BULGARGAZ®

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

31 December 2023

CONTENTS

ACTIVITY REPORT
of
BULGARGAZ EAD
as at 31 December 2023

This report on Bulgargaz EAD's operations as at 31 December 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 31 December 2023 with the results as at 31 December 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 ordinary, registered, non-preference shares with voting rights with a nominal value of BGN 1 (one) each. The Company's capital is subscribed and fully paid up by the sole owner of the capital — Bulgarian Energy Holding EAD. The ownership rights of the State, as the sole owner of the capital of Bulgarian Energy Holding EAD, shall be exercised by the Minister of Energy.

The company is active in public supply of natural gas and trade in natural gas, as well as the 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 Л-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 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:

- Energy Act (EA), promulgated in SG, issue No 107 of 09 December 2003, amend. No 16 of 23 February 2024, effective from 23 February 2024;
- 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, last amended by Judgment No 3799 of 10 April 2023 г. of the Supreme Administrative Court of Republic of Bulgaria —No 12 of 09 February 2024, in force from 09 February 2024 (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 55 of 27 June 2023, in force from 27 June 2023 (Ordinance No 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;
- Energy Efficiency Act (EEA), promulgated in SG, issue No 35 of 15 May 2015, effective from 15 May 2015, last amend. No 86 of 13 October 2023, effective from 13 October 2023;
- Ordinance No Е-РД-04-3 of 4 May 2016 on the eligible measures for energy savings in final consumption, the ways of proving the achieved energy savings, the requirements to the methods for their assessment and the ways of their confirmation, promulgated in SG No 38 of 20 May 2016, effective as at 20 May 2016, last amended and supplemented, No 102 of 23 December 2022;
- Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC; Regulation (EU) No 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 2014establishing 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 Commercial 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;
Dimitar Vladimirov Spasov	Member of the Board of Directors
Tatyana Angelova Petrova-Boyadzhieva	Member of the Board of Directors

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

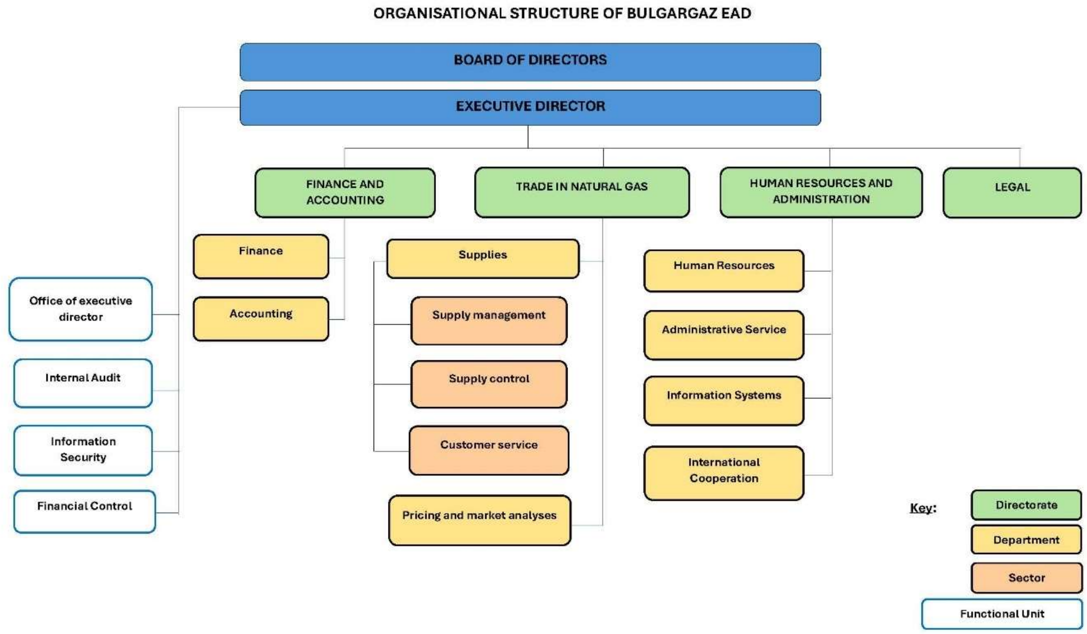
On 02 March 2023, following a competitive procedure, the following members of the Board of Directors of Bulgargaz EAD were elected by Decision No 17-2023 of Bulgarian Energy Holding EAD:

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

On 17 April 2024 by Decision No 41-2024-2022 of the Board of Directors of Bulgarian Energy Holding EAD the following new members of the Board of Directors of Bulgargaz EAD were elected:

Ivan Dimitrov Topchiysky	Chairman and member of the Board of Directors
Veselin Sashev Sinabov	Member of the Board of Directors and Executive Director
Mihail Mariov Milkov	Member of the Board of Directors
Byanka Svetlozar Racheva	Member of the Board of Directors
Marin Asenov Filipovski	Member of the Board of Directors

These circumstances were entered in the Commercial Register on 23 April 2023.



2. RESPONSIBILITY OF MANAGEMENT

Management confirms that consistent accounting policies have been applied in the preparation of the annual financial statements as at 31 December 2023 and the statements have been prepared on a going concern basis. By decision of the Board of Directors of Bulgargaz EAD dated 13 September 2023 and decision of the Board of Directors of Bulgarian Energy Holding EAD, as at 01 January 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 March 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 as well as the Company's capital recovery through the price mechanisms of the market;
- meeting the regulatory requirements of Article 37 of the Energy Act, 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 test 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 TTFfm market levels according to the published futures on argusmedia.com for the month of January of the following (calendar/financial) year.

In view of the implementation of the approved change in the Company's Accounting Policy as at 01 January 2023, the statements of Bulgargaz EAD as at 31 December 2023 presents restated comparable data for the period of the statement, as the net effect of this change in the Company's financial result for 2022 is neutral (nil). On an annual basis, there is no valuation effect from the change in accounting policy as the increase in the carrying value of inventory as at 31 December 2022 and the decrease in the written down cost of natural gas sales as at 31 December 2022 are offset by a recognized impairment loss on the Company's inventory as at 31 December 2022. The net effect on the statement of financial position line items as at 31 December 2022 represents only the tax effect on the inventory impairment loss after application of the change of BGN 6,946 thousand.

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 from 22 August 2022 to 17 April 2024;

- 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 Topchiyski — Chairman and member of the Board of Directors from 22 August 2022 to 17 April 2024:

- 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 from 22 August 2022 to 17 April 2024:

- 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 from 22 August 2022 to 17 April 2024:

- 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 to 17 April 2024:

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

Veselin Sashev Sinabov — Executive Director and Member of the Board of Directors since 17 April 2024

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

Ivan Dimitrov Topchiysky — Chairman and Member of the Board of Directors since 17 April 2024:

- 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.

Marin Asenov Filipovski — Member of the Board of Directors since 17 April 2024:

- 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.

Byanka Svetlozar Racheva — Member of the Board of Directors since 17 April 2024:

- 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.

Mihail Mariov Milkov — Member of the Board of Directors since 17 April 2024:

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

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

As at 31 December 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 31 DECEMBER 2023

As at 31 December 2023, Bulgargaz EAD carries out its activities in compliance with all regulations and decisions determined by the sole owner of the capital. As at 31 December 2023 the financial result of the Company is a loss of BGN 52,381 thousand (as at 31 December 2022: loss in the amount of BGN 93,485 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 at the year-end as well as from impairment charges on trade receivables.

1. FACTORS AFFECTING THE ACTIVITY OF THE COMPANY

- ***Legal and regulatory framework***

The activity of Bulgargaz EAD being public supply of natural gas and trade in natural gas is regulated by the Energy Act and the statutory regulations. Ordinance No 2 of 19 March 2013 determines the procedure for submission and approval of the regulated price used in sales on a regulated market. Prices in a free market are set on a market basis.

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 at 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) persons who have 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.

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

As at 01 December 2019 an obligation is created for Bulgargaz EAD, as a public supplier (market participant) with a long-term pipeline gas contract, to annually offer for sale on the organized exchange market certain quantities of natural gas in accordance with the exemption program regulated in Article 176a of the EA. At the end of 2022, following the suspension of supplies and the expiry of the contract with OOO Gazprom Export, Bulgargaz EAD supported the proposed and subsequently adopted amendment to the Energy Act, which repealed items 4 and 5 in paragraph 1 of Article 176a of the EA and the suspension of the Gas Release Programme. 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.

From 16 September 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.

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

- at prices regulated by the EWRC — on a regulated market;
- at freely negotiated prices — on the free market under the following varieties:
    - contracts with customers directly connected to the gas transmission system;
    - an organized stock market (in the country and in countries where the company has a 'Trading License');
    - organized stock market (on the domestic market and on the international markets);
    - sale of services (SWAP operations and others), extraordinary sales.
    - 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;

Since January 2021, Bulgargaz EAD has been selling on the Gas Hub Balkan EAD trading platform, with the initial aim of securing natural gas volumes to meet the country's market liberalisation targets.

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. Since 26 May 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, Hungary and Romania.

Ordinance No 2/19 March 2013 on the regulation of the price of natural gas sets out the rules under which Bulgargaz EAD as a public supplier shall prepare and submit for approval to the EWRC the estimates for determining the regulated price for the month. The rules are as follows:

- Bulgargaz EAD should form a 'mix' of supplies of natural gas quantities, in accordance with the principle of least cost in the formation of the price of natural gas at the input of the gas transmission networks, to cover the needs of the regulated and free market under contracts with customers directly connected to the gas transmission system. 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 gas storage facility at Chiren UGSF. These quantities are included in the mix determining the regulated price when they are extracted from storage during the winter months and only then can the company recover its costs of purchasing them. With the significant dynamics in natural gas prices that characterised 2022, the company injected the highest priced volumes into the Chiren UGSF and during the production period these volumes were already at uncompetitive price levels. As at 01 January 2023, the Company changed the model of formation of the acquisition price of natural gas, applying the principle of formation of the cost of natural gas in two stages — specific-delivery price and formation of the weighted average cost by sales markets. The purpose of this change is to align the costing model to the maximum extent possible with the statutory pricing methodology for the regulated market and to reflect the effect on the Company’s sales in other markets, subject to compliance with the regulatory requirements of Ordinance No 2.
- In addition to the price determined above, a ‘public supply’ component is calculated, set at a maximum of 2.5% per annum.
- 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, while final 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.
- Thus, in the determined amount of the regulated price, only the added component (the remuneration of the public supplier) should cover the costs explicitly excluded in the price calculation, which Bulgargaz EAD has in its activity, such as financial costs for interest, costs from currency transactions, costs of issued guarantees and received overdrafts, other costs of gas transportation, costs for commercial storage of natural gas, etc. In the context of the market dynamics in 2022 and 2023, this component is not sufficient to cover the regulated market values of the costs mentioned.

The presented legal and regulatory framework under which Bulgargaz EAD operates on the market leads to some negative effects on the company's activity:

- In accordance with the Rules for Trading in Natural Gas, Bulgargaz EAD should bind 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 deliveries by OOO Gazprom Export, as well as the change of pipeline deliveries to LNG tanker deliveries, the Company does not waive its customers' flexibility rights under the signed one-year gas delivery contracts at the gas transportation system exit points for 2022 and 2023. This circumstance results in deliveries on an even basis to Bulgargaz EAD on take or pay terms and sales to the Company's customers on an uneven basis, reflecting on the formation of surpluses. A change in the terms and conditions of the contracts with customers directly connected to the gas transmission system in the direction of limiting the flexibility of supply would lead to a loss of a major market advantage for the company, reflected in a reduction of market share.

- 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. On this grounds, surpluses are reached.
- The application of Ordinance No 2/19 March 2013 with the set requirements for the quantities with the lowest delivery costs to be directed to the market at regulated prices, for sale at freely negotiated prices on the exchange market, in the capacity of Bulgargaz EAD as a trader, remain the quantities with the highest delivery price, often uncompetitive on the market.
- It is necessary to introduce a mechanism that would guarantee both the creditworthiness of the registered participants of the Gas Hub Balkan platform and the security of payment for the concluded transactions. This could be done by using the services of a clearing house or by the gas platform as a party to the transactions.
- As a result of the change in the Company's business model following the suspension of pipeline deliveries by Gazprom Export OOO and the commencement and implementation of LNG tanker deliveries, the difference between the estimated and reported cost of delivering natural gas to the entrance of the gas transmission network submitted to the EWRC for approval prior to the start of the delivery month arose due to the following factors:
  - difference between quantities requested and accepted by customers, resulting in both a reduction in reported quantities and a reduction in the associated costs of their delivery for transportation, slot, regasification, terminal operating costs, etc.;
  - the particularities of LNG supply, namely that the contracts are negotiated with a nominal quantity for delivery plus/minus a % tolerance, i.e. for objective reasons the actual quantities delivered differ from the information submitted to the EWRC in the process of approval of the regulated price;
  - costs in connection with the receiving terminal, which shall be determined by the terminal operator after the month of delivery and shall be apportioned to all users according to the quantities of natural gas stored there;
  - the difference between the pricing rate determined under Ordinance No 2 and the take-up rate;
  - other

- ***Operational activity***

The development of the natural gas market in 2023 will 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.

Consumption constraints imposed in Europe, combined with significantly increased LNG supplies, gas storage requirements imposed by Regulation (EU) 2022/1032 of the European Parliament and of the Council of 29 June 2022 amending Regulation (EU) 2017/1938 and Regulation (EU) No 715/2009 to meet storage fill targets, and high stored gas prices, will limit production from storage in the winter of 2022—2023, resulting in storage fill rates 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*

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

As a result, pipeline natural gas continued to be supplied only under the 2013 contract with the Azerbaijan Gas Company, under the terms of equal daily deliveries and the 'take or pay' clause. 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.

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 contract through entry point Komotini. 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 ICGB 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 termination of supplies from Gazprom Export LLC, Bulgargaz EAD changed its business model from supplying under a long-term pipeline gas contract (with 100% daily/monthly/annual supply flexibility from Gazprom Export), to supplying under multiple LNG and Azeri pipeline gas purchase contracts, with equal supplies, i.e. without flexibility and application of a take or pay clause.

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. The exchange rate of USD throughout 2022 had a steady upward trend, reaching levels above BGN 2 per USD 1.

In 2023, the countries of the European Union made significant efforts to reduce energy dependence on Russia. According to publicly available data, the share of LNG supply doubled in the period August 2022 to July 2023 compared to 2019 levels. At the same time, natural gas consumption in the European Union has been declining, and for the period August 2022 — March 2023 it is reported that most member states have achieved the target set by the European Commission of a 15% reduction in natural gas consumption compared to the average consumption over the previous 5 years, with Bulgaria achieving a decline of around 22% (*Eurostat data*).

In September 2022, Bulgargaz EAD:

- Organised transparent and competitive tenders for the supply of LNG for the months of November and December 2022 and for the whole of 2023. LNG deliveries shall be equal, with plus/minus % delivery tolerance, *take or pay* clause and no flexibility;
- For the first time, it participated independently in the tenders held by the operator of the Revithoussa liquefied gas terminal in Greece for the allocation of regasification and storage slots for 2023. Due to the limited availability of such capacity at this time, the tenders achieved significant tender markups over the operator's announced price. The awarded regasification slots in Revithoussa enabled the tenderers to supply natural gas quantities both with slots provided by Bulgargaz EAD and with slots provided by the supplier.

When announcing the tender for the supply of LNG for 2023, Bulgargaz EAD took into account the reduced consumption in the country in 2022 compared to 2021 (in the amount of 20%) and foresaw an additional reduction for 2023 (about 6%).

When taking the Decision of the Board of Directors No 751 on item 1 of 05 December 2022, concerning the conclusion of contracts with the suppliers selected in the tender, Bulgargaz EAD took into account the binding requests in the annual programs of the already concluded annual contracts with customers for 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 December 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 (≈ 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, an Agreement 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 Agreement 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 agreement entered into force after its approval by Decision No 26 of 12 January 2023 by the Council of Ministers of the Republic of Bulgaria.

✓ Storage of natural gas

Available volumes at Chiren UGSF are pumped in 2022 at a price significantly above the current 2023 market price. 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 gas storage to meet the target of filling 80% of local gas storage capacity.

In order to meet the storage fill targets of 80%, reduced customer consumption and high cost of gas in storage, production for the 2022—2023 gas season was severely constrained, resulting in large gas stocks at the end of the season — April 2023. The quantities of natural gas that Bulgargaz EAD was unable to extract from the Chiren

UGSF by 15 April 2023, were transferred to fulfil the obligation under the Gas Contingency Plan for the 2023/2024 gas season.

In accordance with the provisions of IAS 2 and the Company's accounting policy, respectively, in determining the net realisable value of inventories (NRV) as at the end of 2023, an impairment charge has been taken on inventories totalling 214,959 thousand BGN for 2022 and 2023, of which 41,713 thousand BGN has been charged to impairment as per the decision of the Board of Directors of the Company as at 30 June 2023. Despite the impairments made, the price of natural gas produced continued to be significantly above current market levels.

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. By e-mail TT-31/1 dated 08 February 2024, the Ministry of Energy notified Bulgargaz EAD that it has sent to the European Commission (EC) a draft Programme for granting compensation to companies that injected natural gas into the underground gas storage in the period 01 May 2022 — 11 October 2022, filed under case with reg. No SA112301/31 January 2024 requesting approval of the State aid measure compatible with the activities of the European Union. Pursuant to item IV.8 of the draft Programme, it is envisaged that the Public Supplier will be compensated for quantities produced up to the value of the TTF index for the respective month of production, provided that the quantities of compensated natural gas for the respective month are delivered to final customers and/or final suppliers in the Republic of Bulgaria and the delivered price reflects the compensation granted. In accordance with the draft Programme's clauses IV.3 and IV.4, it is foreseen to conclude bilateral contracts with the Electricity System Security Fund (ESSF) for the implementation of the compensation programme, and on a monthly basis the beneficiaries should submit applications proving the amount of compensation for the quantities extracted, according to the defined mechanism for their calculation. The deadline for submission of applications is from 01 February 2024 to 30 June 2024. The compensation is expected to be paid after this deadline by the end of 2024. The Company is complying with the requirements of the Draft Programme in order to meet the conditions for receiving the expected compensation. According to the draft Program under consideration, the amount of the expected compensation would amount to approximately BGN 157 million, i.e. the funds received under the Program would partially cover the actual impairment losses on the Company's inventories.

- ✓ *Analysis of the natural gas market and the activities of Bulgargaz EAD in 2023.*

After the 2022 price shock, some industries resumed using gas, but many did not return to it or severely reduced their consumption. In 2023, gas consumption also remains weak due to still high European gas index levels.

On 9 August 2022, Council Regulation (EU) 2022/1369 of the European Union 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.

By Council Regulation (EU) 2023/706 of 30 March 2023 amending Regulation (EU) 2022/1369 as regards the extension of the demand reduction period in relation to gas demand reduction measures, and to strengthen reporting and monitoring of their implementation, the commitment of Member States under Article 3 of Regulation (EU) 2022/1369 to a voluntary gas demand reduction of 15% was extended for a new period, from 1 April 2023 to 31 March 2024.

As a result of this requirement, as well as the uncertainty on the international gas markets, natural gas consumption in Bulgaria has dropped significantly (*by 22% according to Eurostat*). This trend reflects on Bulgargaz EAD's sales for 2023 in a sustained reduction of purchases both from customers at regulated prices and industrial customers directly connected to the gas transmission system at free prices. As at 31 December 2023, the quantities of natural gas consumed by end-customers under the concluded contracts for the supply of natural gas at the exit points of the gas transmission system remained 20.6% lower than the quantities contracted/committed for 2023. Thus, in 2023, the company faced serious challenges in relation to *the surpluses incurred*.

The first main reason for the surplus is the significant difference between the contracted and actual quantities consumed by customers in 2023.

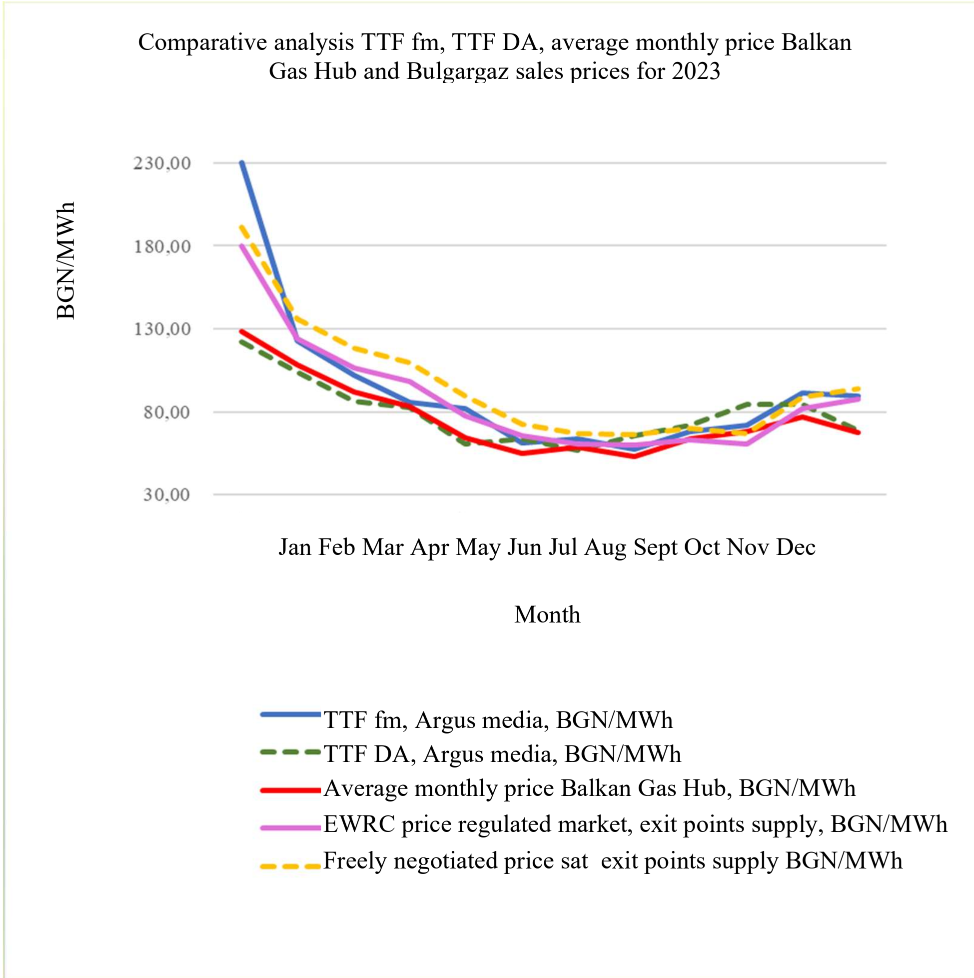
The undersupply is the result of:

- *warm winter*: customer consumption dropped significantly compared to the planned winter period;
- *emergency situations*, *citing events of a force majeure nature*: As early as at 09 January 2023 one of the largest customers of Bulgargaz EAD — Neochim AD, with a significant consumption of natural gas (about 11,700 MWh per day), announced a phased shutdown of natural gas consumption due to an emergency situation. The customer has not consumed the quantities requested in the agreed annual programme due to the presence of emergency force majeure situations during 128 days of 2023. In addition to Neochim AD, other major plants operating in the country have also invoked force majeure events for the above period, such as KCM AD, Toplofikacia Pernik AD, Toplofikacia Ruse AD and others;
- *the presence on the local market of natural gas producers*, such as SOCAR and other companies purchasing gas of Russian origin, which leads to increasing competition on the Bulgarian market, in conditions of public pressure for the supply of non-Russian gas imposed only on Bulgargaz and having a discriminatory market effect on the company;
- *sharply lower prices in the short-term market:* as a result of the high competition between traders due to surpluses at all importers and traders due to high average daily temperatures during the winter period and reduced consumption. A significant part of the under-collection compared to the contracted quantities by the company's customers is due to the purchase of natural gas on the short-term segment on the Gas Hub Balkan EAD platform at a price lower than the price of Bulgargaz EAD.

  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 the platform of Gas Hub Balkan at prices significantly below the intraday and day ahead European stock market indices, and/or to directly deliver quantities to Bulgargaz customers.

A comparative analysis of natural gas prices on the different exchange markets and the price of Bulgargaz EAD is presented in *Chart 1*:

Chart 1:



- Council Regulation (EU) 2022/1369 of 5 August 2022 on coordinated measures to reduce demand for natural gas, providing for a voluntary *reduction of* natural gas *consumption* by *at least* 15% in the period from 1 April 2023 to 31 March 2024.

In order to preserve the security of the gas transmission system in the country, to maintain the competitiveness of Bulgargaz EAD and to minimize the financial losses as a result of the non-drawing of natural gas quantities from customers directly connected to the gas transmission system, the company has undertaken the following actions:

- The projected production quantities for the period January — March 2023 have been significantly reduced;
- Purchase additional storage and surge capacity on a short-term basis to surge excess volumes;
- The premium originally agreed on the contracts concluded at freely negotiated prices with customers directly connected to the gas transmission system was reduced in order to stimulate consumption and maintain market share;
- A process was initiated to amend the supply contracts entered into with 2 of the LNG suppliers, and achieved the provision of flexibility on a monthly rather than daily basis, enabling the company to manage its daily requirements;
- Amended one of the annual LNG supply contracts by shifting a portion of the contracted supply quantities from the summer months of July—September 2023 to the winter months of October—December and reduced the supply quantities by 400,000 MWh.

The actions taken above resulted in a significant minimisation of financial losses from under-recoveries.

A second reason for the resulting surpluses is the quantities of natural gas tendered since September 2022 for injection under the Contingency Plan, delivered for gas years 2023—2024.

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 prices of the 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 on the exchange in Greece in the conditions of unfavourable exchange price levels.

The main factor leading to the Company's negative results from sales on the exchange market is the obligation of Bulgargaz EAD as a Public Supplier to form the regulated price on the basis of the '*lowest cost of supply*' (Article 17, paragraph 4 of Ordinance No 2/2013), which puts the Company in an extremely disadvantageous position as a trader. The purchased quantities that remain for sale at freely negotiated prices and can be offered on the Gas Hub Balkan platform are those with the highest delivery price for the month, making them virtually unsaleable at cost.

Complying with the provisions of the signed annual contracts for natural gas supply in 2023, Bulgargaz EAD charged its customers penalties for unaccepted quantities on a daily basis, as well as unfulfilled minimum annual quantities. Sanctions on commercial contracts is a standard commercial practice, protecting the company's interest and ensuring a balance of responsibilities under the contracts. The actions taken above have led to a significant minimization of the realized losses from the sale of unharvested quantities and surpluses on the organized exchange markets in Bulgaria and Greece. As a result, the company's losses from sales on the organized stock market were offset by 79%.

