

**BULGARGAZ EAD**

**INTERIM ACTIVITY REPORT  
INTERIM CONDENSED FINANCIAL STATEMENT  
INDEPENDENT AUDITORS' REPORT**

**30 June 2023**

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## **INTERIM ACTIVITY REPORT**

*of*

**BULGARGAZ EAD**

**as at 30 June 2023**

This report on Bulgargaz EAD's operations as at 30.06.2023 presents a comment and analysis of the financial statements and other material information regarding the financial position of the Company's operations, including and comparing the results as at 30 June 2023 with the results as at 30 June 2022.

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

### **I. GENERAL INFORMATION ABOUT THE COMPANY**

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

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

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

The company is active in public supply of natural gas and related purchase and sale, purchase of natural gas for storage in a gas storage plant, market research and analysis of the natural gas market in the country.

The Company does not carry out research and development activities.

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

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

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

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

- Law on Energy, promulgated in SG, issue No 107 of 09 December 2003, amend. No 102 of 23 December 2022, effective from 01 January 2023;
- Ordinance No 2 of 19 March 2013 on Natural Gas Price Regulation, issued by the State Energy and Water Regulatory Commission, promulg. State Gazette, Issue No 33 of 05 April 2013, amend. No 95 of 03 December 2019 (Ordinance 2 of 19 March 2013);
- Ordinance No 3 of 21 March 2013 on Licensing the Activities in the Energy Sector, issued by the President of the State Energy and Water Regulatory Commission, promulgated by the State Gazette, No 33 of 05 April 2013, as amended and supplemented, No 25 of 29 March 2022 (Ordinance 3 of 21 March 2013);

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

## **1. STRUCTURE OF THE COMPANY**

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

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

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

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

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

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

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

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

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

Member of the Board of Directors

Member of the Board of Directors

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

Chairman and member of the Board of Directors

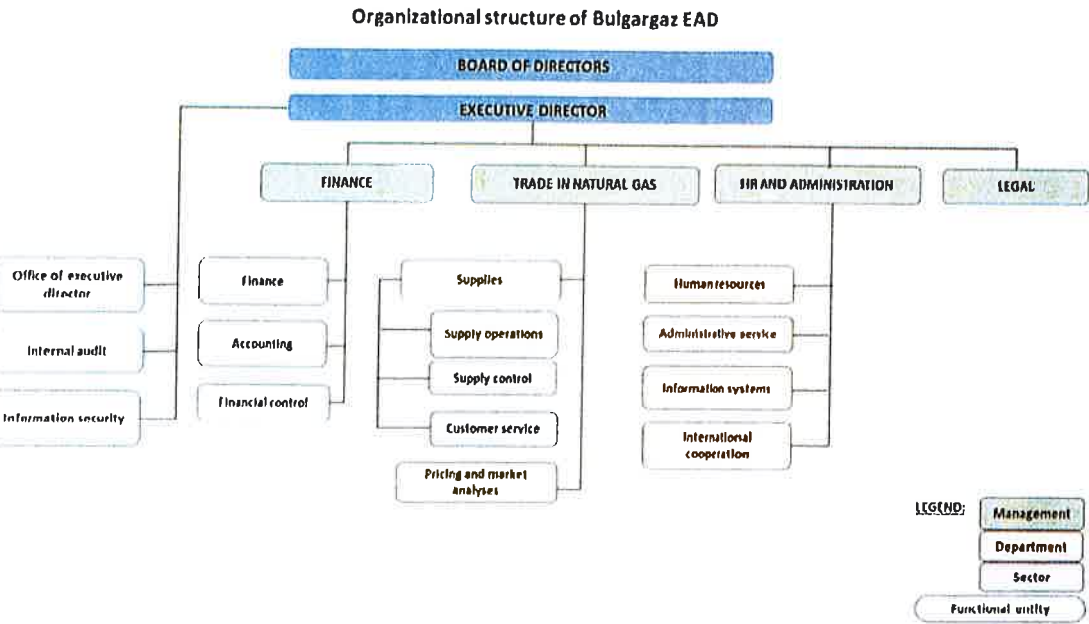
**Member of the Board of Directors and Executive Director**

Member of the Board of Directors:

Member of the Board of Directors

Member of the Board of Directors

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



## 2. RESPONSIBILITY OF MANAGEMENT

The Company's management confirms that consistent accounting policies have been applied in the preparation of the interim financial statement as of 30 June 2023 and the statements have been prepared on a going concern basis. By decision of the Board of Directors of Bulgargaz EAD dated 13.09.2023 and decision of the Board of Directors of Bulgarian Energy Holding EAD, as of 01.01.2023, the Accounting Policy of Bulgargaz EAD was amended, reflecting an updated approach in accounting for the cost of sales in accordance with the methodology for pricing according to Ordinance no. 2 of 19.03.2013 for the regulation of natural gas prices by market segments - regulated and free market. To overcome the inconsistencies between the new market situation, the new operating model of the company and the preserved regulatory framework, the Company took steps to amend the accounting policy for 2023 when determining the cost of sales and natural gas pumped in at Chiren UGSF. The objectives of the proposed change in accounting policy are:

- as a result of the new business model of the Company, to ensure comparability to the maximum extent when reporting the company's income and expenses for the reporting period;

- to preserve the delivery value of the natural gas pumped into Chiren, which is pumped out at a later stage and whose cost price is included as a pricing element and the Company's capital recovery through the price mechanisms of the market;
- meeting the regulatory requirements of art. 37 of the Energy Law, according to which energy companies must keep separate accounting records for:
  - any activity subject to licensing under this law;
  - activities at regulated and freely negotiated prices.

A change has also been introduced to the reference price used to determine the net realizable value of natural gas as a material stock - instead of the previously applied sales price stated by the Energy and Water Regulatory Commission for regulated market for the first period following the reporting period, a comparison is made with the TTFfin market levels according to the published futures on argusmedia.com for the month of January of the following (calendar/financial) year.

Given the implementation of an approved change in the company's accounting policy, effective from 01.01.2023, the report of Bulgargaz EAD as at 30.06.2023 presents restated comparable data for the interim period of the report, with the net effect of this change being in amount of BGN 40,993 thousand increase in profit as at 30 June 2022. This result represents an increase in the book value of inventories as at 30 June 2022 and a decrease in the written-off cost of natural gas sales as at 30 June 2022.

In an annual aspect, there is no value effect from the change in the accounting policy due to a recognized loss from the impairment of the company's inventories as at 31.12.2022.

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

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

The Company does not possess own shares.

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

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

**Nikolay Angelov Pavlov — Executive Director and Member of the Board of Directors from 22 May 2017 to 02 February 2022:**

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

**Diana Stoyanova Boneva — Chairman and member of the Board of Directors from 19 July 2021 to 02 February 2022:**

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

**Iliyan Kirilov Dukov — member of the Board of Directors from 06 January 2015 to 02 February 2022:**

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

**Nikolay Atanasov Donchev — member of the Board of Directors from 19 July 2021 to 02 February 2022:**

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

**Svetoslav Tanev Delchev — member of the Board of Directors from 19 July 2021 to 02 February 2022:**

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

**Lyudmil Ventsislavov Yotsov — Executive Director and Member of the Board of Directors from 03 February 2022 to 21 August 2022:**

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

**Ivan Dimitrov Topchiyski — Chairman and member of the Board of Directors from 03 February 2022 to 21 August 2022:**

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

**Anzhela Svetlozarova Slavova — member of the Board of Directors from 03 February 2022 to 21 August 2022:**

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

**Anton Yordanov Adamov — member of the Board of Directors from 03 February 2022 to 21 August 2022:**

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

**Stefan Pandov Voynov — member of the Board of Directors from 03 February 2022 to 21 August 2022:**

- does not participate as a general partner in business companies;



- owns more than 25 per cent of the capital of Net Investment OOD, Net Delivery AD, Via Smart Investment EOOD; participates in the management of Net Investment OOD as a manager, Net Delivery AD and Bulgartel AD as a representative and member of the Board of Directors and in Via Smart Investment EOOD as the sole owner of the company's capital.

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

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

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

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

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

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

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

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

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

- does not participate as a general partner in business companies;
- owns more than 25 percent of the capital of Talenta EOOD and TB Line OOD;
- participates in the management of TB Line OOD as a manager; in Talenta EOOD as the sole owner of the company's capital.

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

As at 30 June 2023, the Board of Directors or other related persons have not concluded contracts under Article 240B of the Commerce Act on behalf of the Company, which go beyond its usual activities or significantly deviate from market conditions.

## **II. RESULTS FROM THE ACTIVITY OF THE COMPANY AS AT 30 JUNE 2023**

As at 30 June 2023, Bulgargaz EAD carries out its activities in compliance with all applicable regulations. As at 30 June 2023, the result of Bulgargaz EAD is accounting profit before impairments in the amount of BGN 26,846 thousand. As a result of the impairment of inventories and trade and other receivables at the end of the reporting period in the amount of BGN 41,713 thousand and BGN 26,359 thousand, respectively, the net financial



result of the Company's activities is loss in the amount of BGN 36,312 thousand (as at 30.06.2022: profit in the amount of BGN 47,024 thousand) The loss for the period is mainly due to the fact that the Company recognised an impairment loss on the natural gas pumped in and available at Chiren UGSF at the end of the first half of the year.

## **1. FACTORS AFFECTING THE ACTIVITY OF THE COMPANY**

### **➤ *Legal and regulatory framework***

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

From 16.09.2021, Bulgargaz EAD acquired license No. A0435 for trading in natural gas, for a period of 10 years, which allows expanding the scope of the company's activities by making sales at freely negotiated prices in the conditions of a liberalized domestic market and the newly built interconnections at regional and international level.

Bulgargaz EAD holds license for natural gas trade in the territory of the Republic of Greece under Decision No. 247/2020 - indefinite and Decision No. 311/2022 for wholesale trade in natural gas in the territory of the Republic of Greece, for a period of 20 years. From 26.05.2023, Bulgargaz trades natural gas on the Greek Energy Exchange (ENEX) after registering and opening a clearing account at the National Bank of Greece.

Bulgargaz EAD is a registered user of the gas transmission network of GASTRANS d.o.o. in the Republic of Serbia. The GASTRANS pipeline provides the gas interconnection between the gas systems of the Republic of Bulgaria and Hungary — from the exit point of the Zaichar gas transmission network to the exit point of the Horgos gas transmission network. Thus, the Company's ability to provide natural gas amounts to and from Hungary is guaranteed.

Actions have been taken to register the Company as a wholesaler of natural gas and user of the gas transmission networks of Slovakia and Hungary.

The procedure for the registration of Bulgargaz EAD as a wholesaler of natural gas and user of the gas transmission network of Romania is being examined.

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

As of 01 December 2019, a new obligation is created for Bulgargaz EAD to annually offer for sale on the organized stock market certain amounts of natural gas in accordance with the release program provided for in Article 176a Energy Act. At the end of 2022, Bulgargaz EAD supported the proposed and subsequently adopted amendment to the Energy Act, which repealed items 4 and 5 in par. 1 of Article 176a of the Energy Act and the Gas Release Programme was suspended. The reasoning behind the suspension of the gas amounts release programme is that it cannot fulfil its objectives of contributing to liberalisation and increasing competition, but on the contrary — it creates the conditions for a shortage of natural gas and higher prices for other customers of the public supplier. Another motive is that the implementation of the concluded Contracts for the supply of released quantities in their current form leads to distortion of the natural gas market due to non-market pricing, including creating an opportunity for traders who purchased released quantities at a low price to sell them back to Bulgargaz EAD at a significantly higher price through the exchange.

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

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

All other customers directly connected to the gas transmission network are excluded from the regulated market. The Energy Act obliges Bulgargaz EAD to supply natural gas to the heating and gas distribution companies, but they are not obliged to purchase gas from Bulgargaz EAD and may prefer other suppliers, as they may also purchase gas from the gas exchange.

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

- on a regulated market under contracts at the exit point of the Bulgarian gas transmission system — at prices regulated by the EWRC;
- on the free market under contracts at the exit point of the Bulgarian gas transmission system — at freely negotiated prices;
- till the end of 2022 - under the Program for the release of natural gas on an organized exchange market — under the terms of the Program Implementation Agreement approved by the EWRC;
- on an organized exchange market — at freely negotiated prices;
- other, organized stock market (on the domestic market and on the international markets) — at freely negotiated prices.

In accordance with the Rules for Trading in Natural Gas, Bulgargaz EAD binds the terms of delivery under its contracts with its customers to the terms of its long-term contracts. After 27 April 2022, despite the unilateral termination of natural gas supplies by OOO Gazprom Export, the Company does not change the right of flexibility of its customers under the signed one-year supply contracts for exit points for 2022 and 2023. This circumstance leads to deliveries on an even basis for Bulgargaz EAD and sales to the Company's customers on a random basis, reflecting on the formation of surpluses.

As at 30 June 2023, according to the requirements of Ordinance No. 2/19.03.2013 on the pricing of natural gas sales, the Company is required to:

- To form a "mix" of the quantities of natural gas from the various supply sources in accordance with the principle of lowest costs when forming the price of natural gas at the entrance of gas transmission networks to cover the needs of regulated and free market under contracts at exit points. In compliance with this requirement of Ordinance No. 2 for the regulation of natural gas price, supplies with the highest delivery prices remain for sale on the exchange market or for pumping into the storage facility at Chiren UGSF. The value of these pumped in quantities are included in the mix only when they are pumped out from storage facility during the winter months. In the presence of exceptional dynamics in the prices of natural gas, it is possible to pump in the quantities with the highest prices into Chiren UGSF, as it happened in 2022. This led to the risk that these quantities will no longer be price attractive for the price mix of the regulated price. From 01.01.2023, the Company changed the model of formation of the price of acquisition of natural gas on the principle of two levels - specifically determined price for deliveries and formation of each delivery as a cost price according to sale markets. The purpose of this change is to match the cost formation model to the maximum extent with the legally defined pricing methodology for regulated market and to reflect the effect on the Company's sales in other markets.
- The proposed calculation scheme for the "public supply" component, set at a maximum value of 2.5%, is not intended to cover financial and other costs incurred by Bulgargaz EAD in its activities, where the financial costs and costs for unused capacity are expressly excluded in its calculation.
- An average exchange rate is used from quotations 45 days before the beginning of the month in which Bulgargaz submits an application for approval of the gas price. Bulgargaz EAD shall submit an application for price approval on the 10th day of the month preceding the month of price application. Balancing invoices from suppliers shall be received after the end of the delivery month. The actual exchange rate at which the supply is paid deviates significantly from that used in the calculation of the

price submitted for approval by the Energy and Water Regulatory Commission. It is also possible that the quantities actually received deviate in as a quantity from the planned delivery.

Given the requirement of Ordinance No. 2/19.03.2013 the quantities at the lowest delivery price to be directed to the regulated market, the quantities for sale at freely negotiated prices on the platform of Gas Hub Balkan EAD (GHB) (or other gas exchanges), in the capacity of Bulgargaz EAD as a trader, remain the quantities at the highest delivery cost. It should be noted that the normal commercial practice is that selling prices are formed on the basis of a weighted average price of all deliveries.

#### ➤ *Operational activity*

The development of the natural gas market in 2023 is expected to continue to follow the trend that began in 2022 of an increase in the share of LNG supplies, in view of the reduced supplies of pipeline gas from Russia to Europe.

The imposed restrictions on consumption in Europe, combined with significantly increased LNG supplies as well as the high prices for stored gas, significantly limited the use of gas from storage facilities in the winter of 2022-2023, leading to utilisation of storage facilities by mid-2023 at levels significantly higher than average.

From the beginning of 2023, the downward trend of natural gas prices on the European gas markets that began in the last two months of 2022 continues, due to:

- The filling of gas storage plants
- Provision of alternative LNG supplies
- Building new LNG regasification terminals at more European ports
- The relatively warm winter
- Limiting economic activity in Asian markets
- Continued local and regional supplies of Russian natural gas

The prices at which Bulgargaz EAD supplies natural gas in 2023 refer to the TTF index "month ahead", HH (Henry hub) settlement and oil formula.

#### ✓ Supply of pipeline natural gas

The main supplies of natural gas guaranteeing the consumption of the Company's customers until the end of April 2022 were secured through a long-term contract with OOO Gazprom Export. On 27 April 2022 OOO Gazprom Export unilaterally suspended the supply of natural gas to Bulgargaz EAD under the contract concluded between the parties.

As a result, pipeline natural gas continued to be supplied only under the contract concluded in 2013 with the Azerbaijan Gas Company. The long-term contract between Bulgargaz EAD and Azerbaijan for the supply of natural gas defines the delivery point as the interconnection point between TAP and the interconnector Greece — Bulgaria (IGB) — Komotini, Greece. The contract is strategic in terms of the construction of the IGB pipeline, in connection with the supply of natural gas from Azerbaijan via the Southern Gas Corridor route. The construction of the interconnector and the supply of pipeline natural gas under the contract in 2022 are the two most important projects for the implementation of the state strategy for the diversification of the sources and routes of natural gas supply, supported by the European Commission (EC) and the strategic partners of the Republic of Bulgaria.

According to the signed agreements of 29.12.2020 under the contract with Azerbaijan, as of 31.12.2020, Bulgargaz EAD started receiving 1/3 of these deliveries at a temporary delivery point in Greece and transported them through the Greek gas transmission network to the Bulgarian border. In 2022, after signing an Addendum, effective from 01 July 2022, natural gas supplies from Azerbaijan began to be carried out in the full contracted volume, where for transfer to Bulgaria the capacity of the Kulata/Sidirokastro interconnector was used until 30 September 2022. Part of the quantities were delivered according to the pricing formula under the contract, and the rest of the quantities at an inflated price - according to a formula referring to the TTF "month ahead". On 01

October 2022, the IGB interconnector was put into commercial operation and the deliveries of the full amounts under the contract with Azerbaijan are made at the price formula of the original contract. For the purposes of transferring the quantities to the Bulgarian gas transmission network, Bulgargaz EAD successfully participated in the procedures for expressing interest and reserving capacity in the IGB gas pipeline. As a result, Bulgargaz EAD concluded agreement for natural gas transmission with IGB AD for a period coinciding with the period of the Contract for the agreed annual delivery quantities.

✓ Supply of LNG

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

In 2022, in order to secure the contracted amounts with the customers, to fulfil the company's obligations under the agreed Contingency Plan and to prevent the introduction of a restrictive regime in the Republic of Bulgaria, Bulgargaz EAD took actions to secure alternative supplies of piped and liquefied natural gas (LNG), as well as securing alternative supply routes.

Natural gas prices in 2022 have reached record high levels in European markets. In the conditions of a military emergency due to Russia's aggression in Ukraine, the increased demand in natural gas in Europe after April 2022 caused a record price increase in an extremely short period of time. Natural gas supplies are beginning to be delivered at market prices significantly higher than the prices under the company's long-term contracts at that time. The Company had to sign contracts with suppliers for which Bulgargaz EAD is a new customer and to prepay supplies up to 100%. Payment was made in EUR or USD. The exchange rate of USD throughout 2022 had a steady upward trend, reaching levels above BGN 2 /USD.

In September 2022, the management of Bulgargaz EAD organized:

- transparent and competitive tender procedures for the supply of liquefied natural gas for the months of November and December 2022 and for the whole year 2023, as well as
- for the first time participated independently in the tenders held by the operator of the liquefied gas terminal in Greece for the allocation of slots for regasification and storage for 2023. This enabled the tenderers to supply natural gas amounts both with slots provided by Bulgargaz EAD and with slots provided by the supplier.
- Through the tendering procedures, Bulgargaz EAD secured the necessary amounts to secure the contracts concluded with the customers and the amounts for injection into UGSF Chiren for November and December 2022 and for the entire 2023.

