

BULGARGAZ EAD

**INTERIM MANAGEMENT REPORT
CONDENSED INTERIM FINANCIAL STATEMENTS
INDEPENDENT AUDITORS' REPORT**

30 JUNE 2021

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This Bulgargaz EAD Report as at 30 June 2021 presents comments on and analysis of its financial statements, as well as other material information about the Company's financial position and business performance, and features and compares data as at 30 June 2021 and 30 June 2020.

This report has been prepared pursuant to Article 39 of the Accountancy Act, Article 187d, Article 247(1), (2) and (3) of the Commerce Act and Article 100n(7)(2) of the Public Offering of Securities Act.

I. GENERAL COMPANY INFORMATION

Bulgargaz EAD is a sole shareholder limited company registered pursuant to the Commerce Act, having its registered office and principal place of business at 47 Petar Parchevich St, Serdika, 1000 Sofia, Bulgaria.

The registered capital is divided into 231 698 584 registered shares. The capital of the Company is subscribed and paid up by Bulgarian Energy Holding EAD. All shares have a par value of BGN 1. The shares of the Company are ordinary, registered, non-preferred shares with voting rights. The State owns 100% of the authorised capital of Bulgarian Energy Holding EAD.

Bulgargaz EAD's main business is the public supply of natural gas, as well as purchases and sales related thereto.

Bulgargaz EAD holds an individual licence to supply natural gas to the public in Bulgaria issued by the State Energy and Water Regulatory Commission on 29 November 2006 for a period of 35 years.

The special laws and regulations concerning the Company's business are: Energy Act; Ordinance No 3 of 2013 on licencing of energy activities; Ordinance No 2 of 2013 on regulating natural gas prices; Rules for Trade in Natural Gas; Regulation No 994/2010 of the European Parliament and of the Council concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC.

Based on the methodology for setting prices for access to and transmission of natural gas through the gas transmission networks owned by Bulgartransgaz EAD, adopted by the Energy and Water Regulatory Commission, and in connection with the introduction of an entry-exit tariff model to implement the same methodology, since 1 October 2017 the prices for access to and transmission through the gas transmission networks are set in BGN/MWh. Bulgargaz EAD and Bulgartransgaz EAD have concluded a contract for access to and transmission of natural gas through the gas transmission networks of Bulgartransgaz EAD and an agreement for the purchase and sale of natural gas for balancing purposes.

I. COMPANY STRUCTURE

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

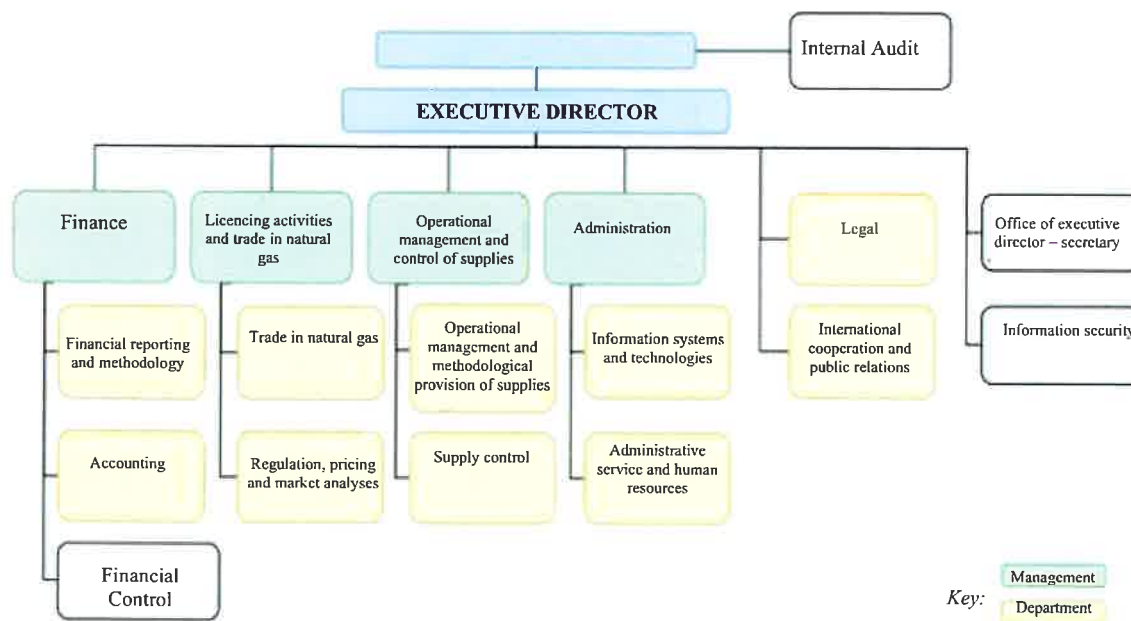
- Sole Shareholder authorised to make decisions within the competence of the General Meeting
- Board of Directors (BoD)

As at 30 June 2021, the Board of Directors is composed by:

Iliyan Kirilov Dukov	BoD member
Nikolay Angelov Pavlov	BoD member and Executive Director

[This version of interim financial statements as at 30 June 2021 of Bulgargaz EAD is free translation from Bulgarian to English language. These financial statements have been prepared and audited as of 19 August 2021.](#)

BOARD OF DIRECTORS



2. RESPONSIBILITY OF MANAGEMENT

Management confirms that adequate accounting policies were applied in preparing the financial statements as at 30 June 2021 and that the financial statements have been prepared on a going concern basis.

Management is responsible for keeping proper accounting records, for expedient asset management and for taking the necessary actions to prevent and detect potential fraud and other irregularities.

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

BoD members do not own Company shares. No privileges and exclusive rights to acquire Company's shares and bonds have been provided to BoD members. All shares are owned by Bulgarian Energy Holding EAD.

Information on the participating interests of BoD members in companies as unlimited liability partners holding more than 25% of other companies' equity, as well as their participation in the management of other companies or co-operations as procurement officers, managers or board members (pursuant to Article 247(2)(4) of the Commerce Act) is shown below:

Iliyan Kirilov Dukov – BoD member since 6 January 2015:

- does not hold participating interests in any company as an unlimited liability partner;
- owns more than 25% of the equity 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 Angelov Pavlov – Executive Director, BoD member since 22 May 2017:

- does not hold participating interests in any company as an unlimited liability partner;
- does not own more than 25% of the equity of any company;

- does not participate in the management of other companies or co-operations as a procurement officer, manager or BoD member.

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

As at 30 June 2021, the Board of Directors or any other related persons have not entered into any contracts pursuant to Article 240B of the Commerce Act on behalf of the Company that go beyond its normal business or substantially deviate from market conditions.

II. BUSINESS PERFORMANCE AS AT 30 JUNE 2021

As at 30 June 2021, Bulgargaz EAD operates in compliance with all regulations. The result of the Company's business is net profit of BGN 21 685 thousand (as at 30 June 2020: net profit of BGN 21 611 thousand).

1. GENERAL FACTORS AFFECTING COMPANY BUSINESS

Bulgargaz EAD's business, public supply of natural gas, is governed by the Energy Act and related regulations.

The Act Amending and Supplementing the Energy Act (AASEA), adopted on 25 September 2019 by the National Assembly and published in the State Gazette, issue 79 of 2019, created an organised natural gas exchange and governs its functioning and the role of market participants.

From 1 December 2019, Bulgargaz EAD became obligated to annually offer certain quantities of natural gas for sale on the organised exchange in accordance with the release programme set out in Article 176a of the Energy Act (EA).

The amendment to Article 30(1)(7) of the EA, published in the State Gazette, issue 79 of 2019, substantially narrowed the circle of entities to which Bulgargaz EAD sells gas at regulated prices. This change entered into force on 1 January 2020, meaning that Bulgargaz EAD, as a public supplier, now only sells natural gas at regulated prices to:

- (i) end natural gas suppliers;
- (ii) entities holding a licence to produce and transmit heat used for district heating.

All other customers directly connected to the gas transmission network no longer participate in the regulated market.

In 2021, Bulgargaz EAD, as a public supplier, has contracts for the supply of natural gas at regulated prices to customers connected to the gas transmission network, who are not end suppliers or licensed to produce and transmit heat used for district heating ("Contracts"). The contracts were concluded prior to the entry into force of the AASEA.

Under Bulgarian law, laws, including their amendments, are not retroactive. The transitional and final provisions of the AASEA do not contain express wordings concerning the contracts already concluded with customers who no longer fall into the circle of entities referred to in Article 30(1)(7) of the EA after the entry into force of the AASEA, which means those contracts continue to be valid.

This price may be set, including by referring the price for public supply offered by Bulgargaz EAD for approval by the EWRC.

In order to ensure a level playing field between the Company's customers, Bulgargaz EAD uses a single approach to setting the prices at which it supplies natural gas on the regulated market and, accordingly, the prices under the Contracts that were initially concluded at regulated prices and should be performed at freely negotiated prices after the entry into force of the AASEA.

In order to ensure a smooth transition and protect the interests of both parties as best as possible, Bulgargaz EAD offered to its customers to set sale prices under the Contracts in accordance with Regulation No 2 of 19 March 2013 on regulating natural gas prices.

2. ACHIEVEMENT OF QUANTITATIVE INDICATORS

2.1. Quantities of natural gas bought and sold

The main natural gas supplies ensuring the Company's customers have sufficient quantities for their purposes are provided under a long-term contract with suppliers from the Russian Federation and Azerbaijan.

The quantities of natural gas bought and sold as at 30 June 2021 compared to 30 June 2020 are shown in Table 1 below:

Table 1

MWh

Type of supply	Unit	As at 30 June 2021	As at 30 June 2020	Change in quantities	Change in %
Purchase	MWh	16 002 097	12 044 416	3 957 681	32,86%
Sale	MWh	17 503 640	13 229 269	4 274 371	32,31%



A total of 16 002 097 MWh (as at 30 June 2020: 12 044 416 MWh) were bought in the reporting period, which is an increase of 3 957 681 MWh or 32,86%.

The quantity of gas sold were 17 503 640 MWh, compared to 13 229 269 MWh as at 30 June 2020, which is an increase of 4 274 371 MWh or 32,31%. The increase in sales can be mainly attributed to higher consumption by customers in the energy sector, distribution companies and the organised exchange.

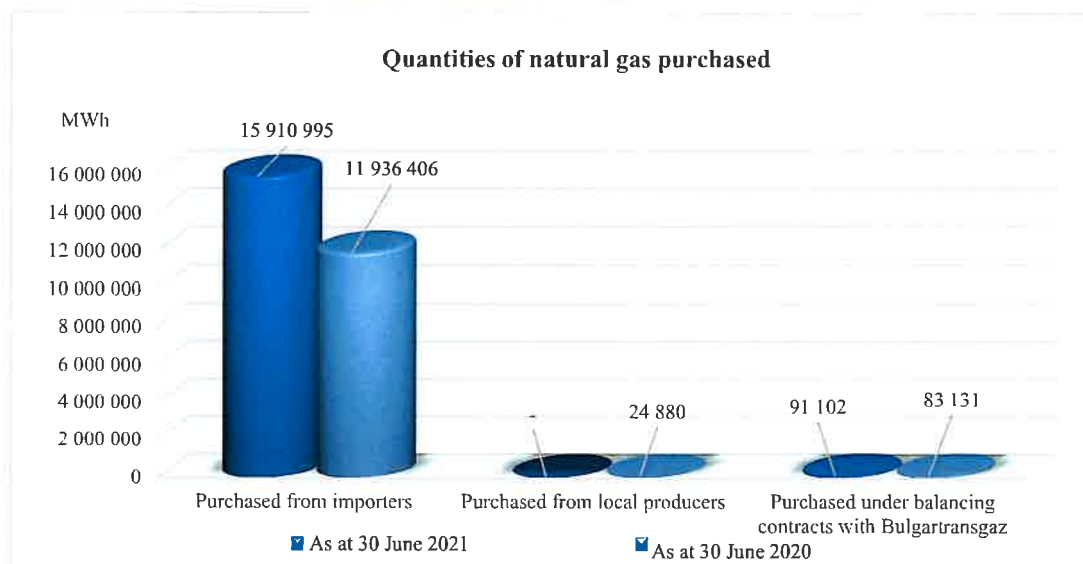
2.2 Quantities of natural gas purchased

The quantities of natural gas purchased as at 30 June 2021 and 30 June 2020 are shown in Table 2.