Despite significant market turbulence in 2023, Bulgargaz EAD's market share maintains 2022 levels, overcoming the 2021 market share decline:

Consumption of natural gas at exit points of the gas transmission network in Bulgaria					
Year	**Total gas consumption in Bulgaria**	**Change**	**Share of Bulgargaz EAD (excluding quantities sold under PGE)**		**Change**
	million MWh	**%**	**%**	**million MWh**	**%**
2019	30.7	-	89.00%	27.3	-
2020	30.7	0.00%	79.00%	24.3	-11.0%
2021	35.3	14.98%	72.00%	25.4	4.5%
2022	28.1	-20.40%	76.00%	21.4	-15.7%
2023	**26.3**	**-6.49%**	**76.28%**	**20.0**	**-6.5%**

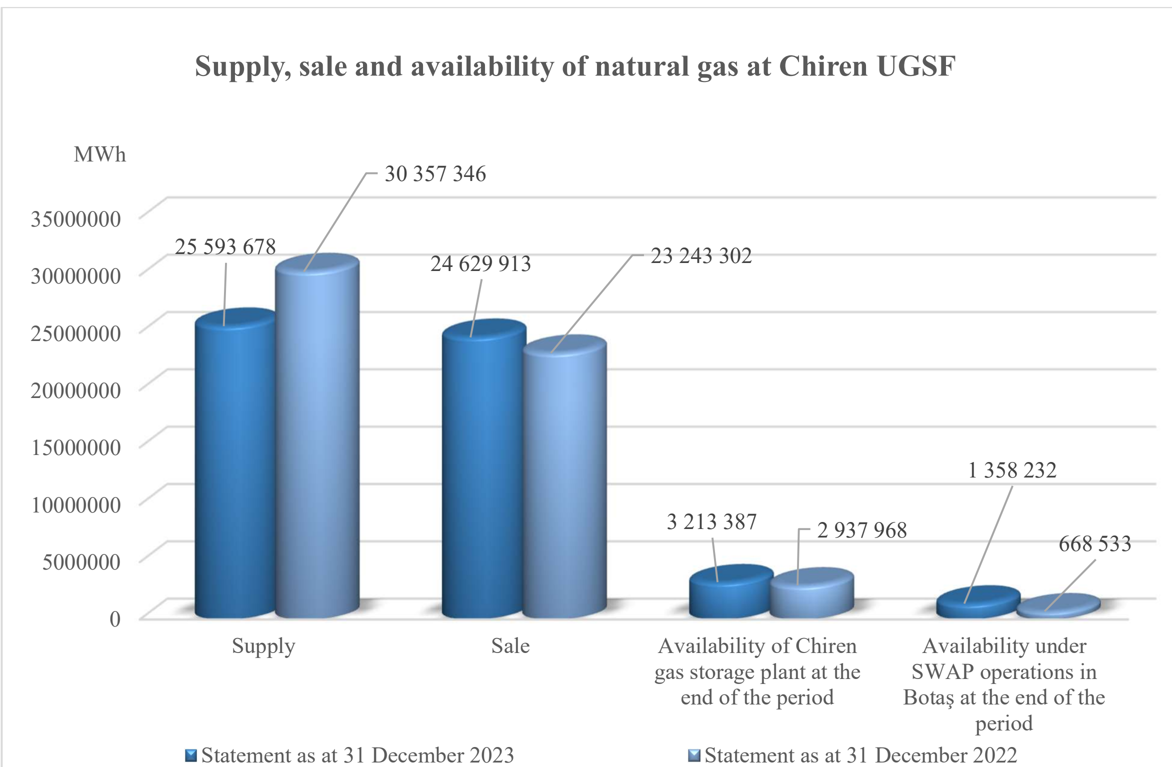
2. PERFORMANCE OF QUANTITATIVE INDICATORS

2.1. Purchased and sold amounts of natural gas

The amount of natural gas purchased and sold as at 31 December 2023, compared to 31 December 2022, are presented in Table 1:

Table No 1 *MWh*

Type of delivery	Unit	As at 31 December 2023	As at 31 December 2022	Change in amounts	Change in (%)
Supply	MWh	25,593,678	30,357,346	(4,763,668)	-15.69%
Sale	MWh	24,629,913,	23,243,302	1,386,611	5.97%
Release program	MWh	-	6,252,432	(6,252,432)	-100.00%
Availability of Chiren gas storage plant at the end of the period	MWh	3,213,387	2,937,968	275,419	9.37%
Availability in Botaş at the end of the period	MWh	1,358,232	668,533	689,699	103.17%



During the reporting period, total gas amounts delivered were 25,593,678 MWh (31 December 2022: 30,357,346 MWh), which is a decrease of 4,763,668 MWh or 15.69%.

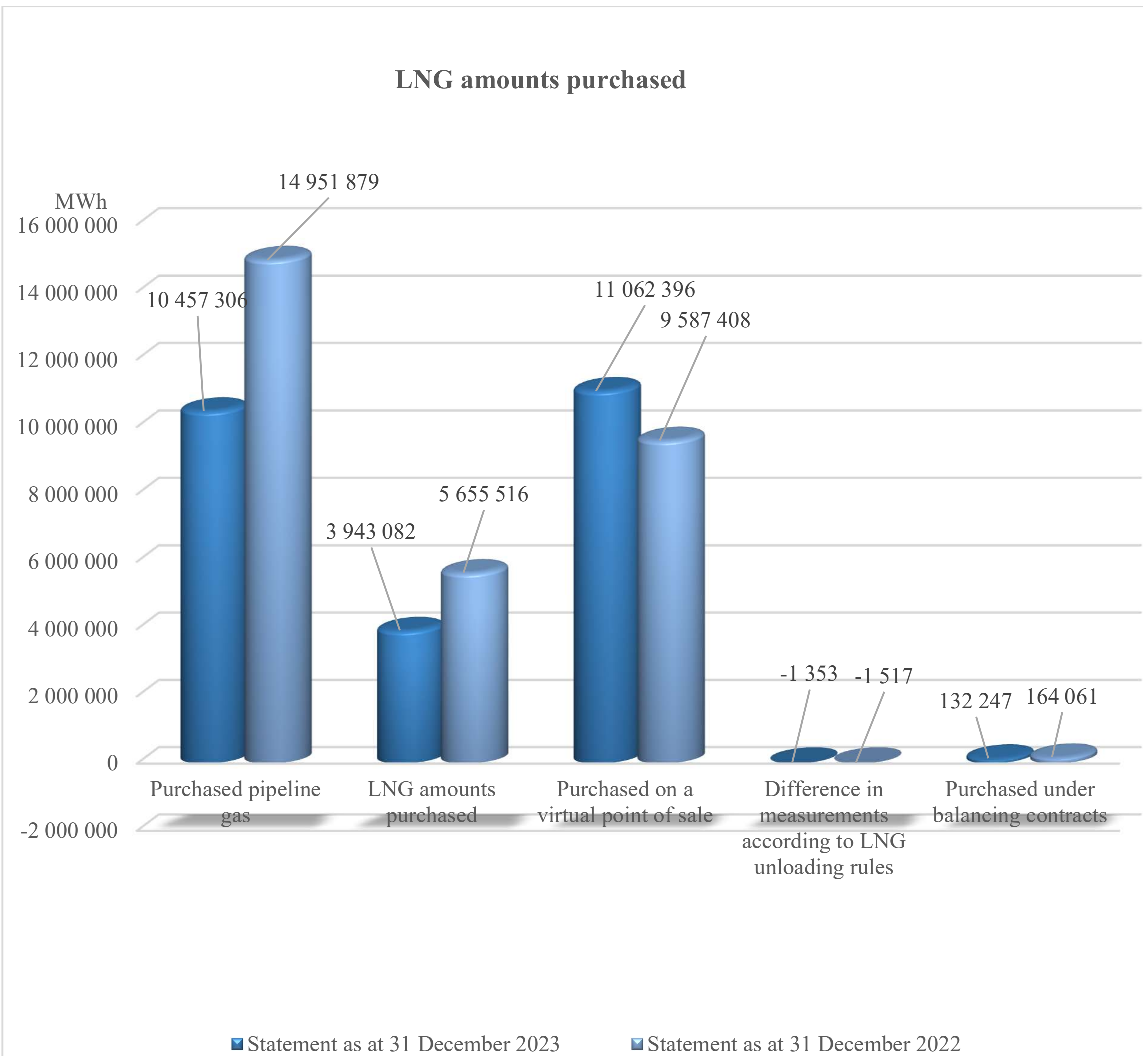
The quantities of natural gas sold as at 31 December 2023 are 24,629,913 MWh compared to 23,243,302 MWh as at 31 December 2022, an increase of 1,386,611 MWh or 5.97%.

2.2 LNG amounts purchased

Purchased amounts of natural gas as at 31 December 2023 and 31 December 2022 are shown in Table 2.

Table No 2 *MWh*

Type of delivery	Statement as at 31 December 2023	Statement as at 31 December 2022	Change in amounts	Change in (%)
TOTAL for the period	25,593,678	30,357,346	(4,763,668)	-15.69%
Purchased pipeline gas	10,457,306	14,951,879	(4,494,573)	-30.06%
LNG amounts purchased	3,943,082	5,655,516	(1,712,434)	-30.28%
Purchased on a virtual point of sale	11,062,396	9,587,408	1,474,988	15.38%
Difference in measurements according to LNG unloading rules	(1,353)	(1,517)	164	-10.82%
Purchased under balancing contracts	132,247	164,061	(31,814)	-19.39%



In order to ensure the natural gas needs of its customers as at 31 December 2023, Bulgargaz EAD has purchased 25,593,678 MWh of natural gas (31 December 2022: 30,357,346 MWh).

Purchased quantities of piped natural gas as at 31 December 2023 amount to 10,457,306 MWh, LNG 3,943,082 MWh and 11,062,396 MWh purchased at the virtual trading point. A difference in measurements under the LNG offloading rules of (1,353) MWh and natural gas purchased under balancing contracts of 132,247 MWh was reported.

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 bought 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 October 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 the Stranja 1/Malkochlar point.

2.3 Extraction and injection of natural gas

In order to guarantee the security and continuity of natural gas supplies and to cover the irregularity for its customers, Bulgargaz EAD uses the capacity of the underground gas storage plant in the 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 production 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 extracted and injected amounts of natural gas in the Chiren UGSF as at 31 December 2023 versus 31 December 2022 are presented in Table No 3.

Table No 3 *MWh*

Extraction and injection	As at 31 December 2023	As at 31 December 2022	Change in MWh	Change in %
Amounts available at the beginning of the period	**2,937,968**	**2,071,621**	**866,347**	**41.82%**
Extraction	601,552	2,507,553	-1,906,001	-76.01%
Injection	876,971	3,373,899	-2,496,928	-74.01%
Amounts available at the end of the period	**3,213,387**	**2,937,968**	**275,419**	**9.37%**

The extracted amounts of natural gas as at 31 December 2023 are 601,552 MWh, which is 1,906,001 MWh or 76.01% less compared to the previous period (31 December 2022: 2,507,553 MWh). The injected amounts of natural gas as at 31 December 2023 are less by 876,971 MWh, compared to 31 December 2022 when they were 3,373,899 MWh.

As at 31 December 2023, the Company has 3,213,387 MWh of gas available at Chiren UGSF, which is an increase of 275,419 MWh or 9.37% compared to the previous period.

III. SALE OF NATURAL GAS

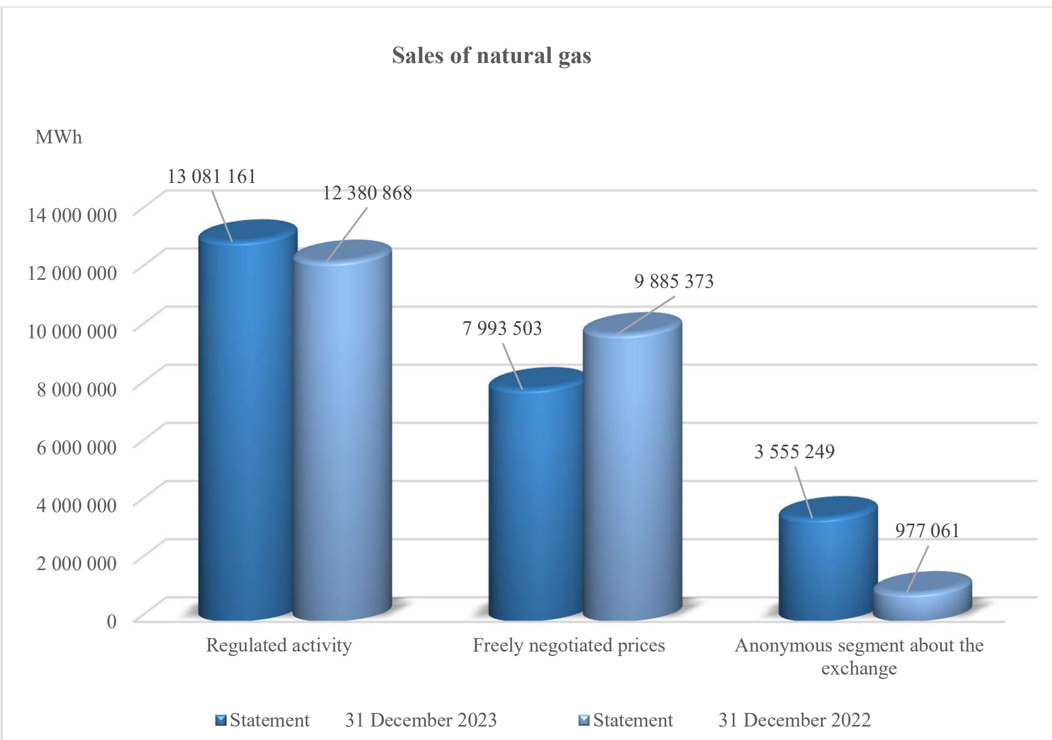
1. Sales

Bulgargaz EAD ensures reliable supply of natural gas to its customers in the country in accordance with the contractual requirements. As at 31 December 2023, 24,629,913 MWh of natural gas have been sold, representing an increase of 1,386,611 MWh or 5.97% compared to the quantities sold as at 31 December 2022 — 23,243,302 MWh.

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

Table No 4 *MWh*

Sales	As at 31 December 2023	As at 31 December 2022	Change in amounts	Change in (%)
Regulated activity	13 081 161	12 380 868	700 293	5.66%
Freely negotiated prices	7 993 503	9 885 373	(1 891 870)	-19.14%
Sales at free prices on local and regional market (VTT)	3 555 249	977 061	2 578 188	263.87%
Total	**24 629 913**	**23 243 302**	**1 386 611**	**5.97 %**
Release program	-	6 252 432	(6 252 432)	-100.00%
Total	**24 629 913**	**29 495 734**	**(4 865 821)**	**-16.50%**



2. Structure of sales

Amounts of natural gas sold to the Company's customers by main sectors of the economy as at 31 December 2023 and 31 December 2022 are presented in Table 5.

Table 5

Industry sector	As at 31 December 2023 MWh	As at 31 December 2022 MWh	Change in amounts MWh	Change in (%)
Energy	9,347,065	10,700,160	(1,353,095)	-12.65%
Distribution companies	4,072,856	4,058,341	14,515	0.36%
Chemistry	2,760,318	4,476,189	(1,715,871)	-38.33%
Exchange sales	4,142,49,	-	4,142,497	100.00%
Glass and porcelain	1,996,283	1,963,967	32,316	1.65%
Metallurgy	1,033,505	1,360,788	(327,283)	-24.05%
Side materials	345,328	354,360	(9,032)	-2.55%
Other	932,062	329,497	602,565	182.87%
Total:	**24,629,91**	**23,243,302**	**1,386,612**	**5.97%**
Release program	-	6,252,432	(6,252,432)	-100.00%
Total:	**24,629,913,**	**29,495,734**	**(4,865,821)**	**-16.50%**

As at 31 December 2023, the sales, compared to those as at 31 December 2022, increased by 1,386,612 MWh or by 5.97%. This is mainly due to higher volumes sold on the exchange markets as well as increased consumption by 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.

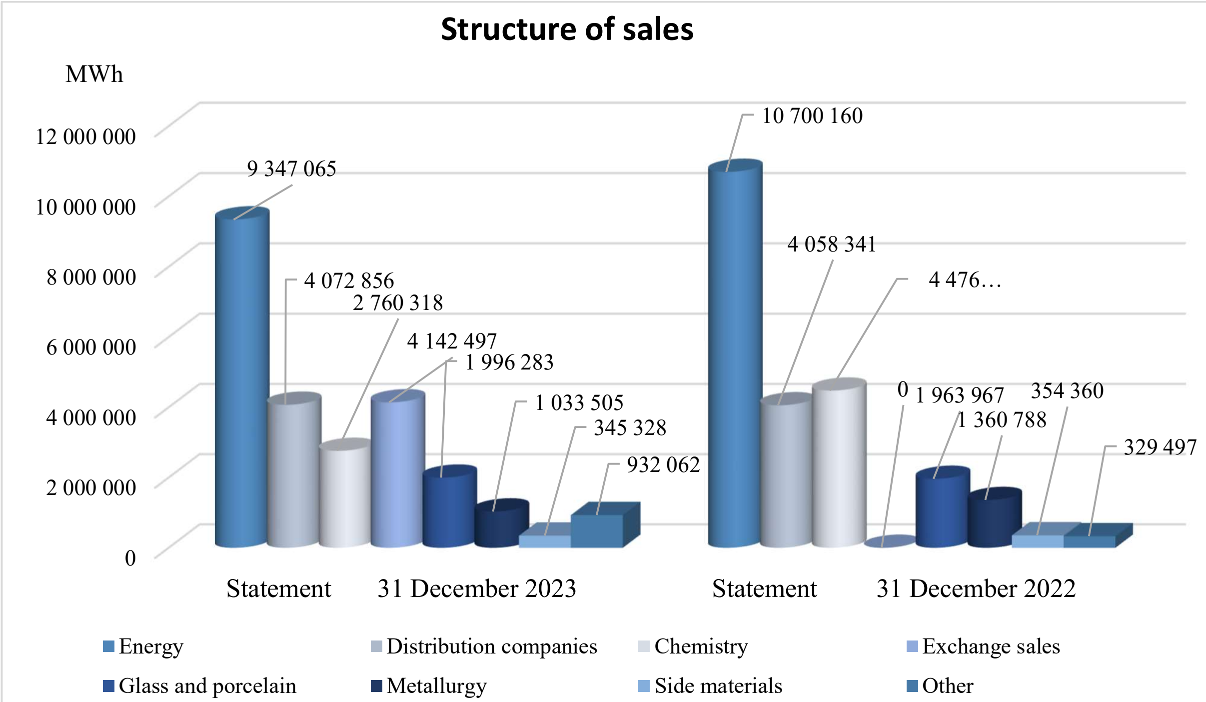
Bulgargaz EAD, according to the License, is obliged to ensure a continuous and high-quality supply of natural gas, maintaining financial stability.

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 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;
- ✓ sales increases were realized in the energy, distribution, glass and porcelain, and metals 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 activity of Bulgargaz EAD stems from the fact that the Company is both a Public Supplier and a Trader of natural gas. The Company purchases natural gas at market prices by selling some of the amounts purchased at regulated prices. The discrepancy between the purchase price based on market levels and the sales price based on the lowest cost to purchase natural gas 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 costumer 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 borrowings 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.

European Commission policies:

- ✓ 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 Bulgargaz EAD.

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 pf 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 ended in mid-2023 and is in the process of negotiating a supply contract with the selected company. 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 register 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 March 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 charged only on part of the operating costs of Bulgargaz EAD and does not cover any part of the financial costs of the company.
- 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 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 annual financial statements, which comprise the statement of financial position, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of equity of the Company as at 31 December 2023 compared to the same period in 2022.

The main financial and economic results of the Company's activities as at 31 December 2023 and as at 31 December 2022 are presented as follows:

BGN thousand

Indicators	31 December 2023	31 December 2022	Change	Change (%)
Total operating revenue	2,565,981	4,093,541	(1,527,560)	(37.32%)
Total operating expenses	(2,565,281)	(4,191,577)	1,626,296	(38.80%)
EBITDA	**700**	**(98,036)**	**98,736**	**100.71%**
EBIT	**301**	**(98,575)**	**98,876**	**100.31%**
EBT	**(50,213)**	**(111,259)**	**61,046**	**54.87%**

Indicators	31 December 2023	31 December 2022	Change	Change (%)
Fixed tangible assets	360	465	(105)	(22.58%)
Total assets	1,959,482	2,083,774	(124,292)	(5.96%)
Current assets	1,930,651	2,060,747	(130,096)	(6.31%)
Current liabilities	609,960	1,046,430	(436,470)	(41.71%)
Cash balances	**2,265**	**207,395**	**(205,130)**	**(98.91%)**
Working capital	**1,320,691**	**1,014,317**	**306,374**	**30.20%**
Equity	**125,515**	**177,918**	**(52,403)**	**(29.45%)**
Share capital	231,698	231,698	0	0.00%
Reserves	21,130	21,152	(22)	(0,10%)
Accumulated loss/ Retained earnings	(74,932)	82,458	(157,390)	(190.87%)
Loss for the current period	**(52,381)**	**(93,485)**	**41,104**	**43,97%**
Number of personnel	**56**	**52**	**4**	**7.69%**

VII. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

BGN thousand

STATEMENT OF COMPREHENSIVE INCOME	As at 31 December 2023		As at 31 December 2022		Change	
	BGN thousand	% of the total	BGN thousand	% of the total	BGN thousand	%
Revenue	**2 565 981**	**100.00%**	**4 093 541**	**100.00%**	**(1,527,560)**	**(37.32%)**
Revenue from sale of natural gas	**2 507 716**	**100.00%**	**4 064 310**	**100.00%**	**(1,556,594)**	**(38.30%)**
Regulated activity	1 374 487	54.81%	1 892 264	46.56%	(517,777)	(27.36%)
Unregulated activity freely negotiated prices	725,954	28.95%	862,523	21.22%	(136,569)	(15.83%)

STATEMENT OF COMPREHENSIVE INCOME	As at 31 December 2023		As at 31 December 2022		Change	
	BGN thousand	% of the total	BGN thousand	% of the total	BGN thousand	%
Exchange market/ release program	281,787	11.24%	1,200,910	29.55%	(919,123)	(76.54%)
Related parties — BTG sale of natural gas for balancing	41,746	1.66%	82,343	2.03%	(40,597)	(49.30%)
Other penalties — sanctions for amounts	83,742	3.34%	26,270	0.65%	57,472	218.77%
Other revenue	**58,265**	**2.32%**	**29,231**	**0.72%**	29,034	**99.33%**
— penalties on overdue receivables/payables	55,645	2.22%	28,157	0.69%	27,488	97.62%
— other revenue	2,620	0.10%	1,074	0.03%	1,546	143.95%
Expenses by economic elements	**(2,565,281)**	**100.00%**	**(4,191,577)**	**100.00%**	**1,626,296**	**(38.80%)**
Cost of natural gas sold	**(2,348,460)**	**91.55%**	**(3,944,493)**	**93.77%**	**1,596,033**	**(40.46%)**
Regulated activity	(1,277,905)	54.41%	(1,893,721)	45.18%	615,816	(32.52%)
Unregulated activity freely negotiated prices	(623,045)	26.53%	(842,299)	20.10%	219,254	(26.03%)
Exchange market/ release program	(387,785)	16.51%	(1,212,069)	28.92%	824,284	(68.01%)
Related parties — BTG at cost of natural gas for balancing	(59,725)	2.54%	(65,866)	1.57%	6,141	(9.32%)
Effect from amendment in accounting policy — natural gas	-	-	69,462	**(1.66%)**	(69,462)	(100.00%)
Recovered/(accrued) impairment	**(85,058)**	3.31%	**(207,917)**	**4.96%**	**122,859**	**(59.09%)**
Accrued receivables net	(29,769)	1.16%	(34,522)	0.82%	4,753	(13.77%)
Increase (accrual) in unrestricted cash	145	0.01%	(148)	0.00%	293	(197.97%)
Increase (accrual) of natural gas charges	(41,713)	1.63%	(173,247)	4.13%	131,534	(75.92%)
Increase (accrual) of depreciation on advances for natural gas	(13,721)	0.53%	-	0.00%	(13,721)	-
Cost of materials	**(95)**	0.00%	**(72)**	**0.00%**	**(23)**	**31.94%**
— basic materials	(29)	0.00%	(3)	0.00%	(26)	866.67%
— fuels and lubricants	(9)	0.00%	(12)	0.00%	3	(25.00%)
— office supplies and consumables	(23)	0.00%	(21)	0.00%	(2)	9.52%
— sanitary materials	(7)	0.00%	(8)	0.00%	1	(12.50%)
— promotional materials	(14)	0.00%	(22)	0.00%	8	(36.36%)
— other materials	(13)	0.00%	(6)	0.00%	(7)	116.67%
Hired services expenses	(20,339)	0.79%	(19,311)	0.46%	1,028	(5.32%)
— costs for storage of natural gas	(13,228)	0.52%	(12,410)	0.30%	(818)	6.59%
— costs under BEH management contracts	(283)	0.01%	(1,015)	0.02%	732	(72.12%)
— license fees	(2,671)	0.10%	(794)	0.02%	(1,877)	236.40%
— fees for Gas Hub Balkan	(588)	0.02%	(293)	0.01%	(295)	100.68%
— insurances	(396)	0.02%	(116)	0.00%	(280)	241.38%
— rents	(259)	0.01%	-	0.00%	(259)	-
— court fees and costs	(501)	0.02%	(3,173)	0.01%	2,672	(84.21%)
— consulting and auditing services	(1,507)	0.06%	(611)	0.00%	(896)	146.64%
— communications	(249)	0.01%	(195)	0.00%	(54)	27.69%
— remunerations of audit committee members	(130)	0.01%	(99)	0.00%	(31)	31.31%
— building maintenance	(2)	0.00%	(1)	0.00%	(1)	100.00%
— utilities	(45)	0.00%	(36)	0.00%	(9)	25.00%
— subscription service	(18)	0.00%	(14)	0.00%	(4)	28.57%
— repair and technical maintenance	(11)	0.00%	(6)	0.00%	(5)	83.33%
— parking spaces and other costs for motor vehicles	(20)	0.00%	(20)	0.00%	-	-
— visa and translation services						
— security	(26)	0.00%	(21)	0.00%	(5)	24%
— occupational medicine	(134)	0.01%	(98)	0.00%	(36)	36.73%
— fees — EWRC for price approval	(4)	0.00%	(4)	0.00%	0	0.00%

STATEMENT OF COMPREHENSIVE INCOME	As at 31 December 2023		As at 31 December 2022		Change	
	BGN thousand	% of the total	BGN thousand	% of the total	BGN thousand	%
— other services	(34)	0.00%	(17)	0.00%	(17)	100.00%
Costs for unused capacity	**(106,038)**	**100.00%**	**(14,548)**	**100.00%**	**91,490**	**(628.88%)**
Employee benefits and social security expenses	**(4,516)**	**0.18%**	**(3,913)**	**0.09%**	**(603)**	**15.41%**
— employee benefits expenses	(3,830)	0.15%	(3,332)	0.08%	(498)	14.95%
— compensated leaves costs	(238)	0.01%	(165)			0.00%
— employment service costs (retirement)	(22)	0.00%	(18)	0.00%	(4)	22.22%
— social security expenses	(426)	0.02%	(398)	0.01%	(28)	7.04%
Recognized (accrued) provision expenses	**(615)**	**0.02%**	**(754)**	**0.02%**	**139**	**(18.44%)**
Other expenses	**(160)**	**0.01%**	**(569)**	**0.01%**	**409**	**(71.88%)**
— penalties on delayed payments	(15)	0.00%	(461)	0.01%	446	(96.75%)
— business trips and entertainment costs	(78)	0.00%	(70)	0.00%	(8)	11.43%
— trainings	(13)	0.00%	(6)	0.00%	(7)	116.67%
— one-off taxes	(12)	0.00%	(17)	0.00%	(4)	29.41%
— membership in the organization	(5)	0.00%	(1)	0.00%	(4)	400.00%
— donations	(28)	0.00%	(5)	0.00%	(23)	460.00%
— others	(9)	0.00%	(9)	0.00%	8	(0.00%)
Profit before interest depreciation taxes	**700**		**(98,036)**		**98,736**	**(100.71%)**
Depreciation charges	**(399)**	**0.02%**	**(539)**	**0.01%**	**140**	**(25.97%)**
Profit/(loss) from operating activities	**301**		**(98,575)**		**98,876**	**100.31%**
Financial income/(expenses)-net	**(50,514)**		**(12,684)**		**(37,830)**	**(298.25%)**
Financial income			**1,330**	**100.00%**	**(1,330)**	**(100.00%)**
— interest revenue on foreign income			**1,330**	100.00%	(1,330)	(100.00%)
Financial costs	**(44,157)**	**100.00%**	**(18,962)**	**100.00%**	**(25,195)**	**132.87%**
— interest costs on payment of obligations according to defined benefit plans	(10)	0.02%	(1)	0.01%	(9)	900%
Interest expense on borrowings to related entities — Ministry of Energy	(16,857)	38.18%	(1,996)	10.53%	(14,861)	744.54%
Interest expense on borrowings to related parties	(21,321)	48.28%	(10,545)	55.61%	(10,776)	102.19%
Borrowings to banks	(10)	0.02%	(417)	2.20%	407	(97.60%)
Interest expense on tax liabilities	(220)	0.50%	(3,081)	16.25%	2,861	(92.86%)
— interest expenses under rental agreements	(12)	0.03%	(16)	0.08%	4	(25.00%)
— bank guarantee costs	(467)	1.06%	(521)	2.75%	54	(10.36%)
— bank fees	(5,260)	11.91%	(2,385)	12.58%	(2,875)	120.55%
Other financial revenues/expenses — currency differences	**(6,357)**	**100.00%**	**4,948**	**100.00%**	**(11,305)**	**(228.48%)**
Foreign exchange rate gain/loss	(6,357)	100.00%	4,948	100.00%	(11,305)	(228.48%)
Profit/(loss) before tax	**(50,213)**		**(111,259)**		**61,046**	**(54.87%)**
Income from/(expenses on) profit taxes	**(2,168)**		**17,774**		**(19,942)**	**(112.2%)**
Net profit/(loss) for the period	**(52,381)**		**(93,485)**		**41,104**	**(43.97%)**

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 2,565,981 thousand as at 31 December 2023 (BGN 4,093,541 thousand as at 31 December 2022). The decrease is BGN 1,527,560 thousand or 37.32% and is due to both the decrease in price compared to the previous reporting period (there is a drastic decrease in the levels of the natural gas exchange indices in 2023) and the reduced consumption compared to the previous year. It should be noted that part of the sales under the Release Program, terminated as at 31 December 2022, was redirected to other natural gas traders in the country in 2023. The net result from the sale of natural gas as at 31 December 2023 amounts to BGN 159,256 thousand (as at 31 December 2022 it was BGN 119,817 thousand), which makes an increase of BGN 39,439 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 31 December 2023, they amount to BGN 2,565,681 thousand (as at 31 December 2022: BGN 4,192,116 thousand), which makes a decrease of BGN 1,626,435 thousand or 38.80%.