✓ Diversification of supply routes

Bulgargaz EAD ensures the supply of natural gas through a long-term contract for the supply of Azerbaijani natural gas from the Shah Deniz gas field through the IGB (Greece-Bulgaria interconnection) gas pipeline with Azerbaijan Gas Supply Company (AGSC), concluded in 2013, with validity period of 25 years from the date of the first delivery - 31.12.2020. Bulgargaz EAD has reserved long-term capacity on the IGB gas pipeline, corresponding to the agreed quantities of Azerbaijani gas for delivery.

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

At the end of 2022, a Term Sheet was signed between Bulgargaz EAD and the Turkish state gas company BOTAŞ BORU HATLARI İLE PETROL TAŞIMA A.Ş., whereby Bulgargaz EAD secures access to the LNG



regasification terminals in the Republic of Turkey for 1.5 billion cubic meters per year and the subsequent transfer of quantities of natural gas to the interconnection point between the Bulgarian and Turkish gas transmission networks - Stranja/Malkochlar, for the period 2023 - 2035. The signing of the Term Sheet with Botaş provides a strategic partnership and enables balancing the supply portfolio of Bulgargaz EAD, providing three entry points of LNG terminals located in the Aegean Sea - Botaş, Revithoussa and Alexandroupolis. The Term Sheet entered into force after its approval by Decision No. 26 of 12.01.2023 by the Council of Ministers of the Republic of Bulgaria.

✓ Storage of natural gas

The quantities at Chiren UGSF are injected in 2022 at a price significantly higher than the current market price in 2023, even after the revaluation at the end of 2022. These quantities are calculated in accordance with the adopted Contingency Action Plan and the issued Orders of the Minister of Energy in connection with the imposition of additional public service obligations on Bulgargaz EAD, as well as in accordance with Regulation (EU) 2022/1032 of the European Parliament and the Council of 29 June 2022 amending Regulation (EU) 2017/1938 and Regulation (EC) No. 715/2009 in relation to the storage of gas to meet the targets for filling the storage facilities.

In this regard, Bulgargaz, as well as other users of the gas storage in Chiren, injected amounts above the planned ones at significantly inflated prices. In order to achieve the storage fill target of 80%, as well as the relatively warm winter, production was severely constrained, resulting in large gas inventories at the end of 2022.

According to the provision of IAS 2, respectively the accounting policy of the company, when determining the net realizable value of inventories at the end of 2022, an expense for inventory impairment in the amount of **BGN 104 million** was accrued. Despite the impairment, the price of pumped natural gas continued to be significantly above current market levels, making its sale difficult. According to decision of the Board of Directors of the company, as at 30.06.2023, an additional partial impairment of natural gas in the amount of **BGN 42 million** was accrued.

Pursuant to Article 6b (1) of Regulation (EU) 2022/1032, Member States shall take all necessary measures, including the provision of financial incentives or compensation to market participants, in order to achieve the backfilling targets, set under Article 6a of the Regulation. In this regard, in the first half of the current year, the Ministry of Energy developed a mechanism for compensating the high prices of the quantities pumped in 2022 at Chiren UGSF, applicable to all companies with natural gas pumped into the underground gas storage facility as at 01.11.2022. According to the compensation mechanism proposed for discussion in the working group, the amount of the expected compensation for the quantities injected by Bulgargaz EAD as at 01.11.2022 would amount to no less than BGN 265 million. The company expects this mechanism to be implemented in Bulgaria, as compensations are a fact in other European countries.

✓ Changes in the natural gas market

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

As a result of this requirement, as well as the uncertainty on the international gas markets and high prices in 2022, natural gas consumption in Bulgaria has dropped significantly. The reduction in total consumption in Bulgaria in 2022 is 18% lower than the previous 2021. This trend reflected on the sales of Bulgargaz EAD in the first and second quarters of 2023. This is a permanent reduction in purchases by both customers at regulated prices and industrial customers under one-year contracts at exit points at free prices.

Taking into account that during the winter period of 2022-2023 Bulgargaz EAD was unable to obtain a significant part of the planned quantities, due to the warm winter, the reduced consumption and the high quantities from Chiren UGSF, at the beginning of the injection period the operator of the gas storage facility had minimal free volumes for injection. The agreed as a result of the 2022 tender for quantities of natural gas for delivery in 2023 also considered the necessary quantities for injection in the amount of approximately 20% of the annual requests of the company's irregular customers. As a result of the high filling of the storage facility, these quantities should have been sold on the trading platform of Gas Hub Balkan EAD or in Greece in the conditions of unfavourable exchange price levels.

There are several factors contributing to the company's losses from sales on the exchange market:

- From the beginning of 2023, the downward trend of natural gas prices on the European gas markets that began in the last two months of 2022 continues. The observed decrease in natural gas prices on the exchanges at TTF day ahead quotes, compared to the higher TTF front month quotes, to which the company's delivery price refers, significantly complicates the sale of the quantities agreed, but not accepted by customers.
- There are over 100 licensed natural gas traders registered on the GHB platform, among them are both natural gas producers (SOCAR) and companies that are alleged importers of Russian gas via TurkStream.
- All neighbouring countries of Bulgaria, with the exception of Romania (*which has its own production that meets its needs*), continue to supply natural gas under their long-term contracts with OOO Gazprom Export at a price below the market, having a regulatory opportunity to conclude transactions on the Bulgarian market, as well as to sell part of these quantities to Gas Hub Balkan at prices significantly below the intraday and day ahead European stock market indices, and to deliver quantities to Bulgargaz customers.
- The prices at which transactions are carried out at the Balkan Gas Hub significantly deviate from the levels of natural gas prices in Western Europe (*benchmark TTF*), as a result of the predominant Russian supplies in South-Eastern Europe. It should be noted that the prices at which Serbia, Greece, Turkey, Hungary and local companies supply Russian gas are significantly lower than the market prices at which Bulgargaz purchases natural gas. The prices on the gas exchange in Bulgaria follow these lowered price levels.

## 2. PERFORMANCE OF QUANTITATIVE INDICATORS

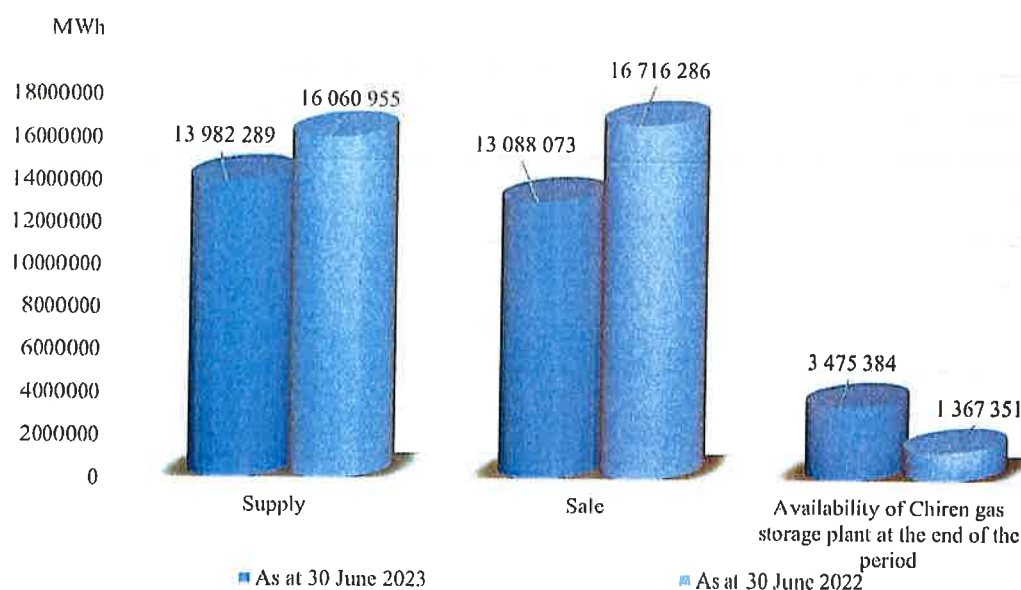
### 2.1. Purchased and sold quantities of natural gas

The quantities of natural gas purchased and sold as at 30 June 2023, compared to 30 June 2022, are presented in Table 1:

Table 1

Type of delivery	Unit	As at 30 June 2023	As at 30 June 2022	Change in amounts	Change in (%)
Supply	MWh	13,982,289	16,060,955	(2,078,666)	(12,94%)
Sale	MWh	13,088,073	16,716,286	7,519,327	13,088,073
Availability of Chiren gas storage plant at the end of the period	MWh	3,475,384	1,367,351	2,108,033	154.17%

### Delivery, sale and availability of natural gas at the Chiren gas station



During the reporting period, total gas amounts delivered were 13,982,289 MWh (30 June 2022: 16,060,955 MWh), which is a decrease of 2,078,666 MWh or 12.94%.

Natural gas sold as at 30 June 2023 is 13,088,073 MWh compared to 16,716,286 MWh as at 30 June 2022, a decrease of 3,628,213 MWh or 21.70%.

## 2.2 LNG quantities purchased

Purchased quantities of natural gas as at 30 June 2023 and 30 June 2022 are shown in Table 2.

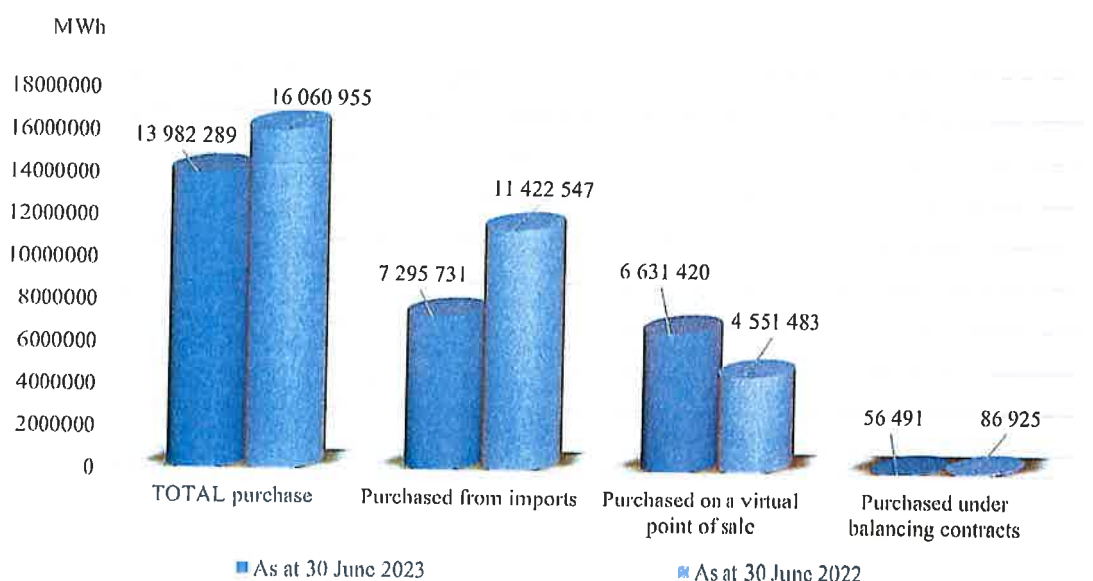
Table No 2

MWh

Purchase of natural gas	As at 30 June 2023	As at 30 June 2022	Change in amounts	Change in (%)
<b>TOTAL purchase</b>	<b>13,982,289</b>	<b>16,060,955</b>	<b>(2,078,666)</b>	<b>(12.94%)</b>
Purchased from imports	7,295,731	11,422,547	(4,126,816)	(36.13%)
Purchased on a virtual point of sale	6,631,420	4,551,483	2,079,937	45.70%
Difference in measurements according to LNG unloading rules	(1,353)	-	(1,353)	-
Purchased under balancing contracts	56,491	86,925	(30,434)	(35.01%)



### Purchased quantities of natural gas



In order to ensure the natural gas needs of its customers as at 30 June 2023, Bulgargaz EAD has purchased 13,982,289 MWh of natural gas (30 June 2022: 16,060,955 MWh).

Purchased quantities of imported natural gas as at 30.06.2023 amounted to 7,295,731 MWh, with a difference in measurements according to LNG unloading rules of 1,353 MWh, purchased quantities at virtual trading point (VTP) 6,631,420 MWh and purchased natural gas under balancing contracts in the amount of 56,491 MWh.

The main supplies of natural gas guaranteeing the consumption of the Company's customers are secured through:

- The concluded contracts for the supply of liquefied natural gas for 2023 as a result of the tender procedure with the companies - Kolmar, Mythilineos, Depa, Cheniere, Shell, MET International. Deliveries are made at Revithoussa liquefied gas terminal, and the regasification slots are provided by the suppliers, with the exception of those won by Bulgargaz EAD in the tender procedure held by the Greek network operator DESFA for April and October 2023. For part of the deliveries, the transfer of the quantities of liquefied natural gas to VTP Bulgaria was agreed in order to mitigate risks of interrupted capacity at the entry points of the Bulgarian gas transmission network;
- A long-term contract concluded with Azerbaijan Gaz Supply Company (AGSC), which is implemented in full from 01.10.2022 with the launch of the IGB interconnection;
- Agreement for the purchase and sale of natural gas with Botaş, providing capacity for regasification and transmission to Bulgaria at interconnection Stranja 1/Malkochlar,

### 2.3 Withdrawal and injection of natural gas

In order to guarantee the security and continuity of natural gas supplies and to cover the irregularity for its customers, Bulgargaz EAD uses the capacity of the underground gas storage plant in the Chiren gas storage plant, owned by the combined operator Bulgartransgaz EAD.

The operation of the gas storage plant is cyclical, with the natural gas injection period being May—October, and the withdrawal period being November—April.

In accordance with the Contingency Plan for the storage of natural gas amounts to compensate for the seasonal unevenness of its customers, Bulgargaz EAD is obliged to inject, store and extract natural gas amounts by

participating in Bulgartransgaz EAD's public procedure for the allocation of storage capacity at the Chiren gas storage plant.

The withdrawal and injected amounts of natural gas in the UGS Chiren as at 30 June 2023 versus 30 June 2022 are presented in Table no. 3.

Table No 3

Withdrawal and injection	As at 30 June 2023	As at 30 June 2022	MWh	
			Change in MWh	Change in %
Amounts available at the beginning of the period	2,937,968	2,071,621	866,347	41.82%
Withdrawal	298,355	2,256,713	(1,958,358)	(86.78%)
Injection	835,771	1,552,443	(716,672)	(46.16%)
Amounts available at the end of the period	3,475,384	1,367,351	2,108,033	154.17%

The extracted amounts of natural gas as at 30 June 2023 are 298,355 MWh, which is 1,958,358 MWh or 86.78% less compared to the previous period (30 June 2022: 2,256,713 MWh). The injected amounts of natural gas as of 30 June 2023 are less by 716,672 MWh, compared to 30 June 2022 when they were 1,552,443 MWh.

As at 30 June 2023, the Company has 3,475,384 MWh of gas available at UGS Chiren, which is an increase of 2,108,033 MWh or 154.17% compared to the previous period.

### III. SALE OF NATURAL GAS

#### 1. Sales

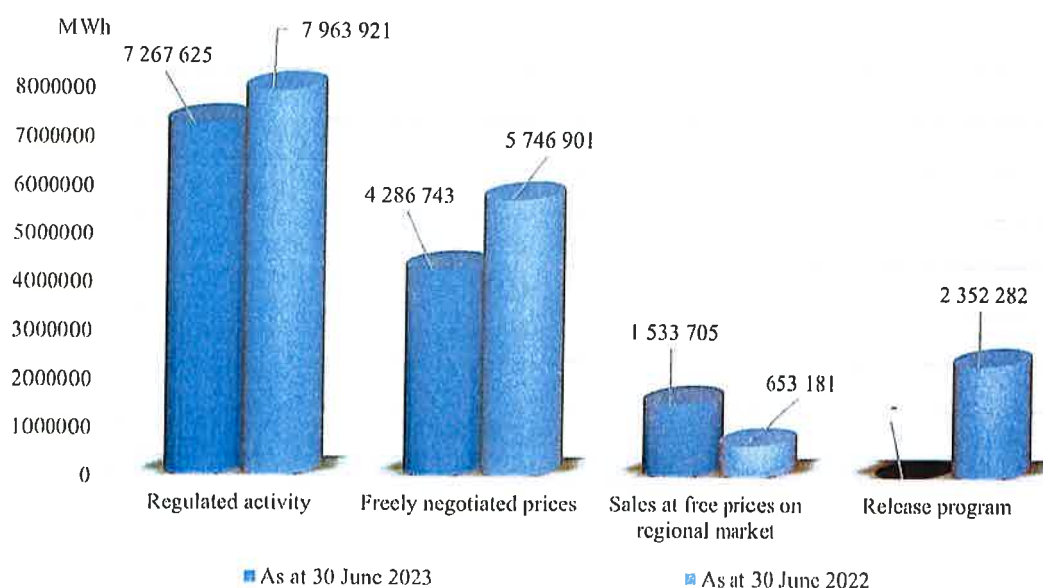
Bulgargaz EAD ensures reliable supply of natural gas to its customers in the country in accordance with the contractual requirements. As at 30 June 2023, 13,088,073 MWh of natural gas were sold, which represents a decrease of 3,628,212 MWh or 21.70%, compared to the quantities sold as at 30 June 2022 – 16,716,285 MWh.

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

Table 4

Sales	As at 30 June 2023	As at 30 June 2022	MWh	
			Change in amounts	Change in (%)
Regulated activity	7,267,625	7,963,921	(696,296)	(8.74%)
Freely negotiated prices	4,286,743	5,746,901	(1,460,158)	(25.41%)
Sales at free prices on regional market	1,533,705	653,181	880,524	134.81%
Release program	0	2,352,282	(2,352,282)	(100.00%)
<b>Total</b>	<b>13,088,073</b>	<b>16,716,285</b>	<b>(3,628,212)</b>	<b>(21.70%)</b>

## Sales of natural gas



## 2. Structure of sales

Amounts of natural gas sold to the Company's customers by main sectors of the economy as at 30 June 2023 and 30 June 2022 are presented in Table 5.

Table 5

Industry sector	As at 30 June 2023 MWh	As at 30 June 2022 MWh	Change in amounts MWh	Change in (%)
Energy	5,269,283	5,655,981	(386,698)	(6,84%)
Chemistry	1,175,915	2,909,916	(1,734,001)	(59,59%)
Metallurgy	529,016	542,340	(13,324)	(2,46%)
Construction materials	175,576	192,016	(16,440)	(8,56%)
Glass and porcelain	1,235,781	964,319	271,462	28,15%
Distribution companies	2,322,148	2,593,913	(271,765)	(10,48%)
Release program	0	2,342,982	(2,342,982)	(100,00%)
Virtual trading point	1,517,649	608,081	909,568	149,58%
Other	862,706	906,738	(44,032)	(4,86%)
<b>Total</b>	<b>13,088,073</b>	<b>16,716,286</b>	<b>(3,628,213)</b>	<b>(21,70%)</b>

As at 30 June 2023, the sales, compared to those as at 30 June 2022, decreased by 3,628,213 MWh or by 21.70%. This is a result of the decreased consumption of customers mainly from the Energy, Chemistry, Construction materials and distribution companies.