Table 2

MWh

Natural gas purchased	As at 30 June 2021	As at 30 June 2020	Change in quantities	Change in %
TOTAL for period	16 002 097	12 044 416	3 957 681	32,86%
Purchased from importers	15 910 995	11 936 405	3 974 590	33,30%
Purchased from local producers	-	24 880	(24 880)	(100%)
Purchased under balancing contracts with Bulgartransgaz EAD	91 102	83 131	7 971	9,59%



To meet its customers' needs for natural gas, as at 30 June 2021 Bulgargaz EAD has purchased 16 002 097 MWh natural gas (30 June 2020: 12 044 416 MWh). As at 30 June 2021, the quantities of natural gas bought from importers are 15 910 995 MWh (30 June 2020: 11 936 406 MWh). The natural gas bought from Bulgartransgaz EAD under balancing contracts is 91 102 MWh (30 June 2020: 83 131 MWh).

2.3 Natural gas production and injection

To ensure the security and continuity of the supply of natural gas to its customers, Bulgargaz EAD reserves capacity from the Chiren Underground Gas Storage Facility (Chiren UGSF), owned by Bulgartransgaz EAD.

The quantities of natural gas produced from and injected in the Chiren UGSF as at 30 June 2021, compared with the same date in 2020, are shown in Table 3.

Table 3

MWh

Produced and injected quantities	As at 30 June 2021	As at 30 June 2020	Change in MWh	Change in %
Quantities available at beginning of period	2 322 800	2 329 714	(6 914)	(0,30%)
Production	2 453 215	2 331 780	121 435	5,21%
Injection	947 261	1 141 777	(194 516)	(17,04%)
Difference in the recalculation of natural gas produced from and injected into the Chiren UGSF	480	(2 066)	2 546	(123,22%)
Quantities available at end of period	816 367	1 141 777	(325 410)	(28,50%)

Bulgargaz EAD injected quantities of natural gas according to the Emergency Plan, with those quantities allocated by month by the Gas Transmission System Operator in March 2021. Bulgargaz EAD will inject quantities in the amount of 2 686 621 MWh by the end of the injection period (15 October 2021), which for 2021 will be an increase of 185 554 MWh compared to the quantities injected into the facility in 2020.

III. NATURAL GAS SALES

1. Sales

Bulgargaz EAD provides a reliable and secure supply of natural gas to its Bulgarian customers in accordance with contractual requirements. As at 30 June 2021, 17 503 640 MWh of natural gas have been sold, which is an

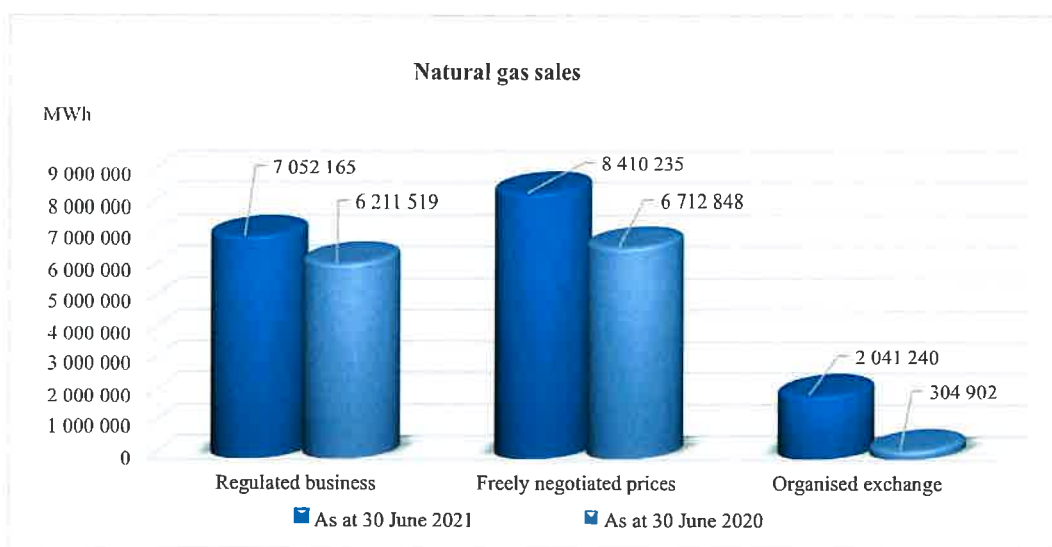
increase of 4 274 371 MWh or 32,31 % on the quantities sold by the same date in the previous year (13 229 269 MWh).

Natural gas sales in the reporting period are shown in Table 4:

Table 4

MWh

Sales	As at 30 June 2021	As at 30 June 2020	Change in quantities	Change in %
Regulated business	7 052 165	6 211 519	840 646	13,53%
Freely negotiated prices	8 410 235	6 712 848	1 697 387	25,29%
Organised exchange	2 041 240	304 902	1 736 338	569,47%
Total	17 503 640	13 229 269	4 274 371	32,31%



2. Structure of sales

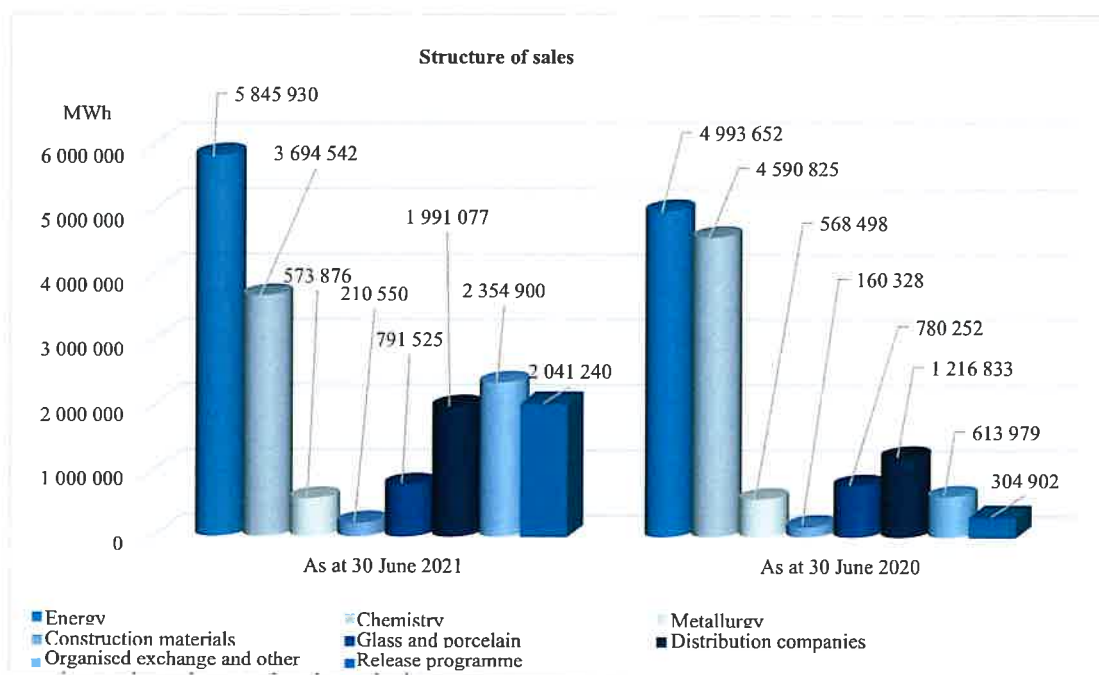
The quantities of natural gas sold to the Company's customers (by main economic sector) as at 30 June 2021 and as at 30 June 2020 are shown in Table 5.

Table 5

MWh

Sector	As at 30 June 2021	As at 30 June 2020	Change in quantities	Change in %
Energy	5 845 930	4 993 652	852 278	17,07%
Chemistry	3 694 542	4 590 825	(896 283)	(19,52%)
Metallurgy	573 876	568 498	5 378	0,95%
Construction materials	210 550	160 328	50 222	31,32%
Glass and porcelain	791 525	780 252	11 273	1,44%
Distribution companies	1 991 077	1 216 833	774 244	63,63%
Gas release programme	2 041 240	304 902	1 736 338	569,47%
Organised exchanged and other	2 354 900	613 979	1 740 921	283,55%
Total	17 503 640	13 229 269	4 274 371	32,31%

As at 30 June 2021, sales have increased by 4 274 371 MWh or 32,31% compared with those as at 30 June 2020. This is due to higher consumption by customers, mainly from the following sectors: energy, construction materials, distribution companies and Gas release programme.



The data in Table 5 and the chart above show the following trend in natural gas consumption:

- ✓ energy, chemical and distribution companies remain the major consumers of natural gas;
- ✓ total natural gas sales have increased as at 30 June 2021 compared with the same period ending on 30 June 2020 due to higher consumption by customers. Substantial increase in sales by 569,47% and 283,55% respectively under the *Gas Release Programme* and on the *Organised Exchange*

IV. RISK FACTORS

The main risk factors to the Company's business are: the sale of natural gas at a regulated price lower than the purchase price; trade and other receivables and payables; currency risk.

In the course of its business, the Company faces the following types of risk:

1. Regulatory/price risk

Bulgargaz EAD's business has certain specifics because the Company is a public supplier of natural gas. The Company buys natural gas at market prices and resells part of those quantities at regulated prices. The difference between purchase and selling prices poses risks to the Company in fulfilling its functional duties. Where the prices approved by regulator are lower than the supply prices, sales revenue would not be sufficient to cover the actual cost of buying natural gas, so the Company would find it difficult to pay its liabilities to suppliers.

2. Currency risk

Currency risk is associated with changes in foreign currency exchange rates resulting in gains/losses from the revaluation of assets in foreign currency.

The risk to Bulgargaz EAD arises from the contractual obligation to long-term suppliers to buy natural gas in USD and sell it in BGN on the Bulgarian market. The Company is exposed to the risk of changes in the exchange rate. The price limit approved by the EWRC for every regulatory period is set at a fixed USD-BGN rate averaged over the 45-day period preceding the month of submission of the application for approval of the EWRC sale price for the next

price period. The Company is also at risk of revaluation loss on its currency exposures due to dynamic changes in USD exchange rate.

3. Credit risk

The credit risk for the Company results from overdue customer receivables and the risk of financial loss if a customer fails to meet its contractual obligations to pay for gas. The Company's main customers are district heating companies that have problems related with collecting their receivables from customers and experience difficulties in discharging their liabilities on due dates. The Company monitors and analyses its receivables, tracks its customers' conduct and reviews in detail its main debtors' activities. The Company enters into deferred payment agreements with some customers facing difficulties in discharging their current liabilities. Bulgargaz EAD's final measure is to suspend the supply of natural gas and attempt to collect its receivables in court.

4. Liquidity risk

Liquidity risk arises when the Company is unable to meet its current financial obligations and commitments. Those are short-term liabilities of the Company, namely payments for transmission and storage, taxes and excise duties due to the State, liabilities in respect of commercial loans and regular payments related to operations. Short-term liabilities require careful planning of all cash flows on the basis of monthly forecasts.

V. STRATEGIC AND MARKET GOALS

The Company's development depends on achieving its strategic and market goals.