- The largest relative share of the total expenses is the cost of natural gas sold as at 31 December 2023 in the amount of BGN 2,348,460 thousand (as at 31 December 2022: BGN 3,944,493 thousand).
- The cost of materials as at 31 December 2023 is BGN 95 thousand (as at 31 December 2022: BGN 72 thousand), which makes an increase of BGN 23 thousand or 31.94%. Materials costs include purchased assets, stationery and supplies, sanitary materials, auto parts, tires and other materials.
- The hired services expenses as at 31 December 2023 are BGN 20,339 thousand (as at 31 December 2022: BGN 19,311 thousand), which makes an increase of BGN 1,028 thousand or 5.32%. This is due to the increase in natural gas storage costs, unused capacity costs, license fees, consulting and auditing services.
- Other expenses as at 31 December 2023 are in the amount of BGN 160 thousand (as at 31 December 2022: BGN 569 thousand), which makes a decrease of BGN 409 thousand.
- Costs for unused capacity as at 31 December 2023 amount to BGN 106 038 thousand. As at 31 December 2022: BGN 14,548 thousand), which makes an increase of BGN 91,490 thousand or 628.88%. The amount of expenditure in 2023 includes unused capacity from Botaş, ICGB, Desfa. 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 profit of BGN 301 thousand as at 31 December 2023 (as at 31 December 2022: loss of BGN 98,575 thousand), which makes an increase of BGN 98,876 thousand or 100.31%.

After reflecting the financial income and expenses as at 31 December 2023, the financial result before taxes is a loss of BGN 50,213 thousand (as at 31 December 2022: loss of BGN 111,259 thousand), which makes a decrease of BGN 61,046 thousand or 54.87%.

VIII. STATEMENT OF FINANCIAL POSITION

As at 31 December 2023, the Company's assets amount to BGN 1,959,482 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:

BGN thousand

Assets	As at 31 December 2023		As at 31 December 2022		Change	
	BGN thousand	% of the total	BGN thousand	% of the total	BGN thousand	%
Non-current assets						
Plant and equipment	360	1.25%	465	2.02%	(105)	(22.58%)
Intangible assets	243	0.84%	280	1.21%	(37)	(13.21%)
Deferred tax assets	28,228	97.91%	22,283	96.76%	5,945	26.68%
Total amount of non-current assets	**28,831**	**100.00%**	**23,027**	**100.00%**	**5,804**	**25.21%**
Current assets						
Inventories	**499,799**	**25.89%**	**526,879**	**25.57%**	**(27,080)**	**(5.14%)**
— natural gas	499,788	25.89%	526,866	25.57%	(27,078)	(5.14%)
— materials	11	0.00%	13	0.00%	(2)	(15.38%)
Trade and other receivables and contract assets	**1,428,587**	**74.00%**	**1,326,474**	**64.37%**	**102,113**	**7.70%**
— trade receivables from sale of natural gas	770,716	39.92%	544,928	26.44%	225,788	41.43%
— contract assets	85,096	4.41%	55,698	2.70%	29,398	52.78%
— court and awarded receivables, net	31,550	1.63%	36,609	1.78%	(5,059)	(13.82%)
— Advance payments	**461,485**	23.90%	**555,262**	26.94%	(93,789)	(16.89%)
— prepaid advances for natural gas delivery through Botaş	***461,453***	*23.90%*	*337,312*	*16.37%*	*124,141*	*36.80%*
– Advances for natural gas supply Other	*0*	*0.00%*	*217,950*	*10.58%*	*(217,950)*	*(100.00%)*
— prepaid advances for delivery of fixed assets	*32*	*0.00%*	*12*	*0.00%*	*20*	*166.67%*
— receivable under contract with Gazprom	*20,554*	1.06%	44,055	2.14%	(23,501)	(73.53%)
— receivables from related parties (natural gas, deposits and guarantees)	*41,342*	2.14%	31,960	1.55%	9,382	29.36%
— other financial and non-financial receivables	*17,844*	0.92%	57,948	2.81%	(40,104)	(69.21%)
Cash and cash equivalents	**2,265**	**0.12%**	**207,395**	**10.06%**	**(205,130)**	**(98.91%)**
Total amount of current assets	**1,930,651**	**100.00%**	**2,060,747**	**100.00%**	**(130,096)**	**(6.31%)**
Total assets	**1,959,482**		**2,083,774**		**(124,292)**	**(5.96%)**

1. Non-current assets

The non-current assets as at 31 December 2023 amounted to BGN 28,831 thousand (as at 31 December 2022: BGN 23,027 thousand), which makes an increase of BGN 5,804 thousand or 25.21%. Non-current assets during the reporting period are formed by non-current tangible and intangible assets in the amount of BGN 603 thousand and deferred tax assets for BGN 28,228 thousand.

2. Current assets

The current assets of the Company as at 31 December 2023 amount to BGN 1,930,651 thousand (as at 31 December 2022: BGN 2,060,747 thousand), representing a decrease of BGN 130,096 thousand or 6.31% mainly as a result of a decrease in prepaid advances for natural gas supply, and cash. The reduced price of natural gas compared to the previous reporting period also had an effect.

➢ *Receivables from sales of natural gas*

Receivables from sales of natural gas are on the rise due to Toplofikacia Sofia EAD's delay in repaying its obligations regularly and on time. As at 31 December 2023, the outstanding gross receivables under the natural gas supply contract of Toplofikacia Sofia EAD to Bulgargaz EAD amount to BGN 784,047 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 Toplofikacia Sofia EAD, the Electricity System Security Fund, Bulgarian Energy Holding EAD and Bulgargaz EAD, under which the monthly amounts from the Fund's payments are redirected to Bulgargaz EAD and Bulgarian Energy Holding EAD in an 80/20 ratio. The settlement has improved collection rates, but the amount of receivables remains substantial.

➢ *Inventories*

As at 31 December 2023, inventories amount to BGN 499,799 thousand (31 December 2022: BGN 526,879 thousand), which makes a decrease of BGN 27,080 thousand or 5.14%. This is due to the limited production carried out in the first, second and third 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 June 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 TTFfm price for the month of January 2024 was used according to the Company's accounting policy effective from 01 January 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 November 2022. According to the compensation mechanism proposed for discussion in the working group, the amount of the expected compensation for the quantities injected by Bulgargaz EAD as at 01 November 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 advances as at 31 December 2023 amount to BGN 461 453 thousand (31 December 2022: BGN 555,262 thousand), which makes a decrease of BGN 93,809 thousand or 16.89%. For the most part, these advances represent inventories of LNG delivered by the Company to Turkish terminals located in the Botaş gas transmission network and available for delivery to the Bulgarian gas transmission network.

➢ *Cash*

The Company's cash in current accounts at the end of the reporting period amounted to BGN 2,265 thousand (as at 31 December 2022: BGN 207,395 thousand), which makes a decrease of BGN 205,130 thousand or 98.91%. During the period from the beginning of the year Bulgargaz EAD repaid BGN 200 000 thousand of the operating credit line provided by BEH AD.

3. Changes in the structure of capital and liabilities

BGN thousand

Equity and liabilities	As at 31 December 2023		As at 31 December 2022		Change	
	BGN thousand	% of the total	BGN thousand	% of the total	BGN thousand	%
Equity						
Share capital	231,698	184.60%	231,698	130.23 %	-	0.00%
Reserves	**21,130**	**16.83%**	**21,152**	**11.89 %**	(22)	(0.10%)
incl. statutory reserves	21,166	16.86%	21,167	11.90 %	(1)	(0.00%)
Other reserves	(36)	(0.03%)	(15)	(0.01%)	(21)	(140.00%)
Accumulated loss/Retained earnings	(74,932)	(59.70%)	18,554	10.43%	(93,486)	(503.86%)
Profit/loss for the current period	(52,381)	(41.73%)	(93,485)	(52.54%)	41,104	(43.97)%
Total equity	**125,515**	**100%**	**177,918**	**100%**	**(52,403)**	**(29.45%)**
Liabilities						
Non-current liabilities						
Borrowings from related parties	**1,170,000**	**95.59%**	**806,085**	93.79%	363,915	45.15%
Lease obligation	125	0.01%	121	0.01%	4	3.31%
Provisions	53,715	4.39%	53,100	6.18%	615	1.16%
Retirement benefits obligations	167	0.01%	120	0.01%	47	39.17%
Total amount of non-current liabilities	**1,224,007**	**100.00%**	**859,426**	**100.00%**	**364,581**	**42.42%**
Current liabilities						
Borrowings	**307,468**	**50.41%**	**718,071**	**68.62%**	**(410,603)**	**(57.18%)**
— related party received borrowings payable	282,942	46.39%	718,071	68.62%	(435,129)	(60.60%)
— bank overdraft borrowings payable	24,526	4.02%	0	0.00%	24,526	100.00 %
Trade and other payables	**297,159**	**48.72%**	**324,923**	**31.05%**	**(27,764)**	**(8.54%)**
— trade payables	196,225	32.17%	253,149	24.19%	(56,925)	(22.49%)
— liabilities to related parties	8,694	1.43%	10,263	0.98%	(1,569)	(15.29%)
— advances received from customers for the sale of natural gas	23,983	3.93%	1,431	0.14%	22,552	1575.96%
— VAT payable	47,240	7.74%	39,200	3.75%	8,040	20.51%
— excise duty payable	1,070	0.18%	962	0.09%	108	11.23%
— payables to employees	252	0.04%	171	0.02%	81	47.37%
— liabilities to insurance companies	115	0.02%	93	0.01%	22	23.66%
— other liabilities	19,581	3.21%	19,654	1.88%	(73)	(0.37%)
Lease obligation	**188**	**0.03%**	**312**	**0.03%**	**(124)**	**(39.74%)**
Profit tax liability	**5,111**	**0.84%**	**3,071**	**0.29%**	**2,040**	**66.43%**
Retirement benefits obligations	**34**	**0.01%**	**53**	**0.01%**	**(19)**	**(35.85%)**
Total amount of current liabilities	**609,960**	**100.00%**	**1,046,430**	**100.00%**	**(436,470)**	**(41.71%)**
Total liabilities	**1,833,967**		**1,905,856**		**(71,889)**	**(3.77%)**
Total equity and liabilities	**1,959,482**		**2,083,774**		**(124,292)**	**(5.96%)**

3.1. Capital structure

The registered share capital as at 31 December 2023 amounted to BGN 231,698 thousand, as there is no change compared to the previous reporting period.

As at 31 December 2023, the accrued loss amounted to BGN 74,932 thousand (31 December 2022: retained earnings of BGN 18,554 thousand). The change as at 31 December 2023 is BGN 93 485 thousand.

3.2. Non-current liabilities

The non-current liabilities as at 31 December 2023 amounted to BGN 1,224,007 thousand (31 December 2022: BGN 859,426 thousand). Non-current liabilities consist of a borrowing 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 at 31 December 2023 the Company has drawn a cash borrowing from the Ministry of Energy in the amount of BGN 800,000 thousand. The maturity of the borrowing is 12 August 2025.

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

The provision accrued as at 31 December 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 defense before the General Court in response to an appeal lodged by Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD.

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

On 20 February 2020, the official position of the Republic of Bulgaria 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.

On 25 October 2023 the Court of the European Union ruled in favour of BEH EAD, Bulgartransgaz EAD and Bulgargaz EAD. The deadline for the European Commission to appeal against the General Court's decision is still open.

Reimbursement of the provisioned expenditure in 2024 would materialise if the decision is not appealed by the EC and comes into force. 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 31 December 2023, the current liabilities amount to BGN 609,960 thousand (as at 31 December 2022: BGN 1,046,430 thousand), which makes a decrease of BGN 436,470 thousand.

By 31 December 2023 the Company has drawn down borrowings in the total amount of BGN 307,468 thousand to Bulgarian Energy Holding EAD and banking institutions (as at 31 December 2022: BGN 718,071 thousand), which makes a decrease of BGN 410,603 thousand.

As at 31 December 2023, trade and other liabilities decreased by BGN 27,764 thousand or 8.54% compared to 31 December 2022 mainly due to the net effect of:

- ✓ decrease in trade liabilities by BGN 56,925 thousand or by 22.49% compared to 31 December 2022, mainly caused by the significant decrease in natural gas prices in 2023.
- ✓ Decrease in liabilities to related entities by BGN 1,569 thousand or by 15.29% less compared to 31 December 2022.

IX. STATEMENT OF CASH FLOWS

The table shows data on changes in cash flows as at 31 December 2023, compared to 31 December 2022:

Statement of cash flows	As at 31 December 2023	As at 31 December 2022	Change	
	BGN thousand	BGN thousand	BGN thousand	%
Net cash flows from operating activity	(112,212)	(1,135,944)	1,023,732	**90.12%**
Net cash flows from investing activity	(355)	(300)	(55)	**(18.33%)**
Net cash flows from financing activity	(91,406)	1,343,879	(1,435,285)	**(106.80%)**
Net change in cash and cash equivalents during the period	**(203,973)**	**207,635**	**(411,608)**	**(198.24%)**
Cash and cash equivalents at the beginning of the period	**207,544**	**211**	207,333	**98262.09%**
Foreign currency gain/(loss) on cash and cash equivalents	(1,302)	,(302)	(1,000)	**(331.13%)**
Expected credit losses on cash	**(4)**	**(149)**	145	**97.32%**
Cash and cash equivalents at the end of the period	**2,265**	**207,395**	**(205,130)**	**(98.91%)**

The net cash flow from operating activities of the Company as at 31 December 2023 was negative in the amount of BGN 112,212 thousand (as at 31 December 2022: negative in the amount of BGN 1,135,944 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 355 thousand, which represents an increase by BGN 55 thousand compared to 31 December 2022.

Net cash flows from financial activities are negative in the amount of BGN 91,406 thousand (as at 31 December 2022: positive in the amount of BGN 1,343,879 thousand), which is due to repayments on borrowings received from related parties in the amount of BGN 492,515 thousand and interest thereon, as well as repayments on borrowings received from banks

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 31 December 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 31 December 2023	As at 31 December 2022
Current liquidity ratio	3.17	1.97
Quick liquidity ratio	2.35	1.47

The current liquidity ratio as at 31 December 2023 is 3.17, which shows that the available current assets can cover more than 3 times the current liabilities of the Company (as at 31 December 2022: 1.97).

The quick liquidity ratio is 2.35, which shows that the available current assets reduced by inventories can cover more than 2.35 times the current liabilities of the Company (as at 31 December 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 31 December 2023	As at 31 December 2022
Solvency ratio	0.07	0.09
Debt ratio	14.61	10.71

When the solvency 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 31 December 2023 is 0.07 (as at 31 December 2022: 0.09).

The debt ratio expresses the degree of dependence of the Company on creditors. When the ratio is greater than 1 (one), the Company's dependence on external sources of funds is greater. This indicator as at 31 December 2023 is 14.61 (as at 31 December 2022: 10.71).

3. Cost-effectiveness ratio

Indicators	As at 31 December 2023	As at 31 December 2022
Cost-effectiveness ratio	1.000	0.977

The results of the calculation of cost-effectiveness ratios allow to determine how much revenue the enterprise receives from the use of a unit of expenditure for the same activity. The coefficient is assumed to be a minimum. It is favourable for the enterprise that the cost efficiency ratio grows.

XI. FINDINGS AND CONCLUSIONS

The information as presented and analysed in the Activity Report of Bulgargaz EAD as at 31 December 2023 shows that the Company fulfils its license obligations as a public supplier and a trader 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.

XII. EVENTS AFTER THE BALANCE SHEET DATE

The following significant non-adjusting events have occurred after the balance sheet date of 31 December 2023:

1/ On 11 January 2024, an appeal was lodged by the European Commission against the judgment of the Court of First Instance, seeking to set aside the judgment of the General Court in its entirety. On the grounds of the appeal, case C-14/24 R was brought before the Court of Justice of the European Union — European Commission v BEH and others. BEH Group has the right to reply within two months from the date of receipt of the appeal by the European Commission.

2/ By a supplementary agreement of March 2024 between Bulgargaz EAD and TPP Varna EAD, it was agreed that TPP Varna EAD would establish a special pledge in favour of Bulgargaz EAD under the Special Pledges Act, instead of a mortgage, to secure the obligations under the final judgment. For the receivables of Bulgargaz EAD for provided annual capacity product and expenses, totalling BGN 3,746 thousand, a court settlement was concluded on 10 May 2024 between Bulgargaz EAD and TPP Varna EAD, as the receivables were rescheduled with a repayment plan.

3/ On 27 March 2024, by Decree of the Council of Ministers No 63 and Decision of the Council of Ministers No 210, the Minister of Energy was instructed to negotiate and acquire on behalf of the State, by concluding the respective contracts, the receivables of Bulgargaz EAD from Toplofikacia Sofia EAD as at 31 December 2023 for an amount not higher than the market value determined by an independent assessor. Decision of the Council of Ministers No 279 of 12 April 2024 repealed Decision of the Council of Ministers No 210 of 2024.

4/ On 23 April 2024, a new composition of the Board of Directors of Bulgargaz EAD was entered in the Commercial Register of the Registry Agency:

Ivan Topchiysky — Chairman of the Board of Directors;

Veselin Sinabov — Executive Member of the Board of Directors and Executive Director

Mihail Milkov — Member of the Board of Directors;

Byanka Racheva — Member of the Board of Directors;

Marin Filipovski — Member of the Board of Directors;

4/ In May 2024 Bulgargaz EAD has launched two new tenders to offer part of the reserved capacities for regasification, storage and transmission of LNG under the Agreement with the Turkish energy company BOTAŞ BORU HATLARI İLE PETROL TAŞIMA A.Ş. These tendering procedures aim to realise the reserved capacity and reduce the cost of unused capacity.

5/ In May 2024 Bulgargaz EAD claimed damages of over EUR 400 million against Gazprom Export as a result of the termination of natural gas supplies at the end of April 2022. In accordance with the provisions of the contract, Gazprom Export was sent an invitation to settle the claim voluntarily within a period not exceeding one month. If no agreement is reached, a case will be brought before the Court of Arbitration of the International Chamber of Commerce in Paris. The decision on the claim and its amount was based on extensive financial and legal analysis.

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

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

Revenues of Bulgargaz EAD include revenues from the sale of natural gas and other revenues. During the reporting period, the Company generated revenues from the sale of natural gas in the amount of BGN 2,507,716 thousand. Revenues from sales of natural gas represent 97.73% of the Company's sales for 2023.

The structure of the Company's revenues for 2023 and 2022 and their amendments are presented above in this report — **Section VII. MAIN FINANCIAL INDICATORS**

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

The structure of revenues for 2023, compared to 2022 and their relative share of total revenues are presented above in this report — **Section VII. MAIN FINANCIAL INDICATORS**

In terms of revenues from the sale of natural gas, representing 97.73% of total revenues for 2023 are divided into:

- revenues from the sale of natural gas from regulated activities amount to BGN 1,374,487 thousand (13,081,161 MWh of natural gas),
- from unregulated activity at freely negotiated prices in the amount of BGN 1,133,229 thousand (11,548,752 MWh of natural gas).

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

Customer	Sale of natural gas		
	Quantity MWh	BGN thousand	% of the total amount sold
Toplofikacia Sofia EAD	6 751 305	700 973	32.83 %
OVERGAS MREZHI AD	2 015 221	178 723	9.80 %

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

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

Information provided in value terms regarding transactions with related parties is presented in detail in the financial statements of the Company for 2023 — Explanatory Note 35 'Related party transactions and balances'. Related party transactions do not deviate from normal market conditions.

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

There are no events and indicators of an unusual nature for Bulgargaz EAD in 2023, which have a significant impact on its activities and the revenues and expenses incurred thereby.

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

Bulgargaz EAD has not disclosed forecasts for financial results.

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

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

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

Not applicable to the Company.

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

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

8. **INFORMATION ON THE BORROWING AGREEMENTS CONCLUDED BY THE COMPANY, ITS**

SUBSIDIARY OR PARENT COMPANY, IN THEIR CAPACITY AS BORROWERS, INDICATING THE CONDITIONS UNDER THEM, INCLUDING THE DEADLINES FOR REPAYMENT, AS WELL AS INFORMATION ON PROVIDED GUARANTEES AND COMMITMENTS;

As at 31 December 2023 — borrowing commitment to the Ministry of Energy in the amount of BGN 800,000 thousand with a maturity date of August 2025.

As at 31 December 2023 — borrowing payable to BEH EAD in the amount of BGN 630,000

As at 31 December 2023 the Company has entered into overdraft agreements in the total amount of BGN 324,700 thousand under agreements with banking institutions, of which BGN 24,526 thousand have been drawn down. Two of the borrowings are unsecured, two of them are 90% government guaranteed.

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

Bulgargaz EAD has not entered into any borrowing agreements as a lender in 2023.

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

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

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

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

In 2023, there were no changes in the basic principles of management of the Company.

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

Not applicable to the Company.

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

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

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

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

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

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

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

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

In 2023, the Company accrued the following employee benefits and related social security payments to the members of the Board of Directors:

BGN thousand

Short-term benefits to key management personnel	2023	2022
Remunerations	557	393
Social security costs	18	22
Total	575	415

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

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

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

Case COMP/B1/AT.39849 — BEH gas

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

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

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

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

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

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

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

On 26 August 2019, the European Commission presented its Defense before the General Court in response to an appeal lodged 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. A response from the European Commission is awaited.

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

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

On 25 October 2023 the General Court of the European Union annulled European Commission Decision C(2018) 8806 of 17 December 2018 in relation to proceedings under Article 102 TFEU.

On 10 January 2024, the European Commission lodged an appeal with the European Court of Justice against the judgment of the General Court of 25 October 2023 in Case T-136/19, Bulgarian Energy Holding EAD, Bulgartransgaz EAD and Bulgargaz EAD v Commission, notified to the Commission on 31 October 2023.

Bulgarian Energy Holding EAD, Bulgartransgaz EAD and Bulgargaz EAD have submitted a reply to the appeal filed by the European Commission in the case within the deadline.

In view of the appeal lodged in the case by the EC, the Bulgarian companies should continue to maintain the security/provision until the final resolution of the dispute.

On 25 October 2023 the Court of the European Union ruled in favour of BEH EAD, Bulgartransgaz EAD and Bulgargaz EAD. The deadline for the European Commission to appeal against the General Court’s decision is still open.

Reimbursement of the provisioned expenditure in 2024 would materialise if the decision is not appealed by the EC and comes into force. 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.

17. OTHER INFORMATION AT THE DISCRETION OF THE COMPANY

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

Note 1 Non-financial declaration

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

1. **Main activity Mission and Goals.**

Company name	Brief description of the main activity	Mission and goals
Bulgargaz EAD	The Company's principal activities include public supply of natural gas and related purchases and sales, purchase of natural gas for storage in a gas storage plant, market research and analysis of the natural gas market. 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 Л-548-15 a license for trade in natural gas No A0435 for a period of 10 years is issued to Bulgargaz EAD.	As a public supplier of natural gas, Bulgargaz EAD has as its main strategic objective to ensure the interests of society through the long-term supply of natural gas to the country.

2. **Environmental systems, policies and regulations.**

Company name	Environmental systems, policies and regulations
Bulgargaz EAD	Bulgargaz EAD, as a public supplier of natural gas, does not carry out any production activities and does not have any production facilities with environmental impact. The Company does not own infrastructure facilities (linear and site facilities), but only uses services in connection with the operation of these facilities, provided by the operator of these facilities — Bulgartransgaz EAD. Bulgargaz EAD carries out only commercial activity — purchase of natural gas for the purpose of its sale to customers. In view of the above, the Company mainly uses electricity to administer its operations and fuel for its company vehicles (diesel), which have a direct bearing on environmental pollution. The Company participates in the 'Sustainability Committee' as required by section 1.3 of the Environmental and Social Action Plan (ESAP) with its representatives appointed by Order of the Executive Director of Bulgarian Energy Holding EAD (BEH EAD). The Company submits corporate, environmental and social information annually and upon request by BEH EAD. The Sustainable Energy Development Agency (the Agency) [SEDA], with the status of an executive agency of the Ministry of Energy (MoE), is responsible for carrying out activities to implement the state policy for increasing the energy efficiency of the country, providing energy services and improving their quality of supply. According to the provisions of the Energy Efficiency Act (EEA), Bulgargaz is included in the list of obliged entities under Article 14a, paragraph 4, item 3. The obligations of Bulgargaz arising from the Energy Efficiency Act are expressed in the annual provision of information to the SEDA regarding the quantities of energy sold to end customers, on

	the basis of which individual energy savings targets are set and reporting on their implementation. As at 01 June 2024 Bulgargaz has realized 100% of the individual targets set by the SEDA for the period 2021—2024. The performance has been achieved through a survey of Bulgargaz customers and calculated according to the Methodology for estimation of energy savings after fuel switching to natural gas (gasification), approved by Order № Е – РД –16 – 90/2022 of the Minister of Energy and through the purchase of energy savings from an obliged person from the list of obliged persons under Article 14a, paragraph 4 of the EEA, as a result of a transparent procedure for the purchase of long-term energy savings. In this way, Bulgargaz meets both its individual targets and the cumulative ones regulated through an energy savings obligation scheme and alternative measures to ensure the achievement of an overall cumulative energy savings target for final energy consumption for the period from 1 January 2021 to 31 December 2030.

3. Funds from environmental protection projects implemented in 2023.

Not applicable

Company name	Environmental protection projects implemented	Value / BGN thousand /
	………….	………….

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

Electricity and fuel consumption for company cars in 2023.

