTS

The following adjusting event occurred between the date of the financial statements and the date of approval:

1 / On 11 April 2023 a first contractual mortgage was established by Port TPP Ezerovo EAD in favour of Bulgargaz EAD on a land property in the village of Ezerovo, municipality Beloslav, region Varna, as security for the overdue liabilities of TPP Varna EAD to Bulgargaz EAD, arising from the Natural Gas Supply Contract No 502-221 of 24 June 2021, which are the subject of commercial case No 284/2022 of the District Court — Varna. In applying the impairment model to the calculation of credit losses for the receivables, the Company has taken into account the amount of collateral.

Between the date of the financial statements and the date of approval, the significant non-adjusting events are as follows:

1/ The price at which the public supplier sells natural gas to the final suppliers of natural gas and to the persons who have been issued a license for production and transmission of heat energy in the amount of BGN 179.33/MWh (excluding excise duty and VAT) has been approved by the Decisions of the EWRC for January 2023, and subsequently in the amount of BGN 124.34, BGN 106.74, BGN 98.16 and BGN 77.55 /MWh (excluding excise duty and VAT) for the months of February, March, April and May 2023.

2/ On 03 April 2023 the contract for a new loan from BEH EAD in the amount of BGN 200 000 thousand was signed. The loan maturity date is on 03 April 2024. As at the date of preparation of the Company's financial statements for 2022, the loan amount has not been utilized .

3/ In February 2023, the loan with a limit of up to BGN 200 million granted by BEH EAD was repaid.

36. DISCLOSURE ACCORDING TO LEGAL REQUIREMENTS

These financial statements have been audited by the audit firm Grant Thornton OOD and the audit firm Zaharinova Nexia EOOD, on the basis of a contract concluded between Bulgarian Energy Holding EAD and DZZD Audit BEH.

The Company does not charge for independent financial audit. The consolidated financial statements of Bulgarian Energy Holding EAD include disclosure of accrued amounts for services provided by the registered statutory auditors for an independent financial audit. During the period the registered statutory auditors did not provide any other services.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements as at 31 December 2022 (including comparatives) were approved for issuance by the Board of Directors on 19 May 2023.

Grant Thornton OOD

A 26, Cherni Vrah Blvd, 1421 Sofia
A 4, Paraskeva Nikolau Str., 9000 Varna
T (+3592) 987 28 79, (+35952) 69 55 44
F (+3592) 980 48 24, (+35952) 69 55 33
E office@bg.gt.com
W www.grantthornton.bg

Zaharinova Nexia EOOD

A: 157-159 Konstantin Velichkov blvd,
A 1309 Sofia
T.: (+3592) 920 46 70
F: (+3592) 828 06 32
E: office@zaharinovanexia.com
W: www.zaharinovanexia.com

INDEPENDENT AUDITORS' REPORT

To the sole shareholder of
BULGARGAZ EAD
Sofia
47 Petar Parchevich str.

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of **Bulgargaz EAD** (the Company), which comprise the statement of financial position as at **31 December 2022** and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effect of the matter, described in the Basis for Qualified Opinion section of our report the accompanying financial statements give a true and fair view of the financial position of the Company as at **31 December 2022**, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the Bulgarian legislation.

Basis for Qualified Opinion

1. As disclosed in Note **11 Trade and other receivables** to the financial statements, the Company reports a receivable from a natural gas supplier with a carrying amount of BGN 44 054 thousand as of 31 December 2022. The amount relates to a commercial dispute in connection with its supplies for the first quarter of 2022. We were not able to obtain sufficient and appropriate audit evidence regarding the existence and the amount of this receivable despite direct confirmation procedures with the supplier and alternative audit procedures performed. Accordingly, we were not able to determine whether and in what amount adjustments would be required to the carrying amount of the natural gas supplier receivable as of 31 December 2022.

2. As disclosed in Note **12 Inventories** to the financial statement, the Company's natural gas as of 31 December 2022 was assessed at a net realizable value in the amount of BGN 526 866 thousand. When preparing the assessment related to the determination of the net realizable value of natural gas, the management referred to a natural gas sales price approved by the Energy and Water Regulatory Commission (EWRC) at which the public supplier sells natural gas to end suppliers of natural gas and to persons who was been issued a license for the production and transmission of heat energy, for the month of January 2023 in the amount of BGN 179,33 per MWh. As of the date of approval of the Company's financial statements for 2022, there is a published and approved sales price by EWRC for May 2023 in the amount of BGN 77,55 per MWh. We were not able to obtain sufficient and appropriate audit evidence that the assumptions, on which basis the net realizable value of available natural gas as of 31 December 2022 was determined, are reasonable and in compliance with the requirements of IAS 2 Inventories. In the event, that the most up-to-date available information on the reference sales price of natural gas, approved by EWRC, was used, the net realizable value of the Company's natural gas as of 31 December 2022 would have been by BGN 299 026 thousand lower, and the costs for impairment for 2022 would have been higher by the same amount. Accordingly, the net loss for the year would increase by BGN 269 123 thousand, after deducting the relevant tax temporary differences in the amount of BGN 29 903 thousand.

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

Significant uncertainty related to the going concern assumption

We draw attention to Note 2 **Basis for preparation of the financial statements**, in which detailed information is disclosed regarding the management's assessment of the application of the going concern principle in the preparation of the Company's financial statements for 2022, the significant challenges and changes in the Company's activity, as well as the measures taken to ensure the supply of natural gas, ensure liquidity and preserve the financial stability of the Company.