Bulgargaz EAD's main strategic goals are to fulfil its duties and responsibilities to provide continuous and secure supplies. Guaranteeing natural gas supplies is key to Bulgaria's energy security. To achieve those goals, Bulgargaz EAD makes all efforts to provide alternative natural gas supply routes and sources. This involves maintaining the Company's financial stability and increasing its economic performance in conditions of market uncertainty and high inter-company indebtedness.

Bulgargaz EAD's market goals are to consolidate its market positions in Bulgaria and sell on neighbouring gas markets, taking into account the limited availability of free capacity products at exit points in the Bulgarian gas transmission network.

Bulgargaz EAD's financial goals are to ensure the Company's financial stability.

VI. FINANCIAL AND ECONOMIC POSITION

Bulgargaz EAD's financial and economic position has been examined and analysed based on its financial statements: statement of profit or loss and other comprehensive income and statement of cash flows as at 30 June 2021 compared with the same period in 2020, as well as statement of financial position as at 30 June 2021 compared with the same period in 2020.

After successful negotiations, Bulgargaz EAD and Gazprom Export LLC signed an annex to their natural gas supply contract on 2 March 2020.

The annex governs the new pricing method and the refund of amounts overpaid by Bulgargaz EAD for gas supplied in the period of negotiations.

The same rule that the EC applies to Gazprom also applies to Bulgargaz EAD – a company with a dominant position may not retain revenue from sales at non-market prices, and any difference up to market levels must be refunded to consumers. As the only public supplier and as a company with a dominant position on the Bulgarian market, Bulgargaz EAD has not a right to benefit financially from its customers as a result of the higher-than-market prices of Russian gas.

After receiving compensation for overpayments in the period of negotiations with Gazprom Export LLC, Bulgargaz EAD must in turn compensate its customers who carried the burden of those high prices in the same period. Failing to compensate Bulgargaz EAD's clients would result in non-fulfilment of Gazprom's commitments and a breach of the law – Gazprom's abuse of its dominant position would in practice become abuse on a national level, thus making Bulgargaz EAD accountable.

The Act Supplementing the Energy Act was adopted on 14 April 2020, creating a mechanism of refunding amounts to those Bulgargaz EAD customers who bought natural gas at regulated prices between 5 August 2019 and 31 March 2020.

A decision of the Council of Ministers of June 2020 set out how amounts should be refunded to those Bulgargaz EAD customers who bought natural gas at regulated prices between 5 August 2019 and 31 March 2020.

The retroactive application of the new price mechanisms resulted in differences in Bulgargaz EAD's monthly selling prices between 5 August 2019 and 31 March 2020, as well as the accumulation of approximately BGN 201.7 million, incl. VAT, which amount was refunded to the Company's customers.

VII. MAIN FINANCIAL INDICATORS

Main financial and economic results of the Company's business activities as at 30 June 2021 and 30 June 2020:

In thousands of BGN

Indicators	As at 30 June 2021	As at 30 June 2020	Change	Change (%)
Total operating income	640 689	356 978	283 711	79,48%
Total operating expenses	(617 951)	(334 428)	(283 523)	84,78%
EBITDA	22 738	22 550	188	0,83%
EBIT	22 484	22 324	160	0,72%
EBT	24 242	24 055	187	0,78%

Indicators	As at 30 June 2021	As at 31.12.2020 r.	Change	Change (%)
Non-current fixed assets	445	130	315	242,31%
Total assets	401 671	363 198	38 473	10,59%
Current assets	388 394	349 372	39 022	11,17%
Current liabilities	62 778	32 214	30 564	94,88%
Cash	116 456	171 857	(55 401)	(32,24%)
Working capital	325 616	317 158	8 458	2,67%
Equity	286 705	279 295	7 410	2,65%
Share capital	231 698	231 698	-	-
Reserves	14 769	7 360	7 409	100,67%
Retained earnings / (accumulated loss)	18 553	580	17 973	3 098,79%
Profit/loss for period	21 685	39 657	(17 972)	(45,32%)
Number of staff	50	52	(2)	(3,85%)

VIII. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In thousands of BGN

STATEMENT OF COMPREHENSIVE INCOME	As at 30 June 2021		As at 30 June 2020		Change	
	thousands BGN	% of total	thousands BGN	% of total	thousands BGN	%
Income	640 689	100,00%	356 978	100,00%	283 711	79,48%
Revenue from natural gas sales	635 941	99,26%	351 203	98,38%	284 738	81,08%
Adjustment due to selling price change	-	-	(164 462)	(46,07%)	164 462	(100,00%)
Regulated business	251 514	39,26%	253 765	71,09%	(2 251)	(0,89%)

STATEMENT OF COMPREHENSIVE INCOME	As at 30 June 2021		As at 30 June 2020		Change	
	thousands BGN	% of total	thousands BGN	% of total	thousands BGN	%
Unregulated business at freely negotiated prices	308 659	48,18%	245 806	68,86%	62 853	25,57%
Organised exchange – Gas Release Programme	70 339	10,98%	10 959	3,07%	59 380	541,84%
Related parties (Bulgartransgaz) – sale of natural gas for balancing purposes	3 777	0,59%	2 950	0,83%	827	28,03%
Other penalties under contracts with customers	1 652	0,26%	2 185	0,61%	(533)	(24,39%)
Other income	4 748	0,74%	5 775	1,62%	(1 027)	(17,78%)
- penalties for overdue receivables/payables	4 300	0,67%	5 774	1,62%	(1 475)	(25,54%)
- other income	448	0,07%	1	0,00%	447	44 700%
Expenses by economic type	(617 951)	100,00%	(334 428)	100,00%	(283 523)	84,78%
Cost of natural gas sold	(622 553)	100,74%	(329 902)	98,65%	(292 651)	88,71%
Adjustment due to supply price change	-	0,00%	137 243	(41,04%)	(137 243)	(100,00%)
Regulated business	(250 072)	40,47%	(228 518)	68,33%	(21 554)	9,43%
Unregulated business at freely negotiated prices	(298 483)	48,30%	(225 193)	67,34%	(73 290)	32,55%
Organised exchange – Gas Release Programme	(70 190)	11,36%	(10 476)	3,13%	(59 714)	570,01%
Related parties (Bulgartransgaz) – cost price of natural gas for balancing purposes	(3 808)	0,62%	(2 958)	0,88%	(850)	28,74%
Impairment reversed/(accrued)	10 258	(1,66%)	(119)	0,04%	10 377	(8 720,17%)
Reversed/(accrued) impairment of receivables, net	10 178	(1,65%)	3 157	(0,94%)	7 021	222,39%
Reversed/(accrued) impairment of cash and cash equivalents	80	(0,01)%	(168)	0,05%	248	(147,62%)
Reversed/(accrued) impairment of natural gas	-	-	(3 108)	0,93%	3 108	(100,00%)
Provision expenses recognised (accrued)	(374)	0,06%	(376)	0,11%	2	(0,53%)
Cost of materials	(58)	0,01%	(34)	0,01%	24	(70,59%)
- main materials	(26)	-	(6)	-	(20)	333,33%
- fuels and lubricants	(8)	-	(11)	-	3	(27,27%)
- stationary and consumables	(11)	-	(9)	-	2	(22,22%)
- sanitary materials	(4)	-	(5)	-	1	(20,00%)
- advertising materials	(2)	-	(1)	-	(1)	100,00%
- other materials	(7)	-	(2)	-	(5)	250,00%
Cost of hired services	(3 577)	0,58%	(2 549)	0,76%	(1 028)	40,33%
- natural gas storage costs	(2 810)	0,45%	(992)	0,30%	(1 818)	183,27%
- expenses under management contracts	(29)	-	(52)	0,02%	23	(44 23%)
- licence fees	(82)	0,01%	(732)	0,22%	650	(88,80%)
- Balkan Gas Hub fees	(206)	0,03%	(20)	0,01%	(186)	930,00%
- insurance	(54)	0,01%	(55)	0,02%	1	(1,82%)
- rent	(1)	-	-	-	(1)	-
- court costs and fees	(28)	-	(337)	0,10%	309	(91,69%)
- consulting services	(100)	0,02%	(137)	0,04%	37	(27,01%)
- communications	(54)	0,01%	(63)	0,02%	9	(14,29%)
- audit committee fees	(48)	0,01%	(44)	0,01%	(4)	9,09%
- building maintenance	(1)	-	-	-	(1)	-
- public utilities	(13)	-	(14)	-	1	(7,14%)
- subscription service	(7)	-	(7)	-	-	-
- repairs and maintenance	(5)	-	(10)	-	5	(50,00%)
- parking spaces and other motor vehicle costs	(10)	-	(7)	-	(3)	42,86%
- visa services	-	-	(1)	-	1	(100,00%)
- translation services	(15)	-	(9)	-	(6)	66,67%
- security	(39)	0,01%	(35)	0,01%	(4)	11,43%
- occupational medicine	(3)	-	-	-	(3)	-

STATEMENT OF COMPREHENSIVE INCOME	As at 30 June 2021		As at 30 June 2020		Change	
	thousands BGN	% of total	thousands BGN	% of total	thousands BGN	%
- EWRC price approval fees	(7)	-	(12)	-	5	(41,67%)
- other services	(65)	0,01%	(22)	0,01%	(43)	195,45%
Employment cost	(1 612)	0,26%	(1 414)	0,42%	(198)	14,00%
- salary and wage costs	(1 425)	0,23%	(1 242)	0,37%	(183)	14,73%
- social insurance costs	(187)	0,03%	(172)	0,05%	(15)	8,72%
Other expenses	(35)	0,01%	(34)	0,01%	(1)	2,94%
- penalties for overdue payables	-	-	29	(0,01%)	(29)	(100,00%)
- business trips and entertainment expenses	(5)	-	(32)	0,01%	27	(84,38%)
- training	(1)	-	-	-	(1)	(100,00%)
- one-off taxes	(5)	-	(5)	-	-	0,00%
- membership fees	(2)	-	(1)	-	(1)	100,00%
- donations	-	-	(24)	0,01%	24	(100,00%)
- other	(22)	-	(1)	-	(21)	2 100,00%
Profit before interest, tax and depreciation	22 738		22 550		188	0,83%
Depreciation expenses	(254)	0,04%	(226)	0,07%	(28)	12,39%
Operating profit/(loss)	22 484		22 324		160	0,72%
Financial income/(expenses), net	1 758		1 731		27	1,56%
Financial income	379	100,00%	620	100,00%	(241)	(38,87%)
- income from interest on long-term receivables	379	100,00%	620	100,00%	(241)	(38,87%)
Financial expenses	(1 016)	100,00%	(387)	100,00%	(629)	162,53%
Cost of interest on bank loans	(3)	0,30%	(18)	4,65%	15	(83,33%)
Cost of interest on tax liabilities	(2)	0,20%	-	-	(2)	(100,00%)
- cost of interest on overdue taxes	-	0,00%	(20)	5,17%	20	100,00%
- cost of interest on rental contracts	(5)	0,49%	(6)	1,55%	1	(16,67%)
- cost of bank guarantees	(258)	25,39%	(254)	65,63%	(4)	1,57%
- bank charges	(748)	73,62%	(89)	23,00%	(659)	740,45%
Other financial income/expenses – exchange differences	2 395	100,00%	1 498	100,00%	897	59,88%
Gains/(losses) from exchange differences	2 395	100,00%	1 498	100,00%	897	59,88%
Pre-tax profit/(loss)	24 242		24 055		187	0,78%
Revenue/(expenses) on income taxes	(2 557)		(2 444)		(113)	4,62%
Net profit/(loss) for period	21 685		21 611		74	0,34%

1. Income

The Company generated income of BGN 640 689 thousand as at 30 June 2021 (30 June 2020: BGN 356 978 thousand). This is an increase of BGN 283 711 thousand or 79,48%. The net operating profit is BGN 22 484 thousand (30 June 2020: BGN 22 324 thousand), which is an increase of 0,72%.