Indicators	Unit of measurement	Value
Radiation indicators:		
(at the discretion of the company, not more than five)		
Emitted pollutants in ambient air:		
CO_2	**Tons of CO2/ for the period 2021—2030 (as at 01 June 2024)**	**9320.69**
SO_2		
NOx		
Particulate matter		
Other (at the company's discretion)		
Resources used:		
Lignite coal		
Water resources		
Electricity	**tonnes of Co2 emitted**	**40.429**
Diesel fuel company vehicles	**tonnes of Co2 emitted**	**8.11**
Indicators	Unit of measurement	Value
Other (at the company's discretion)		
Other indicators:		
…		

Year	Electricity consumption in kWh	Emission factor (gr CO2/kWh)	tonnes of Co2 emitted
2021	66.695	404	**26.945**
2022	79.632	517	**41.170**
2023	78.200	517	**40.429**

Gas/Diesel Oil for a three-year period	Fuel consumed in litres	emission factor (t CO_2/l)	tonnes of Co2 emitted
2021	6,644	0.00272	**18.09**
2022	3,624	0.00272	**9.87**
2023	2,979	0.00272	**8.11**

5. Staff allocation.

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

	Number
Heads	16
including women	10
Specialists	32
including women	23
Technicians and application specialists	-
including women	-
Administrative support staff	2
including women	2
Personnel engaged in public services, trade and security	-
including women	-
Skilled workers in agriculture, forestry, hunting and fishing	-
including women	-
Skilled workers and related craftspeople	-
including women	-
Machine operators and assemblers	3
including women	-
Occupations not requiring special qualifications	3
including women	3

5.1. Distribution of staff according to education completed:

	Number
Higher education	49
including women	39
Secondary education	7
including women	4
Primary education	-
including women	-

5.2. Distribution of staff according to age:

	Number
Age 18—30 years	4
including women	3
Age 31—40 years	15
including women	9
Age 41—50 years	18
including women	13
Age 51—60 years	16
including women	10
Age over 60 years	3
including women	3

6. Professional development and social costs. Reported results.

Indicators	Value / BGN thousand/
Training, qualifications and seminars	13
Donations and social events	28
Social costs incl.:	1,332
Free food, work clothes, personal protective equipment	426
Medical service	28
Other	878

Indicators	Number
Training conducted	13
Medical examinations conducted	1
Measurement of work environment factors	1
Occupational accidents	0
Other	0

7. Collective employment agreements.

Indicator	Unit of measurement	Value
Existence of an existing Collecting employment agreements (CEA)	-	No
Number of members as at 31 December 2023	number	
% of the staff establishment as at 31 December 2023	%	
New members in 2023	number	
Employees withdrawn from the terms of the CEA in 2020.	number	

8. Energy Sector Anti-Corruption Plan.

Company	Measures to implement the Energy Sector Anti-Corruption Plan
Bulgargaz EAD	In Bulgargaz EAD, in accordance with the current Internal Rules with anti-corruption focus ‘Rules for internal reporting of violations and follow-up actions on them’ (the Rules), the procedure, manner and conditions for receiving, registering and examining reports are defined. These have been developed in accordance with Article 14 of the Whistleblower Protection Act, adopted and approved by the Company's Board of Directors as appropriate. The employees of the Company are familiar with the Rules available in the internal information system of Bulgargaz EAD and have certified the above with their signatures. The information channels provided are checked daily for whistleblowing and a summary report is made to the Company's CEO on a six-monthly basis. For the year 2023, there were no whistleblower reports filed, respectively registered and disclosed, with the Company.

8.1. Reported results:

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

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

- *Regarding risks related to environmental issues, accidents and disasters:*

As a public supplier and trader of natural gas, Bulgargaz EAD does not carry out any production activities and has no production facilities that have an impact on the environment. The Company does not own infrastructure facilities (linear and non-linear), but only uses services related to their operation provided by the operators of these facilities. Bulgargaz EAD carries out only commercial activity — purchase of natural gas for the purpose of its sale to customers. In view of this, the company is not subject to environmental requirements.
The Company has developed a ‘Disaster and Accident Protection Plan’ based on the Disaster Protection Act which is updated as and when required. The main objectives in developing the plan are:

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

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

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

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

The working environment in the office of Bulgargaz EAD is standard and is not characterized by increased risk to health and safety at work.
The Company complies with the legal requirements for ensuring healthy and safe working conditions introduced by the current regulations in this area. To this end, we have a contract with the Occupational Health Service, which provides regular preventive examinations of employees as well as measurements of certain factors in the office environment. Also in accordance with the statutory provisions of the Occupational Health and Safety Act (OHSA), all employees of the company undergo any relevant instruction/training to comply with the OHSA.
In order to cover the social needs of the employees under Article 294 of the Labour Code, the employer has issued an internal order providing for a social package for the employees of the company within the framework of the above-mentioned legal provisions.
The Company observes and promotes respect for internationally recognised human rights and considers the protection of the integrity, health, rights and welfare of its employees to be an element of paramount importance to the performance and development of its business.
The Company's activity is guided by established ethical rules of conduct, and to this end, the Company is committed to managing its human resources activities in accordance with established standards, not to use or support the exploitation of child labour, to provide equal development opportunities for each of its employees, and not to tolerate discriminatory behaviour and actions.
In this regard, the Company has adopted and implemented internal rules and procedures, in particular:

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

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

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

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

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

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

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

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

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.
- Continued local and regional supplies of Russian natural gas

The share of LNG supply doubled in the period August 2022—July 2023 compared to 2019 levels. At the same time, natural gas consumption in the European Union decreased, with most member states reported to have met the European Commission's target of a 15% reduction in natural gas consumption compared to the average consumption over the previous 5 years for the period August 2022—March 2023. According to Eurostat, the decline in natural gas consumption for Bulgaria is around 19%.

As at September 2023, Bulgargaz has drawn two overdrafts from DSK Bank and UniCredit Bulbank. As at December 2023, it has drawn two more overdrafts from Postbank and Unicredit, which are state-guaranteed.

STATEMENT OF CORPORATE GOVERNANCE OF

BULGARGAZ EAD

31 December 2023

I. GENERAL PROVISIONS

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

This Statement of Corporate Governance has been prepared in compliance with the requirements of Article 40, paragraph 1 of the Accounting Act and according to Article 100n, paragraph 8 in conjunction to paragraph 7, item 1 of the Public Offering of Securities Act (POSA) and it is published as a Note to the annual report of the Company for the year 2023.

II. DESCRIPTION OF THE COMPANY'S BUSINESS MODEL

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

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

The Company has a one-tier management system. The Company’s authorities are:

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

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

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

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

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

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

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

Regulatory acts governing the Company's activities:

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

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

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

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

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

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

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

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

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

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

Bulgargaz EAD has no approved disclosure policy. The Company strictly observes the requirements for disclosure of information regarding the term and completeness in accordance with the Bulgarian legislation and observing the instructions of the Minister of Energy. Information on the annual, half-yearly and quarterly financial statements, activity reports is published on the Company’s website, on the website of the Ministry of Finance and through the web-based electronic information system for public enterprises of the Agency for Public Enterprises and Control.

Important and substantial information for its activity —which constitutes public information in terms of the Access to Public Information Act — is periodically published on the Company's website.
Bulgargaz EAD does not have approved rules for taking into account the interests of the stakeholders, but on all issues that directly or indirectly concern them, the relevant conciliation procedures are carried out.

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

1. Internal Audit Unit

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

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

2. Financial Management and Control System

By Decision under item 1.1 of Minutes No 210 dated 14 April 2016 of the Board of Directors the Financial Management and Control System of Bulgargaz EAD was adopted (FMCS).
By Decision under item 2.1 and item 2.2 of Minutes No 322 dated 29 December 2017 of the Board of Directors of Bulgargaz EAD, the Financial Management and Control System of Bulgargaz EAD, adopted by a decision under item 1.1 of Minutes No 210 dated 14 April 2016 of the Board of Directors of Bulgargaz EAD has been revoked.
On 29 December 2017, the Financial Management and Control System of Bulgargaz EAD was approved by Decision under item 2.1 and item 2.2 of Minutes No 322 dated 29 December 2017 of the Board of Directors, which entered into force on 09 January 2018, amended and supplemented by Decision under item 2 of Minutes No 774/10 March 2023 of the Board of Directors, approved by order of the Executive Director on 13 March 2023.
The purpose of the FMCS is to provide reasonable assurance that the Company's objectives have been achieved through:

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

The control environment includes:

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

- human resources management policy,
- competence of the staff.

3. БДС EN ISO 9001:2015 management system

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

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

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

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

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

- authorization and approval procedures,
- division of responsibilities in a way that does not allow one employee to have responsibility for approval, implementation, accounting and control at the same time,
- a double-signature system which does not allow a financial commitment or payment to be made without the signatures of the Executive Director and the person responsible for the accounting entries,
- rules for access to assets and information,
- procedures for full, accurate, correct and timely accounting of all transactions,
- reporting and verification of activities — evaluation of the efficiency and effectiveness of operations,
- monitoring procedures,
- rules for human resources management,
- rules for documenting all operations and actions related to the activity of the Company,
- rules for respecting personal integrity and professional ethics,
- the financial controller performs preliminary control for legitimacy before assuming an obligation and making an expense in Bulgargaz EAD.

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

1. Information under Article 10, paragraph 1, letter c) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 (Directive 2004/25/EC)
Not applicable to the Company.

2. Information under Article 10, paragraph 1, letter d) of Directive 2004/25/EC
Not applicable to the Company.

3. Information under Article 10, paragraph 1, letter f) of Directive 2004/25/EC
There are no restrictions on voting rights.

4. Information under Article 10, paragraph 1, letter h) of Directive 2004/25/EC
The rules governing the appointment or replacement of board members are described in section VII of this Declaration. The sole owner of the capital amends and supplements the Articles of Association of the Company.

5. Information under Article 10, paragraph 1, letter i) of Directive 2004/25/EC
The powers of the members of the Board of Directors are described in section VII of this Declaration.

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

The governing bodies of Bulgargaz EAD are:

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

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

1. Sole owner of the capital

1.1. Statute

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

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

1.2. Competence

- The sole owner of the capital has all the rights of a shareholder of the Company in accordance with the law and the Articles of Association. The sole owner of the capital decides on all issues that the law places within the competence of the general meeting of shareholders. In the cases provided by law, the sole owner of the capital seeks and receives from the State Energy and Water Regulatory Commission or other competent regulator the necessary permits or consents, if necessary for the exercise of its competence.
- The sole owner of the capital:

— amends and supplements the Articles of Association of the Company;
— increases and decreases the capital of the Company;
— transforms and terminates the Company;
— elects and dismisses the members of the Board of Directors and determines their remuneration; second the members of the Board of Directors abroad;

- approve and update the company's business programme;
- elects and dismisses the independent statutory auditor;
- approves the annual financial statements after certification by the appointed independent statutory auditor;
- takes decisions for the bonds issuance;
- appoints the liquidators upon termination of the Company (except in case of insolvency), participates in the election of a statutory manager in the event that the circumstances for the appointment of a statutory manager under the Energy Act by the Energy and Water Regulatory Commission are present and concludes contracts with them;
- releases from liability the members of the Board of Directors;
- takes decisions for opening, transferring or closing branches of the Company;
- gives permission for: disposal transactions with fixed assets and for the establishment of property rights over real estate, the value of which exceeds the lower of BGN 500 thousand or 5 per cent of the book value of fixed assets as at 31 December of the previous year; for contracts for the use or lease of real estate or assets, the book value of which exceeds 5 per cent of the book value of fixed assets as at 31 December of the previous year or for transactions for which (regardless of the value of the assets) authorization from the Energy and Water Regulatory Commission is required; receiving borrowings or credits, granting borrowings, granting guarantees (except for guarantees granted under the Public Procurement Act), assuming surety obligations and providing earmarked financing, granting guarantees to third parties, in cases where the value of each of the above exceeds the lower of BGN 500 thousand or 5 per cent of the total book value of fixed assets as at 31 December of the previous year; acquisition of shares and/or stocks in other companies, as well as for disposal of shares and/or stocks owned by the Company in other companies; conclusion of joint activity agreements (the so-called joint venture); the assumption of promissory notes; the securing of obligations of the Company by the creation of a mortgage or pledge of fixed assets of the Company; the conclusion of a judicial or extrajudicial settlement recognizing obligations or forgiving a debt of the Company or forgiving a claim of the Company against third parties; a material change in the business of the Company; material organizational changes, for long-term cooperation of material importance to the Company, and for the termination of such cooperation;
- approves the election of insurer when concluding contracts for compulsory insurance;
- approves the decision of the Board of Directors to start public procurement procedures with an estimated value of over BGN 500,000 (five hundred thousand Bulgarian leva), excluding VAT;
- authorizes the conclusion of contracts for the sale, exchange and lease of fixed assets, as well as the establishment of property rights, to be carried out by direct negotiation, with the initial price to be determined by an independent assessor.
- authorize the sale and exchange of homes, studios, offices and garages to employees of the Company;
- coordinates the acquisition of assets or the conclusion of contracts, as well as amendments to the same, of a single or total value over BGN 500,000 (five hundred thousand Bulgarian leva), excluding VAT, excluding contracts for purchase, sale of natural gas and any other transactions with natural gas at freely negotiated prices on the organized stock exchange market and outside the organized stock exchange market (domestic and international markets) contracts for and related to natural gas storage in gas storage facilities, contracts for and related to storage and regasification at LNG terminals, contracts for and related to access to, transmission and reservation of capacity from gas transmission networks, balancing contracts, as well as contracts concluded in fulfillment of a legal and/or licensing obligation at regulated prices, including the amendment of these contracts. Contracts, outside the conciliation regime, are concluded in compliance with the requirements for risk management, affordability and cost-effectiveness;
- \- Adopts and submits to the Board of Directors Corporate Governance Policy, Financial and Accounting Policy, Information Technology Policy, Human Resources Management Policy, Investment and Project Management Policy, Public Procurement Policy (including Policy on

organizing tenders, competitions and direct negotiation for delivery of goods and performance of works and services); Policy for conducting tenders, competitions and direct negotiation for concluding contracts for sale, exchange and lease of fixed assets, Policy for risk management and internal audit, and other policies that are mandatory for the Company (the 'Policies');

- decides on the distribution of the Company's profit and its payment, the replenishment of the Reserve Fund and the payment of dividends and the payment of bonuses to the members of the Board of Directors, and determines their amount;
- gives consent for election of a procurator of the Company and approves in advance the conditions of the power of attorney;
- gives prior consent for the decisions under the previous points (except for the secondment abroad of the members of the Board of Directors), which the Company takes in respect of its subsidiaries and project companies (if any and according to the type of company), as well as for the conclusion of any contracts between the Company and its subsidiaries and project companies, if any;
- decides other issues provided within its competence by the law and the Articles of Association.

1.3. Decision making

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

2. Board of Directors

2.1. Composition

- As at 31 December 2021, the Board of Directors of Bulgargaz EAD consists of:
  Svetoslav Tanev Delchev
  Nikolay Atanasov Donchev
  Iliyan Kirilov Dukov
  Nikolay Angelov Pavlov (Executive Director)
  Diana Stoyanova Boneva

- By decision of the Board of Directors of Bulgarian Energy Holding EAD, the current Board of Directors has been constituted and entered in the Commercial Register on 03 February 2022, as follows:
  Ivan Dimitrov Topchiysky Chairman of the Board of Directors)
  Lyudmil Ventsislavov Yotsov (Executive Director)
  Anzhela Svetlozarova Slavova
  Anton Yordanov Adamov
  Stefan Pandov Voynov

- By decision of the Board of Directors of Bulgarian Energy Holding EAD, the current Board of Directors has been constituted and entered in the Commercial Register on 22 August 2022, as follows:
  Ivan Dimitrov Topchiysky (Chairman)
  Deniza Slatkova Slateva (Executive Director)
  Tatyana Angelova Petrova-Boyadzhieva
  Dimitar Vladimirov Spasov
  Veselin Sashev Sinabov

- By decision of the Board of Directors of Bulgarian Energy Holding EAD, the current Board of Directors has been constituted and entered in the Commercial Register on 24 April 2024, as follows:

  Ivan Dimitrov Topchiysky (Chairman)
  Veselin Sashev Sinabov (Executive Director)
  Mihail Mariov Milkov
  Byanka Svetlozar Racheva
  Marin Asenov Filipovski

2.2. Statute

- The Board of Directors reports to the sole owner of the capital for the management of the Company, including for the strict compliance with the Policies. It meets as needed, but at least once every three months.
- The Board of Directors shall consist of at least five members — natural persons, who shall be elected and appointed after a competition under the conditions and in accordance with the procedure laid down in the Regulations for the Implementation of the Public Enterprises Act.
- The Board of Directors elects one or two of its members as executive members and the rest are non-executive members. The term of office of the Board of Directors shall be from 3 to 5 years, starting from the entry of the Board of Directors in the Commercial Register and the Register of Non-Profit Companies, and the members of the Board of Directors shall continue to exercise their duties until the entry of a new Board of Directors and after the expiration of their term of office.
- With the prior written approval of the Principal, the Board of Directors may replace an Executive Director at any time, and replace him or her with another member of the Board of Directors.
- A member of the Board of Directors of the Company may be a Bulgarian citizen or a citizen of the European Union, a State party to the Agreement on the European Economic Area, or the Swiss Confederation who:
  — has a university degree;

- has at least 5 years of professional experience;
- is not placed under prohibition;
- has not been convicted of any intentional offence of a general nature;
- shall not be disqualified from holding office;
- is not declared bankrupt as a sole trader or unlimited partner in a bankrupt company if there are unsatisfied creditors;
- has not been a member of the management or supervisory body of a company or cooperative dissolved by reason of insolvency in the last two years prior to the appointment, if there are unsatisfied creditors;
- is not the spouse or a person related in fact, by consanguinity or affinity up to and including the fourth degree, and by affinity up to and including the second degree, of a manager or a member of a collective management and control body of the same public undertaking;
- does not hold a senior public office under Art. 1, Paragraph 1, items 1—38 and 41—45 of the Act on Counteracting Corruption and Seizure of Illegally Acquired Property, is not a member of a political cabinet and is not a municipal secretary;
- does not carry out commercial transactions on their own behalf or on behalf of others similar to the Company's business;
- is not a partner in general partnerships, limited partnerships or limited liability companies where they carry on a similar business to that of the Company;
- is not a director or member of the executive or supervisory body of another public undertaking;
- meets other requirements provided for by law;

- Persons who are employed under an employment contract or under a service relationship may not be executive members of the Board of Directors;
- The company may have proxies, for which may be elected persons who meet the above requirements.
- Each member of the Board of Directors shall enter into a management and control agreement with the Sole owner of the capital. The contract shall be concluded for the term until the end of the term of office of the Board of Directors and shall contain the rights and obligations of the parties, the amount of the remuneration and the manner of its payment, the liability of the parties in the event of non-performance, the grounds for termination of the contract, the amount of the monetary guarantee they give for their management and the amount of the penalty for early termination of the contract for no fault of the member of the Board of Directors, as well as the relationship between the parties in the period from the termination of the contract until the deletion of the name of the released member
- The management contract with a member of the Board shall be terminated early:
  - by mutual consent of the parties;
  - at the request of the person with not less than 3 months' notice;
  - at the request of the principal of the COMPANY with a written notice of 1 (one) month.
  - in case of transformation or dissolution of the COMPANY and in case of change of the owner of the capital;
  - in case of death;
  - upon the placement of the natural person under disability, respectively upon the bankruptcy of the legal entity or upon its dissolution;
  - due to a de facto inability of the person to carry out his/her duties lasting more than 6 months;
  - in other cases provided for by law.
- The contract may be terminated early and without notice by the Sole owner of the capital for the fault of the member of the Board of Directors:
  - in the event of a circumstance giving rise to incompatibility with the requirements under Article 23, paragraph 4 and Article 26, paragraph 2 of the Statutes;
  - on conviction of a common offence committed with intent;
  - upon the entry into force of an act establishing a conflict of interest under the Act on Countering Corruption and on Seizure of Illegally Acquired Property;

- in the event of serious misconduct or persistent failure to comply with official duties;
- for any violation of law, statute, Board Rules or Policies committed in the course of or in connection with the performance of the member's duties;
- in the event of actions by the person that have led to a deterioration in the financial performance of the COMPANY or from which damage to the COMPANY has resulted;
- in the event of a material non-performance of the economic or financial indicators, according to the approved business programme.

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

2.3. Structure

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

2.4. Functions

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

Control.

2.5. Competence

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

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

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

2.7. Representation of the Company

- The Company shall be represented before third parties by the sole Executive Director independently (even if a procurator is appointed).

- In case of election of two Executive Directors — jointly by the Executive Directors. Likewise, the Executive Directors may authorize other persons to carry out certain actions or to conclude separate transactions (including to authorize one person).
- A procurator may represent the Company within the framework of the power of attorney granted to him.

3. Audit committee

3.1. Composition as at 31 December 2023

Ilin Georgiev Krivoshiev — Chairman;
Tsvetislava Krasteva — Member;
Dimitar Milenov Milev — Member.

With effect from 30 April 2024, the composition of the Audit Committee shall be as follows:

Ilin Georgiev Krivoshiev — Chairman;
Elena Angelova Stylova-Dobreva — member;
Dimitar Milenov Milev — Member.

3.2. Statute

The Committee is a specialized, supervisory, advisory body. The members of the Committee are elected by Bulgarian Energy Holding EAD in its capacity of sole owner of the capital of Bulgargaz EAD.
The Committee consists of 3 members, one of them acting as the chairman.

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

3.3. Remuneration

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

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

3.4. Obligations and powers

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

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

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

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

VESELIN SINABOV
EXECUTIVE DIRECTOR

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of **Bulgargaz EAD** (the Company), which comprise the statement of financial position as of **31 December 2023** and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effect of the matter, described in the Basis for Qualified Opinion section of our report the accompanying financial statements give a true and fair view of the financial position of the Company as of **31 December 2023**, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the Bulgarian legislation.

Basis for Qualified Opinion

1. As disclosed in Note **2.2 Going concern principle** and **35. Provisions, Contingent Assets and Contingent Liabilities**, at the end of 2022, the Company has entered into a long-term agreement with BOTAŞ BORU HATLARI İLE PETROL TAŞIMA A.Ş for access to the terminals for regasification of liquefied natural gas in Turkey and its subsequent transfer to the territory of the Republic of Bulgaria for a period of 13 years. As part of the fulfilment of the contract in 2023 note 25 discloses that in 2023 the Company incurred costs for unused capacity in the amount of BGN 72 926 thousand, which essentially represents unutilized but paid service. In Note **5.4. Provisions**, an information is disclosed about the judgments and assumptions of the Company's management regarding the accounting treatment of the action, implementation and expected development and implementation of the agreement. Based on its analysis, including all available internal and external information for the Company's management, it has come to the conclusion that the agreement between Bulgargaz and BOTAŞ BORU HATLARI İLE PETROL TAŞIMA A.Ş does not constitute an onerous contract within the meaning of IAS 37 "Provisions, contingent liabilities and contingent assets". According to IAS 37 "Provisions, Contingent Assets and Contingent Liabilities", this contract has the characteristics of an "onerous contract" because the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under the contract. Accordingly, current obligations under such a contract are required to be recognized and measured as a provision for an onerous contract.

As a result of the audit procedures we performed, we were unable to obtain sufficient and appropriate audit evidence that the presumptions and assumptions on which management's judgment is based on whether or not to treat the contract as onerous are reasonable and adequately reflect the complexity and specificity of the conditions under it, including and the effect of possible events that could occur beyond management's control and affect the fulfilment of the agreement. Due to numerous assumptions and uncertainties related to future events, we could not convince ourselves with a reasonable degree of certainty as to the extent to which this contract will be utilized through its implementation deadline. Accordingly, we were unable to determine whether and to what extent additional provisions would be required in case that different judgments were applied to produce the most reliable estimate of the costs required to settle the current liability at the end of the reporting period under the requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" when compiling the Company's annual financial statements as of 31 December 2023. Accordingly, we were unable to determine whether and to what extent adjustments would be required to the carrying amount of the provisions as of 31 December 2023 and to the 2023 onerous contract provision expenses.

2. As disclosed in Note **12 Inventories** to the annual financial statement, the carrying amount of the Company's natural gas as of 31 December 2023 is BGN 499 787 thousand. When preparing the assessment related to the determination of the net realizable value of natural gas, the Company's management has referred to an expected sales price of natural gas (European index TTF Front month, used as a reference price quote, published in the Argus Media newsletter on 1 September 2023) for the month of January 2024, but has applied this reference price to partial available

quantity which is planned to be realized by the end of the year according to the Contingency Plan. As a result, the total balance sheet value of the Company's natural gas as of 31 December 2023 consists of natural gas valued at net realizable value in the amount of BGN 66 767 thousand and natural gas valued at cost in the amount of BGN 433 020 BGN thousand.
We were not able to obtain sufficient and relevant audit evidence that the method thus applied to determine the net realizable value and accordingly calculation of the impairment loss of natural gas complies with the requirements of IAS 2 "Inventories". Given that the Company had had applied a consistent approach to determine the net realizable value of the entire available amount of natural gas as of 31 December 2023, this value would have been BGN 273 351 thousand lower than its carrying amount, and the impairment loss for 2023 would have been higher by the same amount. Accordingly, the net loss for the period would have increased by BGN 246 016 thousand, after deducting the relevant tax temporary differences of BGN 27 335 thousand.

3. As disclosed in Note **13 "Prepaid advances for natural gas",** as of 31 December 2023 these advances amount to BGN 461 453 thousand. A substantial part of the amount of BGN 307 395 thousand refers to advances, granted to one counterparty for the delivery of certain quantities of natural gas in the first six months of 2023, the delivery of which has been postponed for a subsequent period. The Company has not assessed the recoverable amount of prepaid advances in accordance with the requirements of applicable accounting standards. The results of our audit procedures showed that if a consistent approach has been used to determine the recoverable amount of natural gas advances based on its sales price, the Company would have recorded an additional loss of BGN 210 788 thousand for 2023. Accordingly, the net loss for 2023 would have increased by BGN 189 709 thousand, after deducting the relevant tax temporary differences of BGN 21 079 thousand.

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

Material Uncertainty Related to Going Concern

We draw attention to Note **2.2. "Going concern principle"**, where a detailed information is disclosed regarding the management's assessment of the application of the going concern principle in the preparation of the Company's annual financial statements as of 31 December 2023, the significant challenges and changes in the way of carrying out the Company's activities, as well as the measures taken to ensure the supply of natural gas, ensure liquidity and preserve the financial stability of the Company. Since the end of February 2022, as a result of the military conflict between Ukraine and the Russian Federation, negative consequences occurred for the economies of the EU countries, including Bulgaria. This led to a change in the environment in which the Company operates and imposed significant changes in the supply chains and contractual relations of the Company. Series of events and circumstances beyond the Company's control resulted in the need to secure natural gas supplies at prices that were significantly higher in 2022 than current market levels in 2023. In 2023, Bulgargaz EAD reported a net loss of BGN 52 381 thousand and a negative net cash flow from operating activities in the amount of BGN 112 212 thousand. As of 31 December 2023, the Company's equity in the amount of BGN 125 515 thousand is less than the amount of the registered share capital by the amount of BGN 106 183 thousand. The excess of the share capital over the value of the net assets at the end of the reporting period is not in accordance with the requirements of Art. 252 of the Commercial Law. These circumstances, together with the matters described in the “Basis for Qualified Opinion” section of our report, indicate the existence of a material uncertainty that may cast significant 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 is not modified in respect of this matter.

Key audit matters

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

Except for the matters described in the “Basis for Qualified Opinion” section and the Significant uncertainty related to the going concern assumption” section described above, we have determined that there are no other key audit matters to be communicated in our report.

Information Other than the Financial Statements and Auditor’s Report Thereon

Management is responsible for the other information. The other information comprises the annual management report, including the corporate governance statement and the non-financial declaration, prepared in accordance with Bulgarian Accountancy Act and other applicable legal requirements, but does not include the financial statements and our auditor’s report thereon.

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

As described in the “Basis for Qualified Opinion” section of this report, we were not able to obtain sufficient and appropriate audit evidence regarding the matters addressed in that section. Accordingly, we are not able to reach a conclusion whether the other information is free of material misstatement with respect to these matters.

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

In accordance with International Financial Reporting Standards (IFRS), as adopted by the EU Bulgarian legislation, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

We are jointly liable for the performance of our joint audit and the issued joint auditors' opinion in accordance with the requirements of Bulgarian Independent Financial Audit Act. Upon acceptance and performance of the joint audit engagement on which we report, we have complied with the "Guidelines on performance of joint audit" issued by Bulgarian Institute of Certified Public Accountants and Bulgarian Commission for Public Oversight of Statutory Auditors on 13 June 2017.