In its capacity of a Public supplier, Bulgargaz EAD provides a service of public interest — supply of natural gas to a range of persons stipulated in the Energy Act, at prices approved by the EWRC (“regulated prices”). Regulated prices are determined pursuant to Ordinance No 2 of 19 March 2013 on the regulation of natural gas prices.

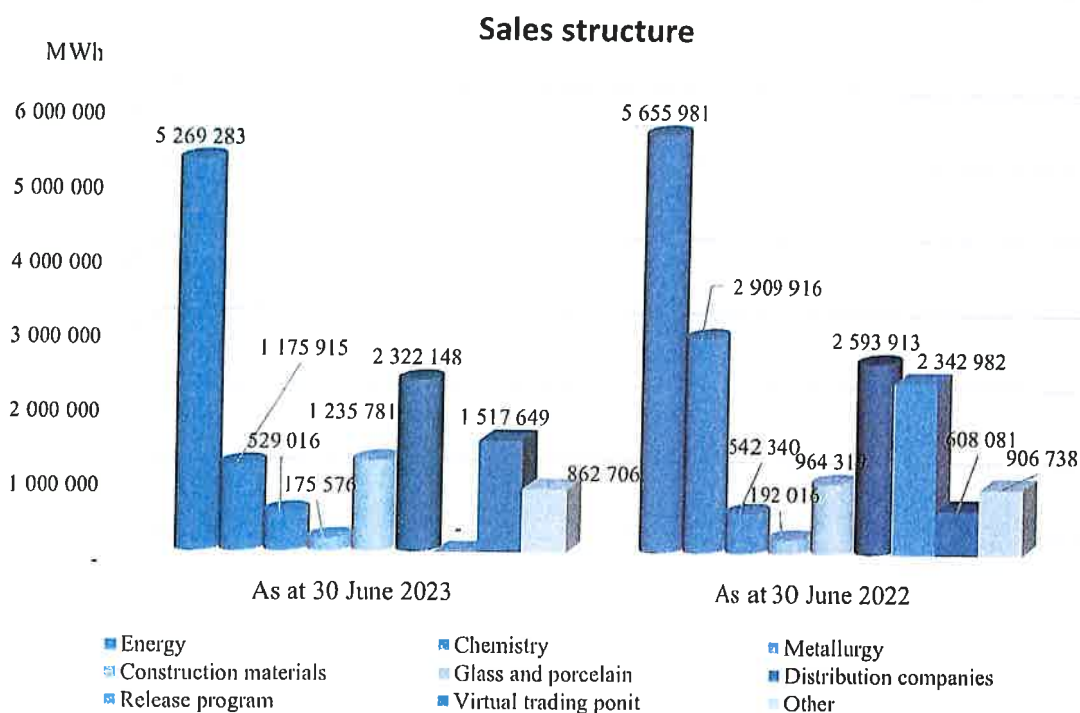
Bulgargaz EAD, according to the License, is obliged to ensure a continuous and high-quality supply of natural gas, maintaining financial stability.

The Energy Act obliges Bulgargaz EAD to supply natural gas to the heating and gas distribution companies, but they are not obliged to purchase gas from Bulgargaz EAD and may prefer other suppliers, as they may also purchase gas from the gas exchange.

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

According to the legislative amendments, Bulgargaz EAD operates as follows:

- on a regulated market — at prices regulated by the Energy and Water Regulatory Commission (EWRC);
- on a free market - at freely negotiated prices;
- on an organized exchange market — at freely negotiated prices;
- organized stock market (on the domestic market and on the international markets) — at freely negotiated prices.



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

- ✓ the main consumers of natural gas remain the enterprises in the field of energy and chemistry, as well as distribution companies to end consumers;
- ✓ decrease in sales made in the energy and chemical industries.

#### IV. RISK FACTORS

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

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

### **1. Regulatory/Price Risk**

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

### **2. Currency Risk**

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

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

### **3. Credit risk**

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

### **4. Liquidity risk**

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

### **5. Regulatory risk**

Regulatory risk arises in periods of unstable local political situation and/or the geopolitical situation which has a direct, significant effect on the Company's activity, as well as lack of updated applicable legislation and by-laws that regulate the Company's activity, and do not correspond to the changing business environment in which it operates.

Another regulatory risk arises when applying policies of the European Commission:

- ✓ leading to responsibilities of member states which will be transferred for implementation to local companies (for Bulgaria - Bulgargaz in particular), without providing for the corresponding financial compensation for the companies.
- ✓ imposing a voluntary limitation of the consumption of natural gas, which may lead to the impossibility of the company to sale the quantities under concluded long-term supply contracts.



## **6. Inflation risk**

In case of inflation exceeding the one set in the macro framework and in the instructions of Bulgarian Energy Holding EAD, there is a risk that the set costs dependent on inflation will not be sufficient and create difficulties for securing the commercial activity.

## **7. Lack of trained personnel**

Human resources are the most important corporate asset and a key factor in achieving efficiency, economic growth and competitiveness. The frequent change of teams and/or the lack of sufficient experience in the implementation of liquefied natural gas supplies (as a result of a change in market models - switching from pipeline supplies to LNG supplies), in participating in capacity tenders or other operational activities of the company may lead to managerial and functional risks for the company.

# **V. STRATEGIC, MARKET, FINANCIAL AND NON-FINANCIAL GOALS**

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

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

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

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

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

- As regards the regulated market, the regulatory framework regulates the pricing of Bulgargaz EAD for sales on the regulated market. Ordinance No. 2 of 19.03.2013 for the regulation of natural gas prices sets an upper limit for the component for the "public supply" activity to 2.5% per year, which should ensure a return on the company's costs and capital. This component, however, is accrued only on a part of the operating costs of the company and does not cover any part of the financial costs.
- With regard to the free market, after 01 January 2020, Bulgargaz EAD, in order to ensure a level playing field between the company's customers, proposed a uniform approach to the formation of the prices at which it supplies natural gas on the regulated market and, respectively, the prices under the contracts, which were initially concluded under the conditions of regulated prices, and after the entry into force of the Act for amending and supplementing the EA should be executed at freely negotiated prices. In order to ensure a smooth transition and to protect the interests of both parties to the maximum extent, Bulgargaz EAD proposed to its customers that the formation of the sales prices under the Contracts be carried out in accordance with the provisions of Ordinance 2 of 19 March 2013. From 2022, the components forming the sales price set by the Ordinance shall include a surcharge covering the costs of Bulgargaz EAD which are not included in the calculation of the regulated price. The approach applied by the Company ensures the objective and transparent formation of the gas price. In order to increase the competitiveness of the Company in 2023, it was decided to reduce the surcharge charged on the regulated price for customers at exit points on the free market, starting from June to December 2023.

The non-financial goals of Bulgargaz EAD are related to the company's activities in the context of social responsibility and sustainable development, as well as the results achieved in these directions. Investments in the company's social policy, as well as publicity and transparency of the company's activities, development of an integrated and competitive energy market.

Updating the administrative structure and developing human resources. Human resources are the most important corporate asset and a key factor in achieving efficiency, economic growth and competitiveness. For this reason, the Company shall develop its own model and apply its own approach in making management decisions regarding the selection, motivation, training and development of employees.

Creating a strategy for HR management means making a targeted effort by creating rules and mechanisms for their management. A clear concept of HR management goals and outcomes is needed. Sufficient financial resources are also needed to improve the professional qualifications of employees and obtain specific knowledge related to the new conditions of the natural gas market, the diversification of sources and delivery routes, the specifics of concluding LNG transactions and applying European and national legislation.

## VI. FINANCIAL AND ECONOMIC POSITION

The financial and economic position of Bulgargaz EAD has been reviewed and analysed on the basis of the interim financial statements, which comprise the interim statement of financial position, the interim statement of profit or loss and other comprehensive income, the interim statement of cash flows and the interim statement of equity of the Company as at 30 June 2023 compared to the same period in 2022.

The main financial and economic results of the Company's activities as at 30 June 2023 and as at 30 June 2022 are presented as follows:

*BGN thousand*

Indicators	30 June 2023	30 June 2022 (restated)	Change	Change (%)
Total operating revenue	1,599,068	2,310,136	(711,068)	(30,78%)
Total operating expenses	(1,611,935)	(2,259,080)	647,145	(28,65%)
<b>EBITDA</b>	<b>(12,867)</b>	<b>51,056</b>	<b>(63,923)</b>	<b>(125,20%)</b>
<b>EBIT</b>	<b>(13,060)</b>	<b>50,817</b>	<b>(63,876)</b>	<b>(125,70%)</b>
<b>EBT</b>	<b>(40,305)</b>	<b>52,289</b>	<b>(92,594)</b>	<b>(177,08%)</b>

Indicators	30 June 2023	31 December 2022	Change	Change (%)
Fixed tangible assets	417	465	(48)	(10,32%)
Total assets	1,830,888	2,076,828	(245,940)	(11,84%)
Current assets	1,808,035	2,060,747	(252,712)	(12,26%)
Current liabilities	842,511	1,046,430	(203,919)	(19,49%)
<b>Cash balances</b>	<b>35,039</b>	<b>207,395</b>	<b>(172,356)</b>	<b>(83,11%)</b>
<b>Working capital</b>	<b>965,524</b>	<b>1,014,317</b>	<b>(48,793)</b>	<b>(4,81%)</b>
<b>Equity</b>	<b>134,660</b>	<b>328,913</b>	<b>(194,253)</b>	<b>(59,06%)</b>
Share capital	231,698	231,698	-	0.00%
Reserves	21,152	21,152	-	0.00%
(Accumulated loss)/Retained earnings	(81,878)	18,553	(100,432)	(541,32%)
<b>Loss for the current period</b>	<b>(36,312)</b>	<b>(100,432)</b>	<b>64,120</b>	<b>63,84%</b>
<b>Number of personnel</b>	<b>54</b>	<b>52</b>	<b>2</b>	<b>3.85%</b>



## VII. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	As at 30 June 2023		As at 30 June 2022		Change	
	BGN thousand	% of the total	BGN thousand	% of the total	BGN thousand	%
<b>Revenue</b>	<b>1,599,068</b>	<b>100.00%</b>	<b>2,310,136</b>	<b>100.00%</b>	<b>(711,068)</b>	<b>(30,78%)</b>
<i>Revenue from sale of natural gas</i>	<b>1,567,478</b>	<b>100.00%</b>	<b>2,301,408</b>	<b>100.00%</b>	<b>(733,930)</b>	<b>(31,89%)</b>
Regulated activity	915,006	57.22%	1,046,942	45.32%	(131,936)	(12,60%)
Unregulated activity freely negotiated prices	441,694	27.62%	882,587	38.20%	(440,893)	(49,95%)
Exchange market/ release program	142,745	8.93%	333,506	14.44%	(190,761)	(57,20%)
Related parties — BTG sale of natural gas for balancing	32,701	2.05%	25,514	1.10%	7,187	28.17%
Other penalties — sanctions for amounts	35,332	2.21%	12,859	0.56%	22,473	174.76%
<b>Other revenue</b>	<b>31,590</b>	<b>1.98%</b>	<b>8,728</b>	<b>0.38%</b>	<b>22,862</b>	<b>261.94%</b>
- penalties on overdue receivables/payables	21,785	1.36%	8,725	0.38%	13,060	149.68%
- other revenue	9,805	0.61%	3	0.00%	9,802	326733.33%
<b>Expenses by economic elements</b>	<b>(1,611,935)</b>	<b>100.00%</b>	<b>(2,259,080)</b>	<b>100.00%</b>	<b>647,145</b>	<b>(28,65%)</b>
<i>Cost of natural gas as sold</i>	<b>(1,498,418)</b>	<b>92.96%</b>	<b>(2,239,707)</b>	<b>99.14%</b>	<b>741,289</b>	<b>(33,10%)</b>
Regulated activity	(839,423)	52.08%	(1,062,250)	47.02%	222,827	(20,98%)
Unregulated activity freely negotiated prices	(371,311)	23.04%	(862,437)	37.42%	491,126	(56,95%)
Exchange market/ release program	(238,676)	14.81%	(340,141)	15.06%	101,465	(29,83%)
Related parties — BTG at cost of natural gas for balancing	(49,008)	3.04%	(20,427)	0.90%	(28,581)	139.92%
Effect from amendment in accounting policy - natural gas	-	-	45,548	(1,98%)	(45,548)	(100,00%)
<b>Accrued impairment loss on financial assets</b>	<b>(67,981)</b>	<b>4.22%</b>	<b>(17)</b>	<b>0.00%</b>	<b>(67,964)</b>	<b>399788.24%</b>
Accrued impairment loss on receivables, net	(26,359)	1.64%	-	0.00%	(26,359)	-
Recovered/(accrued) impairment loss on cash	91	0.01%	(17)	0.00%	108	(635,29%)
Accrued impairment loss on natural gas	(41,713)	(2,61%)	-	0.00%	(41,713)	-
<b>Cost of materials</b>	<b>(29)</b>	<b>0.00%</b>	<b>(22)</b>	<b>0.00%</b>	<b>(7)</b>	<b>31.82%</b>
- basic materials	(2)	(0,00%)	-	0.00%	(2)	-
- fuels and lubricants	(6)	0.00%	(6)	0.00%	-	0.00%
- office supplies and consumables	(10)	0.00%	(8)	0.00%	(2)	25.00%
- sanitary materials	(4)	0.00%	(3)	0.00%	(1)	33.33%
- promotional materials	-	0.00%	-	0.00%	-	-
- other materials	(7)	0.00%	(5)	0.00%	(2)	40.00%
<b>Hired services expenses</b>	<b>(42,795)</b>	<b>2.65%</b>	<b>(11,149)</b>	<b>0.48%</b>	<b>(31,646)</b>	<b>283.85%</b>
- costs for storage of natural gas	(7,246)	0.45%	(6,050)	0.26%	(1,196)	19.77%
- costs for unused capacity	(32,669)	2.03%	-	0.00%	(32,669)	-
- costs under BEH management contracts	(232)	0.01%	(752)	0.03%	520	(69,15%)
- license fees	(1,338)	0.08%	(397)	0.02%	(941)	237.03%
- fees for Gas Hub Balkan	(237)	0.01%	(61)	0.00%	(176)	288.52%

STATEMENT OF COMPREHENSIVE INCOME	As at 30 June 2023		As at 30 June 2022		Change	
	BGN thousand	% of the total	BGN thousand	% of the total	BGN thousand	%
- insurances	(70)	0.00%	(48)	0.00%	(22)	45.83%
- rents	(129)	0.01%	-	0.00%	(129)	-
- court fees and costs	(209)	0.01%	(3,171)	0.14%	2,962	(93,41%)
- consulting and auditing services	(197)	0.01%	(147)	0.01%	(50)	34.01%
- communications	(114)	0.01%	(91)	0.00%	(23)	25.27%
- remunerations of audit committee members	(74)	0.00%	(37)	0.00%	(37)	100.00%
- utilities	(23)	0.00%	(15)	0.00%	(8)	53.33%
- subscription service	(9)	0.00%	(7)	0.00%	(2)	28.57%
- repair and technical maintenance	(7)	0.00%	(3)	0.00%	(4)	133.33%
- parking spaces and other costs for motor vehicles	(10)	0.00%	(9)	0.00%	(1)	11.11%
- visa services	(9)	0.00%	(9)	0.00%	-	0.00%
- translation services	(57)	0.00%	(46)	0.00%	(11)	23.91%
- security	(3)	0.00%	-	0.00%	(3)	-
- occupational medicine	-	0.00%	(3)	0.00%	3	(100,00%)
- fees — EWRC for price approval	(28)	0.00%	(7)	0.00%	(21)	300.00%
- other services	(134)	0.01%	(296)	0.01%	162	(54,73%)
<b>Employee benefits and social security expenses</b>	<b>(2,264)</b>	<b>0.14%</b>	<b>(1,892)</b>	<b>0.08%</b>	<b>(372)</b>	<b>19.66%</b>
- employee benefits expenses	(2,050)	0.13%	(1,696)	0.07%	(354)	20.87%
- social security expenses	(214)	0.01%	(196)	0.01%	(18)	9.18%
<b>Recognized (accrued) provision expenses</b>	<b>(374)</b>	<b>0.02%</b>	<b>(374)</b>	<b>0.02%</b>	<b>-</b>	<b>0.00%</b>
<b>Other expenses</b>	<b>(74)</b>	<b>0.00%</b>	<b>(5,919)</b>	<b>0.26%</b>	<b>5,845</b>	<b>(98,75%)</b>
- penalties on delayed payments	-	0.00%	(57)	0.00%	57	(100,00%)
- business trips and entertainment costs	(44)	0.00%	(25)	0.00%	(19)	76.00%
- trainings	(4)	0.00%	(5)	0.00%	1	(20,00%)
- one-off taxes	(5)	0.00%	(10)	0.00%	5	(50,00%)
- membership in the organization	(3)	0.00%	-	0.00%	(3)	-
- donations	(18)	0.00%	-	0.00%	(18)	-
- others	-	0.00%	(5,822)	0.25%	5,822	(100,00%)
<b>(Loss)/Profit before interest, tax, depreciation</b>	<b>(12,867)</b>		<b>51,056</b>	<b>(2,26%)</b>	<b>(63,923)</b>	<b>(125,20%)</b>
<b>Depreciation charges</b>	<b>(192)</b>	<b>0.01%</b>	<b>(239)</b>	<b>0.01%</b>	<b>47</b>	<b>(19,67%)</b>
<b>Profit/(loss) from operating activities</b>	<b>(13,059)</b>		<b>50,817</b>		<b>(63,876)</b>	<b>(125,70%)</b>
<b>Financial income/(expenses)-net</b>	<b>(27,245)</b>		<b>1,472</b>		<b>(28,717)</b>	<b>(1950,95%)</b>
<b>Financial income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Financial costs</b>	<b>(21,858)</b>	<b>100.00%</b>	<b>(4,868)</b>	<b>100.00%</b>	<b>(16,990)</b>	<b>349.01%</b>
Interest expense on loans to related entities - Ministry of energy	(8,290)	37.93%	-	0.00%	(8,290)	-
Interest expense on loans to related parties	(10,598)	48.49%	(2,099)	43.12%	(8,499)	404.91%
Loans to banks	-	0.00%	(145)	2.98%	145	(100,00%)
Interest expense on tax liabilities	(220)	1.01%	(1,276)	26.21%	1,056	(82,76%)
- interest expenses under rental agreements	(7)	0.03%	(7)	0.14%	-	0.00%
- bank guarantee costs	(265)	1.21%	(261)	5.36%	(4)	1.53%
- bank fees	(2,478)	11.34%	(1,080)	22.19%	(1,398)	129.44%

STATEMENT OF COMPREHENSIVE INCOME	As at 30 June 2023		As at 30 June 2022		Change	
	BGN thousand	% of the total	BGN thousand	% of the total	BGN thousand	%
Other financial revenues/expenses — currency differences	(5,387)	100.00%	6,340	100.00%	(11,723)	(184,98%)
Foreign exchange rate gain/loss	(5,388)	100.00%	6,340	100.00%	(11,728)	(184,98%)
<b>Profit/(loss) before tax</b>	<b>(40,305)</b>	<b>-</b>	<b>52,289</b>	<b>-</b>	<b>(92,594)</b>	<b>(177,08%)</b>
Income from/(expenses on) profit taxes	3,993	-	(5,265)	-	9,258	(175,84%)
<b>Net profit/(loss) for the period</b>	<b>(36,312)</b>		<b>47,024</b>		<b>(83,336)</b>	<b>(177,22%)</b>

## 1. Revenue

The Company's revenues are formed from the sales of natural gas at regulated and freely negotiated prices. The sale at freely negotiated prices includes the sale at exit points to customers directly connected to the transmission network and sale on the exchange market.