Expenses by economic type include: cost of natural gas sold, impairment costs, cost of materials, cost of hired services, depreciation expenses, cost of salaries and wages, cost of social insurance and benefits, cost of provisions, etc. As at 30 June 2021, they are BGN 617 951 thousand (30 June 2020: BGN 334 428 thousand), which is an increase by BGN 283 523 thousand or 84,78%.

The largest relative share of total expenses is the cost of natural gas sold. As at 30 June 2021, it is BGN 622 553 thousand (30 June 2020: BGN 329 902 thousand).

The cost of hired services as at 30 June 2021 is BGN 3 577 thousand (30 June 2020: BGN 2 549 thousand), which is an increase by BGN 1 028 or 40,33%. This can be attributed to the increase in the natural gas storage costs.

Other expenses are BGN 35 thousand as at 30 June 2021 (as at 30 June 2020: BGN 34 thousand), which is an increase by BGN 1 thousand or 2,94% on the previous reporting period.

The operating result is a profit of BGN 22 484 thousand as at 30 June 2021 (30 June 2020: profit of BGN 22 324 thousand), which is an increase by BGN 160 thousand or 0,72%.

After recognising the financial income and expense as at 30 June 2021, the pre-tax financial result is a profit of BGN 24 242 thousand (as at 30 June 2020: profit of BGN 24 055 thousand), which is an increase by BGN 187 thousand or 0,78%.

IX. STATEMENT OF FINANCIAL POSITION

As at 30 June 2021, the Company's assets are worth BGN 401 671 thousand (as at 31 December 2020: BGN 363 198 thousand). Asset structure changes in both periods are shown in the following table:

In thousands of BGN

Assets	As at 30 June 2021		As at 31 December 2020		Change	
	thousands BGN	% of total	thousands BGN	% of total	thousands BGN	%
Non-current assets						
Plant and equipment	445	3,35%	130	0,94%	315	242,31%
Intangible assets	353	2,66%	190	1,37%	163	85,79%
Deferred tax assets	12 479	93,99%	13 506	97,69%	(1 027)	(7,60%)
Total non-current assets	13 277	100,00%	13 826	100,00%	(549)	(3,97%)
Current assets						
Inventories	36 044	9,28%	49 178	14,08%	(13 134)	(26,71%)
- natural gas	36 026	9,28%	49 158	14,07%	(13 132)	(26,71%)
- materials	18	0,00%	20	0,01%	(2)	(10,00%)
Trade and other receivables	235 894	60,74%	128 337	36,73%	107 557	83,81%
- trade receivables from natural gas sales	146 749	37,78%	62 397	17,86%	84 352	135,19%
- court and awarded receivables	8 952	2,30%	9 987	2,86%	(1 035)	(10,36%)
- prepayments for natural gas supplies	52 100	13,41%	35 638	10,20%	16 462	46,19%
- prepayments for delivery of fixed assets	2	0,00%	1	0,00%	1	100,00%
- VAT and other tax receivables	-	0,00%	1 136	0,33%	(1 136)	(100,00%)
- receivables from related parties (natural gas, deposits and guarantees)	19 447	5,01%	14 128	4,04%	5 319	37,65%
- other receivables	8 644	2,23%	5 050	1,45%	3 594	71,17%
Cash and cash equivalents	116 456	29,98%	171 857	49,19%	(55 401)	(32,24%)
Total current assets	388 394	100,00%	349 372	100,00%	39 022	11,17%
Total assets	401 671		363 198		38 473	10,59%

1. Non-current assets

As at 30 June 2021, non-current assets are worth BGN 13 277 thousand (as at 31 December 2020: BGN 13 826 thousand), which is a decrease by BGN 549 thousand or 3,97%. In the reporting period, non-current assets comprise non-current tangible and intangible assets worth BGN 798 thousand and deferred tax assets worth BGN 12 479 thousand.

2. Current assets

As at 30 June 2021, the Company's current assets are worth BGN 388 394 thousand (31 December 2020: BGN 349 372 thousand), which is an increase by BGN 39 022 thousand or 11,17%, resulting from an increase in natural gas receivables, prepayments for natural gas supplies and receivables from related parties (guarantees and deposits).

As at 30 June 2021, inventories are worth BGN 36 044 thousand (31 December 2020: BGN 49 178 thousand), which is a decrease by BGN 13 134 thousand or 26,71%.

As at 30 June 2021, trade and other receivables amount to BGN 235 894 thousand (31 December 2020: BGN 128 337 thousand), which is an increase by BGN 107 557 thousand or 83,81%.

As at 30 June 2021, prepayments for natural gas supplies amount to BGN 52 100 thousand (31 December 2020: BGN 35 638 thousand), which is an increase by BGN 16 462 thousand or 46,19%.

At the end of the reporting period, the Company has BGN 116 456 thousand in current bank accounts and on hand (as at 31 December 2020: BGN 171 857 thousand), which is a decrease by BGN 55 401 thousand.

3. Changes in the structure of equity and liabilities

In thousands of BGN

Equity and liabilities	As at 30 June 2021		As at 31 December 2020		Change	
	thousand BGN	% of total	thousand BGN	% of total	thousand BGN	%
Equity						
Share capital	231 698	80,81%	231 698	82,96%	-	0,00%
Reserves	14 769	5,15%	7 360	2,64%	7 409	100,67%
incl. legal reserve	14 776	5,15%	7 366	2,64%	7 410	100,60%
Other reserves	(7)	(0,00%)	(6)	0,00%	(1)	(16,67%)
Retained earnings/(accumulated loss)	18 554	6,47%	580	0,21%	17 974	3 098,97%
Profit/loss for current period	21 685	7,56%	39 657	14,20%	(17 972)	(45,32%)
Total equity	286 706	100,00%	279 295	100,00%	7 411	2,65%
Liabilities						
Non-current liabilities						
Lease payables	127	0,24%	2	0,00%	125	6250,00%
Provisions	51 966	99,57%	51 592	99,81%	374	0,72%
Trade and other payables	0	0,00%	0	0,00%	-	-
Pension liabilities	95	0,18%	95	0,18%	-	0,00%
Total non-current liabilities	52 188	100,00%	51 689	100,00%	499	0,97%
Current liabilities						
Trade and other payables	60 943	97,08%	31 331	97,26%	29 611	94,51%
- trade payables	29 104	46,36%	8 104	25,16%	21 000	259,13%
- payables to related parties	2 771	4,41%	2 952	9,16%	(181)	(6,13%)
- prepayments from customers for natural gas sales	14 173	22,58%	53	0,16%	14 120	26 641,51%
- VAT payable	11 235	17,90%	18 644	57,88%	(7 409)	(39,74%)
- excise duty	422	0,67%	1 131	3,51%	(709)	(62,69%)
- staff payables	83	0,13%	133	0,41%	(50)	(37,59%)
- payables to social insurance institutions	73	0,12%	81	0,25%	(8)	(9,88%)
- other liabilities	3 082	4,91%	233	0,72%	2 849	1 222,75%
Lease obligations – rental contract	251	0,40%	69	0,21%	182	263,77%
Corporate tax liability	1 530	2,44%	723	2,24%	807	111,62%
Pension liabilities	54	0,09%	91	0,28%	(37)	(40,66%)
Total current assets	62 778	100,00%	32 214	100,00%	30 564	94,87%
Total liabilities	114 965		83 903		31 062	37,02%
Total equity and liabilities	401 671		363 198		38 473	10,59%

3.1. Capital structure

As at 30 June 2021, the registered share capital is BGN 231 698 thousand, which is the same as in the previous reporting period.

As at 30 June 2021, retained earnings amount to BGN 18 554 thousand (31 December 2020: retained earnings of BGN 580 thousand). As at 30 June 2021, they have changed by BGN 17 974 thousand.

3.2. Non-current liabilities

As at 30 June 2021, the Company's non-current liabilities amount to BGN 52 188 thousand (31 December 2020: BGN 51 689 thousand), which is an increase by BGN 499 thousand or 0,97% on the previous period. The non-current liabilities comprise a provision set aside to discharge a litigation liability in relation to *Case COMP/B1/AT.39849 – BEH gas*, pension liabilities and the non-current part of lease payables.

3.3. Current liabilities

As at 30 June 2021, the Company's current liabilities amount to BGN 62 778 thousand (31 December 2020: BGN 32 214 thousand), which is an increase by BGN 30 564 thousand or 94,87%.

As at 30 June 2021, the Company has not utilized any loans.

As at 30 June 2021, trade and other payables have decreased by BGN 29 611 thousand or 94,51% compared with 31 December 2020.

As at 31 December 2021, trade payables have increased by BGN 21 000 thousand or 259,13% compared to the same period in 2020.

As at 30 June 2021, payables to related parties amount to BGN 181 thousand, which is a decrease by 6,13% on the result as at 31 December 2020.

The current VAT liability to the National Revenue Agency is BGN 11 235 thousand (31 December 2020: BGN 18 644 thousand), which is a decrease by BGN 7 409 thousand or 39,74%.

X. STATEMENT OF CASH FLOWS

The table below shows data concerning changes to cash flows as at 30 June 2021 compared with the same date in 2020:

In thousands of BGN

CASH FLOW	As at 30 June 2021	As at 30 June 2020	Change	
Net cash flows from operating activity	(41 385)	141 303	(182 688)	(441,44%)
Net cash flows from investing activity	129	472	(343)	265,89%
Net cash flows from financing activity	(14 879)	(52 535)	37 656	253,08%
Net change in cash and cash equivalents in period	(56 135)	89 240	(145 375)	(258,97%)
Cash and cash equivalents at beginning of period	172 012	80	171 932	(99,95%)
Gains/losses from currency revaluation of cash and cash equivalents	654	(915)	1 569	(239,91%)
Impairment of cash in accordance with IFRS	(75)	(168)	93	124,00%
Cash and cash equivalents at end of period	116 456	88 237	28 219	(24,23%)

As at 30 June 2021, the Company's net cash flows from operating activity are negative and amount to BGN 41 385 thousand (as at 30 June 2020: positive and amount to BGN 141 303 thousand), which is a decrease by BGN 182 688 thousand or 41,44%. They comprise the difference between cash receipts from customers for natural gas paid and sold, non-income tax paid and other expenses.

The net cash flows from investing activity are positive and amount to BGN 129 thousand, which is a decrease by BGN 343 thousand on 30 June 2020.

As at 30 June 2021, the net cash flows from financial activity are negative and amount to BGN 14 879 thousand (as at 30 June 2020: negative and amount to BGN 52 535 thousand).

XI. EVENTS AFTER THE REPORTING PERIOD

1. EWRC decisions approved the price at which the public supplier sells natural gas to end suppliers of natural gas and persons issued with a licence to produce and transmit thermal energy, namely BGN 49,94 per MWh (exclusive of excise duty and VAT) for July 2021 and then BGN 57,60 per MWh (exclusive of excise duty and VAT) for August 2021.

2. On 15 July 2021, the Company filed a statement of claim with the Sofia City Court under No 8907/15.07.2021 for its trade receivables from a customer in default in the amount of BGN 70 946 thousand.

3. On 13 July 2021, by decision of Bulgarian Energy Holding EAD, the following new members were elected to the Board of Directors of Bulgargaz EAD:

Nikolay Atanasov Donchev

Diana Stoyanova Boneva

Svetoslav Tanev Delchev

Those circumstances were entered into the Commercial Register on 19 July 2021.

No adjusting or other non-adjusting events have occurred after the reporting period date that require further disclosures in or adjustments to the financial statements of Bulgargaz EAD as at 30 June 2021.

XII. FINANCIAL RATIOS

These are financial-statement-based indicators aiming to present the overall assessment of the Company's financial performance, profitability and effectiveness in utilising its assets to achieve its operational goals.

As at 30 June 2021, the financial ratios show the Company's financial stability, and they are optimal compared to market levels.