Report on Other Legal and Regulatory Requirements

In addition to our responsibilities for reporting under ISAs, described above in section "Information Other than the Financial Statements and Auditor's Report Thereon", regarding annual management report, including the corporate governance statement and the non-financial declaration, we have performed the additional procedures contained in the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). The procedures on the existence, form and contents of the other information have been carried out in order to state whether the other information includes the elements and disclosures in accordance with Chapter Seven of Bulgarian Accountancy Act and Article 100m, paragraph (7), subparagraph (2) of Bulgarian Public Offering of Securities Act, as well as Article 29 of Public Companies Act, applicable in Bulgaria.

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

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

(a) the information in the annual management report is consistent with the financial statements for the same reporting period, on which we have issued qualified opinion in the section "Report on the Audit of the Financial Statements" above;
(b) the annual management report is prepared in accordance with the applicable legal requirements;
(c) as a result of the acquired knowledge and understanding of the activities of the Company and the environment in which it operates, we have found no cases of material misrepresentation in the annual management report, except for the effect of the matters described in section "Information Other than the Financial Statements and Auditor's Report Thereon" of "Report on the Audit of the Financial Statements";
(d) the corporate governance statement for the financial year contains the required information in accordance with the applicable legal requirements, including Article 100m, paragraph (8) of Bulgarian Public Offering of Securities Act;
(e) the non-financial declaration is prepared and made available in accordance with the requirements of Bulgarian Accountancy Act.

Reporting Pursuant to Article 59 of Bulgarian Independent Financial Audit Act in relation to Article 10 of Regulation (EC) № 537/2014

In accordance with the requirements of Bulgarian Independent Financial Audit Act and in relation with Article 10 of Regulation (EC) № 537/2014, we report additionally the information as follows:

- Grant Thornton OOD and Zaharinova Nexia EOOD, as participants in the association DZZD ODIT BEH, were appointed as statutory auditors of the financial statements of Bulgargaz EAD for the year ending on 31 December 2023 by the sole shareholder on 15 December 2020, for a period of three years (2021 – 2023).
- The audit of the Company's financial statements for the year ended 31 December 2023 represents the third consecutive year of a continuous commitment for a statutory audit of this company, performed by each of the joint auditors Grant Thornton OOD and Zaharinova Nexia EOOD.

- In support of our audit opinion, we have provided a description of the most significant assessed risks of material misstatement, a summary of the auditor's response and a reference to the Basis for Opinion, in the section „Key audit matters" of this report.
- We confirm that our audit opinion is consistent with the additional report to the audit committee, which was provided in accordance with Article 60 of Bulgarian Independent Financial Audit Act.
- We declare that prohibited non-audit services referred to in Article 64 of Bulgarian Independent Financial Audit Act were not provided.
- We confirm that we remained independent of the Company in conducting the audit.
- For the period for which we were engaged as statutory auditors, we have not provided any other services to the Company.

Grant Thornton OOD
Audit firm №032
Mariy Apostolov [Signature illegible]
Managing partner
(electronic signature dated 13 June 2024)

Emilia Marinova

[Signature illegible]
(electronic signature dated 13 June 2024)
Registered auditor responsible for the audit

Zaharinova Nexia EOOD
Audit firm №138
Dimitrina Zaharinova [Signature illegible]
Managing Partner
(electronic signature dated 13 June 2024)

Stoycho Milev

[Signature illegible]
(electronic signature dated 13 June 2024)
Registered auditor responsible for the audit

Grant Thornton OOD
A 26, Cherni Vrah Blvd, 1421 Sofia
A 111 Kniaz Boris I Blvd., 9000 Varna
T (+3592) 987 28 79, (+35952) 69 55 44
F (+3592) 980 48 24, (+35952) 69 55 33
E office@bg.gt.com
W www.grantthornton.bg

Zaharinova Nexia EOOD
A: 157-159 Konstantin Velichkov blvd,
A 1309 Sofia
T.: (+3592) 920 46 70
F: (+3592) 828 06 32
E: office@zaharinovanexia.com
W: www.zaharinovanexia.com

13 June 2024
Bulgaria, Sofia

BULGARGAZ EAD
STATEMENT OF FINANCIAL POSITION
31 December 2023

(All amounts are in BGN'000)

	Note	AS AT 31 DECEMBER 2023	2022
ASSETS			
Non-current assets			
Property, plant and equipment	7, 9	360	465
Intangible assets	8	243	280
Deferred tax assets	10	28,228	22,282
		28,831	**23,027**
Current assets			
Inventories	12	499,799	526,879
Trade and other receivables	11	882,038	715,513
Prepaid natural gas supplies	13	461,453	555,262
Contract assets	21	85,096	55,698
Cash and cash equivalents	14	2,265	207,395
		1,930,651	**2,060,747**
TOTAL ASSETS		**1,959,482**	**2,083,774**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	231,698	231,698
Reserves	17	21,130	21,152
Accumulated loss		(127,313)	(74,932)
		125,515	**177,918**
Non-current liabilities			
Borrowings	18	1,170,000	806,085
Lease payables	9	125	121
Provisions	34	53,715	53,100
Retirement benefits obligations	20	167	120
		1,224,007	**859,426**
Current liabilities			
Borrowings	18	307,468	718,071
Trade and other payables	19	297,159	324,923
Lease payables	9	188	312
Income tax payables		5,111	3,071
Retirement benefits obligations	20	34	53
		609,960	**1,046,430**
TOTAL LIABILITIES		**1,833,967**	**1,905,856**
TOTAL EQUITY AND LIABILITIES		**1,959,482**	**2,083,774**

The annual financial statements were approved by the Board of Directors on 30 May 2024 and signed on 13 June 2024.

Liliya Ivanova
Head of Accounting Department
(electronic signature dated 13 June 2024)

Veselin Sinabov
Executive Director
(electronic signature dated 13 June)

Auditor's report issued by the joint auditors on 13 June 2024

Grant Thornton OOD, Audit Firm No 032
Mariy Apostolov
Managing partner *(electronic signature dated 13 June 2024)*

Zaharinova Nexia EOOD, Audit Firm No 138
Dimitrina Zaharinova
Manager *(electronic signature dated 13 June 2024)*

Emiliya Marinova *(electronic signature dated 13 June 2024)*
Registered auditor responsible for the audit

Stoycho Milev *(electronic signature dated 13 June 2024)*
Registered auditor responsible for the audit

BULGARGAZ EAD
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts are in BGN'000)	Note	YEAR ENDED 31 DECEMBER	
		2023	**2022 *restated**
Revenue from sale of natural gas	21	2,507,716	4,064,310
Other revenue	22	58,265	29,231
Cost of natural gas sold		(2,348,460)	(3,944,493)
Expected credit losses and impairment losses on financial assets	23	(29,624)	(34,670)
Impairment losses on inventories	12	(41,713)	(173,247)
Impairment losses on non-financial assets — advances for natural gas	13	(13,721)	-
Hired services expenses	24	(20,339)	(19,311)
Costs for unused capacity	25	(106,038)	(14,548)
Employee benefits and social security expenses	26	(4,516)	(3,913)
Cost of materials	27	(95)	(72)
Depreciation expenses on non-financial assets	7,8	(399)	(539)
Provision expenses	28	(615)	(754)
Other expenses	29	(160)	(569)
Profit/(Loss) from operating activities		**301**	**(98,575)**
Interest income	30	-	1,330
Interest expense, bank charges and commissions	30	(44,157)	(18,962)
Foreign exchange profit/(loss), net	31	(6,357)	4,948
Financial costs, net		**(50,514)**	**(12,684)**
Loss before tax		**(50,213)**	**(111,259)**
(Expense) for/income from income taxes	32	(2,168)	17,774
Net loss for the year		**(52,381)**	**(93,485)**
Other items of the comprehensive income:			
Items that will not be reclassified in profit or loss:			
Remeasurement of defined benefit retirement plans	20	(24)	6
Income tax related to items that will not be reclassified in profit or loss	32	2	(1)
Other comprehensive (loss)/ income/ for the year, net of tax		**(22)**	**5**
Total comprehensive loss for the period		**(52,403)**	**(93,480)**

The annual financial statements were approved by the Board of Directors on 30 May 2024 and signed on 13 June 2024.

Liliya Ivanova
Head of Accounting Department
(electronic signature dated 13 June 2024)

Veselin Sinabov
Executive Director
(electronic signature dated 13 June 2024)

Auditor's report issued by the joint auditors on 13 June 2024

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Registered auditor responsible for the audit

Zaharinova Nexia EOOD, Audit Firm No 138
Dimitrina Zaharinova
Manager *(electronic signature dated 13 June 2024)*

Stoycho Milev *(electronic signature dated 13 June 2024)*
Registered auditor responsible for the audit

(All amounts are in BGN'000)

	Share capital	Reserves	Accumulated loss	Total equity
AS AT 01 January 2022	**231,698**	**14,757**	**82,458**	**328,913**
Net loss for the year	-	-	(93,485)	(93,485)
Other items of the comprehensive income, net of tax	-	5	-	5
Total comprehensive loss	**-**	**5**	**(93,485)**	**(93,480)**
Transactions with the sole owner				
Distribution for dividend	-	-	(57,515)	(57,515)
Total transactions with the sole owner	**-**	**-**	**(57,515)**	**(57,515)**
Reserve Fund distribution	-	6,390	(6,390)	-
AS AT 31 DECEMBER 2022 (restated)	**231,698**	**21,152**	**(74,932)**	**177,918**
AS AT 01 January 2023	**231,698**	**21,152**	**(74,932)**	**177,918**
Net loss for the year	-	-	(52,381)	(52,381)
Other items of the comprehensive income, net of tax	-	(22)	-	(22)
Total comprehensive loss	**-**	**(22)**	**(52,381)**	**(52,403)**
AS AT 31 December 2023	**231,698**	**21,130**	**(127,313)**	**125,515**

The annual financial statements were approved by the Board of Directors on 30 May 2024 and signed on 13 June 2024.

Liliya Ivanova
Head of Accounting Department
(electronic signature dated 13 June 2024)

Veselin Sinabov
Executive Director
(electronic signature dated 13 June 2024)

Auditor's report issued by the joint auditors on 13 June 2024

Grant Thornton OOD, Audit Firm No 032
Mariy Apostolov
Managing partner
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Emiliya Marinova
(*electronic signature dated 13 June 2024)*
Registered auditor responsible for the audit

Zaharinova Nexia EOOD, Audit Firm No 138
Dimitrina Zaharinova
Manager *(electronic signature dated 13 June 2024)*

Stoycho Milev *(electronic signature dated 13 June 2024)*

Registered auditor responsible for the audit

BULGARGAZ EAD
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts are in BGN'000)

	Note	YEAR ENDED 31 DECEMBER 2023	2022
CASH FLOWS FROM OPERATING ACTIVITY			
Proceeds from customers		2,607,162	4,737,795
Proceeds of litigation and related fees		6,533	1,556
Proceeds from transactions with related parties		28,510	43,161
Income tax payments		(6,071)	(1,594)
Payments to suppliers, including:		(2,460,552)	(5,587,934)
For purchase of natural gas		*(2,308,382)*	*(5,414,567)*
Under transactions with related parties		*(147,424)*	*(1,146,558)*
Payments to other trade counterparties		*(4,746)*	*(26,809)*
Taxes paid, different from the income tax		(280,009)	(558,725)
Payments for personnel benefits and social security		(4,528)	(3,947)
Proceeds under a compensation programme by resolution of the Council of Ministers (CoM)		-	234,355
Other payments for operating activity, net		(3,257)	(611)
NET CASH FLOWS FROM OPERATING ACTIVITY		**(112,212)**	**(1,135,944)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of intangible assets		(49)	(8)
Acquisition of plant and equipment		(306)	(292)
Net cash flows from investing activity		**(355)**	**(300)**
CASH FLOWS FROM FINANCING ACTIVITY			
Principal payments on lease contracts	9	(135)	(343)
Interest payments on lease contracts	9	(11)	(16)
Borrowings received	15	405,000	1,547,813
Payments on borrowings received	15	(492,515)	(192,509)
Proceeds from bank overdraft	15	57,789	150,769
Payments of bank overdraft	15	(33,263)	(153,372)
Payments of interest and fees on borrowings received	15	(28,271)	(8,463)
Net cash flows from financing activity		**(91,406)**	**1,343,879**
Net (decrease)/increase of cash and cash equivalents during the year		**(203,973)**	**207,635**
Cash and cash equivalents at the beginning of the year, gross		207,544	211
Foreign currency losses on cash and cash equivalents, net		(1,302)	(302)
Accrued expected credit losses on cash and cash equivalents		(4)	(149)
Cash and cash equivalents at the end of the year	**14**	**2,265**	**207,395**

The annual financial statements were approved by the Board of Directors on 30 May 2024 and signed on 13 June 2024.

Liliya Ivanova
Head of Accounting Department
(electronic signature dated 13 June 2024)

Veselin Sinabov
Executive Director
(electronic signature dated 13 June 2024)

With audit report of the joint auditors 13 June 2024.

Grant Thornton OOD, Audit Firm No 032
Mariy Apostolov
Managing partner *(electronic signature dated 13 June 2024)*
Emiliya Marinova *(electronic signature dated 13 June 2024)*
Registered auditor responsible for the audit

Zaharinova Nexia EOOD, Audit Firm No 138
Dimitrina Zaharinova
Manager *(electronic signature dated 13 June 2024)*
Stoycho Milev *(electronic signature dated 13 June 2024)*
Registered auditor responsible for the audit

1. GENERAL INFORMATION

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

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

The main strategic goals of BULGARGAZ EAD are related to the responsibilities and obligations for continuity and reliability of natural gas supply. Guaranteeing the supply of natural gas is of key importance for the energy security of Bulgaria. This relates to maintaining continued financial stability and enhancing economic efficiency from the Company's operations, in an environment of market volatility and high intercompany indebtedness in the energy sector.

The Company operates under an individual license for public supply of natural gas on the territory of the 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 a Natural Gas Trading License 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).

The Company is also the holder of a perpetual permit No 2023P 0370 dated 20 June 2023 for trading in natural gas issued by the Slovak Republic — Regulatory Office for Network Industries.

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

The company is a registered user of the gas transmission network in Serbia.

The Company has a one-tier management system, with governing bodies being the sole owner of the capital and the Board of Directors. As at 31 December 2023, the Company is managed and represented by the Executive Director Deniza Slateva and has a Board of Directors with the following members:

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

As at 23 April 2024 and as at the date of the preparation of the Statements, the Company is managed and represented by the Executive Director Veselin Sinabov and has a Board of Directors with the following members:

- Veselin Sinabov — Executive Member of the Board of Directors;
- Ivan Topchiysky — Chairman of the Board of Directors;
- Mihail Mariov Milkov — Member of the Board of Directors;
- Byanka Svetlozar Racheva — Member of the Board of Directors;
- Marin Asenov Filipovski — Member of the Board of Directors.

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

As at the date of execution of the present Financial Statements, the Company has an Audit Committee with the following members:

- Ilin Krivoshiev — Chairman
- Tsvetislava Krasteva — Member
- Dimitar Milev — Member

2. STATEMENT OF COMPLIANCE WITH THE IFRS AND APPLICATION OF THE GOING CONCERN PRINCIPLE

2.1. STATEMENT OF COMPLIANCE WITH THE IFRS ADOPTED BY THE EU

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

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

The annual financial statements are presented in Bulgarian lev (BGN), which is also the functional currency of the Company. Unless otherwise stated, all amounts are presented in thousand Bulgarian lev (BGN'000), including the comparative information for 2022.

2.2. GOING CONCERN PRINCIPLE

As at 31 December 2023, the financial statements are prepared on a going concern principle, which assumes that the Company will continue its operations in the foreseeable future.

As disclosed in Note 1 'General information', the Company has an individual license for public supply of natural gas in the Republic of Bulgaria, issued by the State Energy and Water Regulatory Commission for a period of 35 years and holds a Natural Gas Trading License No Л-548-15 of 16 September 2021.

The main purpose of the Company is to perform the function of a public supplier of natural gas in the country.

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 31 December 2023, the Company reported a net loss of BGN (52,381) thousand.

As at 31 December 2023, the accumulated loss is BGN (127,313) thousand, the net cash flow from operating activities is negative, amounting to BGN (112,212) thousand, but the current assets exceed the current liabilities by BGN 1,320,691 thousand. The loss for the period is mainly due to impairment losses recognised on financial and non-financial assets.

As at 31 December 2023, the Company's equity capital of BGN 125,515 thousand is below the registered share capital of BGN 106,183 thousand, and the net value of its assets (the difference between the value of the rights and obligations of the company) according to Article 247a, paragraph 2 of the Commerce Act is a positive value.

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 have led to significant changes in the natural gas market in Bulgaria. Throughout 2022, natural gas prices rose at a rapid and substantial rate, but towards the end of 2022 and early 2023, the natural gas market began to gradually calm.

In this dynamic environment, on 29 June 2022, Regulation (EU) 2022/1032 of the European Parliament amended 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 of natural gas above the planned ones at significantly inflated prices. In order to achieve the externally imposed requirement of 80% storage fill, it came to maintain large stocks of natural gas at high prices. In addition, the relatively warm winter limited natural gas production. Pursuant to Article 6b, paragraph 1 of the Regulation, the 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 expects that the Company will be compensated through the 'Program for Compensation of High Prices of Natural Gas Injected into Chiren UGSF in the Period 01 May 2022—11 October 2022', developed by the Ministry of Energy, for the quantities of natural gas produced in the months of January-April 2024. The programme is in the process of being coordinated between the members of the Council of Ministers with a view to its adoption by the Government and subsequent actions related to obtaining a Decision from the European Commission regarding the eligibility of the aid. A notification for approval of the planned aid scheme under measure SA.112301 has been sent to the EC and at the date of the financial report management has been informed that intensive communication is ongoing between representatives of the EC's Directorate-General for Competition and a team from the Ministry of Energy to clarify the possible parameters of the compensation mechanism. According to the proposed draft of the Compensation Program, the Company's expected financial resources as at 20 May 2024 have an indicative amount of BGN 154 million. The program is applicable to all companies with natural gas injected into underground gas storage during the period indicated.

The natural gas market in Europe, in particular in Bulgaria and the region, has undergone significant changes in the last 2 years mainly as a result of the suspension of supplies from Russia to some European countries, including Bulgaria. This has led to active action and efforts by the European Union countries to reduce energy dependence on Russia. The share of LNG supply has doubled in the period August 2022—July 2023 compared to 2019 levels. Natural gas consumption in the European Union is also decreasing, with most member states reported to have met the European Commission's target of a 15% reduction in natural gas consumption compared to the average consumption over the previous 5 years for the period August 2022—March 2023. According to Eurostat, the decline in natural gas consumption for Bulgaria is around 19%.

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 the economic activity in Asian markets;
- Continued local and regional supplies of Russian natural gas.

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 Botaş is 01 April 2023—31 December 2035, as by Decision No 26 of 12 January 2023, the Council of Ministers of the Republic of Bulgaria approves the signed Agreement. The Agreement provides for regasification capacity of up to 14 cargoes (14,000,000 MWh) of LNG per year and its subsequent transmission to the interconnection point at the border of the Republic of Turkey and the Republic of Bulgaria — Malkochlar/Stranja 1, in the amount of up to 19,000,000 MWh per year. The difference in quantities between the LNG delivery capability and the subsequent transmission is to provide flexibility in receiving the quantities of LNG delivered. With a delivery of 14 loads and a transmission entitlement of 14,000,000 MWh, this would mean no flexibility element for the Company, as the same quantity would need to be received each day in a given year in order for all deliveries to be accepted. By contracting for more transmission capacity relative to the delivery capability, significant annual flexibility (estimated at 28% of total volume) is achieved in accepting the quantities delivered. Management's estimate is that in the summer when consumption is lower, the quantities may not be taken in full, as the greater transmission capacity allows these undrawn quantities to be taken in the winter period when consumption is significantly higher. At the same time, this also provides significant flexibility in the requests on a daily basis (during the repair works on 26—27 September, Bulgargaz generated losses of more than BGN 10,000,000 million as a result of a capacity outage in just two days). In addition, the flexibility enjoyed by the Company in ordering and receiving quantities saves significant financial losses from selling quantities of natural gas below cost on the exchange and/or as a positive imbalance to the transmission system operator, not only in the event of interruptions resulting from repair work, but also in the event of non-receipt by the Company's customers. According to our calculations for the period January—March 2024, when the supply to customers was provided within the Agreement, a minimum of BGN 30 million losses were saved from selling below cost on the exchange market and/or as a positive imbalance.

Furthermore, having such an agreement with terms that provide flexibility in supply management allows, with proper forecasting of natural gas prices, for a profit to be made, such as LNG volumes delivered in the summer period when prices are lower to be marketed in the winter period when prices are higher.

Also, the negotiated price for the service provided under the Agreement is firm for the entire term of the agreement (with annual inflation indexation beginning 1 January 2025), which eliminates the risk to the Company of paying higher prices when demand for storage and regasification slot reservations is high. When Russian supplies to Bulgargaz were halted at the end of April 2022, the only operating terminal in the region, the one in Revithoussa, Greece, had no slots available until the end of 2022. At the auction for storage and regasification slots for 2023 held at the end of 2022, due to the high interest, Bulgargaz EAD was only able to book 2 slots for 2023 and 2 slots for 2024 at significantly higher prices than originally announced.

The term of the Agreement allows for the conclusion of a long-term contract (over 10 years) for the supply of LNG. In the case of long-term LNG contracts, the commodity prices are not linked to the market prices, as is the case for short-term supplies, but are intended to cover the investment for the development of the respective gas field and/or LNG loading terminal.

The conclusion of the Agreement provided a third source of supply for the company, which in turn, in addition to the above advantages, brings security and independence of supply for Bulgarian consumers, as Bulgargaz has thus diversified the routes and sources of supply, providing three interchangeable sources of supply.

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 shall continue to offer flexible and competitive commercial terms on the market. The natural gas market in Bulgaria is relatively small, and at present it can be assumed that natural gas trading is fully liberalised. It is also essential to improve the functioning of the gas exchange (trading platform 'Gas Hub Balkan' EAD), as a mechanism needs to be developed to guarantee the execution of the transactions concluded. The decisions require joint actions of the state, the independent regulator and Bulgargaz EAD as a participant.

The financial objectives of Bulgargaz EAD are related to ensuring the financial stability of the Company. The Company's management has prepared a business plan and a development forecast based on forecast customer requests, current regulations governing natural gas pricing, obligations under existing contracts with natural gas suppliers and forecasts prepared by leading agencies. The pricing of natural gas applied by the company depends on the market in which it is sold:

- on a regulated market — the pricing is carried out in compliance with the requirements of Ordinance No 2 of 19 March 2013.
- on a free market — pricing is market-based — determined by contracts with customers directly connected to the gas transmission system.
- an organized exchange market in the country and in the countries where the company has a 'Trading License' — the pricing follows the market conditions of Gas Hub Balkan EAD and the gas exchanges in the respective countries.

- the sale of services and sales outside an organised exchange market (on domestic and international markets) — pricing follows the market conditions at the time. The main approach to selling outside an organised exchange market is the application of the 'TTFfm + markup' formula.

The company forecasts growth in sales on the exchange/regional market in 2025 as a result of the termination of transit of Russian gas through Ukraine. This is expected to lead to an increase in demand for LNG in Central and Eastern Europe and increased interest in supply via the Greece/Turkey route to Europe. In 2024, the commercial operation of the Alexandroupolis terminal and the launch of LNG supplies to the Bulgarian market are expected.

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 conditions, Bulgargaz EAD should develop its activities as a natural gas trader, at free prices and as each of its competitors strives for a leading role on the Bulgarian market and an expanded 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 meet its obligations. The Company will continue to function 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 discontinue the Company's operations, regardless of its financial performance as at 31 December 2023. The sole shareholder is committed to the continued operational and financial support of 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 annual financial statements as at 31 December 2023.

3. SIGNIFICANT ACCOUNTING POLICY INFORMATION AND CHANGES DURING THE PERIOD

3.1. CHANGE IN THE ACCOUNTING POLICY, EFFECT OF THE CHANGE AND RECLASSIFICATIONS

Changes in the accounting policy

As a result of the changed geopolitical situation and the premature interruption of supplies from Gazprom Export in 2022, significant changes in the business model of Bulgargaz EAD's trading activities have become necessary. We have moved from supplying under two main long-term pipeline gas contracts, with 100% daily flexibility under the Gazprom Export contract, to providing 100% equal daily deliveries under multiple LNG purchase contracts and an increased amount of pipeline gas, also with 100% equal deliveries.

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 forming the cost price and a model for writing off the cost price.

As at 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.

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.).

With 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 by supplier/delivery by sales markets and storage location. There is no change to the method of costing natural gas, it remains a weighted average cost, however, this is applied to a different type of disaggregated information to the previous method.

With respect to the subsequent valuation of available inventory to determine the net realisable value of natural gas at the end of the reporting period, the new accounting policy uses a reference TTFfm price (exchange trading price for natural gas) for January of the following calendar year (as at 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).

The following table shows the effects of the adjustments recognised for each individual line item in the statement of profit or loss and other comprehensive income as a result of the change in accounting policy, including the change in presentation of LNG swaps.

The effects of the change in accounting policy in these financial statements at 31 December 2023 affect the items set out below. The net effect on the statement of financial position items at 31 December 2022 represents only the tax effect on the impairment loss on inventories after application of the change of BGN 6,946 thousand. Upon application of the change in accounting policy regarding the write-down method, the carrying amount of natural gas was increased by BGN 69,471 thousand and an impairment loss of the same amount was recognised immediately thereafter. The tax effect of the change was recorded as a decrease in tax expense, a decrease in loss for the period and an increase in deferred tax assets as at 31 December 2022.

Statement of profit or loss	**2022**	**Changes in the accounting policy**	**Reclassification of the presentation of LNG swap transactions**	**2022* Restated**
	BGN thousand	***BGN thousand***	***BGN thousand***	***BGN thousand***
Revenues from sales of natural gas	4,898,139		*(833,829)*	4,064,310
Other revenue	29,231	-		29,231
Cost price of sold natural gas	(4,847,784)	*69,462*	*833,829*	(3,944,493)
Expected credit losses and impairment losses on financial assets	(34,670)	-	-	(34,670)
Impairment losses on inventories — natural gas	(103,785)	*(69,462)*		(173,247)
Hired services expenses	(19,311)	-	-	(19,311)
Employee benefits and social security expenses	(3,913)	-	-	(3,913)
Cost of materials	(72)	-	-	(72)
Depreciation expenses on non-financial assets	(539)	-	-	(539)
Provision expenses	(754)	-	-	(754)
Other expenses	(15,117)	-	-	(15,117)
Operating profit	**(98,575)**	**-**	**-**	**98,575**
Interest income	1,330	-	-	1,330
Financial costs	(18,962)	-	-	(18,962)
Other financial income/costs, net	4,948	-	-	4,948
Financial income/expenses, net	**(12,684)**	**-**	**-**	**(12,684)**
Profit before tax	**(111,259)**	**-**	**-**	**(111,259)**
Income tax expenses	10,828	*6,946*		17,774
Loss for the period	**(100,431)**	**-**	**-**	**(93,485)**

Statement of financial position	**2022**	**Changes in the accounting policy**	**2022 restated**
	BGN thousand	BGN thousand	BGN thousand
ASSETS			
Non-current assets			
Property, plant and equipment	465	-	465
Intangible assets	280	-	280
Deferred tax assets	15,336	*6,946*	22,282
	16,081	*6,946*	**23,027**
Current assets			
Inventories	526,879	-	526,879
Trade and other receivables	715,513	-	715,513
Prepaid natural gas supplies	555,262	-	555,262
Contract assets	55,698	-	55,698
Cash and cash equivalents	207,395	-	207,395
	2,060,747	-	**2,060,747**
TOTAL ASSETS	**2,076,828**	*6,946*	**2,083,774**

Statement of financial position	**2022**	**Changes in the accounting policy**	**2022 restated**
	BGN thousand	BGN thousand	BGN thousand
EQUITY AND LIABILITIES			
Equity	231,698	-	231,698
Reserves	21,152	-	21,152
Accumulated loss	(81,878)	*6,946*	(74,932)
	170,972	6,946	**177,918**
Non-current liabilities			
Borrowings — non-current part	806,085	-	806,085
Lease liability — non-current portion	121	-	121
Provisions	53,100	-	53,100
Retirement benefit obligations non-current portion	120	-	120
	859,426	-	**859,426**
Current liabilities		-	
Borrowings	718,071	-	718,071
Trade and other payables	324,923	-	324,923
Lease payables	312	-	312
Income tax payables	3,071	-	3,071
Retirement benefit obligations — current portion.	53	-	53
	1,046,430	-	**1,046,430**
TOTAL LIABILITIES	**1,905,856**	-	**1,905,856**
TOTAL EQUITY AND LIABILITIES	**2,076,828**	*6,946*	**2,083,774**

Income tax expense — Effect of restated deferred tax on inventory impairment	**2022**	**Changes in the accounting policy**	**2022 restated**
	BGN thousand	BGN thousand	BGN thousand
Effect, occurrence and reversal of temporary differences	**13,900**	*6,946*	**20,846**

Reclassifications

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:

— *Accounting for swap transactions occurring in the second half of* 2022 *as stand-alone purchases of LNG for subsequent regasification.* In the comparative period for 2022, 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. As a result, the reported revenues and cost for the comparative period as at 31 December 2022 are netted by BGN 833,829 thousand. The change has no effect on the profit and loss of the Company.
— *Prepaid advances for the supply of natural gas,* which are presented on a separate line in the Statement of the financial position of the company as at 31 December 2023, in the amount of BGN 461,453 thousand. As at 31 December 2022, the paid advances for the supply of natural gas in the amount of BGN 555,262 thousand were presented under the trade and other receivables line in the statement of financial position.