The Company has realized revenues in the amount of BGN 1,599,068 thousand as at 30 June 2023 (as at 30 June 2022 - BGN 2,310,136 thousand). The decrease is BGN 711,068 thousand or 30.78% and is mainly due to the price decrease compared to the previous reporting period, with a drastic decrease in the levels of natural gas exchange market indices. It should be noted that part of the sales under the Release Program, terminated as at 31.12.2022, were redirected to other natural gas traders in the country in 2023. The net result from the sale of natural gas as at 30 June 2023 amounts to BGN 69,060 thousand (as at 30 June 2022 it was BGN 16,153 thousand), which makes an increase of BGN 52,907 thousand.

## 2. Expenses

Expenses by economic elements include: cost of natural gas sold, impairment losses, costs of materials, costs of external services, depreciation charges, employee benefits expenses, social security and allowance expenses, provision expenses and others. As at 30 June 2023, they amount to BGN 1,611,935 thousand (as at 30 June 2022: BGN 2,259,080 thousand), which makes a decrease of BGN 647,145 thousand or 28.65%.

- The largest relative share of the total expenses is the cost of natural gas sold as at 30 June 2023 in the amount of BGN 1,498,418 thousand (as at 30 June 2022: BGN 2,239,707 thousand).
- The cost of materials as at 30 June 2023 is BGN 29 thousand (as at 30 June 2022: BGN 22 thousand), which makes an increase of BGN 7 thousand or 31.82%. Materials costs include purchased assets, stationery and supplies, sanitary materials, auto parts, tires and other materials.
- The cost external services as at 30 June 2023 is BGN 42,795 thousand (as at 30 June 2022: BGN 11,149 thousand), which makes an increase of BGN 31,646 thousand or 283.85%. This is due to the increase in natural gas storage costs, unused capacity costs, license fees, consulting and auditing services.
- Other expenses as at 30 June 2023 are in the amount of BGN 74 thousand (as at 30 June 2022: BGN 5,919 thousand), which makes a decrease of BGN 5,845 thousand. The sum of the costs in 2022 represents the value of unused capacity products after the termination of the contract with OOO Gazprom Export.

The result from operating activities is a loss of BGN 13,059 thousand as at 30 June 2023 (30 June 2022: profit of BGN 50,817 thousand), which makes a decrease of BGN 63,876 thousand or 125.70%.

After reflecting the financial income and expenses as at 30 June 2023, the financial result before taxes is loss of BGN 40,305 thousand (as at 30 June 2022: profit of BGN 52,289 thousand), which makes a decrease of BGN 92,594 thousand or 177.08%.



## VIII. STATEMENT OF FINANCIAL POSITION

As at 30 June 2023, the Company's assets amount to BGN 1,830,888 thousand (as at 31 December 2022: BGN 2,076,828 thousand). The changes in the structure of assets for both periods are shown in the following table:

Assets	As at 30 June 2023		As at 31 December 2022		Change	
	BGN thousand	% of the total	BGN thousand	% of the total	BGN thousand	%
<b>Non-current assets</b>						
Plant and equipment	417	1.82%	465	2.89%	(48)	(10.32%)
Intangible assets	302	1.32%	280	1.74%	22	7.86%
Deferred tax assets	22,134	96.85%	15,336	95.37%	6,798	44.33%
<b>Total amount of non-current assets</b>	<b>22,853</b>	<b>100.00%</b>	<b>16,081</b>	<b>100.00%</b>	<b>6,772</b>	<b>42.11%</b>
<b>Current assets</b>						
<b>Inventories</b>	<b>548,041</b>	<b>30.31%</b>	<b>526,879</b>	<b>25.57%</b>	<b>21,162</b>	<b>4.02%</b>
- natural gas	548,028	30.31%	526,866	25.57%	21,162	4.02%
- materials	13	0.00%	13	0.00%	-	0.00%
<b>Trade and other receivables and contract assets</b>	<b>1,224,955</b>	<b>67.75%</b>	<b>1,326,472</b>	<b>64.37%</b>	<b>(101,517)</b>	<b>(7.65%)</b>
- trade receivables from sale of natural gas	650,924	36.00%	544,928	26.44%	105,996	19.45%
- contract assets	13,667	0.76%	55,698	2.70%	(42,031)	(75.46%)
- court and awarded receivables, net	36,206	2.00%	36,609	1.78%	(403)	(1.10%)
- <b>Advance payments</b>	<b>410,565</b>	<b>22.71%</b>	<b>555,274</b>	<b>26.95%</b>	<b>(144,709)</b>	<b>(26.06%)</b>
- prepaid advances for natural gas delivery	92,277	5.10%	337,312	16.37%	(245,035)	(72.64%)
- Advance payments for natural gas delivery through Botaş	318,269	17.60%	217,950	10.58%	100,319	46.03%
- prepaid advances for delivery of fixed assets	19	0.00%	12	0.00%	7	58.33%
- receivables under cession contracts	-	-	-	-	-	-
- receivable under contract with Gazprom	25,510	1.41%	44,055	2.14%	(18,545)	(58.03%)
- receivables from related parties (natural gas, deposits and guarantees)	37,935	2.10%	31,960	1.55%	5,975	18.70%
- other financial and non-financial receivables	50,148	2.77%	57,948	2.81%	(7,800)	(13.46%)
<b>Cash and cash equivalents</b>	<b>35,039</b>	<b>1.94%</b>	<b>207,395</b>	<b>10.06%</b>	<b>(172,356)</b>	<b>(83.11%)</b>
<b>Total amount of current assets</b>	<b>1,808,035</b>	<b>100.00%</b>	<b>2,060,747</b>	<b>100.00%</b>	<b>(252,712)</b>	<b>(12.26%)</b>
<b>Total assets</b>	<b>1,830,888</b>		<b>2,076,828</b>		<b>(245,940)</b>	<b>(11.84%)</b>

### 1. Non-current assets

The non-current assets as at 30 June 2023 amounted to BGN 22,853 thousand (31 December 2022: BGN 16,081 thousand), which makes an increase of BGN 6,772 thousand or 42.11%. Non-current assets during the reporting period are formed by non-current tangible and intangible assets in the amount of BGN 719 thousand and deferred tax assets for BGN 22,134 thousand.

### 2. Current assets

The current assets of the Company as at 30 June 2023 amount to BGN 1,808,035 thousand (31 December 2022: BGN 2,060,747 thousand), which represents a decrease of BGN 252,712 thousand or 12.26% mainly as a result of a decrease in prepaid advances for the supply of natural gas, a decrease in uninvoiced receivables from customers (assets under contracts with customers that are invoiced in the month following the end of the reporting period) and cash. The main effect on the reduction of these balance sheet items is the lower price of natural gas compared to the previous reporting period.

➤ *Receivables from sales of natural gas*

Receivables from sales of natural gas are on the rise due to Toplofikatsia Sofia EAD's delay in repaying its obligations regularly and on time. As at 30 June 2023, the outstanding gross receivables under the natural gas supply contract of Toplofikatsia Sofia EAD to Bulgargaz EAD amount to BGN 661,168 thousand (31 December 2022: BGN 570,981 thousand).

In order to overcome the indebtedness of the district heating company, in September 2022 a Tripartite Agreement was signed between Toplofikatsia Sofia EAD, the Electricity System Security Fund, Bulgarian Energy Holding EAD and Bulgargaz EAD, under which the monthly amounts from the Fund's payments are redirected to Bulgargaz EAD and Bulgarian Energy Holding EAD in an 80/20 ratio. The settlement has improved collection rates, but the number of receivables remains substantial.

➤ *Inventories*

As at 30 June 2023, inventories amount to BGN 548,041 thousand (31 December 2022: BGN 526,879 thousand), which makes an increase of BGN 21,162 thousand or 4.02%. This is due to the limited production carried out in the first and second quarter of 2023 due to the high price of the injected quantities at Chiren UGSF. The usual seasonal nature of the activity implies that in the summer period of the year the Company injects natural gas into Chiren UGSF, and during the winter months the stocks are drawn up for sale. The significant increase in the price of natural gas in 2022 had a significant impact on the current actions of the company regarding the usage from the gas storage facility in the first months of 2023.

Till the end of 2022, according to the provision of IAS 2, respectively the accounting policy of the company, when determining the net realisable value of the Inventory at the end of the reporting period, the prices that the EWRC has approved for the month of the first reporting period of the following year — January — are used. Bulgargaz EAD has followed the approach of applying the requirements of IAS 2 Inventories as set out in the Company's Accounting Policy (approved by the company's equity owner) by charging inventory impairment charge of BGN 103,785 thousand at the end of 2022.

In the financial statements of the Company as at 30.06.2023, an additional impairment on inventories has been accrued. The impairment was made only on quantities that will be sold in December 2023, according to the Contingency Action Plan in the amount of 639,277,47 MWh. When defining the impairment of this quantity of natural gas, the reference TTFm price for the month of January 2024 was used according to the Company's accounting policy effective from 01.01.2023, and the net value of the impairment costs is BGN 41,713 thousand.

Pursuant to Article 6b (1) of Regulation (EU) 2022/1032, Member States shall take all necessary measures, including the provision of financial incentives or compensation to market participants, in order to achieve the backfilling targets, set under Article 6a of the Regulation. In this regard, in the first half of the current year, the Ministry of Energy developed a mechanism for compensating the high prices of the quantities pumped in 2022 at Chiren UGSF, applicable to all companies with natural gas pumped into the underground gas storage facility as at 01.11.2022. According to the compensation mechanism proposed for discussion in the working group, the amount of the expected compensation for the quantities injected by Bulgargaz EAD as at 01.11.2022 would amount to no less than BGN 265,479 thousand. The company expects this mechanism to be implemented in Bulgaria, as compensations are a fact in other European countries.

➤ *Prepaid advances*

The prepaid advance for natural gas supply as at 30 June 2023 amounts to BGN 410,565 thousand (31 December 2022: BGN 555,274 thousand), which makes a decrease of BGN 144,709 thousand or 26.06%. This reduction is the result of the adjusted delivery framework in 2023 and the negotiation of payment terms after the delivery period, as well as the significantly reduced natural gas prices in the first half of 2023.

➤ *Cash*

The Company's cash in current accounts at the end of the reporting period amounted to BGN 35,039 thousand (31 December 2022: BGN 207,395 thousand), which makes a decrease of BGN 172,356 thousand. During the period, the company paid BGN 200,000 thousand operational credit line provided by BEH AD.

### 3. Changes in the structure of capital and liabilities

Equity and liabilities	As at 30 June 2023		As at 31 December 2022		Change	
	BGN thousand	% of the total	BGN thousand	% of the total	BGN thousand	
					%	
<b>Equity</b>						
Share capital	231,698	172.06%	231,698	135.52%	-	0.00%
<b>Reserves</b>	<b>21,152</b>	<b>15.71%</b>	<b>21,152</b>	<b>12.37%</b>	-	<b>0.00%</b>
incl. statutory reserves	21,165	15.72%	21,167	12.38%	(2)	(0,01%)
Other reserves	(13)	(0,01%)	(15)	(0,01%)	2	10.34%
(Retained loss)/Retained earnings	(81,878)	(60,80%)	18,553	0.11	(100,431)	(541,32%)
Loss current period	(36,312)	(26,97%)	(100,431)	(58,74%)	64,119	63.84%
<b>Total equity</b>	<b>134,660</b>	<b>100%</b>	<b>170,972</b>	<b>100%</b>	<b>(36,312)</b>	<b>(21,24%)</b>
<b>Liabilities</b>						
<b>Non-current liabilities</b>						
Borrowings from related parties	800,000	93.71%	806,085	93.79%	(6,085)	(0,75%)
Lease obligation	123	0.01%	121	0.01%	2	1.65%
Provisions	53,474	6.26%	53,100	6.18%	374	0.70%
Retirement benefits payables	120	0.01%	120	0.01%	-	0.00%
<b>Total amount of non-current liabilities</b>	<b>853,717</b>	<b>6%</b>	<b>859,426</b>	<b>6%</b>	<b>(5,709)</b>	<b>(0,66%)</b>
<b>Current liabilities</b>						
<b>Borrowings</b>	<b>632,184</b>	<b>75.04%</b>	<b>718,071</b>	<b>68.62%</b>	<b>(85,887)</b>	<b>(11,96%)</b>
-related party borrowings	632,184	75.04%	718,071	68.62%	(85,887)	(11,96%)
<b>Trade and other payables</b>	<b>207,247</b>	<b>24.60%</b>	<b>324,923</b>	<b>31.05%</b>	<b>(117,676)</b>	<b>(36,22%)</b>
- trade payables	139,397	16.55%	253,149	24.19%	(113,752)	(44,93%)
- liabilities to related parties	5,213	0.62%	10,263	0.98%	(5,050)	(49,21%)
- advances received from customers for the sale of natural gas	36,739	4.36%	1,431	0.14%	35,308	2467.37%
- VAT payable	4,223	0.50%	39,200	3.75%	(34,977)	(89,23%)
- excise duty payable	448	0.05%	962	0.09%	(514)	(53,43%)
- payables to employees	116	0.01%	171	0.02%	(55)	(32,16%)
- liabilities to social insurance companies	84	0.01%	93	0.01%	(9)	(9,68%)
- other liabilities	21,027	2.50%	19,654	1.88%	1,373	6.99%
Lease obligation	250	0.03%	312	0.03%	(62)	(19,87%)
Profit tax liability	2,805	0.33%	3,071	0.29%	(266)	(8,66%)
Retirement benefits payables	25	0.00%	53	0.01%	(28)	(52,83%)
<b>Total amount of current liabilities</b>	<b>842,511</b>	<b>100.00%</b>	<b>1,046,430</b>	<b>100.00%</b>	<b>(203,919)</b>	<b>(19,49%)</b>
<b>Total liabilities</b>	<b>1,696,228</b>		<b>1,905,856</b>		<b>(209,628)</b>	<b>(11,00%)</b>
<b>Total equity and liabilities</b>	<b>1,830,888</b>		<b>2,076,828</b>		<b>(245,940)</b>	<b>(11,84%)</b>

#### 3.1. Capital structure

The registered share capital as at 30 June 2023 amounted to BGN 231,698 thousand, as there is no change compared to the previous reporting period.

As at 30 June 2023, the retained loss amounted to BGN 81,878 thousand (31 December 2022: retained earnings of BGN 18,553 thousand). The difference as at 30.06.2023 is BGN 100,431 thousand increase in the retained loss.



### 3.2. Non-current liabilities

The non-current liabilities as at 30 June 2023 amounted to BGN 853,717 thousand (31 December 2022: BGN 859,426 thousand). Non-current liabilities consist of a loan received from the Ministry of Energy, an accrued provision for a legal liability related to *Case COMP/B1/AT.39849 — BEH gas*.

➤ *Borrowed funds*

As of 30 June 2023, the Company has also drawn a cash loan from the Ministry of Energy for the amount of BGN 800,000 thousand. The maturity of the loan is 12 August 2025.

➤ *Provision related to Case COMP/B1/AT.39849-BEH Gas*

The provision accrued as at 30 June 2023 in Case COMP/B1/AT.39849-BEH Gas is BGN 52,720 thousand, representing one third of the total amount of the pecuniary sanction imposed on BEH EAD, Bulgartransgaz EAD and Bulgargaz EAD. Case COMP/B1/AT.39849 — BEH gas concerns a possible violation of Article 102 of the Treaty on the Functioning of the European Union (TFEU) in connection with allegations by the European Commission (EC) concerning the actions of Bulgarian Energy Holding EAD and its subsidiaries — Bulgargaz EAD and Bulgartransgaz EAD aimed at:

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

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

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

On 17 December 2018, the European Commission announced its adopted Decision C (2018)8806 in Case COMP/B1/AT.39849–BEH Gas, whereby the European Commission imposed a fine on Bulgarian Energy Holding EAD (BEH EAD), its supply subsidiary Bulgargaz EAD and its gas infrastructure subsidiary Bulgartransgaz EAD (BEH Group) in the amount of EUR 77,068 thousand for allegedly blocking competitors' access to key gas infrastructure in Bulgaria in violation of EU antitrust rules. The decision was received in the offices of the three companies on 19 December 2018, which determines the beginning of the period for appealing the EC Decision (two months and ten days from notification of the Decision to the Parties) and for payment of the fine (three months from the notification of Decision to the Parties), set out therein.

Appealing the decision does not stop the execution of the decision and the corresponding sanction.

On 18 March 2019 a bank guarantee was issued by a selected banking institution through a procedure conducted by Bulgarian Energy Holding EAD. The bank guarantee covers 2/3 of the total amount of the fine in



the amount of EUR 77,068 thousand, which secures the liabilities of Bulgarian Energy Holding EAD and Bulgargaz EAD under the imposed fine.

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

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

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

On 20 February 2020, the official position of the Republic of Bulgaria on Case T-136/19, submitted by the Ministry of Energy, was filed with the General Court of the European Union through the Ministry of Foreign Affairs (MFA), as a party to the case, within the specified term.

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

As at 31 December 2022, the Company has accrued a provision of BGN 50,244 thousand (31 December 2021: BGN 50,244 thousand), representing one third of the total amount of the fine imposed and interest thereon amounting to BGN 2,856 thousand. (31 December 2021: BGN 2,102 thousand), and it is estimated that the final decision of the competent court is expected in more than 12 months.

The forecast is for a positive outcome of the appeal and refund of the provision cost in 2023. The assumption would materialize only in the event that the General Court rules in favour of BEH, BTG and Bulgargaz and the decision is not appealed by the EC. If the decision is appealed to the Court of Justice of the European Union, the Bulgarian companies will have to continue to maintain the security/provision until the dispute is finally resolved.

### **3.3. Current liabilities**

As at 30 June 2023, the current liabilities amount to BGN 842,511 thousand (31 December 2022: BGN 1,046,430 thousand), which makes a decrease of BGN 203,919 thousand.

By 30 June 2023 the Company has drawn down loans in the total amount of BGN 632,184 thousand to Bulgarian Energy Holding EAD

As at 30 June 2023, trade and other liabilities decreased by BGN 117,676 thousand or 36.22% compared to 31 December 2022 due to the net effect of:

- ✓ decrease in trade liabilities by BGN 113,752 thousand or by 44.93% compared to 31 December 2022, mainly caused by the significant decrease in natural gas prices in the first half of 2023.
- ✓ Decrease in liabilities to related entities by BGN 5,050 thousand or by 49.21% less compared to 31 December 2022.

## IX. STATEMENT OF CASH FLOWS

The table shows data on changes in cash flows as at 30 June 2023, compared to 30 June 2022:

Statement of cash flows	As at 30 June 2023	As at 30 June 2022	Change	
	BGN thousand	BGN thousand	BGN thousand	%
Net cash flows from operating activity	(58,152)	(248,225)	190,073	326.85%
Net cash flows from investing activity	(217)	(112)	(105)	(48.39%)
Net cash flows from financing activity	(112,994)	278,001	(390,995)	(346.03%)
Net change in cash and cash equivalents during the period	(171,363)	29,664	(201,027)	(117.31%)
Cash and cash equivalents at the beginning of the period	207,544	211	207,333	(99.90%)
Exchange losses on cash	(1,084)	(866)	(218)	(20.11%)
Expected credit losses on cash	(58)	(17)	(41)	(70.69%)
Cash and cash equivalents at the end of the period	35,039	28,992	6,047	(17.26%)

The net cash flow from operating activities of the Company as at 30 June 2023 was negative in the amount of BGN 58,152 thousand (30 June 2022: negative in the amount of BGN 248,225 thousand). It is formed by the difference between the proceeds from customers for sale of natural gas and the amounts paid to natural gas suppliers, as well as the payment of taxes and contributions for the period.