1. Liquidity

Liquidity indicators show the Company's ability to use its available short-term assets to pay its current liabilities.

Indicators	As at 30 June 2021	As at 30 December 2020
Current liquidity ratio	6,19	10,85
Quick liquidity ratio	5,61	9,32
Absolute liquidity ratio	1,86	5,33

As at 30 June 2021, the current liquidity ratio is 6,19, which shows the available current assets can cover the Company's current liabilities more than 6 times (as at 31 December 2020: 10,85).

The quick liquidity ratio is 5,61, which shows the available current assets less the inventories can cover the Company's current liabilities more than 5 times.

The absolute liquidity ratio is 1,86, which shows the available cash can cover the Company's current liabilities almost 2 times.

2. Financial independence

Financial autonomy indicators show the extent to which the Company is financially independent from creditors and its ability to make payments on all liabilities in the long run.

Indicators	As at 30 June 2021	As at 30 December 2020
Financial autonomy ratio	2,49	3,11
Indebtedness ratio	0,40	0,32

When the financial autonomy ratio is less than 1 (one), the liabilities exceed the equity. In such a case, the existing liabilities are not sufficiently secured by the Company's property.

When the ratio is above 1 (one), it shows the extent of financial independence from the use of outside funds. As at 30 June 2021, the financial autonomy ratio is 2,49 (as at 31 December 2020: 3,11).

The indebtedness ratio expresses the Company's degree of dependence on creditors. When the ratio is greater than 1 (one), the Company's dependence on external sources of funds is greater. As at 30 June 2021, this indicator is 0,40 (as at 31 December 2020: 0,32).

The information presented and analysed in the Management report of Bulgargaz EAD as at 30 June 2021 shows the Company fulfils its licencing obligations as a public supplier of natural gas in Bulgaria and is in full compliance with the law and the requirements of a trader on the liberalised market. Its activities are directly dependent on the business environment, regulatory requirements and its financial security. Despite the volatile market conditions in the period under review, Bulgargaz EAD responded adequately to market challenges, while maintaining financial stability and increasing the economic effectiveness of its business.

18 August 2021

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Director of Finance and Accounting

Nikolay
Angelov Pavlov

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Nikolay Pavlov

Executive Director

BULGARGAZ EAD
CONDENSED STATEMENT OF FINANCIAL POSITION
30 JUNE 2021

(All amounts are in thousands of BGN)

	NOTE	AS AT 30 JUNE 2021	AS AT 31 DECEMBER 2020
ASSETS			
Non-current assets			
Plant and equipment		445	130
Intangible assets		353	190
Deferred tax assets	10	12 479	13 506
		13 277	13 826
Current assets			
Inventories	7	36 044	49 178
Trade and other receivables	8	235 894	128 337
Cash and cash equivalents	9	116 456	171 857
		388 394	349 372
TOTAL ASSETS		401 671	363 198
EQUITY AND LIABILITIES			
Equity			
Share capital	11	231 698	231 698
Reserves	12	14 769	7 360
Retained earnings		40 238	40 237
		286 705	279 295
Non-current liabilities			
Lease liabilities		127	2
Pension liabilities		95	95
Provisions	17	51 966	51 592
		52 188	51 689
Current liabilities			
Trade and other payables	13	60 943	31 331
Lease liabilities		251	69
Income tax liabilities		1 530	723
Pension liabilities		54	91
		62 778	32 214
TOTAL LIABILITIES		114 966	83 903
TOTAL EQUITY AND LIABILITIES		401 671	363 198

These condensed interim financial statements were approved by the Board of Directors on 18 August 2021.
Date of preparation: 29 July 2021

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Executive Director

Auditors' report issued on 19 August 2021

Grant Thornton OOD
Audit firm No 032
Mariy Apostolov
Managing partner

Zaharinova Nexia OOD
Audit firm No 138
Dimitrina Zaharinova
Director

Emilia Marinova
Registered auditor responsible for the audit No 0673

Stoycho Milev
Registered auditor responsible for the audit No 0860

The notes on pages 5 to 21 form an integral part of these interim financial statements.

BULGARGAZ EAD
CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
30 JUNE 2021

(All amounts are in thousands of BGN)

	NOTE	6-MONTH PERIOD ENDING ON 30	
		2021	JUNE 2020
Revenue from natural gas sales	16	635 941	351 203
Other revenue		4 748	5 775
Cost of natural gas sold		(622 553)	(329 902)
Cost of hired services		(3 577)	(2 549)
Employment cost		(1 612)	(1 414)
Cost of materials		(58)	(34)
Depreciation cost of non-financial assets		(254)	(226)
Provision costs		(374)	(376)
Other expenses		(35)	(34)
Reversed credit loss on financial assets, net	14	10 258	2 989
Accrued/(reversed) impairment loss on non-financial assets	7	-	(3 108)
Operating profit		22 484	22 324
Financial income		379	620
Financial expenses		(1 016)	(387)
Other financial income/expenses – net		2 395	1 498
Financial income/(expenses) – net		1 758	1 731
Pre-tax profit/(loss)		24 242	24 055
Income tax expenses	15	(2 557)	(2 444)
Net profit for period		21 685	21 611
Total comprehensive income for period		21 685	21 611

These condensed interim financial statements were approved by the Board of Directors on 18 August 2021.

Date of preparation: 29 July 2021

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 Dimitrina Zaharinoxa
 Director

Stoycho Milev
 Registered auditor responsible for the audit No 0860

BULGARGAZ EAD

CONDENSED STATEMENT OF CHANGES IN EQUITY 30 JUNE 2021

(All amounts are in thousands of BGN)

	NOTE	Share capital	Reserves	Retained earnings	Total
AS AT 1 JANUARY 2021	11,12	231 698	7 360	40 237	279 295
Comprehensive income					
Profit for period		-	-	21 685	21 685
Total comprehensive income		-	-	21 685	21 685
Transactions with sole owner					
Dividend distribution		-	-	(14 275)	(14 275)
Total transactions with sole owner		-	-	(14 275)	(14 275)
Transfer of retained earnings to reserves		-	7 409	(7 409)	-
AS AT 30 JUNE 2021		231 698	14 769	40 238	286 705
AS AT 1 JANUARY 2020		231 698	7 404	562	239 664
Comprehensive income					
Profit for period		-	-	21 611	21 611
Total comprehensive income		-	-	21 611	21 611
Transfer of revaluation reserve to retained earnings		-	(7)	7	-
AS AT 30 JUNE 2020		231 698	7 397	22 180	261 275

These condensed interim financial statements were approved by the Board of Directors on 18 August 2021.

Date of preparation: 29 July 2021

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Director

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Registered auditor responsible for the audit No 0673

Stoycho Milev
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BULGARGAZ EAD

CONDENSED STATEMENT OF CASH FLOWS 30 JUNE 2021

(All amounts are in thousands of BGN)

	NOTE	6-MONTH PERIOD ENDING ON 30 JUNE	
		2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		700 319	492 338
Cash paid to suppliers		(625 081)	(227 574)
Cash paid to employees and social insurance institutions		(1 770)	(1 650)
Income tax paid		(723)	(875)
Non-income tax paid		(114 657)	(120 817)
Other cash receipts/(payments), net		527	(119)
Net cash flow from operating activities		(41 385)	141 303
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(31)	(17)
Purchase of intangible assets		(218)	(130)
Interest received on deferred trade receivables		378	619
Net cash flow from investing activities		129	472
CASH FLOWS FROM FINANCING ACTIVITIES			
Lease principal payments		(153)	(124)
Lease interest payments		(6)	(6)
Overdraft instalment payments, net		-	(52 372)
Dividend payments		(14 275)	-
Payments of bank guarantee fees and overdraft interest		(445)	(33)
Net cash flow from financing activities		(14 879)	(52 535)
Net increase/(decrease) in cash and cash equivalents for period		(56 135)	89 240
Cash and cash equivalents at beginning of period (gross)		172 012	80
Exchange gains/(losses) on cash and cash equivalents		654	(915)
Expected credit loss on cash and cash equivalents pursuant to IFRS 9 for period		(75)	(168)
Cash and cash equivalents at end of period, net	9	116 456	88 237

These condensed interim financial statements were approved by the Board of Directors on 18 August 2021.

Date of preparation: 29 July 2021

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Auditors' report issued on 19 August 2021

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Dimitrina Zaharinoxa
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Stoycho Milev
Registered auditor responsible for the audit No 0860

The notes on pages 5 to 21 form an integral part of these interim financial statements.

BULGARGAZ EAD

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS 30 JUNE 2021

1. GENERAL INFORMATION

Bulgargaz EAD (the “Company”), EIK (entity ID) 175203485, is a sole shareholder limited company registered pursuant to the Commerce Act, having its registered office and principal place of business at 47 Petar Parchevich St, Serdika, 1000 Sofia, Bulgaria. The Company is registered in the Business Register under No 113068, Volume 1534, Page 35, Company File No 16440/2006, and was incorporated pursuant to Decision No 1 of 15 January 2007.

The Company’s main business is the public supply of natural gas, as well as purchases and sales related thereto.

As a public natural gas supplier, the major strategic goal of Bulgargaz EAD is to protect the public interest by providing natural gas supplies to Bulgaria under long-term contracts with suppliers from the Russian Federation and Azerbaijan. Bulgargaz EAD reviews opportunities to provide alternative natural gas supply sources and routes.

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

Bulgargaz EAD is a sole shareholder limited company owned by Bulgarian Energy Holding EAD. The Company’s ultimate owner is the Bulgarian State, through the Minister of Energy.

Bulgargaz EAD has a one-tier management system. The Company management bodies are the General Meeting and the Board of Directors. As at 30 June 2021 and as at the date of preparation of the interim financial statements, the Company is managed and represented by Nikolay Pavlov, Executive Director

As at 30 June 2021, the Company’s Board of Directors is composed by the following members:

- Nikolay Pavlov – executive member of the Board of Directors;
- Iliyan Dukov – member of the Board of Directors.

As at the date of preparation of these financial statements, the Company’s Board of Directors is composed by the following members:

- Nikolay Pavlov – executive member of the Board of Directors;
- Diana Boneva – chairman of the Board of Directors;
- Iliyan Dukov – member of the Board of Directors;
- Nikolay Donchev – member of the Board of Directors;
- Svetoslav Delchev – member of the Board of Directors.

The organisational structure of Bulgargaz EAD consists solely of central management.

The Company does not present segment information by activity because natural gas supply is the only activity for the period.

These condensed interim financial statements were approved for publication by the Board of Directors on 18 August 2021.

2. BASIS OF PREPARATION

These condensed interim financial statements for the six-month period ending on 30 June 2021 have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not contain all the information required for the preparation of the full annual financial statements under International Financial Reporting Standards (IFRSs) and should be read in conjunction with the annual financial

BULGARGAZ EAD

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS 30 JUNE 2021

statements of the Company for the year ending on 31 December 2020, prepared in accordance with IFRSs, developed and published by the International Accounting Standards Board ("IASB") and adopted for application in the European Union ("EU").

The condensed interim financial statements are presented in Bulgarian lev (BGN), which is also the Company's functional currency. Unless otherwise stated, all amounts are presented in thousands of BGN, including the comparative information for 2020.

In order to achieve a presentation that provides more relevant information about the effect of operations and other events or conditions on the Company's financial position, some elements in the condensed interim financial statements are presented differently compared to the condensed interim financial statements for 2020. The change relates to the following items in the condensed interim statement of financial position and condensed interim statement of profit or loss and other comprehensive income:

- Right-of-use assets in amount of BGN 61 thousand as at 31 December 2020 have been reclassified from the Intangible Assets line to the Plant and Equipment line.
- Revenues of BGN 2,185 thousand from penalties on unaccepted and exceeded quantities of gas, reported in the first half of 2020, have been reclassified from Other Revenue line to Revenue from natural gas sales line.