The prior period changes only have an effect on the presentation of items in the statement of financial position and statement of profit or loss and other comprehensive income at 31 December 2022 and do not affect how they are measured.

3.1.1. 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 the 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.

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.

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

As at 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.

Due to the size of the business of Bulgargaz EAD and the Bulgarian Energy Holding EAD group to which the Company belongs, it is expected to be subject to additional corporate income tax under the changes to the Corporate Income Tax Act effective from 1 January 2024 (see Note 31).

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
- 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.

3.2. GENERAL PROVISIONS

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

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

Accounting estimates and assumptions have been used in the preparation of the financial statements presented. Although they are based on information provided to management at the date of preparation of the financial statements, actual results may differ from estimates and assumptions made.

3.3. PRESENTATION OF FINANCIAL STATEMENTS

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

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

The change in the Company's accounting policy is effective from 01 January 2023 in accordance with the requirements of IAS 8. The Company has restated the prior comparative period's statement of profit or loss and other comprehensive income, but the effects do not affect the statement of financial position items. Therefore, no second comparative period is presented in these financial statements.

In order to achieve a presentation in the financial statements that provides more relevant information about the nature of the business and the effect of transactions and other events or conditions on the Company's financial position, certain items of the statement of financial position and statement of profit or loss and other comprehensive income have been presented differently from the 2022 financial statements. The detailed disclosure of the reclassifications is in Note 3.1.

3.4. FOREIGN CURRENCY TRANSACTIONS

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

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

3.5. REVENUE

RECOGNITION AND MEASUREMENT OF REVENUE FROM CONTRACTS WITH CUSTOMERS

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

The two main areas (as at 31 December 2022: Three main areas, with an Exemption Program) of natural gas sales by the Company are as follows:

- on a regulated market — at prices regulated by the Energy and Water Regulatory Commission (EWRC);
- Open market — at freely negotiated prices in several segments:
    - — of customers directly connected to the gas transmission network;
    - — on an organised stock market — in the country;
    - — on an organized stock market — in countries where the Company has a Trading License
    - — outside organized exchange market (domestic and international markets).

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

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

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

Until 31 December 2022, in its role as a public supplier and in fulfilment of its legal obligations under the Programme for the release of natural gas on an organised exchange market, Bulgargaz EAD shall sell natural gas under the terms of a Programme Implementation Agreement. At the end of 2022, Bulgargaz EAD supported the proposed and subsequently adopted amendment to the Energy Act, which repealed items 4 and 5 of paragraph 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.

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

1. Identify the contract with a customer

2. Identify the performance obligations in the contract

3. Determine the transaction price

4. Allocate the transaction price to the performance obligations in the contract

5. Recognise revenue when (or as) the entity satisfies a performance obligation.

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

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

MEASUREMENT

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

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

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

A. REVENUE FROM SALES OF NATURAL GAS

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

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

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

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

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

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

The fixed amount is the sale price of the natural gas for each quarter of the year and is formed according to the Ordinance No 2 on Natural Gas Price Regulation. It is cost-oriented and consists of the following components: delivery price, a 'public provision component' (Article 17, paragraph 6 of the Ordinance on Natural Gas Price Regulation) and 'public service obligation' (Article 11a, paragraph 2 of the Ordinance on Natural Gas Price Regulation).

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

The variable consideration is related to:

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

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

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

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

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

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

Product/ Service type	**Nature and timing of satisfaction of performance obligations, including material payment terms**	**Revenue recognition under IFRS 15**
Revenues from the sale of natural gas (including revenues from penalties on unaccepted or over-collected amounts of gas)	As a public supplier and trader of natural gas, Bulgargaz EAD carries out the supply of natural gas all year round under a continuous routine of operation. The customer: • simultaneously receives and consumes all of the benefits; • receives control of the commodity (natural gas) by way of transfer of the legal title to the asset; • bears the significant risks and rewards related to the ownership of the asset; • accepts the asset. As a result of the Company's activity, no asset with an alternative use is created for the Company and the Company has an enforceable right to payment for performance completed to date.	Sales revenue is recognized on each transfer of control over the assets sold when they are delivered to the buyer and there are no outstanding commitments that could affect the purchaser's acceptance of natural gas. Delivery occurs for each asset dispatch to the specific place (pick-up point) and when the risks of potential losses have been transferred to the buyer and he has accepted the assets in accordance with the sales contract. The amounts of natural gas delivered to the customer on each of the days of the respective month are reflected in a Monthly Report containing information about the delivery and the customer's acceptance obligations. 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).

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

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 shall be determined on the basis of the Methodology for Determination of Daily Imbalance Fee approved by the EWRC. The remuneration includes a percentage deviation determined and fixed by the EWRC for the gas year.

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

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

C. PENALTIES ON OVERDUE RECEIVABLES

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

D. INTEREST INCOME

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

E. DETERMINING WHETHER THE COMPANY ACTS AS A PRINCIPAL OR AN AGENT

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

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

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

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

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

F. BALANCES UNDER CONTRACTS WITH CUSTOMERS

Trade receivables and contract assets

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

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

Contract liabilities

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

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

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

3.6. OPERATING EXPENSES

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

Asset impairment losses include impairment charges recorded for financial assets (accounts receivable), impairment of non-financial assets (inventories, advances made for the purchase of natural gas).

Deviations within the uncertainty class

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

3.7. INTEREST EXPENSES AND BORROWING COSTS

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

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

3.8. PROPERTY, PLANT AND EQUIPMENT

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

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

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

Revaluations are carried out according to the following frequency:

- in case the fair value of assets changes insignificantly, the assets are revaluated every three years;

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

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

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

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

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

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

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

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

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

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

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

3.9. INTANGIBLE ASSETS

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

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

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

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

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

Public supplier licences	35 years
Software applications	10 years

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

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

3.10. REPORTING OF LEASE CONTRACTS

A. THE COMPANY AS A LESSEE

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

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

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

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

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

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

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

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

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

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

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

B. THE COMPANY AS A LESSOR

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

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

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

3.11. NON-CURRENT ASSETS IMPAIRMENT TESTS

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

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

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

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

3.12. FINANCIAL INSTRUMENTS

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

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

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

3.12.1. FINANCIAL ASSETS

Initial recognition and qualification

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

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

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

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

Initial measurement

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

Subsequent measurement and presentation

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

Financial assets at amortized cost (debt instruments)

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

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

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

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

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

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

Derecognition

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

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

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

Impairment of financial assets

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

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

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

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

Expected credit losses for exposures for which there is no significant increase in the credit risk compared to the initial recognition are recognized for credit losses that may arise as a result of default events over the next 12 months. For credit exposures for which there is a significant increase in the credit risk after initial recognition, a loss adjustment for the expected credit losses over the remaining life of the exposure is required, irrespective of the timing of the default (lifetime ECL).

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

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

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

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

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

3.12.2. FINANCIAL LIABILITIES

Initial recognition, classification and measurement

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

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

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

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

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

Financial liabilities measured at depreciated cost

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

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

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

Trade payables are initially recognized at their nominal value and are subsequently measured at depreciated costless payment to settle.

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

Derecognition

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

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

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

Compensation of financial instruments

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

3.13. INVENTORIES

Inventories include materials and commodities — natural gas.

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

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

GAS IN UNDERGROUND GAS STORAGES

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

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

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

The cost of gas purchased comprises the direct purchase expenses — purchase price, transport costs, liquefied natural gas processing costs, transit fee for the transmission of gas through the territory of Turkey and Greece to an entry point of the country's gas transmission system, transition fee for the transmission and capacity of natural gas through the territory of the Republic of Bulgaria, non-refundable taxes and charges, and other direct costs.

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

Net realisable value is the estimated sales price in the ordinary course of business, less the approximately estimated costs of completion of the manufacturing cycle and the estimated costs necessary to make the sale. In determining the net realisable value at the end of the reporting period, the market levels of the TTFfm index according to the futures published on argusmedia.com for January of the following (calendar/financial) year (31 December 2022) are used: the prices that the Energy and Water Regulatory Commission (EWRC) has approved for the first month of the following reporting period shall be used).

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

3.14. INCOME TAXES

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

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

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

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

Deferred tax liabilities are recognized in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Regarding management's assessment of the likelihood of future taxable income being available through which to utilize deferred tax assets, see Annex 5 *Significant estimates in applying the accountancy policy of the company.*

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

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

3.15. CASH AND CASH EQUIVALENTS

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

3.16. EQUITY AND RESERVES

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

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

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

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

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

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

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

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

Actuarial profit or loss is recognized in other comprehensive income.

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

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

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

3.18. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

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

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

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

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

4. FINANCIAL RISK MANAGEMENT

4.1. FINANCIAL RISK FACTORS

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

Risk management of the Company is carried out by the headquarters of the Company, in cooperation with the Board of Directors and Bulgarian Energy Holding EAD. A priority of management is to provide short and medium-term cash flows by minimizing the exposure to financial markets. The Company is not trading with financial assets for speculative purposes, does not issue options and does not take speculative or hedging positions on the financial markets. In 2023, there was no change to the risk management objectives, policies and procedures and the methods by which they are measured.

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

4.1.1. MARKET RISK

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

(A) FOREIGN CURRENCY RISK

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

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

	Exposure to short-term risk
	USD thousand
31 December 2023	
Financial assets	51,946
Financial liabilities	(29,837)
Total exposure to risk	**81,783**
31 December 2022	
Financial assets	280,962
Financial liabilities	(84,126)
Total exposure to risk	**196,836**

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

- U.S. dollar +/- 2.2% (for 2022 +/- 8.6%)

All other parameters are considered constant.

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

31 December 2023	**Increase of the exchange rate of BGN**		**Decrease of the exchange rate of BGN**	
BGN thousand	**Net financial result**	**Equity**	**Net financial result**	**Equity**
US dollar (+/- 2.2%)	(2,822)	(2,822)	2,822	2,822

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

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

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

(B) INTEREST RATE RISK

The Company's policy is to minimize interest rate risk in long-term financing. As at 31 December 2023, the Company has entered into several bank overdraft type agreements and borrowings agreements from the sole owner and the Ministry of Energy that are at a fixed interest rate.

The Company has no financial assets or liabilities with variable interest rates as at 31 December 2023. Therefore, the Company is not considered to be exposed to the risk of changes in market interest rates.

(B) OTHER PRICE RISKS

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

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

The Company plans the quantities it will purchase based on the agreed annual programmes of customers at the exit points of the gas transmission system in Bulgaria. This creates price risks for Bulgargaz as a result of the following factors:

- the difference between quantities requested and accepted from customers, resulting in significant surplus natural gas and increased costs for unused transmission and regasification capacity;
- the particularities of LNG supply — a nominal quantity for delivery and a *tolerance* are agreed in the contracts;
- the difference between the pricing rate set under the NGRP and the natural gas acquisition rate;
- others

In 2023, the substantial price volatility in the natural gas market continued, reversing the trend towards a significant and rapid reduction in peaks from 2022. These dynamics and the specifics of the domestic market do not allow the Company to assess with a sufficient degree of precision the full sensitivity to this risk. The Company's management is making efforts to manage this risk through supply diversification and public tenders leading to the closest possible approximation to market levels for natural gas supplies.

The Company is not exposed to price risks in connection with its ownership of publicly traded shares, bonds and interests in subsidiaries or joint ventures.

4.1.2. CREDIT RISK

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

It is the Company's policy that all customers wishing to trade on a deferred payment basis are subject to procedures to verify their ability to pay for the provision of collateral — a bank guarantee.

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

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

	AS AT 31 DECEMBER	
	2023	**2022**
Trade and other financial receivables (including Related party receivables Note 36)	879,826	685,850
Cash and cash equivalents	2,265	207,395
Carrying amount	**882,091**	**893,245**

The Company has provided financial assets (trade receivables) as collateral for its liabilities, the carrying amount of which as at 31 December 2023 amounts to BGN 625 381 thousand. (31 December 2022: BGN 322,831 thousand).

Under a final judgment in favour of Bulgargaz EAD, claims from TPP Varna EAD for the amount of BGN 35,541 thousand, together with the statutory interest from the date of filing the claim — 28 April 2022 and the amount of BGN 1,502 thousand, representing the costs incurred in the case. In the agreement for the rescheduling of the arrears (under a valid decision of the General Assembly — Varna) of TPP Varna EAD it is agreed that as security for the liabilities the debtor should establish a mortgage in favour of Bulgargaz EAD. A first contractual mortgage was established in favour of the Company on a real estate to secure the obligations of the counterparty TPP Varna EAD, the market valuation of which, determined by the three experts at the time of its acquisition into the capital of the mortgagor, is BGN 43,734 thousand. (according to an independent valuation of the property as at August 2023, the market value amounts to BGN 39,199 thousand). By 31 December 2023, TPP Varna EAD has made a payment in the amount of BGN 5,000 thousand. By a supplementary agreement of March 2024 between Bulgargaz EAD and TPP Varna EAD, it was agreed that TPP Varna EAD would establish a special pledge in favour of Bulgargaz EAD under the Special Pledges Act in lieu of a mortgage to secure the obligations under the final judgment. For the remaining receivables of Bulgargaz EAD for the provided annual capacity product and expenses, in total amounting to BGN 3,746 thousand, a court settlement was concluded on 10 May 2024 between Bulgargaz EAD and TPP Varna EAD, as the receivables were rescheduled with a repayment plan.

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

As at 31 December 2023, the Company has received cash guarantees as collateral for trade receivables for natural gas supply from its customers in the amount of BGN 103 thousand. (2022: BGN 113 thousand).

As at 31 December 2023 and 31 December 2022, the Company is exposed to concentration of credit risk with respect to receivables from Toplofikacia Sofia EAD that comprise more than 60% of the total amount of net trade receivables:

	AS AT 31 DECEMBER	
	2023	**2022**
Receivables from Toplofikacia Sofia EAD	534,411	534,411
Total trade receivables from customers	**773,332**	**554,157**

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

4.1.3. LIQUIDITY RISK

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

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

AS AT 31 December 2023		**Current**	**Non-current**	
	Up to 6 months	**Between 6 and 12 months**	**Between 1 and 5 years**	**Total**
Lease	62	63	188	**313**
Borrowings	247,468	60,000	1,170,000	**1,477,468**
Trade and other payables	204,918	-	-	**204,918**
Total	**452,448**	**60,063**	**1,170,188**	**1,682,700**

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

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

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

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

Financial assets used for managing liquidity risk

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

4.2. CAPITAL MANAGEMENT

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

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

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

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

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

	AS AT 31 DECEMBER	
	2023	**2022**
Equity (net assets)	125,516	170,972
Subordinated debt (unsecured borrowings)	630,000	718,071
Adjusted capital	**755,516**	**889,043**
Total liabilities less subordinated debt and deferred income:	1,162,836	1,170,636
— Cash and cash equivalents	(2,265)	(207,395)
Net debt	**1,160,571**	**963,241**
Ratio of net debt to adjusted capital	**1,54**	**1,08**

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

4.3. FAIR VALUE MEASUREMENT

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

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

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

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

Upon preparing the presented financial statements, the Management's significant judgements in applying the Company's accounting policies and the main sources of uncertainty in accounting estimates do not differ from those disclosed in the Company's annual financial statements as at 31 December 2022. Information about the significant assumptions, estimates and assumptions having the most significant effect on the recognition and measurement of assets, liabilities, income and expenses is presented below.

5.1. IMPAIRMENT OF FINANCIAL ASSETS

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

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

The Company applies a simplified approach to calculate the expected credit losses for trade receivables that do not contain an element of finance.

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

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

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

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

The identified risk factors are considered an indication of a possible increase in credit risk. The quantitative effect of credit risk growth on counterparties from the energy industry is determined by separating an additional industry, 'Energy – High Risk', which adds the 'specific risk' component that is involved in determining the discount rate used for the calculation of the amount of impairment. The assessment of the ratio between observed historical default data, estimated economic conditions, industry risk rating, and the amount of expected credit losses is a significant estimate. Information on impairment of expected credit losses of the Company is presented in Note 23.

In reviewing the annual estimates associated with the application of the ECL model, management has made a judgment that for counterparties with elevated credit risk or with the presence of a concentration for credit risk, it is permissible to apply an individual approach. This judgement is based on market developments, the behaviour of the relevant counterparty up to and including the date of the estimates, circumstances that arise such as the existence of legal actions, the taking of collateral and the like. In this regard, in calculating the impairment losses on trade receivables as at 31 December 2023, management has considered the receivables settled up to the date of assessment, prepared a detailed historical analysis of recoveries over a three-year period and determined an appropriate discount factor to reflect the risks of the industry, counterparty, its geographical location and other specific risk characteristics.

Approach for impairment of granted borrowings, trade receivables and receivables from related parties with a financing element

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

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

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

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

Approach for impairment of court and awarded receivables

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

In 2023 the Company reviewed the methodology and assumptions used to determine the estimate of expected credit losses on litigation and adjudicated receivables in the prior reporting period. The analysis is intended to reduce the differences between estimates and actual credit losses. In connection with the review, the Company determined that all litigation receivables that were from customers declared bankrupt should be completely impaired.

Approach for impairment of cash in banks

Cash and cash equivalents are the most liquid financial instruments. They do not carry any settlement risk, and the liquidity risk they carry is limited to the technical possibility for their disposal not to be fulfilled. However, cash deposited with banks carries a counterparty credit risk (risk of default). Counterparty risk is the likelihood that the counterparty in a financial transaction will not fulfil its contractual obligations. The Company applies the standardized approach for calculating the expected credit losses of cash in banks and the credit rating of the financial institutions in which the Company has deposited its cash is used to determine the loss given default in the model parameters. As at 31 December 2023, the Management's best estimate of expected credit losses on cash in banks was that such credit losses were anticipated to the amount of BGN 4 thousand (31 December 2022: BGN 149 thousand). (Note 3.12.1 and Note 14).

Expected credit losses are the sum of the expected credit losses for each court and awarded receivable based on the historical collection of this asset class. Further information is also provided in Note 23.

5.2. INVENTORIES

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

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.

In accordance with the Company's accounting policy effective 1 January 2023, a reference TTFfm price for January of the following calendar year (as at 31 December 2022) is used in determining the net realizable value of natural gas at the end of the reporting period: the price that the Energy and Water Regulatory Commission has approved for the month of the first reporting period for the following year). This management judgment is based on the Company's operating cycle, the seasonal nature of natural gas production and compression, and the commitments made under the Contingency Plan to maintain certain quantities of available natural gas at the Chiren UGSF.

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 November 2022. According to the compensation mechanism proposed for discussion in the working group, the amount of the expected compensation for the quantities injected by Bulgargaz EAD as at 01 November 2022 would amount to no less than BGN 154,028 thousand. The company expects this mechanism to be implemented in Bulgaria, as compensations are a fact in other European countries.

5.3. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

5.4. PROVISIONS

The Company is a defendant in several lawsuits as at 31 December 2023, the outcome of which may lead to liabilities of a value other than the amount of provisions recognized in the financial statements. Provisions will not be considered here in more detail in order to avoid prejudices related to the Company's position in the above-mentioned disputes.

As at 31 December 2023, the best estimate of the required provision for claims against the Company amounted to BGN 53,715 thousand (31 December 2022: BGN 53,100 thousand). Additional information is disclosed in Note 35.

In preparing the annual financial statements, the Company's management has prepared its analysis of the operation, performance and expected development and enforcement of material contracts under which costs are expected to be incurred to settle obligations thereunder. The most significant such contract is the agreement for access to the LNG regasification terminals in Turkey and its subsequent transportation to the territory of the Republic of Bulgaria as disclosed in Note 2.2 of this report. Based on its analysis, including and based on all information available to the Company's internal and external management, the Company has concluded that the agreement between Bulgargaz and BOTAŞ BORU HATLARI İLE PETROL TAŞIMA A.Ş should not be treated as an onerous contract and a provision should not be charged for the following reasons:

This Agreement is related to the diversification of sources and routes of supply in order to achieve a security of supply that is minimally dependent on geopolitical developments.

It guarantees continuity of supply for Bulgarian consumers and to a much greater extent has a societal rather than a commercial meaning.

The agreement is for the provision of services, not the supply of gas, and the price of the service under it should be taken into account that it includes services such as flexibility to receive, store and carry forward volumes.

The results of the comparative analysis with similar agreements show that the latter do not include similar services. In similar arrangements, such services are further negotiated with other users and traders, resulting in additional costs for fees, as well as the assumption and coverage of price risks for the Company from the transfer of quantities, from one period to another, which is also reflected in the fee when such transactions are concluded.

The volatility of natural gas prices in Europe and the world due to the current geopolitical uncertainties should also be taken into account. This is evidenced by the fact that when this Agreement was entered into, the service charge was a low percentage of the price of natural gas and equal to similar services in the region without the additional benefits that the Service Agreement provides.

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

In addition, the transit agreement between Russia and Ukraine is expected to expire at the end of 2024, leading to a potential shortage and correspondingly increased demand for 11 bcm of natural gas in the Central and Eastern European countries, Ukraine and Moldova, where we see potential for realisation of the capacities reserved under the Botaş Agreement.

Due to the circumstances thus stated, it is management's judgement that the arrangement will not be treated as onerous within the meaning of IAS 37 and there is no need to recognise a provision for liabilities.

5.5. DEFERRED TAX ASSETS

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

6. FINANCIAL INSTRUMENTS BY CATEGORIES

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

AS AT 31 December 2023

Financial assets	**Debt instruments measured at depreciated cost**
Trade and other financial receivables (Note 11, Note 36)	879,826
Cash and cash equivalents (Note 14)	2,265
Total financial assets in the statement of financial position	**882,091**

Financial liabilities	**Financial liabilities at depreciated cost**
Borrowings (Note 18)	1,477,468
Lease (Note 9)	313
Trade and other payables (Note 19)	204,918
Total financial payables in the statement of financial position	**1,682,699**

AS AT 31 December 2022

Financial assets	**Debt instruments measured at depreciated cost**
Trade and other financial receivables (Note 11, Note 36)	685,850
Cash and cash equivalents (Note 14)	207,395
Total financial assets in the statement of financial position	**893,245**

Financial liabilities	**Financial liabilities at depreciated cost**
Borrowings (Note 18)	1,524,156
Lease (Note 9)	433
Trade and other payables (Note 19)	263,412
Total financial payables in the statement of financial position	**1,788,001**

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

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

Trade and other payables listed above do not include those arising from legal requirements (other tax liabilities and liabilities to social security companies), as well as, obligations to employees and advances received from customers.

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

7. PROPERTY, PLANT AND EQUIPMENT

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

	Plant and equipment	Vehicles	Office equipment	Right-of-use assets	Total
AS AT 01 January 2022					
Book value	54	420	279	434	1,187
Depreciation	(33)	(414)	(240)	(186)	(873)
Carrying amount	**21**	**6**	**39**	**248**	**314**
CHANGES IN 2022					
Newly acquired	-	-	7	510	**517**
Written-off		(163)	(104)	-	**(267)**
Depreciation	(3)	(6)	(28)	(327)	**(366)**
Written-off depreciation	-	163	104	-	**267**
Closing carrying amount	**18**	**-**	**18**	**429**	**465**
AS AT 31 December 2022					
Book value	54	257	182	944	1,437
Depreciation	(36)	(257)	(164)	(515)	(972)
Carrying amount	**18**	**-**	**18**	**429**	**465**
CHANGES IN 2023					
Newly acquired	2	-	38	-	**40**
Written-off	-	-	(14)	-	**(14)**
Depreciation	(1)	-	(20)	(124)	**(145)**
Written-off depreciation	-		14	-	**14**
Closing carrying amount	**19**	**-**	**36**	**305**	**360**
AS AT 31 December 2023					
Book value	56	257	206	944	1,463
Depreciation	(37)	(257)	(170)	(639)	(1,103)
Carrying amount	**19**	**-**	**36**	**305**	**360**

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

As at 31 December 2023, no assets of the group of property, plant and equipment are pledged as collateral of the Company's liabilities. As at 31 December 2023, the Company has no contractual obligation to purchase any assets.

As at 31 December 2023, the plant and equipment were evaluated and the outcome from these tests and evaluations show that there are no significant fluctuations in their market values and therefore there is no need to correct their carrying values.

Assets with the right of use include highly reliable IT structure and communication system (31 December 2022: highly reliable IT structure and communication system).

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

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

8. INTANGIBLE ASSETS

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

	Software applications	Licenses	Total
AS AT 01 January 2022			
Book value	1,620	58	**1678**
Depreciation	(1,380)	(17)	**(1,397)**
Carrying amount	**240**	**41**	**281**
CHANGES IN 2022			
Newly acquired	169	3	**172**
Written-off	(22)	-	**(22)**
Written-off depreciation	22	-	**22**
Depreciation	(168)	(5)	**(173)**
Closing carrying amount	**241**	**39**	**280**
AS AT 31 December 2022			
Book value	1,767	61	**1,828**
Depreciation	(1526)	(22)	**(1,548)**
Carrying amount	**241**	**39**	**280**
CHANGES IN 2023			
Newly acquired	200	18	**218**
Depreciation	(244)	(11)	**(255)**
Closing carrying amount	**197**	**46**	**243**
AS AT 31 December 2023			
Book value	1,989	79	**2,068**
Depreciation	(1,792)	(33)	**(1,825)**
Carrying amount	**197**	**46**	**243**

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

The intangible assets acquired in 2023 relate to a change in the functionalities of the software products Procurement module and Sales module — Ajur L PP. No intangible assets are pledged as collateral for the Company`s liabilities.

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

9. LEASES

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

9.1. AMOUNTS RECOGNIZED IN THE FINANCIAL STATEMENTS

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

	Note	AS AT 31 DECEMBER 2023	2022
Right-of-use assets			
IT structure, communication system	7	305	429
		305	**429**
Lease payables			
Current		188	312
Non-current		125	121
		313	**433**

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

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

By 31 December 2022, the Company has recognized two right-of-use assets, a highly reliable IT structure and a communications system, under leases with terms expiring 31 December 2026 and 31 December 2027. There are no right-of-use assets acquired during the current period — 31 December 2023.