Net cash flows from investing activities are negative in the amount of BGN 217 thousand, which represents an increase by BGN 105 thousand compared to 30 June 2022.

Net cash flows from financial activities are negative in the amount of BGN 112,994 thousand (as at 30 June 2022: positive in the amount of BGN 278,001 thousand), which is due to reimbursed amounts under a credit line from Bulgarian Energy Holding in the amount of BGN 200,000 thousand.

## X. FINANCIAL RATIOS

These are indicators based on the financial statements that aim to provide an overall assessment of the financial position, the profitability and the efficiency in the use of assets to meet operational goals. As at 30 June 2023, the financial ratios show the financial stability of the Company as they are optimal compared to market levels.

### 1. Liquidity

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

Indicators	As at 30 June 2023	As at 30 June 2022
Current liquidity ratio	2.15	1.97
Quick liquidity ratio	1.50	1.47

The current liquidity ratio as at 30 June 2023 is 2.15, which shows that the available current assets can cover 2 times and a half the current liabilities of the Company (as at 30 June 2022: 1.97).

The quick liquidity ratio is 1.50, which shows that the available current assets reduced by inventories can cover more than 1.50 times the current liabilities of the Company (as at 30 June 2022: 1.47).

### 2. Solvency

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

Indicators	As at 30 June 2023	As at 30 June 2022
Solvency ratio	0.08	0.17
Debt ratio	12.60	5.79

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

When the ratio is above 1 (one) it shows the degree of solvency from the use of foreign funds. The solvency ratio as at 30 June 2023 is 0.08 (as at 30 June 2022: 0.17).

The debt ratio expresses the degree of dependence of the Company on creditors. When the ratio is greater than 1 (one), the Company's dependence on external sources of funds is greater. This indicator as at 30 June 2023 is 12.60 (as at 30 June 2022: 5.79).

3. **Cost-effectiveness ratio**

Indicators	As at 30 June 2023	As at 30 June 2022
Cost-effectiveness ratio	0.992	1.002

The cost efficiency ratio as at 30 June 2023 is 0.992 and shows the ratio of net profit/loss to sales revenue.

**XI. FINDINGS AND CONCLUSIONS**

The information as presented and analysed in the Activity Report of Bulgargaz EAD as at 30 June 2023 shows that the Company fulfils its license obligations as a public supplier of natural gas on the territory of the Republic of Bulgaria in full compliance with the requirements of the regulations.

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

Regardless of the dynamic market conditions during the period under consideration, Bulgargaz EAD strives to respond adequately to market challenges.

Date:

  
Tatyana Petrova-Boyadzhieva

Director of  
Finance and Accounting Directorate

  
Deniza Slateva

Executive Director

**BULGARGAZ EAD****INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION**  
**30 June 2023***(All amounts are in BGN'000)*

	NOTE	AS AT 30 June 2023	AS AT 31 December 2022
<b>ASSETS</b>			
<b>Non-current assets</b>			
Plant and equipment		417	465
Intangible assets		302	280
Deferred tax assets	11	22,134	15,336
		<b>22,853</b>	<b>16,081</b>
<b>Current assets</b>			
Inventories	7	548,041	526,879
Trade and other receivables	9	800,723	715,513
Prepaid advances for natural gas delivery	8	410,565	555,262
Contract assets	18	13,667	55,698
Cash and cash equivalents	10	35,039	207,395
		<b>1,808,035</b>	<b>2,060,747</b>
<b>TOTAL ASSETS</b>		<b>1,830,888</b>	<b>2,076,828</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	12	231,698	231,698
Reserves	13	21,152	21,152
Accumulated loss		(118,190)	(81,878)
		<b>134,660</b>	<b>170,972</b>
<b>Non-current liabilities</b>			
Borrowings	14	800,000	806,085
Lease payables		123	121
Retirement benefits obligations		120	120
Provisions	20	53,474	53,100
		<b>853,717</b>	<b>859,426</b>
<b>Current liabilities</b>			
Borrowings	14	632,184	718,071
Trade and other payables	15	207,247	324,923
Lease payables		250	312
Income tax payables		2,805	3,071
Retirement benefits obligations		25	53
		<b>842,511</b>	<b>1,046,430</b>
<b>TOTAL LIABILITIES</b>		<b>1,696,228</b>	<b>1,905,856</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,830,888</b>	<b>2,076,828</b>

Prepared on: 12 September 2023

These interim condensed financial statements were approved by the Board of September 2023.

Liliya Ivanova

Head of Accounting Department

Deniza Staleva

Executive Director

Auditor's report issued by the joint auditors on 25 September 2023

Grant Thornton OО

Audit firm No. 32

Mariya Apostolova

Managing partner

Emiliya Marinova

Registered auditor

Zaharinova Nexia OOD

Audit firm No. 138

Bulgarian Republic

Sofia

Sofia

Registered auditor responsible for the audit

The notes on pages 5—29 are an integral part of these interim financial statements.

This version of financial statements as at 30 June 2023 of Bulgargaz EAD is free translation from Bulgarian to English language. These financial statements have been prepared and audited as of 25 September 2023.

# BULGARGAZ EAD

## INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

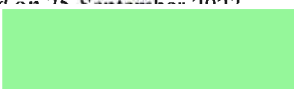
30 June 2023


(All amounts are in BGN'000)

	NOTE	6-MONTH PERIOD ENDED ON 30 JUNE	
		2023	2022
Revenues from sale of natural gas	18	1,567,478	<b>*restated</b> 2,301,408
Other revenue		31,590	8,728
Cost of natural gas sold		(1,498,419)	(2,239,707)*
Hired services expenses	19	(42,795)	(11,149)
Employee benefits and social security expenses		(2,264)	(1,892)
Cost of materials		(29)	(22)
Depreciation expenses on non-financial assets		(192)	(239)
Provision expenses		(374)	(374)
Impairment losses on inventories	7	(41,713)	-
Expected credit losses and impairment losses on financial assets, net	16	(26,268)	(17)
Other expenses		(74)	(5,919)
<b>(Loss) / Profit from operating activity</b>		<b>(13,060)</b>	<b>50,817</b>
Financial costs		(21,858)	(4,868)
Other financial income/costs, net		(5,387)	6,340
<b>Financial income/(expenses), net</b>		<b>(27,245)</b>	<b>1,472</b>
<b>(Loss) / Profit before tax</b>		<b>(40,305)</b>	<b>52,289</b>
<b>Income from/ (expenses) for income taxes</b>	17	<b>3,993</b>	<b>(5,265)</b>
<b>Net (loss)/profit for the period</b>		<b>(36,312)</b>	<b>47,024</b>
<b>Total comprehensive (loss)/income for the period</b>		<b>(36,312)</b>	<b>47,024</b>

Prepared on: 12 September 2023

These interim condensed financial statements were approved by the Board of Directors and signed on 25 September 2023

  
Liliya Ivanova  
Head of Accounting Department

  
Peniza Stateva  
Executive Director

Auditor's report issued by the joint auditors on 25 September 2023

Grant Thornton OOD

Audit firm No. 32

Mariy Apostolov

Managing partner

Zaharinova Nexia OOD,

Audit firm No. 138

Dimitrina Zaharinova

Manager

Emiliya Marinova

Registered auditor responsible for the audit



Stoycho Milev

Registered auditor responsible for the audit



The notes on pages 5—29 are an integral part of these interim financial statements.

This version of financial statements as at 30 June 2023 of Bulgargaz EAD is free translation from Bulgarian to English language. These financial statements have been prepared and audited as of 25 September 2023.



# BULGARGAZ EAD


## INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY 30 June 2023


(All amounts are in BGN'000)

	NOTE	Share capital	Reserves	(Accumulated loss)/ Retained earnings	Total
AS AT 01 January 2023	11.12	231,698	21,152	(81,878)	170,972
<b>Comprehensive income</b>					
Loss for the period		-	-	(36,312)	(36,312)
<b>Total comprehensive loss</b>		-	-	(36,312)	(36,312)
AS AT 30 June 2023		231,698	21,152	(118,190)	134,660
AS AT 01 January 2022		231,698	14,757	82,458	328,913
<b>Comprehensive income</b>					
Profit for the period		-	-	47,024	47,024
<b>Total comprehensive income</b>		-	-	47,024	47,024
AS AT 30 June 2022		231,698	14,757	129,482	375,937

Prepared on: 12 September 2023

These interim condensed financial statements were approved by the Board of Directors on 15 September 2023 and signed on 25 September 2023

  
Liliya Ivanova  
Head of Accounting Department

  
Deniza Shireva  
Executive Director

Auditor's report issued by the joint auditors on 25 September 2023

Grant Thornton OC

Audit firm No. 32

Mariy Apostolov

Managing partner

Zaharinoва Nexia OOD,

Audit firm No. 138

Dimitrina Zaharinoва

Manager

Emiliya Marinova

Registered auditor responsible for the audit

Stoycho Milev

Registered auditor responsible for the audit



The notes on pages 5—29 are an integral part of these interim financial statements.

This version of financial statements as at 30 June 2023 of Bulgargaz EAD is free translation from Bulgarian to English language. These financial statements have been prepared and audited as of 25 September 2023.

# BULGARGAZ EAD

## INTERIM CONDENSED STATEMENT OF CASH FLOWS 30 June 2023

(All amounts are in BGN'000)

	NOTE	6-MONTH PERIOD ENDED ON 30 JUNE	
		2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITY</b>			
Proceeds from customers		1,691,688	2,368,157
Cash paid to and refunds from suppliers, net		(1,580,600)	(2,413,276)
Payments for personnel benefits and social security		(2,420)	(2,015)
Income tax payments		(3,071)	(1,594)
Taxes paid, different from the income tax		(162,173)	(407,485)
Proceeds under compensation programme by resolution of the Council of Ministers		-	207,142
Other proceeds/(payments), net		(1,576)	846
<b>NET CASH FLOWS FROM OPERATING ACTIVITY</b>		<b>(58,152)</b>	<b>(248,225)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITY</b>			
Acquisition of plant and equipment		(31)	(5)
Acquisition of intangible assets		(186)	(107)
<b>Net cash flows from investing activity</b>		<b>(217)</b>	<b>(112)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>			
Proceeds from received loans		215,000	254,200
Payments on loans received		(315,000)	(67,077)
Principal and interest payments on lease contract		(80)	(152)
Payments of bank overdraft, net		-	93,386
Payments of interest and fees on loans received		(12,914)	(2,356)
<b>Net cash flows from financing activity</b>		<b>(112,994)</b>	<b>278,001</b>
<b>Net increase/(decrease) of cash and cash equivalents during the period</b>		<b>(171,363)</b>	<b>29,664</b>
Cash and cash equivalents at the beginning of the period (total amount)		207,544	211
Exchange losses on cash and cash equivalents		(1,084)	(866)
Expected credit losses on cash and cash equivalents for the period		(58)	(17)
<b>Cash and cash equivalents at the end of the period, net</b>	<b>10</b>	<b>35,039</b>	<b>28,992</b>

Prepared on: 12 September 2023

These interim condensed financial statements were approved by the Board of Directors on 16 September 2023 and signed on 25 September 2023.

Liliya Ivanova

Head of Accounting Department

Deniza Silteva

Executive Director

Auditor's report issued by the joint auditors on 25 September 2023

Grant Thornton OOD

Audit firm No. 32

Mariya Apostolova

Managing partner

Per

Emmilya Marinova

Registered auditor responsible for the audit

Zaharinova Nexia OOD

Audit firm No. 158

Dimitrina

Manager

Per

Stoycho Yanev

Registered auditor responsible for the audit

The notes on pages 5—29 are an integral part of these interim financial statements.

This version of financial statements as at 30 June 2023 of Bulgargaz EAD is free translation from Bulgarian to English language. These financial statements have been prepared and audited as of 25 September 2023.



## **BULGARGAZ EAD**

### **NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS 30 June 2023**

#### **1. GENERAL INFORMATION**

Bulgargaz EAD (*"the Company"*), UIC 175203485, is a sole shareholder limited company, registered under the Commerce Act, with seat and registered address at city of Sofia, Serdika District, 47, Petar Parchevich str. The Company is registered in the Bulgarian Registry Agency, under No 113068, Volume 1534, page 35, company case No 16440/2006 and was registered on the grounds of Decision no. 1 of 15 January 2007.

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

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

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

Bulgargaz EAD holds a license for trading in natural gas on the territory of the Hellenic Republic under Decision no. 247/2020 — indefinite and Decision no. 311/2022 for wholesale trading in natural gas on the territory of the Hellenic Republic for a period of 20 years and trades in natural gas on the Hellenic Energy Exchange (ENEX).

Bulgargaz EAD is a sole shareholder limited company whose share capital is owned by Bulgarian Energy Holding EAD. The ultimate owner of the Company is the Bulgarian Republic, through the Minister of Energy.

The Company has one-tier management system, with governing bodies being the General Meeting of Shareholders and the Board of Directors. As of 30 June 2023, and as at the date of preparation of the interim condensed financial statements, the Company is managed and represented by the Executive Director Deniza Slateva and has Board of Directors with the following members:

- Deniza Slateva - executive member of the Board of Directors;
- Ivan Topchiysky — Chairman of the Board of Directors;
- Dimitar Spasov - member of the Board of Directors;
- Tatyana Petrova - Boyadzhieva - member of the Board of Directors.
- Veselin Sinabov - member of the Board of Directors.

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

- Ilin Krivoshiev - chairman
- Tsvetislava Krasteva - member
- Dimitar Milev — Member

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

This condensed interim financial statement is approved for publishing by the Board of Directors on 15 September 2023.

#### **2. BASIS FOR PREPARATION OF THE INTERIM FINANCIAL STATEMENTS**

These condensed interim financial statements for the 6-month period ended 30 June 2023 are prepared in accordance with IAS 34 Interim Financial Statement. They do not contain all the information required to prepare a

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2023**

complete annual financial statements in accordance with the International Financial Reporting Standards ("IFRS") and should be read together with the Company's annual financial statements for the year ended 31 December 2022 and prepared in accordance with IFRS, developed and published by the International Accounting Standards Board ("IASB"), adopted for implementation in the European Union ("EU").

The interim financial statements are presented in Bulgarian lev (BGN), which is also the functional currency of the Company. All amounts are presented in thousands BGN (including comparative information for 2022), unless otherwise stated.

**2.1 Going Concern Principle**

As disclosed in Note 1 "General information", the Company holds an individual license for public supply of natural gas in the territory of the Republic of Bulgaria, License for trading in natural gas in the territory of the country and License for trading in natural gas in the territory of Greece. The main purpose of the Company is to perform the function of a public supplier of natural gas in the country. The future activity of the Company as a public supplier of natural gas depends on the business environment, as well as on the regulatory requirements, the availability of contracts for the provision of natural gas supplies, the availability of contracts for the sale of natural gas to the Company's customers, on maintaining the necessary financial resources for carrying out the activity.

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

For the period ending on 30 June 2023, the Company reports a net loss after taxes in the amount of BGN (36,312) thousand. Cash flow from operating activities for the period was negative in the amount of BGN (58,152) thousand, and current assets exceeded current liabilities by BGN 965,524 thousand. There is also a net decrease in cash and cash equivalents in the amount of BGN 171,363 thousand compared to the end of the previous financial year. The Company's financial data show a decrease in the financial result compared to the previous comparable period, preservation of the amount of trade receivables and a decrease in borrowings and trade liabilities compared to the end of the previous financial year 31 December 2022. The Company's trade receivables as of 30 June 2023 are mainly due of delay in receipts from the heating companies.

As of 30 June 2023, the Company's equity of BGN 134,660 thousand is below the registered share capital of BGN 97,038 thousand, and the net value of its assets (the difference between the value of the rights and obligations of the company) according to Art. 247a, paragraph 2 is a positive value.

For Bulgargaz EAD, it was necessary to secure available cash resource with which to guarantee supplies of natural gas along the alternative routes, for which payments are made in advance. In addition, the Company has a commitment to inject natural gas into the Chiren gas storage facility under the Emergency Action Plan, which requires significant financial resources. The terms of alternative supplies of natural gas differ from the agreed commercial terms with the Company's customers, which in turn leads to the formation of liquidity deficits in certain periods of time.

The preceding 2022 was an extremely dynamic year for the Company's operations and resulted in significant transformations in the Company's business model, supply chains and contractual relationships. A series of events and circumstances beyond the Company's control resulted in the need to secure natural gas reserves at prices that were extremely volatile during the year and which began to decline fast towards the end of 2022 and the beginning of 2023.

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

## BULGARGAZ EAD

### NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 June 2023

the relatively warm winter, production was severely constrained, resulting in large gas inventories at the end of the reporting period. Pursuant to Article 6b (1) of the Regulation, Member States shall take all necessary measures, including the provision of financial incentives or compensation to market participants, in order to achieve the filling targets, set under Article 6a of the Regulation. In this regard, management's expectation is that the Company will be compensated through a Mechanism for Compensation for High Prices of the injected in 2022 natural gas quantities in the UGS Chiren, applicable to all companies with injected natural gas in the underground gas storage as of 01 November 2022, being developed by the Ministry of Energy. According to the compensation mechanism proposed for discussion in the working group, the amount of the expected compensation for the quantities injected in UGS Chiren by Bulgargaz as of 01 November 2022 would be no less than BGN 265 million.

In 2023, there has been a downward trend in natural gas prices in European gas markets due to:

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

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

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

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

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

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

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

The main challenges faced by Bulgargaz EAD are related on the one hand to the Company's role as a public supplier and trader of natural gas on a liberalised market, and on the other hand to its role in the transition to a carbon-neutral economy (Green Deal). Under these terms and conditions, Bulgargaz EAD should continue to operate as a European

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natural gas trader that supplies gas at free prices and (like each of its competitors) aims for a leading role on the Bulgarian market, but also for an increasingly significant presence on the markets in the region. The security of the supplies offered by Bulgargaz EAD, its financial stability and reputation as a reliable partner should be used to its advantage in a freely competitive environment.

The Company's management believes that according to the currently available information, on the basis of which forecasts have been made for the future development of the Company, as well as due to the continued financial and operational support from the sole owner of the capital, the Company will continue its activity and will be able to repay the liabilities, without undertaking significant changes in the activity. The Company will continue to operate as a going concern and will settle its liabilities according to their maturities and terms. Given the importance and strategic significance of the activities performed by Bulgargaz EAD, Bulgarian Energy Holding EAD, as the parent company, has neither the intention nor the legal necessity to liquidate the company, regardless of its liquidity indicators as of 30 June 2023. The sole shareholder is committed to supporting Bulgargaz EAD to achieve a sustainable financial and business development model.

The Company's management has made its assessment of the events, facts and circumstances and as a result of the analysis has concluded that the going concern basis has been appropriately applied in the preparation of the condensed interim financial statement as of 30 June 2023.