Since the end of February 2022, as a result of the military conflict between Ukraine and the Russian Federation, a series of negative consequences occurred for the economies of the EU countries, including Bulgaria. This led to an additional increase in the prices of energy resources, and the main supplier of natural gas to Bulgargaz EAD until that moment, the Russian company OOO Gazprom Export, suspended the supply of natural gas to Bulgaria. These dynamics in the environment in which the Company operates have led to significant transformations in the Company's business model, supply chains and contractual relationships. A series of events and circumstances beyond the Company's control led to the need to secure natural gas reserves at prices that were extremely volatile during the year, and which by the end of 2022 had begun to decline.

In 2022, Bulgargaz EAD reported a net loss in the amount of BGN 100 431 thousand and a negative net cash flow from operating activities in the amount of BGN 1 135 944 thousand. As of 31 December 2022, the Company's equity in the amount of BGN 170 972 thousand is less than the amount of registered share capital in the amount of BGN 60 726 thousand. The excess of share capital over the value of net assets at the end of the reporting period is not in accordance with the requirements of Art. 252 of the Commercial Law. These circumstances, together with the matters described in the "Basis for Qualified Opinion" section of our report, indicate the existence of an uncertainty that may cast substantial doubt on the Company's ability to continue as a going concern without the support of sole owner BEH EAD and the Bulgarian state, represented by the Ministry of Energy. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the 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 and the Significant uncertainty related to the going concern assumption" section described above, we have determined that there are no other key audit matters to be communicated in our report.

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

Management is responsible for the other information. The other information comprises the annual management report, including the corporate governance statement and the non-financial declaration, prepared in accordance with Bulgarian Accountancy Act and other applicable legal requirements, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or whether our knowledge obtained in the audit may indicate that there is a material misstatement or otherwise the other information 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 of this report, we were not able to obtain sufficient and appropriate audit evidence regarding the matters addressed in that section. Accordingly, we are not able to reach a conclusion whether the other information is free of material misstatement with respect to these matters.

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

In accordance with International Financial Reporting Standards (IFRS), as adopted by the EU Bulgarian legislation, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of

accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

We are jointly liable for the performance of our joint audit and the issued joint auditors' opinion in accordance with the requirements of Bulgarian Independent Financial Audit Act. Upon acceptance and performance of the joint audit engagement on which we report, we have complied with the "Guidelines on performance of joint audit" issued by Bulgarian Institute of Certified Public Accountants and Bulgarian Commission for Public Oversight of Statutory Auditors on 13 June 2017.

Report on Other Legal and Regulatory Requirements

In addition to our responsibilities for reporting under ISAs, described above in section "Information Other than the Financial Statements and Auditor's Report Thereon", regarding annual management report, including the corporate governance statement and the non-financial declaration, we have performed the additional procedures contained in

the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). The procedures on the existence, form and contents of the other information have been carried out in order to state whether the other information includes the elements and disclosures in accordance with Chapter Seven of Bulgarian Accountancy Act and Article 100m, paragraph (7), subparagraph (2) of Bulgarian Public Offering of Securities Act, as well as Article 29 of Public Companies Act, applicable in Bulgaria.

Statement Pursuant to Article 37, Paragraph (6) of Bulgarian Accountancy Act

Based on the procedures performed, we describe the outcome of our work:

- (a) the information in the annual management report is consistent with the financial statements for the same reporting period, on which we have issued qualified opinion in the section "Report on the Audit of the Financial Statements" above;
- (b) the annual management report is prepared in accordance with the applicable legal requirements;
- (c) as a result of the acquired knowledge and understanding of the activities of the Company and the environment in which it operates, we have found no cases of material misrepresentation in the annual management report, except for the effect of the matters described in section "Information Other than the Financial Statements and Auditor's Report Thereon" of "Report on the Audit of the Financial Statements";
- (d) the corporate governance statement for the financial year contains the required information in accordance with the applicable legal requirements, including Article 100m, paragraph (8) of Bulgarian Public Offering of Securities Act;
- (e) the non-financial declaration is prepared and made available in accordance with the requirements of Bulgarian Accountancy Act.

Reporting Pursuant to Article 59 of Bulgarian Independent Financial Audit Act in relation to Article 10 of Regulation (EC) № 537/2014

In accordance with the requirements of Bulgarian Independent Financial Audit Act and in relation with Article 10 of Regulation (EC) № 537/2014, we report additionally the information as follows:

- Grant Thornton OOD and Zaharinova Nexia EOOD, as participants in the association DZZD ODIT BEH, were appointed as statutory auditors of the financial statements of Bulgargaz EAD for the year ending on 31 December 2022 by the sole shareholder on 15 December 2020, for a period of three years (2021 – 2023).
- The audit of the Company's financial statements for the year ended 31 December 2022 represents the second consecutive year of a continuous commitment for a statutory audit of this company, performed by each of the joint auditors Grant Thornton OOD and Zaharinova Nexia EOOD.
- In support of our audit opinion, we have provided a description of the most significant assessed risks of material misstatement, a summary of the auditor's response and a reference to the Basis for Opinion, in the section „Key audit matters“ of this report.
- We confirm that our audit opinion is consistent with the additional report to the audit committee, which was provided in accordance with Article 60 of Bulgarian Independent Financial Audit Act.
- We declare that prohibited non-audit services referred to in Article 64 of Bulgarian Independent Financial Audit Act were not provided.
- We confirm that we remained independent of the Company in conducting the audit.
- For the period for which we were engaged as statutory auditors, we have not provided any other services to the Company.

Grant Thornton OOD

Audit firm №032

Mariy Apostolov

Managing partner

Emilia Marinova

Registered auditor responsible for the audit

Zaharinova Nexia EOOD

Audit firm №138

Dimitrina Zaharinova

Managing Partner

Stoycho Milev

Registered auditor responsible for the audit

31 May 2023
Bulgaria, Sofia