The change only concerns how elements are presented in the condensed interim statement of financial position as at 31 December 2020 and the condensed interim statement of profit or loss and other comprehensive income for the period ending on 30 June 2020, and does not concern how they are measured.

The condensed interim financial statements have been prepared on a going concern basis.

For the period ending on 30 June 2021, the Company reported a net profit of BGN 21 685 thousand, a negative cash flow from operating activities of (BGN 41 385 thousand) and a net decrease in cash and cash equivalents for the period of BGN 56 135 thousand.

As at 30 June 2021, the financial statements are prepared on a going concern basis, meaning that the Company will continue its operations for the foreseeable future.

As disclosed in Note 1 "General Information", the Company holds an individual licence to supply natural gas to the public in Bulgaria, issued by the State Energy and Water Regulatory Commission for a period of 35 years. The future operations of the Company as a public supplier of natural gas depend on the business environment, regulatory requirements, natural gas supply contracts, natural gas sale contracts between the Company and its customers, and maintaining the funds necessary to conduct its activities.

Given the assessment of expected future cash flows and the group strategy for developing the business in Bulgaria, the Company's management believes it is appropriate for the interim financial statements to be prepared on a going concern basis.

3. ACCOUNTING POLICIES

3.1. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS THAT ENTERED INTO FORCE ON 1 JANUARY 2021.

The Company applies the following new standards and IFRS amendments and interpretations, developed and published by the International Accounting Standards Board, which have an effect on the Company's financial statements and must be applied from 1 January 2021:

The following standards and interpretations apply for the first time to financial reporting periods beginning on or after 1 January 2021, but their application has no material effect on the Company's financial result and financial position:

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- 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.

3.2. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET IN FORCE AND NOT ADOPTED IN ADVANCE BY THE COMPANY

As at the date of approval of these financial statements, new standards, amendments to and interpretations of existing standards have been published, but have not entered into force or have not been adopted by the EU for the financial year beginning on 1 January 2021 and have not been applied in advance by the Company. They are not expected to have a material effect on the Company's financial statements. Management expects all standards and amendments to be adopted in the Company's accounting policy in the first period beginning after the date of their entry into force.

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 Estimates and Errors: Definition of Accounting Estimates, effective from 1 January 2023, not yet adopted by the EU
- Amendments to IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 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 2021, not yet adopted by the EU

4. ACCOUNTING ESTIMATES

When preparing financial statements, management makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from management's estimates, judgements and assumptions, and in rare cases fully correspond to the results estimated in advance.

When preparing these condensed interim financial statements, the significant management judgments in the application of the Company's accounting policies and the main sources of uncertainty of the accounting estimates do not differ from those disclosed in the annual financial statements of the Company as at 31 December 2020, with the exception of the changes in the estimate of income tax expense.

5. FINANCIAL RISK MANAGEMENT

5.1. FINANCIAL RISK FACTORS

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

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS 30 JUNE 2021

The condensed interim financial statements do not include all the information on risk management and disclosures required for the preparation of annual financial statements and should be read in conjunction with the Company's annual financial statements as at 31 December 2020. No changes were made to the risk management policy in the period.

5.2. FAIR VALUE MEASUREMENT

The Company has no financial instruments measured at fair value in the condensed statement of financial position. For the purposes of disclosure of the following financial instruments, the fair value is assumed to be a reasonable approximation of their carrying value:

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

6. SEASONALITY OF OPERATIONS. SIGNIFICANT EVENTS AND TRANSACTIONS OCCURRED IN THE PERIOD

In early 2020, the worldwide spread of a new coronavirus (Covid-19) caused difficulties to the business and economic activities of a number of enterprises and entire economic sectors. On 11 March 2020, the World Health Organization declared a coronavirus pandemic (Covid-19). On 13 March, the National Assembly of the Republic of Bulgaria declared a one-month state of emergency until 13 April 2020. After that period until 31 August 2021, there has been an emergency epidemiological situation.

The Company has not identified a significant negative effect on its operations, financial position and performance for the reporting periods.

The Company's business is characterised by seasonal fluctuations because part of the Company's customers (district heating and gas distribution companies) use natural gas to produce heat and electricity or directly deliver it for heating purposes. This is why seasons have a significant effect on the Company's business.

Gas consumption is highest in the winter, particularly in the first quarter, falling in the summer.

The natural gas sold in the six months of 2021 generated 17 503 640 MWh (first six months of 2020: 13 229 269 MWh).

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

7 INVENTORIES

	AS AT 30 JUNE 2021	AS AT 31 DECEMBER 2020
Natural gas at cost	36 026	49 468
Impairment to net realisable value	-	(310)
Natural gas, net realisable value	36 026	49 158
Total inventories	18	20
Total inventories	36 044	49 178

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No inventory has been pledged as security for the Company's liabilities. In the period ending on 30 June 2021, a total of BGN 622 553 thousand in inventories were reported as an expense in profit or loss (30 June 2020: BGN 329 902 thousand).

The movement in the accumulated impairment of natural gas is as follows:

	6-MONTH PERIOD UNTIL 30 JUNE	
	2021	2020
At beginning of period	310	-
Accumulated impairment losses	-	3 108
Written-off impairment of natural gas sold	(310)	-
At end of period	-	3 108
8. TRADE AND OTHER RECEIVABLES		
	AS AT 30 JUNE 2021	AS AT 31 DECEMBER 2020
Trade receivables	147 151	63 439
Accumulated impairment of trade receivables	(402)	(1 019)
Trade receivables, net	146 749	62 420
Court and awarded receivables	202 664	213 001
Accumulated impairment of court and awarded receivables	(193 713)	(203 014)
Court and awarded receivables, net	8 951	9 987
Receivable from Corporate Commercial Bank AD (insolvent)	3 804	4 064
Accumulated impairment of receivable from Corporate Commercial Bank AD (insolvent)	(3 804)	(4 064)
Receivable from Corporate Commercial Bank AD (insolvent), net	-	-
Prepayments for natural gas supplies	52 103	35 639
Receivables from related parties (Note 18)	19 447	14 128
Other receivables – prepaid expenses, guarantees and deposits	8 644	6 163
Total trade and other receivables	235 894	128 337
Current trade and other receivables	235 894	128 337

The movement in the credit loss allowance is as follows:

	AS AT 30 JUNE 2021	AS AT 31 DECEMBER 2020
At beginning of period	208 097	213 477
Accrued losses from impairment of receivables (expected credit losses)	1 825	10 993
Written-off uncollectible receivables	-	(923)
Reversals of impairment losses	(11 744)	(15 011)
Reversals of impairment losses from Corporate Commercial Bank (insolvent)	(259)	(439)
At end of period	197 919	208 097

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS 30 JUNE 2021

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 issue and receipt of an invoice by the relevant counterparty. The net carrying amount of trade and other receivables is considered a reasonable estimate of their fair value.

All financial receivables of the Company have been reviewed with respect to the occurrence of default events. For all trade receivables, a simplified approach has been used to determine the expected credit losses at the end of the period.

Impairment losses and reversals thereof are recognised on a separate line as a net figure in the condensed statement of profit or loss and other comprehensive income. The effects of time elapsed/discount rate changes are reported in financial income/expense, net.

Amounts recognised in the credit loss allowance account in respect of receivables are written off when there is no expectation that the Company will be able to obtain further payments.

Prepayments for the supply of natural gas constitute amounts paid in advance by Bulgargaz EAD to the major natural gas suppliers.

A statement of a partial account was published in the Commercial Register, which the administrators of CCB AD (insolvent) used to allocate the available amounts among the bank's creditors. As a result, Bulgargaz EAD was reimbursed for BGN 1 273 thousand in 2019 and 2021.

On 17 February 2021, the administrators of CCB AD (insolvent) published in the Commercial Register and the Register of Non-profit Legal Entities a fourth partial account of the funds available to allocate among the bank's creditors. In accordance with the fourth partial account used to allocate the insolvent estate of CCB AD (insolvent), Bulgargaz was allocated BGN 259 thousand, with the Company receiving that amount in April 2021.

No trade and other receivables have been pledged as security for the Company's liabilities.

9. CASH AND CASH EQUIVALENTS

	AS AT 30 JUNE 2021	AS AT 31 DECEMBER 2020
Cash in hand	-	9
Cash in current bank accounts	116 531	172 003
Expected credit loss on cash	(75)	(155)
Total cash and cash equivalents in the statement of financial position	116 456	171 857

As at 30 June 2021, the Company has USD 38 376 thousand blocked cash as security against a bank guarantee issued to a third-party counterparty of the Company.

The movement in the expected credit loss allowance are as follows:

	AS AT 30 JUNE 2021	AS AT 31 DECEMBER 2020
At beginning of period	155	-
Accrued expected credit losses on cash and cash equivalents	-	155
Reversed expected credit losses on cash and cash equivalents	(80)	-
At end of period	75	155

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30 JUNE 2021

10. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are recognised 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% (2020: 10%) applicable for the year in which they are expected to be reversed.

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS 30 JUNE 2021

The movement of deferred tax assets and liabilities as at 30 June 2021, presented by item in the period, is as follows:

DEFERRED TAX ASSETS	Impairment of inventories	Impairment of trade and other receivables	Pension provisions	Unused paid leave	Leases IFRS 16	Plant and equipment	Total
AS AT 1 JANUARY 2021	(31)	(13 441)	(19)	(16)	(1)	-	(13 508)
Expense (income) in profit or loss	-	1 026	-	-	1	-	1 027
AS AT 30 JUNE 2021	(31)	(12 415)	(19)	(16)	-	-	(12 481)
DEFERRED TAX LIABILITIES							
AS AT 1 JANUARY 2021	-	-	-	-	-	2	2
AS AT 30 JUNE 2021	-	-	-	-	-	2	2
DEFERRED TAX ASSETS, NET							
	(31)	(12 415)	(19)	(16)	-	2	(12 479)

The movement of deferred tax assets and liabilities as at 30 June 2020, presented by item in the period, is as follows:

DEFERRED TAX ASSETS	Impairment of inventories	Impairment of trade and other receivables	Pension provisions	Unused paid leave	Leases IFRS 16	Plant and equipment	Total
AS AT 1 JANUARY 2020	-	(13 744)	(17)	(16)	(1)	-	(13 778)
Expense (income) in profit or loss	(311)	351	-	-	-	-	40
AS AT 30 JUNE 2020	(311)	(13 393)	(17)	(16)	(1)	-	(13 738)
DEFERRED TAX LIABILITIES							
AS AT 1 JANUARY 2020	-	-	-	-	-	4	4
AS AT 30 JUNE 2020	-	-	-	-	-	4	4
DEFERRED TAX ASSETS, NET							
	(311)	(13 393)	(17)	(16)	(1)	4	(13 734)

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS 30 JUNE 2021

11. SHARE CAPITAL

	AS AT 30 JUNE 2021	
	Number of shares	Amount
At beginning of period	231 698 584	231 698
At end of period	231 698 584	231 698

There are no changes in the number of shares and their value for the period 01 January 2021 – 30 June 2021.

12. RESERVES

	6-MONTH PERIOD ENDING ON 30 JUNE 2021			
	Legal reserve	Non-financial asset revaluation reserve	Defined benefit plan revaluation reserve	Total
At beginning of period	7 367	35	(42)	7 360
Transfer of retained earnings to reserves	7 409	-	-	7 409
At end of the period	14 776	35	(42)	14 769

	6-MONTH PERIOD ENDING ON 30 JUNE 2020			
	Legal reserve	Non-financial asset revaluation reserve	Defined benefit plan revaluation reserve	Total
At beginning of period	7 367	53	(16)	7 404
Reserves from revaluation of fixed assets	-	(7)	-	(7)
At end of the period	7 367	46	(16)	7 397

13. TRADE AND OTHER PAYABLES

	AS AT 30 JUNE 2021	AS AT 31 DECEMBER 2020
Trade payables	29 104	8 104
Payables to related parties (Note 18 (D))	2 771	2 952
Prepayments from customers for natural gas sales	14 173	53
VAT payable	11 235	18 644
Excise duty	422	1 131
Payables to employees	83	133
Liabilities to social insurance institutions	73	81
Other liabilities	3 082	233
Total trade and other payables	60 943	31 331
Current trade and other payables	60 943	31 331

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The Company's trade payables mainly include payables to the main natural gas suppliers.