**3. ACCOUNTING POLICY****3.1. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS EFFECTIVE FROM 1 JANUARY 2023.**

The Company has adopted the following new standards, amendments and interpretations to IFRS, issued by the International Accounting Standards Board and approved by EU, which are relevant and effective for the Company's financial statements for the annual period beginning on 1 January 2023.

**Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of accounting effective from 1 January 2023, adopted by EU**

The company discloses the material information related to the accounting policy instead of the main accounting policies. The amendments clarify that information about an accounting policy is material if users of the entity's financial statements need it to understand other material information in the financial statements, and if the entity discloses immaterial information about the accounting policy, that information must not outweigh material information accounting policy information.

**Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors effective from 1 January 2023, adopted by EU**

The amendments introduce the definition of accounting estimates and include other amendments to IAS 8 that help companies distinguish changes in accounting estimates from changes in accounting policies. The amendments will help companies to improve the quality of accounting policy disclosures so that the information is more useful to investors and other primary users of the financial statements.

**Amendments to IAS 12 Income Taxes: Deferred taxes related to assets and liabilities arising from single transactions effective from 1 January 2023, adopted by EU**

An entity shall apply the amendments to the standard for transactions that occur on or after the beginning of the most recent comparative period presented. Also, the Company should recognize at the beginning of the most recent comparative period presented deferred taxes for all temporary differences related to leases and decommissioning obligations and recognize the cumulative effect of the initial application of the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, if applicable) on the relevant date.

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The following new standards, amendments and interpretations to IFRS issued by the International Accounting Standards Board and approved by the EU, which are effective for the annual period beginning on 1 January 2023, are not applicable and do not have a significant impact on the financial results or positions of the Company:

- Amendments to IFRS 17 Insurance Contracts effective from 1 January 2023, adopted by EU
- Amendments to IFRS 17 Insurance contracts: Initial application of IFRS 17 and IFRS 9 - Comparative information effective from 1 January 2023, adopted by EU.

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

As of the date of approval of these financial statements, new standards, amendments and interpretations have been published to existing standards but have not entered into force or been adopted by the EU for the financial year beginning on 1 January 2023, and were not applied from an earlier date by the Company. The Management expects that all standards and amendments are adopted in the accounting policy of the Company in the first period beginning after their effective date.

Information about these standards and amendments that have an effect on the financial statements of the Company is presented below.

**Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Financial agreements with suppliers, effective from 1 January 2024, not yet adopted by the EU**

The amendments to IAS 7 and IFRS 7 will add disclosure requirements as well as “guidance” within existing disclosure requirements that require entities to provide qualitative and quantitative information about supplier financing arrangements. These amendments add two disclosure objectives that will require entities to disclose in the explanatory notes information that enables users of financial statements to assess how supplier financing arrangements affect an entity’s liabilities and cash flows and to understand the effect of financing arrangements from suppliers on the entity’s exposure to liquidity risk and how the entity may be affected if arrangements are no longer available to it.

**Amendments to IAS 12 Income Taxes: International Tax Reform - Second Pillar Model Rules, in force from 1 January 2023, not yet adopted by the EU**

The amendments to IAS 12 are:

- An exception to the requirements of IAS 12 that the entity does not recognize and disclose information about deferred tax assets and liabilities related to income taxes under the second pillar of OECD. The entity must disclose that it has applied the exception.
- A disclosure requirement that requires the entity to disclose separately its current tax expense (revenue) related to second pillar income taxes.
- A disclosure requirement that states that in periods in which the second pillar legislation is enacted or substantially enacted but not yet effective, the entity discloses known or reasonably estimable information that helps users of the financial statements to understand the entity’s exposure to second pillar income taxes arising from this legislation.
- The requirement the entity to apply the exception and the requirement to disclose that it has applied the exception immediately after the amendments are issued and retrospectively in accordance with IAS 8.

**Amendments to IAS 1 Presentation of Financial Statements, effective from 1 January 2024, not yet adopted by the EU**

Changes in the classification of liabilities as current or non-current affect only the presentation of liabilities in the statement of financial position, but not the amount or timing of recognition of assets, liabilities, income, expenses or the information that companies disclose about these items. The amendments aim to clarify the following:

- the classification of liabilities as current or non-current should be based on existing rights at the end of the accounting period and align the wording of the texts in all affected paragraphs to clarify the “right” to defer the settlement of the liability for at least twelve months. It is expressly stated that only the rights available “at the end of the reporting period” should affect the classification of the liability;
- the classification is not affected by the company’s expectations as to whether it will exercise its right to defer settlement of the liability; and



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- the settlement of liabilities may be affected by the transfer of cash, capital instruments, other assets or services to the counterparty.

Changes related to non-current liabilities linked to financial ratios lead to the following considerations related to their classification and disclosures:

- it is clarified that if the right to defer settlement for at least 12 months is subject to conditions being met by the entity after the reporting period, then those conditions will not affect whether the right to defer settlement exists at the end of the reporting period (the reporting date) for the purposes of classifying the liability as current or non-current; and
- the entity is required to disclose information about:
  - the conditions (e.g. the nature and date by which the entity must comply with the condition);
  - whether the entity would be in compliance based on the circumstances at the reporting date; and
  - whether and how the entity expects to meet the conditions by the date they are to be tested under the contract.

#### Amendments to IFRS 16 Leases: Lease liability in a sale and leaseback in force no earlier than 1 January 2024, not yet adopted by the EU

The amendments to IFRS 16 require the seller-lessee entity to measure subsequently the lease liabilities arising from the leaseback in a manner that does not recognize any amount of the gain or loss that relates to the right of use that it retains. The new requirements do not prevent the seller-lessee from recognizing in profit or loss a gain or loss related to the partial or full termination of the lease. The amendments to IFRS 16 do not prescribe specific requirements for measuring lease liabilities arising from leasebacks.

#### IFRS 14 'Regulatory Deferral Accounts', effective from 1 January 2016, not yet adopted by the EU

IFRS 14 Regulatory Deferral Accounts allows first-time IFRS adopters to continue recognizing amounts related to regulated prices in accordance with the requirements of their previous accounting basis. In order to improve comparability with statements of companies that already apply IFRS and do not recognize such amounts, the standard requires the effect of the regulated prices to be presented separately.

### 3.3. CHANGE IN THE ACCOUNTING POLICY, EFFECT OF THE CHANGE

As a result of the changed geopolitical situation and the premature interruption of supplies from OOO Gazprom Export in 2022, significant changes were required in the business model of the commercial activity of Bulgargaz EAD, switching from supplies under two main long-term contracts for pipeline natural gas to securing supplies under multiple contracts for the purchase of liquefied natural gas (LNG) with an even supply.

In this regard and in view of the current legal provisions regulating the Company's commercial activity, the Company's management made an assessment that there is a more suitable method for natural gas costing and a model for writing off the natural gas cost. As of 1 January 2023, the Company has adopted a change in the accounting policy in the part related to the initial and subsequent valuation of natural gas. The Company's management believes that the change will achieve a more reliable and more appropriate presentation in the financial statements of the information and effects related to the operations, events and conditions for the supply and trading of natural gas.

The following table shows the effects of the adjustments recognized for each individual line item in the statement of profit or loss and other comprehensive income as a result of the change in the accounting policy:

Statement of profit or loss	30 June 2022	Changes in the accounting policy	30 June 2022 Restated
	BGN thousand	BGN thousand	BGN thousand
Revenues from sales of natural gas	2,301,408	-	2,301,408
Other revenue	8,728	-	8,728
Cost of natural gas sold	(2,285,255)	45,548	(2,239,707)
Hired services expenses	(11,149)	-	(11,149)

## BULGARGAZ EAD

### NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 June 2023

Employee benefits and social security expenses	(1,892)	-	(1,892)
Cost of materials	(22)	-	(22)
Depreciation expenses on non-financial assets	(239)	-	(239)
Provision expenses	(374)	-	(374)
Expected credit losses and impairment losses on financial assets, net	(17)	-	(17)
Other expenses	(5,919)	-	(5,919)
<b>Operating profit</b>	<b>5,269</b>	<b>45,548</b>	<b>50,817</b>
Financial costs	(4,868)	-	(4,868)
Other financial income/costs, net	6,340	-	6,340
<b>Financial income/expenses, net</b>	<b>1,472</b>	<b>-</b>	<b>1,472</b>
<b>Profit before tax</b>	<b>6,741</b>	<b>45,548</b>	<b>52,289</b>
Income tax expenses	(710)	(4,555)	(5,265)
<b>Profit for the period</b>	<b>6,031</b>	<b>40,993</b>	<b>47,024</b>

The effects of the change in accounting policy in the condensed interim financial statement as at 30 June 2023 affect the items indicated above. They have no effect on the items in the statement of financial position as of 31 December 2022.

Until 31 December 2022, the acquisition and storage of the natural gas owned by the Company are accounted for at the "gas pipeline/point of delivery" level, and the cost of the natural gas is formed by the purchase price and all costs directly related to the delivery (transport, transmission fee, capacity, etc.). By the change in the accounting policy, an approach is applied in which the acquisition of natural gas is accounted for in two stages - at the supplier/delivery level and the second stage – distribution of the acquired natural gas from supplier/delivery by sales markets and storage location.

The method of writing the cost of natural gas - weighted average cost - is preserved.

When determining the net realizable value of natural gas at the end of the reporting period, the reference TTFfin price for January of the following calendar year is used (as of 31 December 2022: the price that the Energy and Water Regulatory Commission has approved for the month of the first reporting period for the following year).

In order to achieve a presentation that gives more relevant information about the effect of operations and other events or conditions on the financial position of the Company, some of the elements are presented in a different way compared to the financial statements for 2022. The changes refer to the following items:

- Prepaid advances for the supply of natural gas, which are presented on a separate line in the Company's statement of the financial position as of 30 June 2023, in the amount of BGN 410,565 thousand. As of 31 December 2022, the paid advances for the supply of natural gas in the amount of BGN 555,262 thousand were presented within Trade and other receivables line in the statement of financial position.
- the reporting of swap transactions for the purchase and sale of liquefied natural gas intended for subsequent regasification, which was made in the second half of 2022. In the comparative period 2022 in these financial statements, the transactions for the sale of liquefied natural gas are included in the cost of natural gas as part of the pipeline gas acquisition process, and not as an independent purchase and sale of liquefied natural gas. Therefore, the transactions are presented net as an adjustment to the cost of the conventional natural gas acquired. As a result, the reported revenues and cost in these statements for the comparative period as of 30 June 2022 are netted by BGN 287,864 thousand. The change has no effect in profit and loss.

The changes for the previous reporting period have an effect only on the way of presentation of elements of the statement of financial position as of 31 December 2022 and do not refer to the way of their valuation.

**4. ESTIMATES**

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

In preparing this condensed interim financial statement, the significant judgements of Company's management in applying the Company's accounting policies and the main sources of uncertainty of accounting estimates do not differ from those disclosed in the Company's annual financial statements as of 31 December 2022, except of changes in the estimate of income tax expense.

**5. FINANCIAL RISK MANAGEMENT**

**5.1. FINANCIAL RISK FACTORS**

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

The condensed interim financial statement does not include all the risk management information and disclosures required in the preparation of annual financial statements and should be read in conjunction with the Company's annual financial statements as at 31 December 2022. There have been no changes in the risk management policy during the period.

**6. SIGNIFICANT EVENTS AND TRANSACTIONS DURING THE PERIOD**

In 2023, the following significant events occurred that had a significant effect on the Company's activity and position:

1/ In February 2023, a loan granted by BEH EAD, with a limit of up to BGN 200,000 thousand, due in February 2023, was repaid.

2/ On 03 April 2023, an agreement was signed for a credit line from BEH EAD in the amount of BGN 200,000 thousand and the repayment term - 03 April 2024. As of 30 June 2023, BGN 100 million of the amount of the credit line are utilised.

3 / On 11 April 2023, a first contractual mortgage is established by Port TPP Ezerovo EAD in favour of Bulgargaz EAD on a land property in the village of Ezerovo, municipality Beloslav, region Varna, as security for the overdue liabilities of TPP Varna EAD to Bulgargaz EAD, arising from the Natural Gas Supply Contract No 502-221 of 24 June 2021, which are the subject of item No 284/2022 of the District Court — Varna.

4/ From 01.04.2023, the implementation began of the Term Sheet signed on 30.12.2022 with BOTAŞ BORU HATLARI İLE PETROL TAŞIMA A.Ş., Bulgargaz EAD to ensure long-term access to the regasification terminals of liquefied natural gas in Turkey and its subsequent transfer to the territory of the Republic of Bulgaria, subject to the flexibility of supply. Under the agreement, the Company provided a performance deposit. The capacity under the agreement is used up to the amount of the necessary quantities, depending on the consumption in the country and according to the consumption of Bulgargaz customers. The agreement entered into force at the beginning of 2023, after approval by the Council of Ministers of the Republic of Bulgaria. The agreement is expected to help one of the Company's strategic goals to continue to play a stabilizing role in the Bulgarian market and offer secure supplies at predictable prices, thus contributing to maintaining customer confidence and competing successfully with other traders. At the same time, the development of the infrastructure gives Bulgargaz EAD increasingly better opportunities to operate in neighbouring markets, thus increasing its customer base and the achieved results.

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#### 7. INVENTORIES

	AS AT 30 June 2023	AS AT 31 December 2022 *restated
Natural gas at cost	765,278	702,403
Impairment to a net realizable value	(217,250)	(175,537)
<b>Natural gas, net realizable value</b>	<b>548,028</b>	<b>526,866</b>
Materials	13	13
<b>Total inventories</b>	<b>548,041</b>	<b>526,879</b>

The Company has no inventories that are pledged as collateral of Company's liabilities.

During the period ending on 30 June 2023, a total of BGN 1,498,419 thousand from the inventories were reported as an expense in the company's profit or loss (30 June 2022: BGN 2,239,707 thousand).

As disclosed in Note 2.1, in the second half of 2022, Bulgargaz EAD injected gas quantities above the planned, which were purchased during the period of high market prices. In order to achieve the targets of 80% storage capacity, and due to the relatively warm winter, the extraction of quantities from UGS Chiren was severely limited, resulting in the maintenance of large natural gas stocks at the end of the reporting period of 2022. The quantities of natural gas which Bulgargaz EAD was not able to extract from UGS Chiren until 15.04.2023, have been transferred to fulfil the obligation under the Contingency Action Plan for 2023/2024. Bulgargaz EAD has submitted a request to the Ministry of Energy to determine a mechanism for compensating the price of natural gas injected into UGS Chiren.

At the date of the interim statement of financial position, the Company has analysed the circumstances that would lead to the availability of indications of impairment of the natural gas value.

When preparing its assessment, the Company's management considers the availability in UGS Chiren as a non-revolving stock, stored according to the requirements of the above-described Regulations and the Contingency Action Plan, with a specific withdrawal schedule only during the November-April period. It is taken into account that the price of natural gas in the summer months is significantly lower than the futures for winter 2023-2024, as well as the withdrawal of the injected quantities is expected after the month of November 2023. The expectations of the Company's management are that after the adoption of a mechanism for compensating the high prices of natural gas injected during 2022 at UGS Chiren, applicable to all companies with natural gas injected in the underground gas storage facility as of 01.11.2022, it will be compensated. As of 1 January 2023, when determining the net realizable value of natural gas at the end of the reporting period, the reference TTFfm price for January of the following calendar year is used (as of 31 December 2022: the price that the Energy and Water Regulatory Commission has approved for the month of the first reporting period for the following year).

As of 30 June 2023, an inventory impairment in the amount of BGN 41,713 thousand was recognized. The amount of the accrued impairment of natural gas in UGS Chiren as of 30 June 2023 refers to the amount that will be withdrawal (realized) in December 2023 according to the Emergency Action Plan and is in the amount of 639,277,47 MWh. Reference TTFfm price for the month of January 2024 of EUR53.4/MWh published on the Argus Media website (argusmedia.com), as well as in the official quotation bulletin of 1 September 2023, is applied. This impairment loss together with the inventory impairment made as of 31 December 2022, have a significant impact on the financial result of the Company as of 30 June 2023, as a result of which the amount of the company's equity falls below the amount of its registered capital.

The reversal of impairment losses on inventories is recognized as an adjustment to the cost of natural gas sold during the period. The new impairment losses accrued are presented as such in the statement of profit or loss and other comprehensive income in the line 'Impairment losses on inventories.'

# BULGARGAZ EAD

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The changes in accumulated impairment of natural gas are as follows:

	6-MONTH PERIOD AS OF 30 JUNE	
	2023 *restated	2022
At the beginning of the period	175,537	2,281
Accrued impairment	41,713	-
At the end of the period	217,250	2,281

### 8. PREPAID ADVANCES FOR NATURAL GAS DELIVERY

Advances paid for the supply of natural gas in the amount of BGN 410,565 thousand (31 December 2022: BGN 555,262,000) represent prepaid amounts for natural gas supplies according to valid, effective agreements. The essential part of them, worth BGN 324,787 thousand, refers to supplies that were planned for the first half of 2023. Due to the dynamics of the market, the management's assessment is that there was no need to realize these supplies in this period and they have been renegotiated with a schedule for subsequent months of the year. The unpredictability of market conditions is caused by the drop in sales due to the warm winter, reduced consumption by customers, including due to the deteriorating macroeconomic situation in the country and Europe, the high levels of inventory at UGS Chiren. Bulgargaz EAD also took actions to renegotiate its supply programs under the concluded contracts, with the aim of reducing the total delivery quantities. At the end of July 2023, flexibility of the annual program was agreed, allowing a general reduction of the quantities for supply in 2023 and transfer of quantities from summer to winter months. Therefore, a significant part of the Company's prepaid advances towards the end the reporting period are unutilized.

### 9. TRADE AND OTHER RECEIVABLES

	AS AT 30 June 2023	AS AT 31 December 2022
Trade receivables	688,916	577,674
Accumulated impairment of trade receivables	(37,991)	(31 779)
Trade receivables from customers, related entities (Note 21)	1,733	8,262
<b>Trade receivables, net</b>	<b>652,658</b>	<b>554,157</b>
Receivable from natural gas supplier	52,819	53,809
Impairment of receivable from natural gas supplier	(27,309)	(9,755)
Guarantees provided under natural gas supply contracts	38,557	27,292
Guarantees and deposits provided to related entities (Note 21)	36,201	23,699
Guarantees provided under other contracts	39	39
	<b>100,307</b>	<b>95,084</b>
Court and awarded receivables	239,833	237,665
Accumulated impairment of court and awarded receivables	(203,627)	(201,056)
<b>Court and awarded receivables, net</b>	<b>36,206</b>	<b>36,609</b>
Receivable from Corporate Commercial Bank (CCB) AD (insolvent)	3,777	3,777
Accumulated impairment of receivables from CCB AD (insolvent)	(3,777)	(3,777)
<b>Receivable from CCB AD (insolvent), net</b>	<b>-</b>	<b>-</b>
<b>Financial receivables, total</b>	<b>789,171</b>	<b>685,850</b>



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<b>Non-financial receivables</b>		
Prepaid expenses, guarantees and deposits	11,552	29,663
<b>Non-financial receivables, total</b>	<b>11,552</b>	<b>29,663</b>
<b>Total trade and other receivables, current</b>	<b>800,723</b>	<b>715,513</b>

Changes in expected credit losses account are as follows:

	AS AT 30 June 2023	AS AT 31 December 2022
<b>At the beginning of the period</b>	<b>246,367</b>	<b>212,189</b>
Accrued impairment losses on financial assets - receivables	14,031	28,051
Accrued impairment of trade receivable from supplier on a commercial dispute	17,555	9,755
Written-off uncollectible receivables	(22)	(343)
Recovered impairment losses on financial assets- receivables and cash	(5,227)	(3,257)
Recovered impairment losses on CCB AD (insolvent)	-	(28)
<b>At the end of the period</b>	<b>272,704</b>	<b>246,367</b>

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

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

The accrual for impairment losses and the reversal of impairment losses are presented on a separate line, net in the interim statement of profit or loss and other comprehensive income. The effects of time elapsed/change in the discount rate are reported in financial income/expense — net.