The future minimum lease payments as at 31 December 2023 shall be as follows:

	Minimum lease payments due		
	Up to 1 year	**1—2 years**	**Total**
31 December 2023			
Lease payments	132	193	325
Financial costs	(7)	(5)	(12)
Net current amount	**125**	**188**	**313**
31 December 2022			
Lease payments	133	325	458
Financial costs	(12)	(13)	(25)
Net current amount	**121**	**312**	**433**

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

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

	Note	**AS AT 31 DECEMBER 2023**	**2022**
Costs for depreciation of right-of-use assets			
Office building, a highly reliable IT structure, Communication system	7	(124)	(329)
		(124)	**(329)**
Interest expenses (included in financial expenses)	29	(12)	(16)
Operating lease expense (office building rent included in external service costs)	24	(259)	-
		(271)	**(16)**

The total outgoing cash flow for leasing in 2023 amounts to BGN 146 thousand (2022: BGN 359 thousand).

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

10. DEFERRED TAX ASSETS

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

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

	AS AT 31 DECEMBER	
	2023	2022 *restated
Deferred tax assets		
– Deferred tax assets for refund in 12 months	28,229	22,288
Total deferred tax assets	**28,229**	**22,288**
Deferred tax liabilities		
– Deferred tax liabilities for refund in 12 months	(1)	(6)
Total deferred tax liabilities	**(1)**	**(6)**
Deferred tax assets, net	**28,228**	**22,282**

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

	YEAR ENDED 31 DECEMBER	
	2023	2022 *restated
AS AT 1 JANUARY	**22,282**	**1,437**
Recognized as tax revenue in profit (Note 32)	5,944	20,846
Tax revenue/(expense) related to components of other comprehensive income (Note 32)	2	(1)
AS AT 31 DECEMBER	**28,228**	**22,282**

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

As at 31 December 2023 and 31 December 2022, the Company has no unused tax losses that may be used in subsequent reporting periods.

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

	Impairment of inventory	Impairment of receivables and advances granted	Pension provisions	Unused paid leaves	Lease	Property, plant and equipment	Total
DEFERRED TAX (ASSETS)/LIABILITIES							
AS AT 01 January 2022	**(228)**	**(1,178)**	**(20)**	**(14)**	**2**	**1**	**(1,437)**
Expense/(revenue) in profit or loss	(17,323)	(3,516)	-	(6)	(2)	1	**(20,846)**
Expense/(revenue) in other comprehensive income	-	-	1	-	-	-	**1**
DEFERRED TAX ASSETS, NET, AS AT 31 DECEMBER 2022	**(17,551)**	**(4,694)**	**(19)**	**(20)**	**-**	**2**	**(22,282)**
AS AT 01 January 2023	**(17,551)**	**(4,694)**	**(19)**	**(20)**		**2**	**(22,282)**
Expense/(revenue) in profit or loss	(1,172)	(4,759)	(1)	(10)	1	(3)	**(5,944)**
Expense/(revenue) in other comprehensive income	-	-	(2)	-	-	-	**(2)**
DEFERRED TAX ASSETS, NET, AS AT 31 DECEMBER 2023	**(18,723)**	**(9,453)**	**(22)**	**(30)**	**1**	**(1)**	**(28,228)**

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

TRADE AND OTHER RECEIVABLES

	AS AT 31 DECEMBER	
	2023	**2022**
Financial receivables		
Trade receivables from customers	809,610	577,674
Accumulated impairment of trade receivables	(38,893)	(31,779)
Trade receivables from customers related parties (Note 36)	2,617	8,262
Trade receivables, net	**773,332**	**554,157**
Receivable from natural gas supplier	51,939	53,809
Impairment of receivables from natural gas supplier	(31,386)	(9,755)
Guarantees provided under natural gas supply contracts	15,626	27,292
Guarantees and deposits given to related parties (Note 36)	38,726	23,699
Guarantees given under other contracts	39	39
	74,944	**95,084**
Court and adjudicated receivables	233,586	237,665
Accumulated impairment of court and adjudicated receivables	(202,036)	(201,056)
Court and awarded receivables, net	**31,550**	**36,609**
Receivable from Corporate Commercial Bank AD — insolvent	3,777	3,777
Accumulated impairment of receivables from Corporate Commercial Bank AD — insolvent	(3,777)	(3,777)
Receivable from Corporate Commercial Bank AD — insolvent, net	**-**	**-**
Total financial receivables	**879,826**	**685,850**
Non-financial receivables		
Prepaid expenses, guarantees and deposits	2,212	29,663
Total non-financial receivables	**2,212**	**29,663**
Total Trade and other receivables — current	**882,038**	**715,513**

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.

Part of the financial receivables in the gross amount of BGN 52,939 thousand and carrying amount after impairment of BGN 20,553 thousand as at 31 December 2023, represent receivables from OOO Gazprom Export, a supplier of natural gas, which arose in connection with an unrecognised amount invoiced by Bulgargaz EAD from OOO Gazprom Export for natural gas supplies for the first quarter of 2022. The amount relates to a trade dispute for undelivered but invoiced amounts of natural gas for that period. An expected credit loss of BGN 31,386 thousand has been recognised in 2023, which considers the net exposure to the counterparty to be nil.

Guarantees provided under natural gas supply contracts represent guarantee amounts to natural gas transportation service providers. As at 31 December 2023, amounts have been allocated to DESFA A.E., ICGB AD, GASTTRADE S.A. and TRANS ADRIATIC PIPELINE.

The Company's court and adjudicated receivables were primarily reclassified from trade receivables that were due from counterparties with financial difficulties. When the Company takes legal action, the receivables are reclassified from commercial to court receivables. This category of receivables is fully impaired unless collateral or other security is obtained to cover the value of the receivable. As at 31 December 2023, the Company's most significant court receivable is from TPP Varna. Following procedural actions undertaken by Bulgargaz EAD, an agreement for the repayment of the receivables was concluded and a mortgage on real estate was established in favour of Bulgargaz. The fair value of the property exceeds the carrying value of the receivables. By a supplementary agreement of March 2024 between Bulgargaz EAD and TPP Varna EAD, it was agreed that TPP Varna EAD would establish a special pledge in favour of Bulgargaz EAD under the Special Pledges Act, instead of a mortgage, to secure the obligations under the final judgment. For the remaining claims of Bulgargaz EAD for the annual capacity product and costs, totalling BGN 3,746,141.66. On 10 May 2024, a court settlement was concluded between Bulgargaz EAD and TPP Varna EAD, with the receivables being rescheduled with a repayment plan.

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

As a result of the analysis performed and actions taken, the Company's management has estimated that expected credit losses and impairment losses for trade and court receivables for 2023 amount to BGN 8,140 thousand, net, after recoveries.

In forming its judgments and assumptions for the purpose of determining the expected credit losses on financial assets, the Company's management has considered the circumstances and factors available that have and are expected to have a material effect on the Company's operations. These factors are mainly related to the Decision No 594 of the Council of Ministers dated 11 August 2022 approving a borrowing from the Ministry of Energy for which current and future receivables of Toplofikacia Sofia EAD serve as collateral. The pledge shall be entered in the Central Register of Pledges in due course.

Accordingly, and in accordance with the requirements of accounting policies and applicable accounting standards, based on available, reasonable and supportable information about current conditions and projections of future economic conditions, the Company's management has made an estimate of the amount of expected credit losses on the Company's accounts receivable as at 31 December 2023 and losses have been recognized for the period. The accrual for impairment losses and the reversal of impairment losses are presented on a separate line, net in the statement of profit or loss and other comprehensive income. The effects of time elapsed/change in the discount rate are reported in financial income/expense — net. Amounts recognized in the allowance account for credit losses on receivables are written off when there is no expectation that the Company will be able to obtain additional funds. In calculating the impairment of receivables, the concepts and approaches in the impairment models under IFRS 9 'Financial Instruments'; are considered. The calculations performed include impairment tests of financial assets based on 'models' and a classification approach adopted for court and adjudicated receivables, 'court and adjudicated receivables' and those 'in bankruptcy proceedings'.

Non-financial receivables

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

Most of the other prepaid expenses at 31 December 2023 are related to deferred expenses — insurance and bank borrowing management fees.

The following table provides information about the credit risk exposure of the Company's unrelated party customer receivables and natural gas supplier receivables using the expected credit loss allowance matrix as at 31 December 2023 and 31 December 2022, respectively:

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

31 December 2023	**Relative share**	**Gross amount of customer receivables**	**Impairment of expected credit loss**	**Net amount of receivables from customers**
	%			
Receivables from customers				
Not past due	18.17%	157,031	(288)	**156,743**
30—90 days	11.49%	99,311	(587)	**98,724**
90—180 days	9.08%	78,445	(3,092)	**75,353**
180—360 days	54.98%	475,103	(34,648)	**440,455**
More than 360 days	6.01%	2,337	(279)	**2,058**
		812,227	**(38,894)**	**773,333**
Receivable from supplier				
180—360 days GPE	8.52%	**51,939**	**(31,386)**	**20,553**
Total trade receivables	100%	**864,166**	**(70,280)**	**793,886**

31 December 2022	**Relative share**	**Gross amount of customer receivables**	**Impairment of expected credit loss**	**Net amount of receivables from customers**
	%			
Not past due	27.42%	173,152	(15,994)	157,158
30—90 days	28.46%	179,730	(13,749)	165,981
90—180 days	35.03%	221,233	(707)	220,526
180—360 days	0.56%	3,354	(1,328)	2,226
More than 360 days	0.00%	5	(1)	4
		577,674	**(31,779)**	**545,895**
Receivable from supplier				
180—360 days GPE	8.52%	**53,809**	**(9,755)**	**44,054**
Total trade receivables	100%	**631,483**	**(41,534)**	**589,949**

The Company's judgment includes assumptions, such as days of delay, customer risk profile, industry risk modelling, correction factor based on the percentage of (non-)collectability and others, not described above.

Some of the information used in the developed model for expected credit losses of the Company, such as counterparty country risk (Risk by country), the discount rate of risk-free securities (Risk-free — T bonds), financing cost (Cost of debt), is based on ready data, and other — on the reporting data for the amount of the relevant financial asset at the end of the period and historical data on receivables collection.

The calculations made include financial asset impairment tests based on several 'models' based on the adopted Company's accounting policy. As at 31 December 2023, trade receivables with a book value of BGN 911,480 thousand (31 December 2022: BGN 670,001 thousand) were examined for impairment.

The aging analysis of trade receivables for which an impairment loss is recognized as at 31 December 2023 is as follows:

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

	AS AT 31 DECEMBER	
Recognised impairment loss on past due receivables:	**2023**	**2022**
Up to 3 months	875	29,743
Between 3 and 6 months	3,092	707
More than 6 months	66,313	11,084
Total	**70,280**	**41,534**

Changes in loss adjustment credit loss account on receivables are as follows:

	YEAR ENDED 31 DECEMBER	
	2023	**2022**
AS AT 1 JANUARY	**246,367**	**212,189**
Accrued impairment losses of trade receivables	19,925	28,051
Accrued impairment loss on trade dispute receivable from supplier	21,631	9,755
Written-off uncollectible receivables	(45)	(343)
Recovered impairment losses of receivables	(11,785)	(3,257)
Recovered impairment losses of CCB AD — insolvent	-	(28)
AS AT 31 DECEMBER	**276,093**	**246,367**

Impairment loss and recovery are recognized in the Statement of profit or loss and other comprehensive income (Note 23). The effects of time elapsed/change in the discount rate are reported in financial income/expense — net. Amounts recognized in the allowance account for credit losses on receivables are written off when there is no expectation that the Company will be able to obtain additional funds.

The maximum exposure to credit risk at the end of the reporting period is the fair value of each of the groups of trade and other financial receivables mentioned above (see also Note 4.1.2).

The carrying amount of trade and other receivables is denominated in the following currencies:

	AS AT 31 DECEMBER	
	2023	**2022**
Bulgarian Lev (BGN)	378,664	852,362
US Dollar (USD)	197,042	280,962
Euro (EUR)	306,331	137,451
Total trade and other receivables	**882,038**	**1,270,775**

The Company's trade receivables from Toplofikacia Sofia EAD are provided as collateral for the borrowing received from the Ministry of Energy in the amount of BGN 800 million. The value of the collateral as at 31 December 2023 amounts to BGN 625,381 thousand. (2022: BGN 322,831 thousand).

12. INVENTORIES

Inventories recognized in the statement of financial position may be analyzed as follows:

	AS AT 31 DECEMBER	
	2023	**2022**
		***restated**
Natural gas at cost	687,015	702,403
Impairment to a net realizable value	(187,228)	(175,537)
Natural gas — net realisable value	**499,787**	**526,866**
Materials	12	13
Total inventories	**499,799**	**526,879**

In 2023, the value of natural gas realised amounting to BGN 2,348,460 thousand is expensed in profit or loss (31 December 2022* restated: BGN 3,944,493 thousand).

As disclosed in Note 2, in the second half of 2022, Bulgargaz EAD pumped gas quantities above the planned, which were purchased during the period of high market prices. In order to achieve the storage fill rate target of 80% and due to the relatively warm winter, production from the Chiren UGSF was severely limited, resulting in the maintenance of large gas inventories at the start of the 2023 reporting period. It is management's expectation that the Company will be compensated through the Ministry of Energy developed. 'Program for Compensation of High Prices of Natural Gas Injected into the Chiren UGSF in the Period 01 May 2022—11 October 2022', for the quantities of natural gas produced in the months of January—April 2024.

As disclosed in Note 5.2 as at 01 January 2023 a reference TTFfm price for January of the following calendar year (as at 31 December 2022) is used to determine the net realisable value of natural gas at the end of the reporting period: the price that the Energy and Water Regulatory Commission has approved for the month of the first reporting period for the following year). This management judgment is based on the Company's operating cycle, the seasonal nature of natural gas production and compression, and the commitments made under the Contingency Plan to maintain certain quantities of available natural gas at the Chiren UGSF.

In 2023, an impairment loss on inventories in the amount of BGN 41,713 thousand has been recognised, calculated for natural gas inventories at the Chiren gas plant as at 30 June 2023. The amount is presented in a separate line 'Impairment losses on inventories' in the statement of profit or loss and other comprehensive income on line. The Company's management has tested quantities of natural gas that it expected to produce (i.e., realize through sale) in December 2023 pursuant to the Contingency Plan. The available natural gas quantities stored in the Chiren UGSF and depreciated in 2023 amount to 639,277,47 MWh. Attached is the reference TTFfm price for January 2024 of EUR 53.4/MWh, quotes published on 1 September 2023 in the Argus Media newsletter (argusmedia.com).

In making its judgment regarding the net realizable value of available natural gas as at 31 December 2023 the Company's management considers the availability in Chiren UGSF as a non-revolving stock, stored according to the requirements of the above-described Regulations and the Contingency Plan, with a specific production schedule only during the November—April period.

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 November 2022. According to the compensation mechanism proposed for discussion in the working group, the amount of the expected compensation for the quantities injected by Bulgargaz EAD as at 01 November 2022 would amount to no less than BGN 154,028 thousand. The company expects this mechanism to be implemented in Bulgaria, as compensations are a fact in other European countries.

At the date of these financial statements, the Company has analyzed the circumstances that would lead to the existence of an indication of impairment of the value of natural gas and has concluded that no additional loss recognition is necessary.

In the current year, the primary external source used as evidence of the presence or absence of impairment indicators is the January 2024 TTFfm reference exchange price published on the Argus Media — (argusmedia.com) website on 01 September 2023.

Recovery of inventory impairment losses is recorded as part of the cost of gas sold (previously impaired) during the period.

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

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

	AS AT 31 DECEMBER	
	2023	**2022**
		***restated**
At the beginning of the period	**175,527**	**2,281**
Accrued impairment	41,713	173,246
Reversal of impairment of natural gas realised through sales during the period	(30,012)	-
At the end of the period	**187,228**	**175,527**

The Company has no inventories that are provided as collateral for liabilities.

13. PREPAID ADVANCES FOR NATURAL GAS

	AS AT 31 DECEMBER	
	2023	**2022**
Prepaid advances for natural gas	475,174	555,262
Impairment loss for the period	(13,721)	-
Prepaid advances for natural gas, net	**461,453**	**555,262**

Advances paid for the supply of natural gas in the amount of BGN 461,453 thousand (31 December 2022: BGN 555,262) represent prepaid amounts for natural gas deliveries under valid, existing agreements to which Bulgargaz EAD is a purchasing party. The essential part of them 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 Chiren UGSF. Bulgargaz EAD also took action to renegotiate its supply programs under the concluded contracts, with the aim of reducing the total delivery quantities. At the end of July 2023, terms have been agreed with customers to allow flexibility of supply management and annual programme delivery, which is reflected by an overall reduction in delivery volumes in 2023 and a transfer of volumes from summer to winter months. Therefore, a substantial portion of the Company's prepaid advances were unutilized at the end of the reporting period.

As at 31 December 2023, Bulgargaz has receivables for advances on existing natural gas batches with BOTAŞ BORU HATLARI İLE PETROL TAŞIMA A.Ş, Management believes that there are prerequisites to revise the amount of the expected credit impairment loss for the volumes delivered by Cheniere Marketing International LLP in April 2023 as a result of the publicly announced tender procedure of October 2022, which volumes represent one of the three available natural gas batches in Botaş's gas transmission system as at 31 December 2023, and are a material part of the total volumes available there. Therefore, a partial impairment of BGN 13 721 thousand has been made. taking into account the availability of a third batch (delivery from Shell Global LNG Limited, in October 2023), which is available at Botaş at the end of the year, at below market prices, there are opportunities for joint realization of batch two and batch three.

The impairment assessment takes into account the Company's forecasts for the period of realisation and the inclusion of these volumes in the pricing mix, as well as other relevant information expected to be material regarding the realisation of the stored natural gas.

Detailed information regarding the Company's assumptions and judgements in determining the net realisable value of inventories is disclosed in Notes 5.2 and 12. The same assumptions were used in calculating the recoverable amount of prepaid natural gas advances.

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

14. CASH AND CASH EQUIVALENTS

	AS AT 31 DECEMBER 2023	2022
Cash in current bank accounts	2,269	207,544
Cash accumulated impairment	(4)	(149)
Total cash and cash equivalents in the statement of financial position	**2,265**	**207,395**

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

	AS AT 31 DECEMBER 2023	2022
Bulgarian Lev (BGN)	425	207,539
US Dollar (USD)	7	3
Euro (EUR)	1,837	2
Total cash and cash equivalents	**2,269**	**207,544**

As at 31 December 2023, the Company has no blocked cash.

The changes in the allowance account for expected credit losses on cash and cash equivalents are as follows:

	YEAR ENDED 31 DECEMBER 2023	2022
At the beginning of the period	**(149)**	**-**
Accrued expected credit losses on cash and cash equivalents	-	(149)
Recovered expected credit losses on cash and cash equivalents	145	-
At the end of the period	**(4)**	**(149)**

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

15. RECONCILIATION OF INITIAL AND ENDING BALANCES IN THE STATEMENT OF FINANCIAL POSITION OF LIABILITIES ARISING FROM FINANCIAL ACTIVITIES

The reconciliation between the initial and closing balances in the statement of financial position as at 31 December 2023 of the liabilities, arising from financial activities may be presented as follows:

	On 1 January 2023	Cash flows from financing activity		Changes of a non-monetary nature — dematerialized		As at 31 December 2023
		Proceeds	Payments	Reclassification/ New contracts	Accrued interest and fees	
Bank borrowings — overdrafts	-	57,789	(33,263)	-	-	24,526
Bank borrowings — overdrafts — fees	-	-	(6,393)	-	6,393	-
Short-term borrowings from related parties (BEH)	717,515	405,000	(492,515)	(370,000)	-	260,000
Long-term borrowings from related parties (ME, BEH)	800,000	-	-	370,000	-	1,170,000
Borrowings from related parties — interest and fees	6,641	-	(21,878)	-	44,820	22,942
Lease payables	433	-	(146)	14	12	313
Total liabilities from financing activities:	**1,524,589**	**462,789**	**(554,195)**	**14**	**51,225**	**1,477,781**

The reconciliation between the initial and closing balances in the statement of financial position as at 31 December 2022 of the liabilities, arising from financial activities may be presented as follows:

	As at 1 January 2022	Cash flows from financing activity		Changes of a non-monetary nature — dematerialized		On 31 December 2022
		Proceeds	Payments	Offsetting/newly incurred liability	Accrued interest and fees	
Bank borrowings — overdrafts	2,603	150,769	(153,372)	-	-	-
Bank borrowings — overdrafts — fees	-	-	(2,147)	-	2,147	-
Short-term borrowings from related parties (BEH)	-	852,509	(192,926)	57,514	974	718,071
Long-term borrowings from related parties (ME)	-	695,304	(5,899)	104,696	11,984	806,085
Lease payables	253	-	(359)	523	16	433
Total liabilities from financing activities:	**2,856**	**1,698,582**	**(354,703)**	**162,733**	**15,121**	**1,524,589**

16. SHARE CAPITAL

As at 31 December 2023, the registered share capital of the Company consists of 231,698,584 ordinary shares with a par value of BGN 1 per share. All shares are entitled to dividend and liquidation share and represent one vote of the General Meeting of Shareholders of the Company. All issued shares are fully paid.

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

There is no change in the number of shares for the reporting periods.

The sole owner of the Company's capital is Bulgarian Energy Holding EAD, the capital of which is owned by the Bulgarian State through the Ministry of Energy.

17. RESERVES

	Statutory reserves	Revaluation reserves of non-financial assets	Reserve of revaluations of defined benefit plans	Total
AS AT 01 January 2022	**14,776**	**35**	**(54)**	**14,757**
Contributions to the 'Reserve' Fund from retained earnings	6,390	-	-	6,390
Revaluations of defined benefit plans	-	-	5	5
AS AT 31 December 2022	**21,166**	**35**	**(49)**	**21,152**
Contributions to the 'Reserve' Fund from retained earnings		-	-	
Revaluation of defined benefit plans	-	-	(22)	(22)
AS AT 31 December 2023	**21,166**	**35**	**(71)**	**21,130**

STATUTORY RESERVES

Statutory reserves comprise the 'Reserve' Fund, a source for the formation of which is 1/10 of the profit, while the funds in the Fund reach at least 1/10 of the registered capital.

REVALUATION RESERVES OF NON-FINANCIAL ASSETS

The Company's revaluation reserves are formed as a result of the revaluation of plant and equipment. Under the acting Bulgarian legislation, the revaluation reserves resulting from the revaluation of plant and equipment cannot be distributed as dividends.

RESERVE OF REVALUATIONS OF DEFINED BENEFIT PLANS

The Company recognizes actuarial gains and losses in reserve from revaluations of defined benefit plans, in accordance with IAS 19. They are not reclassified to profit or loss in subsequent periods.

18. BORROWINGS

	AS AT 31 DECEMBER 2023	2022
Non-current		
Borrowings from related parties	1,170,000	800,000
Interest on borrowings to related parties	-	6,085
Total non-current	**1,170,000**	**806,085**
Current		
Bank borrowings	24,526	-
Borrowings from related parties	260,000	717,515
Interest on borrowings to related parties	22,942	556
Total current	**307,468**	**718,071**
Total borrowings	**1,477,468**	**1,524,156**

By 31 December 2023, the Company has liabilities under the following borrowings obtained to secure natural gas supplies:

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

1/ Borrowings from the sole owner BEH EAD in the total amount of BGN 630,000 thousand. The borrowings are granted and serviced in BGN and are not unsecured.
Two of the borrowings — for BGN 200 million and BGN 60 million, granted in 2022 and renegotiated in 2023 and maturing in April 2024 and July 2024 — are short-term in nature
The remaining part of the liability is under a long-term borrowing in the amount of BGN 370 million and maturity in December 2028. The term of the borrowing was renegotiated in 2023 by a Supplementary Agreement.

2/ Borrowing 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 and Decision No 594 of the same date, amended by Decision No 618 of the Council of Ministers, 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 borrowing is secured by a pledge of present and future receivables from Toplofikacia Sofia EAD. The borrowing 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 borrowing liability received from the MoE as at 31 December 2023 amounts to BGN 822,942 thousand, including BGN 800,000 thousand, long-term portion and BGN 22,942 thousand accrued interest due in 2024.

3/ Two unsecured bank borrowings, overdraft type, with a limit of BGN 90,000 thousand and market interest rate. The overdrafts are granted in BGN and the repayment period is 01 September 2024. The Company has overdrafts drawn and outstanding as at 31 December 2023 in the amount of BGN 24,526 thousand (as at 31 December 2022): BGN 0.00 thousand).

4/ Two bank borrowings, overdraft type with a total limit of BGN 234,700 thousand, which are in BGN and in EUR, with a repayment period of 29 December 2024. The borrowings are secured by a state guarantee of up to 90% of the value of the overdrafts on the basis of two Guarantee Agreements dated 29 December 2023 and the term — until 29 December 2024.

Detailed information on borrowings from related parties is presented in Note 36 'Related Party Transactions and Balances'. The fair values of current borrowings do not differ from their carrying amounts.

19. TRADE AND OTHER PAYABLES

	AS AT 31 DECEMBER	
	2023	**2022**
Trade payables	196,224	253,149
Payables to related parties (Note 36)	8,694	10,263
Total financial liabilities	**204,918**	**263,412**
Advances received from customers for the sale of natural gas (liabilities under contracts with customers)	23,983	1,431
Deferred income	17,149	17,149
VAT payable	47,240	39,200
Excise duty payable	1,070	962
Payables to employees	252	171
Liabilities to insurance companies	115	93
Other liabilities	2,432	2,505
Total non-financial liabilities	**92,241**	**61,511**
Total current trade and other liabilities	**297,159**	**324,923**

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

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

Liabilities under advances received from customers for the sale of natural gas represent amounts received from customers of the Company in accordance with the terms of the contracts for the supply of natural gas.

The deferred revenue of BGN 17,149 thousand as at 31 December 2023 relates to the acquisition and subsequent sale in 2022 of liquefied natural gas (LNG) to a natural gas supplier of the Company. The subsequent sale was made for the purpose of regasification and transportation to an entry point on the country's gas transmission system. The amount of deferred revenue is calculated as the difference between the purchase and delivery cost of natural gas and will be recognized as current revenue and an adjustment to the cost of natural gas (LNG) in the period of delivery in a subsequent reporting period.

Payables to employees represent obligations to the Company's employees, to be settled in 2024. They occur mainly in relation to accumulated unused leave at the end of the reporting period and amounted to BGN 252 thousand (31 December 2022: BGN 171 thousand).

Liabilities to insurance companies amount to BGN 115 thousand (31 December 2022: BGN 93 thousand) including the social security payables related to accrued unused compensation leaves in the amount and social security payables over remunerations for December 2023 paid in January 2024.

The material amount of the Company's other payables represents compensation received of BGN 2,237 thousand in relation to litigation, details of which are disclosed in Note 35.

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

20. RETIREMENT BENEFITS PAYABLES

The liability presented in the statement of financial position is related to provisions for defined benefit plan of retirement. The Company applies the regulations for payments of retirement benefits by age and length of service and illness under the current Labour Code.

Pursuant to Article 222, paragraph 2 of the Labour Code, in case of termination of the employment due to illness, the employee is entitled to compensation in the amount of his/her gross salary for a period of two months, if the employee has at least 5 years of service in the Company and during the last five years of service he/she has not received compensation on the same basis.

Pursuant to Article 222, paragraph 3 of the Labour Code, in case of termination of the employment, the employee is entitled for to retirement based on social security length of service and age, regardless of the reasons for the termination, he/she is entitled to compensation as follows: the amount of his/her gross salary for the period 2 months in all cases, and if employed by the Company in the last 10 years of his/her service — compensation in the amount of his/her gross salary for 6 months.

The amounts recognized in the statement of financial position are determined as follows:

	AS AT 31 DECEMBER	
	2023	**2022**
Current amount of liabilities	201	173
Liability at the end of the reporting period	**201**	**173**

As at 31 December 2023, the recognized value of the liability of BGN 201 thousand includes a short-term part of BGN 34 thousand and a long-term part of BGN 167 thousand. (31 December 2022: short-term part — BGN 53 thousand, long-term part — BGN 120 thousand).