If in the year of delivery, customers accept quantities lower than the minimum annual quantities requested by them for the relevant year of delivery, they pay Bulgargaz EAD for the unaccepted quantity of natural gas at a price that is 50% of the invoiced value of the supplied quantity of natural gas divided by the quantity of natural gas supplied for the same year of delivery. Under the natural gas supply contracts, after those quantities are paid on time, customers have, in the next year of delivery, the right to request and accept those partially paid quantities in the next 24 months. As at 30 June 2021, the Company has liabilities in respect of prepayments received from customers in connection with unaccepted minimum annual quantities for 2020 that have been prepaid and should be taken in 2021 and 2022. In the month in which those quantities are requested and accepted, customers must pay for them a price that is 50% of the current price of natural gas for the relevant month of delivery.

14. REVERSED EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS, NET

	6-MONTH PERIOD UNTIL 30 JUNE	
	2021	2020
Reversed losses from impairment of trade and other receivables (Note 8)	9 919	3 157
Reversed losses from impairment of receivables from CCB (insolvent) (Note 8)	259	-
(Accrued) and reversed losses from impairment of cash (Note 9)	80	(168)
Total reversed expected credit losses on financial assets for period, net	10 258	2 989

15. INCOME TAX EXPENSES

	6-MONTH PERIOD UNTIL 30 JUNE	
	2021	2020
Current corporate tax expenses	(1 530)	(2 404)
Effect of change in deferred tax (Note 10)	(1 027)	(40)
Income tax expenses	(2 557)	(2 444)

Current tax expense is recognised based on the Company management's assessment of the weighted average annual income tax rate expected for the full financial year, which is 10% (2020: 10%).

16. REVENUE FROM NATURAL GAS SALES

	6-MONTH PERIOD UNTIL 30 JUNE	
	2021	2020
Revenue from natural gas sales	630 512	346 068
Revenue from natural gas sold for balancing purposes	3 777	2 950
Revenue from penalties on customers defaulting on contracts by not accepting or exceeding agreed quantities	1 652	2 185
Total natural gas sales revenue	635 941	351 203

Revenue from contracts with customers is generated in Bulgaria and recognised over time.

The following table provides information on the accounting policy used by the Company to recognise revenue and the timing of fulfilment of performance obligations under contracts with customers pursuant to IFRS 15.

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Product/service type	Nature and timing of fulfilment of performance obligations, including material payment terms	Recognition of revenue pursuant to IFRS 15
Natural gas sales revenue (including revenue from penalties for not accepting or exceeding agreed quantities)	<p>As a public natural gas supplier, Bulgargaz EAD continuously supplies natural gas throughout the year. The customer:</p> <ul style="list-style-type: none"> • simultaneously receives and consumes the benefits; • obtains control of the commodity (natural gas) by transferring the legal title to the asset; • bears the significant risks and rewards of ownership of the asset • accepts the asset. <p>The Company's performance does not create an asset with an alternative use to the Company, and the Company has an enforceable right to payment for performance completed to date.</p>	<p>Sales revenue is recognised on any transfer of control of the assets sold when they are delivered to the buyer and there are no outstanding liabilities that could affect the buyer's acceptance of natural gas. Delivery takes place each set of assets has been taken to the specific place (acceptance/transfer point), the risks of potential losses have been transferred to the buyer, and they have accepted the assets in accordance with the contract of sale.</p> <p>The quantity of natural gas delivered to the customer in each day of the relevant month is reflected in a Monthly Statement, containing information about Bulgargaz EAD's obligations to deliver and the customer's obligations to accept such delivery.</p> <p>The transaction price is the fee the Company expects to be entitled to in exchange for the transfer to the customer of the promised goods or services, except for the amounts collected on behalf of third parties (VAT, excise duty).</p> <p>The customer's remuneration for the sale of natural gas includes fixed and variable amounts. The fixed amount is the selling price of natural gas. The variable fee depends on:</p> <ul style="list-style-type: none"> - deviations from the daily agreed quantities of gas; - differences between requested and actually supplied minimum annual quantities of gas; - supplying natural gas of deteriorated quality. <p>Payment for sales is due within 12 days of the issue of a final invoice for the supply of natural gas, which is consistent with market practice.</p>
Revenue from natural gas sold for balancing purposes	<p>For the supply of natural gas to its customers, Bulgargaz EAD has a contract with the combined operator Bulgartransgaz EAD for access to and transmission of natural gas across Bulgaria. A contract for purchase and sale of natural gas for balancing purposes has also been concluded and incorporated into the access and transmission contract. Balancing is also continuous, and the customer simultaneously receives and consumes the benefits. Revenue is recognised over</p>	<p>The remuneration from the customer for the sale of natural gas for balancing purposes includes fixed amounts and is based on the selling price of natural gas for the current month + the balancing cost component determined and fixed by the EWRC for the gas year.</p> <p>There is no financing component in sales of natural gas for balancing purposes, as the payment for the sales is due within 20-25 days of the issue of an invoice, which is consistent with market practice.</p>

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30 JUNE 2021**

Product/service type	Nature and timing of fulfilment of performance obligations, including material payment terms	Recognition of revenue pursuant to IFRS 15
	time, as in the sale of natural gas described above.	

BALANCES ON CONTRACTS WITH CUSTOMERS

	AS AT 30 JUNE 2021	AS AT 31 DECEMBER 2020
Assets		
Trade receivables (Note 8)	109 343	56 691
Receivables from related parties (Note 8)	1 539	312
Unbilled receivables (Note 8)	37 407	6 724
Liabilities		
Contract liabilities (Note 13)	14 173	53

17. PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES**Provisions****European Commission Procedures****Case COMP/B1/AT.39849 – BEH gas**

Case COMP/B1/AT.39849 - BEH Gas (the “Case”) concerns a potential violation of Article 102 of the TFUE, as alleged by the European Commission (EC), resulting from actions of “Bulgarian Energy Holding EAD and its subsidiaries, Bulgargaz EAD and Bulgartransgaz EAD, aimed at:

- preventing their competitors from accessing key gas infrastructure (gas transmission network and gas storage facility) in Bulgaria by explicitly or tacitly refusing third party access or delaying such access;
- preventing competitors from accessing a major gas import pipeline by hoarding capacity. The proceedings were initiated in 2013 with a view to adopting a decision pursuant to Chapter 3 (Article 7 to 10) of Regulation 1/2003. On 23 March 2015, the European Commission issued a Statement of Objections (SO). Bulgarian Energy Holding EAD and its gas subsidiaries submitted their respective replies to the European Commission on 9 July 2015 (Bulgargaz EAD), 10 July 2015 (Bulgarian Energy Holding EAD) and 17 July 2015 (Bulgartransgaz EAD).

On 24 November 2017, the 44th National Assembly (NA) of the Republic of Bulgaria adopted a decision to take the necessary actions to close Case COMP/B1/AT.39849 – BEH Gas, whereby the NA supported closing the case pursuant to Article 7 of Regulation (EC) No 1/2003 without admitting to the alleged violations or taking any responsibility for them and by fulfilling the obligations arising from any prohibition decision, including any financial penalty.

On 26 July 2018, the 44th National Assembly (NA) of the Republic of Bulgaria adopted a decision to take the necessary actions to close Case of COMP/B 1/AT.39849 – BEH Gas pursuant to Article 9 of Regulation (EC) No 1/2003 by entering into commitments on behalf of the Bulgarian State and settling with the European Commission. The second NA decision was motivated by developments in Case COMP/B1/AT.39816 between the EC and PJSC Gazprom and Gazprom Export LLC, in respect of which the Commission announced on 24 May 2018 that an agreement had been reached and the same had been

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closed pursuant to Article 9 of Regulation (EC) No 1/2003 without a financial penalty for PJSC Gazprom and Gazprom Export LLC.

On 17 December 2018, the European Commission published Decision C (2018) 8806 in Case AT.39849 BEH – Gas, whereby the European Commission imposed a fine of EUR 77 068 000 on Bulgarian Energy Holding EAD (BEH), its gas supply subsidiary Bulgargaz EAD and its gas infrastructure subsidiary Bulgartransgaz EAD (the “BEH Group”) 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 commenced the period for appealing the EC Decision (two months and ten days after the decision is notified to the parties) and paying the fine (three months after the decision is notified to the parties).

The appeal against the decision does not defer the payment of the fine. On 18 March 2019, a guarantee was issued by a credit institution selected in a competitive procedure conducted by BEH EAD. The bank guarantee covers 2/3 of the EUR 77 068 000 fine, securing the obligations of BEH EAD and Bulgargaz EAD arising from the fine.

On 4 July 2019, the Bulgarian State, through the Ministry of Foreign Affairs, filed an application to intervene in support of Bulgarian Energy Holding EAD and its subsidiaries.

On 26 August 2019, the European Commission presented to the General Court its defense in response to the Application lodged by Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD.

On 29 November 2019, the Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD filed a response to the European Commission’s defence.

On 20 February 2020, within the deadline set by the General Court of the European Union, the Republic of Bulgaria, through the Ministry of Foreign Affairs (MFA), lodged the official position of the Republic of Bulgaria in Case T-136/19 submitted by the Ministry of Energy and the Ministry of Foreign Affairs, whereby the State intervened in support of Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD against the European Commission before the General Court of the European Union. It should be noted that, if the General Court decides to initiate the oral stage of the proceedings, the President will set a date for oral hearings, as those held from January to March 2021.

As at 30 June 2020, the Company has set aside a provision of BGN 51 966 thousand (as at 31 December 2020: BGN 51 592 thousand), constituting 1/3 of the total fine and the interest thereon of BGN 1 722 thousand, with settlement expected after more than 12 months.

Contingent assets

Bulgargaz EAD has initiated International Arbitration Case No 78/2019 at the Court of International Commercial Arbitration attached to the Chamber of Commerce and Industry of Romania, against Romania’s national gas transmission company Transgaz SA in respect of a commercial dispute between the parties. The expected outcome of the case is for the Company to be awarded damages amounting to USD 923 thousand. The case will be heard in September 2021. The Company has filed the claim in accordance with court procedure.

Contingent liabilities

Legal actions have been brought against the Company, but the amounts of compensation sought are insignificant.

Except for the actions in respect of which the Company has already set aside provisions, management believes the actions are without merit and unlikely to incur costs for the Company when settled. This management judgement is supported by the opinion of an independent legal adviser.

None of the aforementioned actions is described in detail here to ensure they do not have a serious impact on the Company’s position in dispute resolution.

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Based on an advanced reservation capacity agreement, a gas transportation agreement for was concluded with ICGB AD in 2019. In connection with this agreement, a corporate guarantee of EUR 12 million was issued by Bulgarian Energy Holding EAD to ICGB AD. In 2021, the term of the guarantee was extended to 1 July 2022.

Commitments

The Company has contracts with banks for the provision of working capital financing in the form of overdrafts and credit line limits up to BGN 70 000 thousand. As at the date of preparation of the interim financial statements, the Company has not drawn down any amounts on the overdrafts.

Pursuant to a contract concluded with a bank in 2020, the Company has been provided with a bank guarantee payable to a natural gas supplier if the Company fails to service its debt as agreed. The Company has, in turn, secured the bank guarantee by placing funds in special bank account.