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

In calculating the impairment of receivables, the concepts and approaches in the impairment models under IFRS 9 'Financial Instruments' are considered. The calculations performed include impairment tests of financial assets based on "models" and a classification approach adopted for court and awarded receivables, "court and awarded receivables" and those "in bankruptcy proceedings".

As of 30 June 2023, when calculating the expected credit losses on receivables from Toplofikatsia Sofia EAD (the Company's largest customer), expected credit losses for the period in the amount of BGN 11,694 thousand were recognized.

The Company's trade receivables from Toplofikatsia Sofia EAD are provided as collateral for the loan received from the Ministry of Energy in the amount of BGN 800 million.

As collateral for overdue debts of TPP Varna EAD to Bulgargaz EAD, which are the subject of a legal dispute, the first contractual mortgage is established by Port TPP Ezerovo EAD in favour of Bulgargaz EAD on a land property in the village of Ezerovo, municipality Beloslav, region Varna. In August 2023, market valuation of the real estate was carried out by an independent appraiser, which showed a value higher than the trade receivable of Bulgargaz. In applying the impairment model when calculating credit losses for receivables as of 30 June 2023, the Company has taken into account the amount of the collateral and the current market valuation of the property.

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On 3 August 2023, District Court - Varna issued a decision on the commercial case no. 284/2022, whereby the claim of the plaintiff Bulgargaz EAD was upheld. The decision is subject to an appeal before the Court of Appeal - Varna within two weeks of its notification to the parties.

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

A significant part of the other financial receivables with carrying amount of BGN 25,510 thousand as at 30 June 2023 represents a receivable from OOO Gazprom Export, which arose in connection with an unrecognised amount by Bulgargaz EAD for natural gas supplies for the first quarter of 2022. The amount relates to a commercial dispute for undelivered but invoiced quantities of natural gas for that period.

#### 10. CASH AND CASH EQUIVALENTS

	AS AT 30 June 2023	AS AT 31 December 2022
Cash in current bank accounts	35,097	207,544
Impairment	(58)	(149)
<b>Total cash and cash equivalents in the statement of financial position</b>	<b>35,039</b>	<b>207,395</b>

Changes in expected credit losses account on cash in banks are as follows:

	AS AT 30 June 2023	AS AT 31 December 2022
<b>At the beginning of the period</b>	<b>(149)</b>	<b>-</b>
(Accrued)/reversed expected credit losses on cash and cash equivalents	91	(149)
<b>At the end of the period</b>	<b>(58)</b>	<b>(149)</b>

#### 11. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are recognized for all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, at a tax rate of 10% (2022: 10%), applicable for the year, when they are expected to occur retroactively.

The changes of deferred tax assets and liabilities as at 30 June 2023 by elements are as follows:

	Impairment of inventory	Impairment of financial assets — receivables and cash	Pension provisions	Unused paid leaves	Lease	Total
<b>DEFERRED TAX ASSETS, NET</b>						
AS AT 01 January 2023	(10,605)	(4,694)	(19)	(20)	2	(15,336)
Expense in profit or loss	(4,172)	(2,626)	-	-	-	(6,798)
AS AT 30 June 2023	(14,777)	(7,320)	(19)	(20)	2	(22,134)
<b>DEFERRED TAX ASSETS, AS AT 30 JUNE 2023, NET</b>	<b>(14,777)</b>	<b>(7,320)</b>	<b>(19)</b>	<b>(20)</b>	<b>2</b>	<b>(22,134)</b>

# BULGARGAZ EAD

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 June 2023

The changes of deferred tax assets and liabilities as at 30 June 2022 by elements are as follows:

	Impairment of inventory	Impairment of trade and other receivables	Pension provisions	Unused paid leaves	Plant and equipment	Total
<b>DEFERRED TAX ASSETS</b>						
AS AT 01 January 2022	(228)	(1,178)	(18)	(14)	-	(1,438)
Expense in profit or loss	-	(2)	-	-	-	(2)
AS AT 30 June 2022	(228)	(1,180)	(18)	(14)	-	(1,440)
<b>DEFERRED TAX LIABILITIES</b>						
AS AT 01 January 2022	-	-	-	-	1	1
AS AT 30 June 2022	-	-	-	-	1	1
DEFERRED TAX ASSETS, NET	(228)	(1,180)	(18)	(14)	1	(1,439)

### 12. SHARE CAPITAL

	Number of shares	As at 30 June 2023 Value
At the beginning of the period	231,698,584	231,698
At the end of the period	231,698,584	231,698

For the interim reporting period, there was no change in the amount and structure of the share capital.

### 13. RESERVES

	Statutory reserves	Revaluation reserves of non-financial assets	Reserve of revaluations of defined benefit plans	Total
<b>6-MONTH PERIOD ENDED ON 30 JUNE 2023</b>				
At the beginning of the period	21,166	35	(49)	21,152
At the end of the period	21,166	35	(49)	21,152
<b>6-MONTH PERIOD ENDED ON 30 JUNE 2022</b>				
At the beginning of the period	14,776	35	(54)	14,757
At the end of the period	14,776	35	(54)	14,757

# BULGARGAZ EAD

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS 30 June 2023

### 14. BORROWINGS

	AS AT 30 June 2023	AS AT 31 December 2022
<b>Non-current</b>		
Loans to related entities (Note 21)	800,000	800,000
Interests to related parties	-	6,085
<b>Total non-current</b>	<b>800,000</b>	<b>806,085</b>
<b>Current</b>		
Interests to related parties	14,669	556
Loans from related parties	617,515	717,515
<b>Total current</b>	<b>632,184</b>	<b>718,071</b>
<b>Total borrowings</b>	<b>1,432,184</b>	<b>1,524,156</b>

By 30 June 2023 the Company has liabilities under the following loans obtained to secure natural gas supplies:

- Loans from the sole owner BEH EAD with total availability of BGN 717,515 thousand, which is unsecured. The loans were granted in 2022 and 2023, in BGN, and the repayment period is in 2023 and 2024. As of 30 June 2023, the Company reports liabilities for interest on loans in the amount of BGN 293 thousand, repaid in July 2023
- Loan from the Ministry of Energy in the amount of BGN 800,000 thousand, received after the Decree of the Council of Ministers No 245 of 11 August 2022 which approved additional payments from the budget of the Ministry of Energy in the amount of BGN 800 million for the purchase of natural gas and provision of working capital. The loan is secured by a pledge of present and future receivables from Toplofikatsia Sofia EAD. The loan shall have a term of 36 months from the date of disbursement of the first tranche, with interest repayment due 18 months from the date of the first tranche.
  - The total amount of the loan liability to the Ministry of energy as of 30 June 2023 is BGN 814,376 thousand, including BGN 800,000 thousand - for principal, representing the long-term part and for interest - in the amount of BGN 14,376 thousand, representing the short-term part (31 December 2022 - BGN 806,085 thousand).

Detailed information on loans from related parties is presented in Note 21 Related party transactions and balances. The fair values of current borrowings do not differ from their carrying amounts.

### 15. TRADE AND OTHER PAYABLES

	AS AT 30 June 2023	AS AT 31 December 2022
Trade payables	139,397	253,149
Payables to related parties (Note 21)	5,213	10,263
<b>Total financial liabilities</b>	<b>144,610</b>	<b>263,412</b>
Advances received from customers for sale of natural gas (liabilities under contracts with customers)	36,739	1,431
Deferred income	17,149	17,149
VAT payable	4,223	39,200
Excise duty payable	448	962
Payables to employees	116	171
Liabilities to insurance companies	84	93
Other liabilities	3,878	2,505
<b>Total non-financial liabilities</b>	<b>62,637</b>	<b>61,511</b>
<b>Total current trade and other liabilities</b>	<b>207,247</b>	<b>324,923</b>

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

**BULGARGAZ EAD****NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2023**

Advances received from customers for the sale of natural gas include invoiced, unaccepted annual quantities, under the terms of the concluded contracts, effective until 31 December 2022. In the event that during the delivery year, customers accept quantities smaller than the minimum annual quantities, requested by them for the respective year of delivery, they pay to Bulgargaz EAD the unaccepted amount of natural gas at a price that is 50% of the invoiced value of the amount of natural gas delivered, divided by the amount of natural gas delivered for the same year of delivery. Once these quantities are paid on time in the next delivery year, under the natural gas supply contracts, customers have the right to claim and accept these partially paid quantities in the next 18 months.

As of 30 June 2023, the Company has liabilities for advances received in the amount of BGN 570 thousand from customers, in connection with unaccepted minimum annual quantities for 2021, which have been prepaid and should be accepted in 2023. In the month, in which these quantities are requested and accepted, customers should pay them at a price that is 50% of the effective price of natural gas for the relevant delivery month.

The rest of the advances received as of 30 June 2023 represent prepaid deliveries of natural gas for the month of July from several customers of the Company.

According to the terms of the contract for the sale of natural gas for 2023, the Company has the right to issue and provide the customer with an invoice for the established liabilities for penalties due to the non-accepted annual quantities of natural gas, until 31 January 2024.

**16. ACCRUED AND REVERSED EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS, NET**

	<b>6-MONTH PERIOD AS AT 30 JUNE</b>	
	<b>2023</b>	<b>2022</b>
Accrued impairment losses on trade receivables, net (Note 9)	(6,961)	-
Accrued impairment losses on court and adjudicated receivables, net (Note 9)	(1,843)	-
Accrued impairment losses on a receivable on commercial dispute (Note 9)	(17,555)	-
Accrued / reversed cash impairment losses (Note 10)	91	(17)
<b>Total accrued expected credit loss on financial assets for the period, net</b>	<b>(26,268)</b>	<b>(17)</b>

**17. INCOME TAX EXPENSES**

	<b>6-MONTH PERIOD AS AT 30 JUNE</b>	
	<b>2023</b>	<b>2022</b>
		<b>*restated</b>
Expenses on current corporate tax	(2,804)	(5,267)
Effect of change in deferred taxes (Note 11)	6,798	2
<b>Income from/(expenses on) profit tax</b>	<b>3,994</b>	<b>(5,265)</b>

Current tax expense is recognized based on the Company's management judgement of the weighted average annual income tax rate expected for the entire financial year, which is 10% (2022: 10%).



# BULGARGAZ EAD

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 June 2023

### 18. REVENUE FROM SALES OF NATURAL GAS

#### 6-MONTH PERIOD AS AT 30 JUNE

	2023	2022
Revenue from the sale of natural gas, including by type of activities:	1,499,445	2,263,035
- <i>regulated</i>	915,006	1,046,942
- <i>freely negotiated</i>	584,439	882,587
- <i>stock market under release programme</i>	-	333,506
Revenues from sale of natural gas for balancing	32,701	25,514
Revenue from penalties for non-performance under contracts with customers for unaccepted and over-collected quantities	35,332	12,859
<b>Total revenues from sale of natural gas</b>	<b>1,567,478</b>	<b>2,301,408</b>

Revenues under contracts with customers realized in Bulgaria represent 83.03% of all revenues (30 June 2022: 99.98 % ), and the rest of them were realized outside Bulgaria.

The timing of revenue recognition is over time.

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

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

# BULGARGAZ EAD

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 June 2023

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

### BALANCES UNDER CONTRACTS WITH CUSTOMERS

	AS AT 30 June 2023	AS AT 31 December 2022
<b>Assets</b>		
Trade receivables (Note 9)	650,924	545,895
Receivables from related parties (Note 9)	1,733	8,262
Contract assets — uninvoiced receivables	13,667	55,698
<b>Liabilities</b>		
Contract liabilities (Note 15)	36,739	1,431

### CONTRACT ASSETS

Contract assets with customers represent the Company's uninvoiced receivables at the end of each reporting period for quantities of natural gas delivered during the month of December, which under the terms of the contracts are invoiced by Bulgargaz EAD by the 9th day of the month following the month of delivery. The invoicing of the receivables shall be carried out after the final preparation of a monthly statement for the quantities of natural gas delivered to the customer during each of the days of the respective month, containing information on Bulgargaz' obligations for delivery and the customer's obligations for acceptance of the natural gas. The value of the contract assets also includes the amount of excise tax to be re-invoiced to customers.

As of 30 June 2023, the contract assets amounted to BGN 13,667 thousand, including the right to remuneration for delivered but uninvoiced quantities of natural gas for the month of June 2023 in the amount of BGN 13,214 thousand and excise duty for re-invoicing in the amount of BGN 453 thousand. As of 31 December 2022, the contract assets amounted to BGN 55,698 thousand, including BGN 54,731 thousand of uninvoiced deliveries for the month of December 2022 and BGN 967 thousand of excise duty.

The amount of contract assets and contract liabilities at the end of each reporting period is recognised in full as revenue from the sale of goods in the next reporting period as described above i.e. in accordance with the agreed terms with customers and the Company's accounting policy.

## BULGARGAZ EAD

### NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 June 2023

Customer contract liabilities represent payments made by customers during the month of delivery for contracted quantities of natural gas and capacity products.

#### 19. HIRED SERVICES EXPENSES

	6-MONTH PERIOD AS AT 30 JUNE	
	2023	2022
Natural gas capacity expenses	(32,669)	-
Natural gas storage expenses	(7,246)	(6,050)
Court fees and legal advices	(375)	(3,290)
Costs under management contracts	(232)	(752)
License fees	(1,345)	(404)
Other fees	(205)	(238)
Subscription service	(93)	(80)
Other services, civil contract services	-	(76)
Platform participation fee	(251)	(61)
Communications	(21)	(34)
Insurances	(70)	(48)
Security	(57)	(46)
Rents	(129)	-
Financial audit	(74)	-
Remunerations of audit committee members	(28)	(37)
Consulting services	-	(33)
<b>Total hired services expenses</b>	<b>(42,795)</b>	<b>(11,149)</b>

Capacity costs represent requested and purchased but unused natural gas transmission capacity.

#### 20. PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

##### European Commission procedures

##### Case COMP/B1/AT.39849 — BEH gas

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

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

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

On 26 July 2018, a decision was adopted by the 44th National Assembly (NA) of the Republic of Bulgaria to take action to close Case COMP/B1/AT.39849 — BEH gas under Article 9 of Regulation (EC) No 1/2003 by undertaking commitments on the part of Bulgaria and reaching an agreement with the European Commission. The second decision of the National Assembly was motivated by the development of case COMP/B1/AT.39816 between the European Commission and PJSC Gazprom and OOO Gazprom Export, on which on 24 May 2018

## BULGARGAZ EAD

### NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 June 2023

the Commission announced that an agreement had been reached and closed under the provisions of Article 9 of Regulation (EC) No 1/2003 without imposing a financial sanction on PJSC Gazprom and OOO Gazprom Export.

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

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

On 4 July 2019, the Bulgarian state, through the Ministry of Foreign Affairs, submitted an application to intervene in the case in support of BEH EAD and its subsidiaries gas companies. On 26 August 2019, the European Commission presented its Defense before the General Court in response to a complaint filed by Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD. On 29 November 2019, Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD filed a Response against the Defense of the European Commission.

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

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

On 29 September 2022, oral hearing between the parties was conducted. It should be borne in mind that oral hearings constitute the final phase of the proceedings. After the hearing, the court asked the parties to submit additional documents, and the deadline for this was extended to 25 November 2022.

As of 30 June 2023, the Company has accrued a provision of BGN 50,244 thousand (31 December 2022: BGN 50,244 thousand), representing 1/3 of the total amount of the fine imposed and interest thereon amounting to BGN 3,230 thousand (31 December 2022: BGN 2,856 thousand), and it is estimated that the final decision of the competent court is expected in November 2023.

The admission would materialise only in case the General Court rules in favour of BEH EAD, Bulgartransgaz EAD and Bulgargaz EAD and the decision is not appealed by the EC. If the decision is appealed to the Court of Justice of the European Union, the Bulgarian companies will have to continue to maintain the security/provision until the dispute is finally resolved.

#### Contingent assets

1/ In connection with a trade dispute from preceding periods, Bulgargaz EAD claimed the return of natural gas to fill the Transit 1 gas pipeline. The Company could not resolve extrajudicially the commercial dispute and its claims and initiated International Arbitration Case No 78/2019 before the International Commercial Arbitration Tribunal to the Romanian Chamber of Commerce and Industry, against Transgaz National Gas Company SA, Romania. By Decision 120 of 09.12.2021 on the arbitration case filed before the International Commercial Arbitration Court of the Chamber of Commerce and Industry of Romania, Transgaz S.A., Romania was sentenced to reimburse Bulgargaz EAD the amount of natural gas in kind or its monetary equivalent in amount of USD 923 thousand, as well as the legal interest on the amount, together with the costs incurred in connection with the arbitration. The defendant has applied to a Romanian court for the annulment of the arbitral award, which has become final and for suspension of its enforcement. A case was filed on the request and at the first hearing the request was rejected. On 09 March 2022 the amounts were received in favour of Bulgargaz EAD. The decision

## **BULGARGAZ EAD**

### **NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 June 2023**

of the Bucharest Court of Appeal dismissed the action for annulment of arbitral award No 120/09.12.2021, filed by Transgaz S.A., Romania against the defendant Bulgargaz EAD. An appeal was filed by Transgaz S.A., Romania before the Supreme Court of Romania against the Decision of the Court of Appeal - Bucharest. At the present time, Bulgargaz EAD is waiting for the announcement of the grounds for the decision of the Supreme Court which annulled the decision of the Court of Appeal of Bucharest and rejected the request of Transgaz S.A. Romania, for annulment of the arbitration award (decided in arbitration case No. 78/2019). It was ruled that the case should be referred for a new consideration by the Court of Appeal of Bucharest, in order to review the request of Transgaz S.A.

Due to the limited access to the natural gas at issue in the Transit 1 pipeline, it was devalued by the Company in 2021. The indemnification received pursuant to the judgements rendered to date, it has been recognized as other liabilities until the final settlement of the commercial dispute between the parties.

2/ As at 30 June 2023, the Company has bank guarantees from commercial customers in the amount of BGN 43 million. (31 December 2022: BGN 20 mln.)

#### **Contingent liabilities**

1/ There are legal claims initiated against the Company, but they are not of considerable material interest.

With the exception of those for which provisions have already been accrued, the Management of the Company considers that the claims are unfounded and that they are unlikely to incur expenses for the Company in settling them. This judgment of the Management is supported by the opinion of an independent legal consultant.

None of the aforementioned claims is set out in detail here, so as not to have a serious impact on the Company's position in dispute resolution.

2/ Natural gas transportation agreement was entered into with ICGB AD based on a preliminary agreement for capacity expansion in 2019. In connection with this agreement, a corporate guarantee to the amount of EUR 12 million was issued by Bulgarian Energy Holding EAD in favour of ICGB AD. In 2022, the term of the guarantee was extended until 01 December 2023 and its amount equals to EUR 16,102 thousand.

#### **Commitments**

1/ Pursuant to an agreement entered into in 2020 with a banking institution, the Company has been granted a credit product in the form of a bank guarantee issued in favour of a natural gas supplier. The term of the bank guarantee is renewed periodically, and at the last reference during the current period – until 11 December 2023.

2/ Pursuant to an agreement entered into in 2022 with another banking institution, the Company has been granted a credit product in the form of a bank guarantee issued in favour of a supplier and maturing on 30 November 2024.

3/ On the basis of the signed on 30 December 2022 Term Sheet with BOTAŞ BORU HATLARI İLE PETROL TAŞIMA A.Ş., Bulgargaz EAD provides access to the LNG regasification terminals in Turkey and its subsequent transportation to the territory of the Republic of Bulgaria, subject to the flexibility of supply. The period of the Term Sheet between Bulgargaz EAD and Botaş is 01.01.2023 - 31.12.2035, as by Decision No. 26 of 12.01.2023, the Council of Ministers of the Republic of Bulgaria approves the signed Term Sheet. The Term Sheet provides for regasification and transmission capacity of natural gas to the interconnection point at the border of the Republic of Turkey and the Republic of Bulgaria — Malkochlar/Stranja 1.

4/ The company has no concluded contracts as of 30 June 2023 with banking institutions for the provision of revolving financing in the form of overdrafts (as of 30 June 2022: limit BGN 58,100 thousand)

#### **Other**

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



**BULGARGAZ EAD****NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT  
30 June 2023****21. RELATED PARTIES TRANSACTIONS AND BALANCE**

The Company discloses the following related parties:

<b>Entity</b>	<b>Country of incorporation</b>	<b>Main activity.</b>
<i>Sole owner of the Company, exercising control (Parent company)</i>		
Bulgarian Energy Holding EAD (BEH)		
<i>Sole owner of the Parent company</i>		
The Bulgarian State through the Minister of Energy		
<i>Companies under common control with the Company (entities within the group)</i>		
Kozloduy NPP EAD	Bulgaria	production of electricity and heat
HPP Kozloduy EAD	Bulgaria	generation and distribution of electricity from hydropower
Interpriborservice OOD (insolvency)	Bulgaria	installation and maintenance of automated systems
NPP Kozloduy — New Builds EAD	Bulgaria	operation of a nuclear plant for electricity production
HPP Service EOOD	Bulgaria	maintenance of automation tools
NPP Construction Supervision EOOD	Bulgaria	conformity assessment of investment projects
Bulgartransgaz EAD	Bulgaria	storage and transmission of natural gas
Balkan Gas Hub EAD	Bulgaria	building and operating an electronic trading platform for natural gas, energy products, green and white certificates, carbon emissions
Elektroenergien sistemen operator EAD	Bulgaria	electricity transmission
ESO Engineering EOOD	Bulgaria	design, consultancy, construction of technologies and projects for energy facilities
ESO Proekt EOOD	Bulgaria	design of energy sites
Bulgartel AD	Bulgaria	implementation of telecommunications
Bulgartel-Skopje DOOEL	The Republic of North Macedonia	implementation of telecommunications
Maritsa East Mines EAD	Bulgaria	extraction and sale of coal
Natsionalna Elektricheska Kompania EAD	Bulgaria	generation of electricity and public electricity supplier
TPP Maritsa East 2 EAD	Bulgaria	production of electricity and heat
National Energy Operator EAD	Bulgaria	electricity generation
<i>Jointly controlled entities</i>		
ICGB AD	Bulgaria	construction and operation of gas transmission system
South Stream Bulgaria AD	Bulgaria	construction and operation of gas transmission system
Transbalkan Electric Power Trading S.A. — NECO S.A.	Greece	sale of electricity

## BULGARGAZ EAD

### NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 June 2023

#### *Associates*

Contour Global Maritza East 3 AD	Bulgaria	electricity production
Contour Global Operations Bulgaria AD	Bulgaria	operation and maintenance of a thermal power plant
Energy Insurance JSC	Bulgaria	insurance company
VPI Allianz Bulgaria EAD	Bulgaria	pension insurance company
HEC Gorna Arda AD	Bulgaria	construction of hydroelectric power plants

#### *Other related parties under common control*

Public sector enterprises under joint control of the Council of Ministers in the Republic of Bulgaria

#### *Key management personnel of the parent company as at 30 June 2023*

Ivan Todorov Andreev	Member of the Board of Directors and Executive Director of BEH EAD
Andrei Stefanov Zhivkov	Member of the Board of Directors and Executive Director of BEH EAD
Veselina Lachezarova Kanatova-Buchkova	Chairman and Member of the Board of Directors of BEH EAD
Angel Emilov Yankov	Vice Chairman and Member of the Board of Directors of BEH EAD
Diyan Stanimirov Dimitrov	Member of the Board of Directors of BEH EAD
Kalin Boianov Filipov	Member of the Board of Directors of BEH EAD
Ivo Ivanov Todorov	Member of the Board of Directors of BEH EAD

#### *Key management personnel of the company Company as at 30 June 2023:*

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

The sales and purchases to related parties are carried out at agreed prices.

Outstanding balances at the end of the reporting period are unsecured, interest free (excluding loans and deferred trade payables) and their settlement is done in cash.

No guarantees have been provided or received for receivables or liabilities from/to related entities, with the exception of a guarantee amount provided to Bulgartransgaz EAD under a natural gas access and transmission contract, a natural gas balancing contract and a natural gas storage contract and provided guarantee amount to ICGB EAD under a contract for the transmission of natural gas.

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

#### (A) SALE OF GOODS AND SERVICES

	6-MONTH PERIOD AS AT 30 JUNE	
	2023	2022
Companies under joint control		
Bulgartransgaz EAD	34,247	34,332
<b>Total</b>	<b>34,247</b>	<b>34,332</b>

Sales include natural gas for balancing and realized natural gas, in accordance with the Rules for Operation of the Organized Exchange Market of Balkan Gas Hub EAD.

**BULGARGAZ EAD****NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT  
30 June 2023****(B) PURCHASE OF GOODS AND SERVICES**

	6-MONTH PERIOD AS AT 30 JUNE	
	2023	2022
<b>Parent company</b>		
Bulgarian Energy Holding EAD	241	1,013
<b>Companies under common control</b>		
Bulgartransgaz EAD	51,653	63,183
Bulgartel EAD	3	3
ICGB AD	17,014	-
Balkan Gas Hub EAD	236	61
<b>Total</b>	<b>69,147</b>	<b>64,260</b>

The purchases of services from Bulgarian Energy Holding EAD include services under management and control agreement.

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

The purchases of services from Bulgartel EAD include technical support.

The purchases of services from ICGB AD include natural gas transportation service on the IGB pipeline.

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

**(C) ACCRUED CHARGES FOR BANK COMMISSIONS**

	6-MONTH PERIOD AS AT 30 JUNE	
	2023	2022
<b>Parent company</b>		
Bulgarian Energy Holding EAD	268	261
<b>Total</b>	<b>268</b>	<b>261</b>

The accrued expenses for bank commissions are in connection with bank guarantee maintenance under case COMP/BI/AT.39849 – BEH gas.

**(D) RECEIVABLES UNDER SALES OF GOODS AND SERVICES**

	AS AT 30 June 2023	AS AT 31 December 2022
<b>Companies under common control</b>		
Bulgartransgaz EAD	27,864	31,961
ICGB AD	10,070	-
<b>Total</b>	<b>37,934</b>	<b>31,961</b>

The receivables from Bulgartransgaz EAD represent financial collateral in the form of a credit limit (guarantee amount) and current receivables for the sale of natural gas for balancing, and those from ICGB AD - a guarantee under a contract for the transmission of natural gas.

**(E) LIABILITIES ON PURCHASES OF GOODS AND SERVICES**

	AS AT 30 June 2023	AS AT 31 December 2022
<b>Parent company</b>		
Bulgarian Energy Holding EAD	14	16
<b>Companies under common control</b>		
Bulgartransgaz EAD	1,757	6,774
Bulgartel EAD	1	1
Balkan Gas Hub EAD	36	77
ICGB AD	3,405	3,395
<b>Total current</b>	<b>5,213</b>	<b>10,263</b>

**BULGARGAZ EAD****NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2023**

Liabilities to Bulgarian Energy Holding EAD include services under management and control agreement.  
 Liabilities to Bulgarttransgaz EAD are related to received current services for access, transmission and storage of natural gas and current supply of natural gas for balancing.  
 Liabilities to ICGB AD include natural gas transmission services.

**(F) LIABILITIES ON RECEIVED LOANS FROM RELATED ENTITIES**

	AS AT 30 June 2023	AS AT 31 December 2022
<b>NON-CURRENT</b>		
<b>Loan from the Ministry of Energy</b>		
<b>At the beginning of the period</b>	<b>806,085</b>	<b>-</b>
Loan received in cash	-	695,305
Accrued expenses for interests	8,291	6,085
Loan received against offsets against VAT counter debts	-	104,695
Accrued interest expense reclassified to current portion	(14,376)	-
<b>Payables on loan received at the end of the period</b>	<b>800,000</b>	<b>806,085</b>
<b>CURRENT</b>		
<b>Loan from Bulgarian Energy Holding EAD</b>		
<b>At the beginning of the period</b>	<b>718,071</b>	<b>-</b>
Loan received	215,000	852,509
Payments on loans received	(315,000)	(192,509)
Accrued expenses for interests	10,598	6,455
Interest paid	(10,861)	(5,899)
Offsets against dividend payables	-	57,515
<b>Liabilities on loan received at the end of the period</b>	<b>617,808</b>	<b>718,071</b>
<b>Loan from the Ministry of Energy</b>		
<b>At the beginning of the period</b>	<b>-</b>	<b>-</b>
Accrued interest expense reclassified to non-current portion	14,376	-
<b>Liabilities on loan received at the end of the period</b>	<b>14,376</b>	<b>-</b>
<b>Total current liability on loans</b>	<b>632,184</b>	<b>718,071</b>

In 2022, the company received three loans from the parent company with limits of up to BGN 200 million, BGN 60 million, and BGN 457 million. The agreed annual interest rates are 3.275%/3.23%. The repayment terms are respectively February 2023, July 2023 and December 2023. The BGN 200 million loan was repaid to BEH in March 2023. The maturity of the BGN 60 million loan from BEH was extended by one year until July 2024. In April 2023, a new contract was signed with BEH for a credit line with a limit of up to BGN 200 million and a term in April 2024. As of 30 June 2023, BGN 100 million from this credit line have been utilised. The loans are unsecured. The funds received are used for the company's operational needs and ensuring the supply of natural gas.

In 2022 the Company has received a loan from the Ministry of Energy in the amount of BGN 800,000 thousand, secured by a special pledge of current and future receivables from Toplofikatsia Sofia EAD. The loan bears an annual interest rate of 2% and matures on 12 August 2025. The principal and interest are paid according to a repayment plan. Interest shall become payable from February 2024.

## BULGARGAZ EAD

### NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 June 2023

#### (G) KEY MANAGEMENT PERSONNEL REMUNERATIONS

The key management personnel include members of the Board of Directors.

Key management personnel remunerations are as follows:

	6-MONTH PERIOD AS OF 30 JUNE	
	2023	2022
Short-term benefits to key management personnel		
Employee benefits expenses	(349)	(178)
Social security expenses	(9)	(13)
<b>Total</b>	<b>(358)</b>	<b>(191)</b>

As at the end of each of the reporting periods, the Company had no liabilities to key management personnel.

#### 22. EVENTS THAT OCCURRED AFTER THE END OF THE REPORTING PERIOD

1/ By Decisions of the Energy and Water Regulatory Commission, a price is approved at which the public supplier sells natural gas to the end suppliers of natural gas and to the persons who have been issued a license for the production and transmission of thermal energy, in the amount of BGN 60.58/MWh (excluding excise duty and VAT) - for the month of July 2023, and subsequently in the amount of BGN 59.67/MWh (excluding excise duty and VAT) for the month of August 2023 and BGN 63.35/ MWh (excluding excise duty and VAT) for the month of September 2023.

2/ On 06 July 2023, an addendum was concluded with Bulgarian Energy Holding EAD to extend the term of a loan agreement (short-term credit line) from 06 July 2022, under the conditions of an existing limit of BGN 60 million.

There are no adjusting or other non-adjusting events that occurred after the reporting period date that would require additional disclosure or adjustments in the interim condensed financial statements of Bulgargaz EAD as of 30 June 2023.

#### 23. APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The condensed interim financial statements as of 30 June 2023, (including comparatives) were approved for issuance by the Board of Directors on 15 September 2023.



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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 interim condensed statement of financial position as at 30 June 2023 and the interim condensed statement of profit or loss and other comprehensive income, the interim condensed statement of changes in equity and the interim condensed statement of cash flows for the period then ended, and selected notes and information to the interim condensed financial statements.

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion" section of our report, the accompanying interim condensed financial statements give a true and fair view of the financial position of the Company as at 30 June 2023 and of 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 Qualified Opinion

1. As disclosed in note 9 **Trade and other receivables** to the interim condensed financial statements, the Company reports a receivable from a natural gas supplier with a carrying amount of BGN 25,510 thousand at 30 June 2023, net of accrued impairment loss. The amount relates to a commercial dispute in connection with its supplies for the first quarter of 2022. We were unable to obtain sufficient and appropriate audit evidence as to the existence and amount of this receivable despite direct confirmation procedures with the supplier and alternative audit procedures performed. Accordingly, we were unable to determine whether and in what amount any adjustments would be required to the carrying amount of the receivable from the natural gas supplier as of 30 June 2023.

2. As disclosed in note 7 **Inventories** to the interim condensed financial statements, the carrying amount of the Company's natural gas as at 30 June 2023 is BGN 548,028 thousand. In preparing the assessment relating to the determination of the net realisable value of natural gas, the Company's management has referred to an expected selling price of natural gas (European TTF Front month index used as a reference price quotation published in an Argus Media bulletin) for January 2024, but has applied this price only to the portion of the available natural gas quantity that is planned to be realised by the end of the year in accordance with the Emergency Action Plan. As a result, the total carrying amount of the Company's natural gas at 30 June 2023 consists of natural gas valued at net realisable value of BGN 66,767 thousand and natural gas valued at cost of BGN 481,261 thousand. We were unable to obtain sufficient and appropriate audit evidence that the so applied method to determine the net realisable value and the corresponding calculation of the natural gas impairment loss comply with the requirements of IAS 2 Inventories. In case, that the Company had applied a consistent approach to determine the net realisable value of all available gas quantities at 30 June 2023, this value would have been by BGN 185,056 thousand lower than its carrying value and the impairment loss for the first six months of 2023 would have been higher by the same amount. Accordingly, the net loss for the period would have increased by BGN 166,550 thousand after deducting the related tax temporary differences of BGN 18,506 thousand.

3. As disclosed in note 8 **Prepaid advances for natural gas delivery**, as at 30 June 2023 they amount to BGN 410,565 thousand. A substantial part of the amount of BGN 324,787 thousand relates to advances granted to

one supplier for the delivery of certain quantities of natural gas in the first half of 2023, the delivery of which has been deferred to a subsequent period. The Company has not assessed the recoverable amount of the prepaid advances in accordance with the requirements of the applicable accounting standards. The results of our audit procedures indicated that if a consistent approach had been used to determine the recoverable amount of the natural gas advances based on its selling price, the Company would have reported an additional impairment loss on non-financial assets of BGN 217,707 thousand for the first half of 2023 against the carrying amount of the advances provided. Accordingly, the net loss for the period ending 30 June 2023 would have increased by BGN 195,936 thousand after deducting the related tax temporary differences of BGN 21,771 thousand.

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

### **Significant Uncertainty Related to the Going Concern Assumption**

We draw attention to Note 2 **Basis for preparation of the interim financial statements**, which discloses detailed information on management's assessment of the application of the going concern basis in preparing the interim condensed financial statements of the Company as at 30 June 2023, the material challenges and changes in the Company's operations, and the measures taken to secure natural gas supplies, provide liquidity and maintain the Company's financial stability. Since the end of February 2022, as a result of the military conflict between Ukraine and the Russian Federation, a series of negative consequences have occurred for the economies of EU countries, including Bulgaria. This has led to a change in the environment in which the Company operates, as well as, significant transformations in the Company's business model, supply chains and contractual relationships. A series of events and circumstances beyond the Company's control resulted in the need to secure natural gas reserves at prices that were significantly higher in 2022 compared to current market levels in 2023.

In the first half of 2023 Bulgargas EAD reported a net loss of BGN 36,312 thousand and a negative net cash flow from operating activities of BGN 58,152 thousand. As at 30 June 2023, the Company's equity of BGN 134,660 thousand is less than the registered share capital by BGN 97,038 thousand. The excess of share capital over the value of net assets at the end of the reporting period is not in accordance with the requirements of Article 252 of the Commercial Law. These circumstances, together with the matters described in the Basis for Qualified Opinion section of our report, indicate the existence of a material uncertainty that may cast doubt on the Company's ability to continue as a going concern without the support of the sole owner, BEH EAD, and the Bulgarian State, represented by the Ministry of Energy. Our opinion has not been modified regarding this issue.

### **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 financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Except for the matters described in the Basis for Qualified Opinion section and the Significant Uncertainty Related to the Going Concern Assumption section, we have determined that there are no other key audit matters to be communicated in our report.

### **Information Other than Interim Condensed Financial Statements and Auditors' Report Thereon**

Management is responsible for the other information. The other information comprises the interim management report, prepared in accordance with Bulgarian Accountancy Act, but does not include the interim condensed financial statements and our auditors' 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. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the interim condensed financial statements or whether our knowledge obtained in the audit may indicate that there is a material misstatement or otherwise the other information appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

As described in the Basis for Qualified Opinion section of this report, we were unable to obtain sufficient and

appropriate audit evidence on the matters referred to in that section. Accordingly, we are unable to conclude whether the other information contains any material misstatements in relation to those 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 European Union (EU) and the Bulgarian legislation, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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.

### **Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and Bulgarian Independent Financial Audit Act will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these interim condensed financial statements.

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

- identify and assess the risks of material misstatement of the 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 for reporting under ISAs, described above in section "Information Other than the Interim Condensed Financial Statements and Auditors' Report Thereon", regarding interim management report, we have performed the additional procedures contained in the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). The procedures on the existence, form and contents of the other information have been carried out in order to state whether the other information includes the elements and disclosures in accordance with Chapter Seven of Bulgarian Accountancy Act.

#### Statement Pursuant to Article 37, Paragraph (6) of Bulgarian Accountancy Act

Based on the procedures performed, we describe the outcome of our work:

- (a) the information in the interim management report is consistent with the interim condensed financial statements for the same reporting period, on which we have issued qualified opinion in the section "Report on the Audit of the Interim Condensed Financial Statements" above;
- (b) the interim management report is prepared in accordance with the applicable legal requirements;
- (c) as a result of the acquired knowledge and understanding of the activities of the Company and the environment in which it operates, we have found no cases of material misrepresentation in the interim management report, except for the effect of the matter described in section "Information Other than the Interim Condensed Financial Statements and Auditors' Report Thereon" of "Report on the Audit of the Interim Condensed Financial Statements";

Grant Thornton OOD  
Audit firm № 032

Mariy Apostolov  
Managing partner

Emilia Marinova  
Registered auditor responsible for the audit

25 September 2023  
Bulgaria, Sofia

Zaharinova Nexia EOOD  
Audit firm №138

Dimitrina Zaharinova  
Managing partner

Stoycho Milev  
Registered auditor responsible for the audit