18. RELATED PARTY TRANSACTIONS

The Company discloses the following related parties:

Entity	Country of incorporation	Main business
<i>Sole controlling shareholder (parent company)</i>		
Bulgarian Energy Holding EAD (BEH)		
<i>Sole parent company shareholder</i>		
The Bulgarian State through the Minister of Energy		
<i>Entities under common control (group companies)</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 NPP - NB EAD	Bulgaria	operation of a nuclear power plant
Bulgartransgaz EAD	Bulgaria	storage and transmission of natural gas
Balkan Gas Hub EAD	Bulgaria	creating and operating an electronic platform for the trading of natural gas, energy products, green and white certificates, carbon emissions
Electricity System Operator EAD	Bulgaria	transmission of electricity
Bulgartel EAD	Bulgaria	telecommunications
Bulgartel-Skopje DOOEL	North Macedonia	telecommunications
Maritsa East Mines EAD	Bulgaria	coal production and sale
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	Bulgaria	football club
TPP Maritsa East 2 (9 and 10) EAD	Bulgaria	power production and trade in electricity
<i>Jointly controlled entities</i>		
ICGB AD	Bulgaria	construction and operation of a gas transmission system

BULGARGAZ EAD

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS 30 JUNE 2021

South Stream Bulgaria AD	Bulgaria	construction and operation of a gas transmission system
Transbalkan Electric Power Trading S.A. – NECO S.A.	Greece	sale of electricity

Associates

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 AD	Bulgaria	pension company
HEC Gorna Arda AD	Bulgaria	construction of hydroelectric power plants

Other related parties under common control

Public sector enterprises under the common control of Bulgaria's Council of Ministers

Sales to and purchases from related parties are carried out at agreed prices. Outstanding balances at the end of the reporting period are unsecured, interest-free (except for loans and deferred trade payables) and settled in cash. Guarantees have not been given or received for receivables from or liabilities to related parties, except for the guarantee given to Bulgartransgaz EAD under a contract for access to and transmission of natural gas, contract for natural gas balancing and contract for natural gas storage.

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

(A) SALE OF GOODS AND SERVICES

	6-MONTH PERIOD ENDING ON 30 JUNE	
	2021	2020
Companies under common control		
Bulgartransgaz EAD	4 870	2 203
Total	4 870	2 203

Sales include natural gas sold for balancing purposes and natural gas sold pursuant to the Rules of Operation of the Balkan Gas Hub EAD Organised Exchange.

(B) PURCHASE OF GOODS AND SERVICES

	6-MONTH PERIOD ENDING ON 30 JUNE	
	2021	2021
Parent company		
Bulgarian Energy Holding EAD	288	309
Companies under common control		
Bulgartransgaz EAD	56 476	31 079
Bulgartel EAD	3	3
Balkan Gas Hub EAD	206	20
Total	56 973	31 411

Purchases of services from Bulgarian Energy Holding EAD include services under a management and control agreement and commission for the maintenance of a bank guarantee for a financial penalty in the BEH Gas Case.

Purchases of services from Bulgartransgaz EAD include natural gas transmission, access (capacity) and storage services, as well as purchases of natural gas for balancing purposes.

BULGARGAZ EAD**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
30 JUNE 2021**

Purchases of services from Bulgartel EAD include technical support.

Purchases of services from the Balkan Gas Hub EAD represent fees for access to the natural gas trading platform.

(C) RECEIVABLES FOR PURCHASES OF GOODS AND SERVICES

	AS AT 30 JUNE 2021	AS AT 31 DECEMBER 2020
Companies under common control		
Bulgartransgaz EAD	19 447	14 128
Total	19 447	14 128

Receivables from Bulgartransgaz EAD represent financial collateral in the form of a credit limit and current receivables for the sale of natural gas for balancing purposes.

(D) PAYABLES FOR PURCHASES OF GOODS AND SERVICES

	AS AT 30 JUNE 2021	AS AT 31 DECEMBER 2020
Parent company		
Bulgarian Energy Holding EAD	18	30
Companies under common control		
Bulgartransgaz EAD	2 723	2 921
Bulgartel EAD	1	1
Balkan Gas Hub EAD	29	-
Total current	2 771	2 952

Payables to Bulgartransgaz EAD are related to current natural gas access, transmission and storage services and current supply of natural gas for balancing purposes.

(E) KEY MANAGEMENT REMUNERATION

Key management includes members of the Board of Directors.

The remuneration of key management is as follows:

	6-MONTH PERIOD ENDING ON 30 JUNE 2021	2020
Short-term income of key management		
- Cost of salaries	(137)	(128)
- Cost of social insurance	(9)	(11)
Total	(146)	(139)

BULGARGAZ EAD

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS 30 JUNE 2021

The Company has no liabilities to key management at the end of each reporting period.

19. EVENTS AFTER THE REPORTING PERIOD

1. EWRC decisions approved the price at which the public supplier sells natural gas to end suppliers of natural gas and individuals issued with a licence to produce and transmit thermal energy, namely BGN 49,94 per MWh (exclusive of excise duty and VAT) for July 2021 and then BGN 57,60 per MWh (exclusive of excise duty and VAT) for August 2021.

2. On 15 July 2021, the Company filed a statement of claim with the Sofia City Court under No 8907/15.07.2021 for its trade receivables from a customer in default in the amount of BGN 70 946 thousand.

3. On 13 July 2021, by decision of Bulgarian Energy Holding EAD, the following new members were elected to the Board of Directors of Bulgargaz EAD:

Nikolay Atanasov Donchev
Diana Stoyanova Boneva
Svetoslav Tanev Delchev

Those circumstances were entered into the Commercial Register on 19 July 2021.

No adjusting or other non-adjusting events have occurred after the reporting period date that require further disclosures in or adjustments to the financial statements of Bulgargaz EAD as at 30 June 2021.

20. APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

The condensed interim financial statements as at 30 June 2021 (including comparative information) were approved for issue by the Board of Directors on 18 August 2021.



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INDEPENDENT AUDITORS' REPORT

To the sole shareholder of
BULGARGAZ EAD
Sofia
47 Petar Parchevich str.

Report on the Audit of the Interim Condensed Financial Statements

Qualified Opinion

We have audited the interim condensed financial statements of **BULGARGAZ EAD** (the Company), which comprise the condensed statement of financial position as at 30 June 2021, and the condensed statement of profit or loss and other comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the period then ended, and selected explanatory notes and information to the interim condensed financial statements.

In our opinion, with the exception of the possible effect of the issues described in the section of our report "Basis for expressing qualified opinion", the accompanying interim condensed financial statements give a true and fair view of the financial position of the Company as at 30 June 2021, and its financial performance and its cash flows for the period then ended in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union (EU) and the Bulgarian legislation.

Basis for expressing qualified opinion

1. The Company has developed an accounting policy and methodology for credit risk assessment and determination of expected credit losses in accordance with IFRS 9. The Company's accounting policy requires when calculating the expected credit losses under the simplified approach applicable for trade receivables from customers in "Energy" industry to take into account the "specific risk" component. Also, when calculating the impairment losses on court receivables to take into account the collection rate for a certain historical period and analysis of specific circumstances.

When preparing its estimate of the expected credit losses of the Company's trade and court receivables, management has determined that a change in the assumptions and judgments used in applying the expected credit loss model is required. When calculating the amount of expected credit losses for trade receivables for the period, the "specific risk" component was not taken into account and the results for court receivables do not include an analysis of specific circumstances.

As a result of our audit procedures, we have not been able to assess the reasonableness and adequacy of management's judgments and assumptions about the change in the model of expected credit losses as applied for financial receivables. Accordingly, we have not been able to determine whether and to what extent additional adjustments would be required for impairment losses on trade and other court receivables if the management's models, assumptions and judgments used were applied and consistently with the requirements of the adopted accounting policy in the preparation of the presented interim condensed financial statements of the Company as of 30 June 2021.

2. As disclosed in Note 7 Inventories to the interim condensed financial statements of the Company as of 30 June 2021, the main part of the inventories comprise of natural gas with a book value of BGN 36 026 thousand. This value includes an amount of BGN 2 138 thousand, which is a buffer quantity of natural gas, which was not refunded to Bulgargaz EAD upon termination of the contract for transit of natural gas through the territory of the Republic of Romania in previous periods. During the reporting period, Bulgargaz EAD uses natural gas supply points that do not pass through the gas transmission network, in which this amount of natural gas remains available. As disclosed in Note 17 Provisions, contingent assets and

contingent liabilities, the Company's management has taken number of measures and actions to recover the amount of this natural gas from the Romanian gas transmission system operator.

We have not been able to gather sufficient and convincing audit evidence to what extent the Company will be able to recover the carrying amount of this quantity of natural gas, taking into account the inability to derive economic benefits from the asset in its current form. According to the requirements of IAS 2 Inventories regarding the determination of net realizable value of inventories, including restrictions on access and use or sale of natural gas, the Company should recognize an additional impairment loss on inventories at the amount of BGN 2 138 thousand. This would lead to a decrease in the value of inventories, a decrease in profit for the period and respectively the equity of the Company as of 30 June 2021 by the same amount.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Interim Condensed Financial Statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the interim condensed financial statements of the current period. These matters were addressed in the context of our audit of the interim condensed financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

With the exception of the issues described in the "Basis for expressing qualified opinion" section described above, we have decided that there are no other key audit issues to be communicated in our report.

Other matters

The financial statements of the Company for the year ended 31 December 2020 have been audited by another auditor, who expressed an unmodified opinion on those statements on 21 April 2021.

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

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

Our opinion on the interim condensed financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report. In connection with our audit of the interim condensed financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the interim condensed financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

As described in the "Basis for expressing qualified opinion" section of this report, we have not been able to obtain sufficient and appropriate audit evidence on the issues identified in this section. Accordingly, we are unable to conclude whether the other information does not contain material misstatement in relation to these matters.

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

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

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

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

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

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

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

- identify and assess the risks of material misstatement of the interim condensed financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the interim condensed financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the interim condensed financial statements, including the disclosures, and whether the interim condensed financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

We are jointly liable for the performance of our audit and for the audit opinion expressed by us, in accordance with the requirements of the Independent Financial Audit Act applicable in Bulgaria. In undertaking and fulfilling the commitment for joint audit, in connection with which we report, we have been guided by the Guidelines for implementation of joint audit, issued on 13.06.2017 by the Institute of Certified Public Accountants in Bulgaria and the Commission for Public supervision of registered auditors in Bulgaria.

Report on Other Legal and Regulatory Requirements

In addition to our responsibilities and reporting in accordance with ISAs, described above in the "Information Other than the Interim Condensed Financial Statements and Auditor's Report Thereon" section, in relation to the interim management report, we have also performed the procedures added to those required under ISAs in accordance with "Guidelines about new and expanded auditor's reports and communications from the auditor's side" of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming opinions about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act, applicable in Bulgaria.

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

Based on the procedures performed, our opinion is that:

- a) the information included in the interim management report referring to the period for which the interim condensed financial statements have been prepared is consistent with those interim condensed financial statements on which we have issued a qualified opinion in the "Report on the Audit of the Interim Condensed Financial Statements" above;
- b) the interim management report has been prepared in accordance with the applicable legal requirements;
- c) as a result of the acquired knowledge and understanding of the Company's activities and the environment in which it operates, we have not identified any cases of material misstatement in the interim management report, except for the possible effect described in the section "Other information other than interim financial statement" in "Report on the Audit of the Interim Condensed Financial Statements".

Grant Thornton OOD
Audit firm №032

Mariy Apostolov
Managing partner

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Emilia Marinova
Registered auditor responsible for the audit
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19 August 2021

Sofia, Bulgaria

Zaharinova Nexia OOD
Audit firm №138

Dimitrina Zaharinova
Representative

Dimitrina
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