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

Movements of liability recognized in the statement of financial position are as follows:

	YEAR ENDED 31 DECEMBER 2023	2022
AS AT 1 JANUARY	**173**	**181**
Current length-of-service costs (Note 25)	21	18
Interest expenses (Note 30)	10	1
Total expenses in profit or loss	**31**	**19**
Revaluations:		
Gains from changes in financial assumptions	(2)	(4)
Profit/(loss) from the actual experience	12	-
Gains from changes in demographic assumptions	15	(2)
Total other comprehensive income	**25**	**(6)**
Paid benefits	**(28)**	**(21)**
AS AT 31 DECEMBER	**201**	**173**

The main actuarial assumptions used are as follows:

	AS AT 31 DECEMBER 2023	2022
Discount rate	4.5 %	5.5%
Future increases in salaries	8.65 %	8.96%

These assumptions were developed by the Management of the Company with the assistance of an independent actuary. Discount rates are determined close to each year-end by reference to yields of risk-free securities in BGN having maturity approximating to the terms of the related pension obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

The present value of the defined benefit obligation was measured using the projected unit credit method.

These assumptions are used when determining the amount of the obligations for the defined benefit for the reporting periods and are considered the best estimate of management.

The significant actuarial assumptions for the determination of the defined benefit obligation are related to the discount rate, the expected salary growth rate and the average life expectancy.

The table below presents an analysis of the sensitivity and summarizes the effects of changes in these actuarial assumptions on the defined benefit liability as at 31 December 2023:

AS AT 31 December 2023	Change in the actuarial assumption	Effect on the liability in BGN	Change in the actuarial assumption	Effect on the liability in BGN
Discount rate	+ 1 %	(11,766)	– 1 %	13,412
Salary increase	+ 1 %	17,892	– 1 %	16,015
Staff turnover	+ 1 %	(11,187)	– 1 %	12,648
Change of life expectancy	+1 year	1,389	-1 year	(1,450)

The sensitivity analysis shown above is based on a model estimating the potential change in the liability in case of a change in only one of the actuary assumptions, while others are deemed constant. In reality, this is unlikely to happen, as the changes in some of the assumptions are correlated. In determining the sensitivity of liabilities under the defined benefit plan to the changes in the major actuarial assumptions, the same method used to estimate recognized in the statement of financial position liability, namely an estimation of the present value of the liability under defined benefit plan by using the credit method of projected units.

As at 31 December 2023, the weighted average duration of the obligation to pay compensation upon retirement is 5 years.

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

21. REVENUE FROM SALES OF NATURAL GAS

REVENUE UNDER CONTRACTS WITH CUSTOMERS	YEAR ENDED 31 DECEMBER	
	2023	**2022**
Types of goods or services		
Revenue from the sale of natural gas, incl. by type of activities:	2,382,228	3,964,515
- *regulated*	*1,374,487*	*1,892,264*
- *Freely negotiated*	*1,007,742*	*871,340*
- *Stock market under release programme*	-	*1,200,910*
Revenues from sale of natural gas for balancing	41,746	73,525
Revenue from penalties for non-performance under contracts with customers for unaccepted and over-collected amount of natural gas	83,742	26,270
Total revenues from sale of natural gas	**2,507,716**	**4,064,310**

The revenue under contracts with customers is realized in Bulgaria and recognized over time.

BALANCES UNDER CONTRACTS WITH CUSTOMERS	AS AT 31 DECEMBER	
	2023	**2022**
Trade receivables (Note 11)	770,716	545,895
Receivables from related parties (Note 36)	2,617	8,262
Contract assets — unbilled receivables	85,096	55,698
Liabilities under contracts with customers (Note 19)	23,983	1,431

CONTRACT ASSETS

Contract assets with customers represent the Company's unbilled receivables at the end of each reporting period for amounts 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 amount 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 at 31 December 2023, the balance of contract assets amounted to BGN 85,096 thousand, including the right to remuneration for delivered but uninvoiced amounts of natural gas for the month of December 2023 in the amount of BGN 84,021 thousand and excise duty in the amount of BGN 1,075 thousand. (31 December 2022: BGN 54,731 thousand and excise duty BGN 937 thousand).

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.

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

CONTRACT LIABILITIES

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

22. OTHER REVENUE

The other revenue of the Company includes as follows:

	YEAR ENDED 31 DECEMBER	
	2023	**2022**
Penalties on overdue receivables	55,712	27,977
Recovered legal costs	1,516	1,226
Income from sale of capacity	1,031	-
Other	6	28
Total other revenue	**58,265**	**29,231**

The income from penalties on overdue receivables is recognized as a percentage of the amount due by the customer for delay for the period from the due date of the relevant invoice to the date of receipt in the Company's bank account.

23. EXPECTED CREDIT LOSSES AND IMPAIRMENT LOSSES ON FINANCIAL ASSETS, NET

The Company's expected credit losses related to depreciation of financial assets are as follows:

	YEAR ENDED 31 DECEMBER	
	2023	**2022**
Accrued impairment losses of trade receivables, net (Note 11)	(7,873)	(25,618)
(Accrued)/recovered impairment loss on court and adjudicated receivables, net (Note 11)	(265)	824
Recovered/(Accrued) loss from depreciation of funds in banks, net (Note 14)	145	(149)
Reversed losses from depreciation of receivables from CTB — insolvent (Note 11)	-	28
Accrued impairment loss on receivable from natural gas supplier (Note 11)	(21,631)	(9,755)
Total expected credit losses and impairment losses on financial assets or the year, net	**(29,624)**	**(34,670)**

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

24. HIRED SERVICES EXPENSES

The hired services expenses of the Company include as follows:

	YEAR ENDED 31 DECEMBER	
	2023	**2022**
Natural gas storage expenses	(13,228)	(12,410)
License fees	(2,671)	(794)
Court fees and legal advices	(2,008)	(3,720)
Participation fee for a natural gas trading platform	(643)	(548)
Other fees	(425)	(237)
Insurances	(396)	(116)
Costs under management contracts	(283)	(1,015)
Remunerations of audit committee members	(130)	(99)
Security	(134)	(98)
Consulting services	(95)	(64)
Communications	(48)	(195)
Subscription service	(19)	(15)
Rents	(259)	-
Total hired services expenses	**(20,339)**	**(19,311)**

25. COSTS FOR UNUSED CAPACITY

	YEAR ENDED 31 DECEMBER	
	2023	**2022**
Entry point Strandja1/Malkochlar	(72,926)	(14,548)
Entry point Kulata/Sidirokastro and Agia Triada	(30,379)	-
Entry point Stara Zagora	(2,733)	-
Total costs for unused capacity	**(106,038)**	**(14,548)**

The cost of the Company's unused capacity in 2023 is related to Bulgargaz' obligations to ensure uninterrupted and secure supply of natural gas This commitment requires access to and provision of secure supply routes. Following the cessation of pipeline gas supplies from Gazprom Export, Bulgargaz EAD had to secure alternative supply routes in the context of limited regasification and transmission capacities (only Revithoussa and the entry-exit point Kulata/Sidirokastro) and their increased competitive demand in 2022. As a result, the prices of transmission capacity products increased in the bidding conditions to 446% above the originally announced price and the value of regasification slots reached prices above 4 EUR/MWh at the Revithoussa terminal.

With the signing of the Agreement for access to the terminals of Botas and the ensured flexibility of supply from 01 April 2023, Bulgargaz EAD assumed the obligation to pay a daily fee for the provided regasification, storage, capacity, transmission and flexibility services. Quantities shall be made available on request from Bulgargaz at the entry point Malkochlar/Stranja 1.

The cost of unused capacity, above the actual consumption, is a result of the change in the company's business model and the need to provide alternative LNG supply routes, given the limited number of terminals in the region. In the event of non-receipt by customers and a corresponding reduction in the amount of sales generated, the amount of the expense from non-utilization of the provided capacity is charged to the Company's operating expenses.

As a result of the events that occurred with the military conflict in Ukraine, the subsequent suspension of natural gas supplies by OOO Gazprom Export the Company incurred an additional expense of BGN 14,548 thousand, which relates to reserved capacity under the Capacity Reassignment Agreement with OOO Gazprom Export for the period from May 2022 to 30 September 2022 and for the gas year ending 1 October 2022.

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

26. EMPLOYEE BENEFITS AND SOCIAL SECURITY EXPENSES

	YEAR ENDED 31 DECEMBER	
	2023	**2022**
Remunerations	(3,830)	(3,332)
Social security expenses	(426)	(398)
Compensated leaves costs	(238)	(165)
Cost of defined retirement benefit obligations (Note 20)	(22)	(18)
Total employee benefit expenses	**(4,516)**	**(3,913)**

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

	YEAR ENDED 31 DECEMBER	
	2023	**2022**
Hired employees at the end of the period	56	52
Average number of hired employees throughout the year	53	51

27. COST OF MATERIALS

	YEAR ENDED 31 DECEMBER	
	2023	**2022**
Basic materials	(17)	(3)
Fuels and lubricants	(9)	(12)
Office supplies and consumables	(23)	(21)
Other	(46)	(36)
Total cost of materials	**(95)**	**(72)**

28. PROVISION EXPENSES

	YEAR ENDED 31 DECEMBER	
	2023	**2022**
Costs for interests related to a provision under Case COMP/B1/AT.39849 – BEH gas (Note 35)	(615)	(754)
Total provision expenses	**(615)**	**(754)**

29. OTHER EXPENSES

	YEAR ENDED 31 DECEMBER	
	2023	**2022**
Penalties on delayed payments	(15)	(456)
Business trips and entertainment costs	(78)	(70)
Trainings	(13)	(6)
One-off taxes	(12)	(12)
Other	(42)	(25)
Total other expenses	**(160)**	**(569)**

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

30. FINANCIAL INCOME AND COSTS

The financial income and costs of the Company for the presented reporting periods may be analyzed as follows:

	YEAR ENDED 31 DECEMBER	
	2023	**2022**
Financial income		
Interest income on cash and cash equivalents	-	1,329
Interest income on related parties	-	1
Income from interests from financial assets carried at depreciated cost	**-**	**1,330**
Total financial income	**-**	**1,330**
Financial costs		
Interest costs under leases	(12)	(16)
Interest costs under short-term borrowings	(38,188)	(12,958)
Interest costs under financial liabilities carried at depreciated cost	**(38,200)**	**(12,974)**
Interest costs on overdue tax liabilities	(220)	(3,081)
Bank fees	(5,259)	(2,378)
Cost of commission fee for maintenance of bank guarantee in Case COMP/B1/AT.39849 – BEH gas	(468)	(528)
Interest costs on payment of obligations according to defined benefit plans (Note 20)	(10)	(1)
Total financial costs	**(44,157)**	**(18,962)**

31. FOREIGN EXCHANGE PROFIT/(LOSS), NET

	YEAR ENDED 31 DECEMBER	
	2023	**2022**
Foreign exchange losses on receivables and payables and cash and cash equivalents	(14,781)	(18,174)
Foreign exchange gains on receivables and payables and cash and cash equivalents	8,424	23,122
Foreign exchange profit/(loss), net	**(6,357)**	**4,948**

32. EXPENSES ON PROFIT TAXES

The expected tax income/(costs) based on the applicable tax rate of 10% (2022: 10%) and the tax income/expenses actually recognized in profit or loss may be aligned as follows:

	YEAR ENDED 31 DECEMBER	
	2023	**2022** ***restated**
Loss before tax	(50,213)	(111,259)
Tax rate	10%	10%
Expected tax income	5,021	11,126
Tax effect on:		
Expenses not recognized for tax purposes	(16,781)	(21,579)
including from change in accounting policy	-	*(6,947)*
Income not recognized for tax purposes	3,648	435
Expenses on current corporate tax	(8,112)	(3,071)
Effect of the change in deferred taxes (Note 10)	5,944	20,846
(Expense) for/income from income taxes	**(2,168)**	**17,775**

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

Deferred tax expense/(income) recognized directly in the other comprehensive income	**2**	**(1)**

In December 2021 the Organisation for Economic Co-operation and Development (OECD) published Model Rules for GLoBE (or Global Anti-Basic Erosion) under Pillar II. The GLoBE rules require individual jurisdictions to update national tax laws to comply with the requirements of the Second Pillar and effectively create a minimum tax rate of 15% for multinational enterprises. This effect is achieved through the requirement of a 'top-up' tax, which means that if a subsidiary of a multinational pays less than a 15% effective tax rate, the organisation will be liable to pay a top-up tax at the level of the parent organisation. The parent company will then have to pay the additional tax needed to bring the subsidiary's percentage up to the 15% minimum. As a result, ultimate parent companies with subsidiaries in jurisdictions with effective tax rates below 15% will owe additional taxes going forward.

At the end of 2023, amendments to the Corporate Income Tax Act were adopted, effectively introducing a global minimum corporate income tax of 15% on multinational and large national groups of companies from 1 January 2024, in accordance with the conditions set out in the Corporate Income Tax Act. Due to the size of the Bulgarian Energy Holding EAD (BEH) Group's business, to which the Company belongs, it is expected to be subject to additional corporate income tax under the amendments to the Corporate Income Tax Act effective from 1 January 2024. The new rules in the Income Tax Act introduce the following types of taxation:

- Surcharging, which is primary surtax of parent companies and secondary surtax;
- Charging national surtax.

Additional taxation (primary and secondary taxation) is the main mechanism of the Directive and the OECD rules through which the minimum global corporate tax is introduced. Levying a national surtax is an option that Bulgaria has availed itself of in order to preserve its fiscal interest and to practically receive the new surtax from the constituent entities that are taxable persons under the Corporate Income Tax Act.

The company is part of the BEH group, which qualifies for revenues above EUR 750 million and is therefore subject to an additional national tax. The Company and BEH Group are in the process of analysing the new requirements issued by the Organisation for Economic Co-operation and Development (OECD) and adopted by national governments. Therefore, the Company has applied the exception for the recognition of deferred income tax assets and liabilities related to Pillar 2 income taxes (paragraph 4A of IAS 12) and the disclosure of information about them in the 2023 annual financial statements.

33. NON-CASH TRANSACTIONS

In 2023 the Company did not enter into any investment and financing transactions, in which cash and cash equivalents were not used and which are not reflected in the cash flow statement.

34. DIVIDENDS

Profit distribution is carried out by a decision of the sole shareholder in the following order:

- at least 10% of the profit shall be set aside to 'Reserve' fund;
- by the proposal of the Board of Directors part of the profits attributable to certain funds of the Company may be set aside;
- the outstanding amount can be used to pay dividends.

The last imputation for dividend was made in accordance with Resolution No 83-2022/15 November 2022 of the Board of Directors of Bulgarian Energy Holding EAD. From the net profit for 2021 of Bulgargaz EAD a dividend in favour of the sole owner in the amount of BGN 57,515 thousand was distributed. The accrual and payment of the dividend did not give rise to any tax effects.

35. PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

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 alleged actions of BEH 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 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, EC 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 without taking responsibility for them, fulfilling the obligations arising from a possible prohibition decision, including a possible financial penalty. To date, the European Commission has not taken a formal decision on the closure of the case, including on the possible amount of the 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 SC Decision is motivated by the development of Case COMP/B1/AT.39816 between the EC and Gazprom, in which the Commission announced on 24 May 2018 that an agreement had been reached and the same was closed under Article 9 of Regulation (EC) No 1/2003 without financial penalty.

On 17 December 2018, the European Commission announced 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 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, ING Bank NV issued two unsecured bank guarantees in favour of the EC for a total amount equal to the fine of EUR 77,068,000 as follows:

- a bank guarantee in the amount of EUR 51,379 thousand, covering 2/3 of the total amount of the fine, securing the obligations of Bulgarian Energy Holding EAD and Bulgargaz EAD;
- a bank guarantee in the amount of EUR 25,689 thousand, securing the obligation of Bulgartransgaz EAD for the sanction imposed.

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 subsidiary's gas companies.

On 26 August 2019, the European Commission presented its Defense before the General Court in response to an appeal lodged 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, the trial concluded with oral argument in BEH Gas, during which the parties summarized their positions and the court asked questions that were addressed by the parties.

On 25 October 2023, the Court of First Instance rendered a judgment in favour of Bulgarian Energy Holding EAD, Bulgartransgaz EAD and Bulgargaz EAD, by which the Court of First Instance annulled in full the fine imposed by the European Commission on the three companies of the BEH Group, which the European Commission amounted to EUR 77,068,000.

On 10 January 2024, an appeal was lodged by the European Commission against the judgment of the Court of First Instance, seeking to set aside the judgment of the General Court in its entirety. Due to the retaliatory actions taken by the EC and the appeal of the European Court of Justice's decision, the management of BEH Group has decided not to reimburse the recognised provision until the case is finally resolved. This decision is supported by the opinion of an independent legal advisor. The Company has recognised interest expense of BGN 615 thousand. (2022: BGN 754 thousand) as an increase in the amount of the interest provision related to the maintenance of collateral in the form of a bank guarantee.

As at 31 December 2023, the bank guarantee securing the obligations of Bulgarian Energy Holding EAD, Bulgartransgaz EAD and Bulgargaz EAD has been released.

The carrying amount of the provision in the lawsuit is BGN 53,715 thousand, including BGN 50,244 thousand (31 December 2022: BGN 50,244 thousand), representing one-third of the total amount of the fine imposed and interest thereon as at 25 October 2023 amounting to BGN 3,471 thousand. (31 December 2022: BGN 2,856 thousand). Management's expectation is that final resolution of the dispute will occur more than 12 months from the balance sheet date.

Contingent assets

In connection with a trade dispute from preceding periods, Bulgargaz EAD claimed the return of natural gas to fill the Transit 1 gas pipeline. The Company could not resolve extrajudicially the commercial dispute and its claims and initiated International Arbitration Case No 78/2019 before the International Commercial Arbitration Tribunal to the Romanian Chamber of Commerce and Industry, against Transgaz National Gas Company SA, Romania. By Decision No 120 of 09 December 2021 under the arbitration case brought before the International Commercial Arbitration Court of the Chamber of Commerce and Industry of Romania, Transgaz S.A., Romania was bound to reimburse Bulgargaz EAD for the amount of natural gas in kind or to refund its cash equivalent to the amount of USD 923 thousand, as well as the statutory interest on the amount, together with the costs incurred in connection with the arbitration. The defendant has applied to a Romanian court for the annulment of the arbitral award, which has become final and for suspension of its enforcement. Cases have been opened on the requests. The request for a stay of execution was rejected. On 09 March 2022, the amounts were received in favour of Bulgargaz EAD.

The decision of the Bucharest Court of Appeal dismissed the action for annulment of arbitral award No 120/09 December 2021 filed by Transgaz S.A., Romania against the defendant Bulgargaz EAD.
An appeal against the decision of the Bucharest Court of Appeal was lodged by Transgaz S.A., Romania before the Supreme Court of Romania.
Bulgargaz EAD is currently awaiting the announcement of the reasoning of the Supreme Court's decision annulling the decision of the Bucharest Court of Appeal rejecting the request of Transgaz S.A. Romania, for the annulment of the arbitral award (rendered in Arbitration Case No 78/2019).
It was ordered that the case be referred back to the Bucharest Court of Appeal for reconsideration of the claim of Transgaz S.A.

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

2/ As at 31 December 2023, the Company has bank guarantees from commercial customers in the amount of BGN 43 million. (31 December 2022: BGN 20 million). The bank guarantees are in accordance with the terms of the commercial gas supply and sales contracts with customers.

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 in the amount of EUR 12 million was issued by Bulgarian Energy Holding EAD in favour of ICGB SA. In 2022, the term of the guarantee was extended until 01 December 2023 with its amount equal to EUR 16,102 thousand. In 2023, the term of the guarantee was renewed until 22 December 2028 and its amount — retained.

Commitments made

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 is renewable from time to time, in six-month increments, and, at the last reference, until 11 October 2024, and the amount of USD 145 million

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

3/ On the basis of the signed on 30 December 2022 Agreement with BOTAŞ BORU HATLARI İLE PETROL TAŞIMA A.Ş, Bulgargaz EAD provides access to the LNG regasification terminals in Turkey and its subsequent transportation to the territory of the Republic of Bulgaria, subject to the flexibility of supply. The period of the Agreement between Bulgargaz EAD and Botaş is 01 January 2023 — 31 December 2035, as by Decision No 26 of 12 January 2023, the Council of Ministers of the Republic of Bulgaria approves the signed Agreement. The

Agreement provides for regasification and transmission capacity of natural gas to the interconnection point at the border of the Republic of Turkey and the Republic of Bulgaria — Malkochlar/Stranja 1. It provides flexibility in the acceptance, storage and carry-over of quantities for the following year. This Agreement is related to the diversification of sources and routes of supply in order to achieve a security of supply that is minimally dependent on geopolitical developments. It guarantees continuity of supply for Bulgarian consumers and to a much greater extent has a societal rather than a commercial meaning.
Detailed information on the terms of the agreement, as well as the commercial significance and financial effect is disclosed in Note 2.2. Going Concern Principle and Note 5.4. Provisions.

4/ The Company has concluded agreements as at 31 December 2023 with banking institutions for the provision of working capital financing in the form of overdrafts in the amount of up to BGN 324,700 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.

36. RELATED PARTIES TRANSACTIONS AND BALANCE

The Company discloses the following related parties:

Entity	**Country of incorporation**	**Main activity.**
Sole owner of the Company, exercising control (Parent company)		
Bulgarian Energy Holding EAD (BEH)		
Sole owner of the Parent company		
The Bulgarian State through the Minister of Energy		
Companies under mutual joint control with the Company (entities within the group)		
Kozloduy NPP EAD	Bulgaria	production of electricity and heat
HPP Kozloduy EAD	Bulgaria	generation and distribution of electricity from hydropower
Interpriborservice OOD	Bulgaria	installation and maintenance of automated systems
Kozloduy — New Builds EAD	Bulgaria	operation of a nuclear plant for electricity production
HPP Service EOOD	Bulgaria	Maintenance of automation tools
NPP Construction Supervision Ltd	Bulgaria	Conformity assessment of investment projects
Bulgargaz EAD	Bulgaria	public supply of natural gas
Bulgartransgaz EAD	Bulgaria	storage and transmission of natural gas
Balkan Gas Hub EAD	Bulgaria	building and operating an electronic trading platform for natural gas, energy products, green and white certificates, carbon emissions
Elektroenergien sistemen operator EAD	Bulgaria	electricity transmission
ESO Engineering EOOD	Bulgaria	Design, consultancy, construction of technologies and projects for energy facilities
ESO Proekt EOOD	Bulgaria	Design of energy objects
Bulgartel AD	Bulgaria	implementation of telecommunications
Bulgartel-Skopje DOOEL	Macedonia	implementation of telecommunications
Maritsa East Mines EAD	Bulgaria	extraction and sale of coal
Natsionalna Elektricheska Kompania EAD	Bulgaria	generation of electricity and public electricity supplier

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

Entity	Country of incorporation	Main activity.
TPP Maritsa East 2 EAD	Bulgaria	production of electricity and heat
PFC Beroe — Stara Zagora EAD *(until 10 March 2022)*	Bulgaria	soccer club
TPP Maritsa East 2 (9 and 10) EAD	Bulgaria	production and trade in electricity
National Energy Operator EAD	Bulgaria	construction and operation of electric power facilities and all other activities not prohibited by law.
Miproject EAD	Bulgaria	exploration, project-construction, research and other activities in the field of open-pit and underground coal mining
Jointly controlled entities		
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
Associates		
ContuourGlobal Maritsa Iztok 3 AD	Bulgaria	electricity production
ContourGlobal Operations Bulgaria AD	Bulgaria	operation and maintenance of a thermal power plant
Energy Insurance JSC	Bulgaria	insurance company
VPI Allianz Bulgaria EAD	Bulgaria	pension insurance company
HEC Gorna Arda AD	Bulgaria	construction of hydroelectric power plants

Other related parties under joint control

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

Key management personnel of the Parent Company as at 31 December 2023

Ivan Todorov Andreev	Member of the Board of Directors and Executive Director of BEH EAD
Veselina Lachezarova Kanatova-Buchkova	Chairman and Member of the Board of Directors of BEH EAD
Kalin Filipov	Vice Chairman and Member of the Board of Directors of BEH EAD
Diyan Stanimirov Dimitrov	Member of the Board of Directors of BEH EAD
Ivo Ivanov Todorov	Member of the Board of Directors of BEH EAD

Key management staff of the Company in the period from 22 August 2022 to 22 April 2024.

- 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;

Key management staff of the Company as at 23 April 2024

- Ivan Topchiysky — Chairman of the Board of Directors;

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

- Veselin Sinabov — Executive Member of the Board of Directors;
- Mihail Milkov — Member of the Board of Directors;
- Byanka Racheva — Member of the Board of Directors;
- Marin Filipovski — 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 borrowings and deferred trade payables) and their settlement is done in cash. For the receivables or obligations from/to related parties, no guarantees were granted or received, except for a guaranteed amount of Bulgartransgaz EAD under a Contract for natural gas access and transmission, a Contract for natural gas balancing, and a Contract for natural gas storage.

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

(A) SALE OF GOODS	**YEAR ENDED 31 DECEMBER**	
	2023	**2022**
Companies under joint control		
ICGB AD	192	-
Bulgartransgaz EAD	44,542	82,344
Total	**44,734**	**82,344**

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

(B) PURCHASE OF GOODS AND SERVICES	**YEAR ENDED 31 DECEMBER**	
	2023	**2022**
Parent company		
Bulgarian Energy Holding EAD	291	1,206
Companies under joint control		
Bulgartransgaz EAD	133,532	156,314
ICGB AD	36,838	8,489
Bulgartel EAD	7	7
Gas Hub Balkan EAD	601	303
Total	**171,269**	**166,319**

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

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

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

The purchases of services from Bulgartel EAD include technical support.

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

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

(C) ACCRUED CHARGES FOR BANK COMMISSIONS AND PENALTIES COMMISSIONS AND PENALTIES	YEAR ENDED 31 DECEMBER	
	2023	**2022**
Companies under joint control		
Bulgarian Energy Holding EAD	467	528
Bulgartransgaz EAD	-	91
Total	**467**	**619**

The accrued expenses for bank commissions are in connection with bank guarantee maintenance under case COMP/B1/AT.39849 – BEH gas.

(D) RECEIVABLES UNDER SALES OF GOODS AND SERVICES	AS AT 31 DECEMBER	
	2023	**2022**
Companies under joint control		
ICGB	12,595	
Bulgartransgaz EAD	28,747	31,961
Total current receivables	**41,342**	**31,961**

The receivables from Bulgartransgaz EAD represent financial collateral in the form of a credit limit and a guarantee granted in connection with a Contract for natural gas access and transmission on the gas transmission network and a Contract for balancing entered into with Bulgartransgaz EAD, as well as a trade receivable for balancing settled in January 2023.

(D) PAYABLES FOR PURCHASES OF GOODS AND SERVICES

	AS AT 31 DECEMBER	
CURRENT	**2023**	**2022**
Parent company		
Bulgarian Energy Holding EAD	20	16
Companies under joint control		
Bulgartransgaz EAD	4,105	6,774
Bulgartel EAD	1	1
Gas Hub Balkan	55	77
ICGB AD	4,513	3,395
Total current payables	**8,694**	**10,263**

The payables to Bulgartransgaz EAD are related to received current services for access, transmission and storage of natural gas and current supply of natural gas for balancing.

Liabilities to ICGB AD include natural gas transmission services.

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

(F) BORROWING PAYABLES	**YEAR ENDED 31 DECEMBER 2023**	**2022**
NON-CURRENT		
Ultimate owner — Ministry of Energy		
At the beginning of the period	**806,085**	-
Borrowing received in cash	-	695,305
Accrued expenses for interests	8,291	6,085
Borrowing received against offsets against VAT counter debts	-	104,695
Accrued interest expense reclassified to current portion	(14,376)	-
Payables on borrowing received at the end of the period	**800,000**	**806,085**
Parent company — Bulgarian Energy Holding EAD		
At the beginning of the period	-	-
Borrowing received, reclassified from current portion	370,000	-
Payables on borrowing received at the end of the period	**370,000**	-
TOTAL NON-CURRENT BORROWINGS	**1,170,000**	**806,085**
CURRENT		
Ultimate owner — Ministry of Energy		
Accrued interest expense reclassified to current portion	14,376	-
Accrued expenses for interests	8,566	-
Payables on borrowing received at the end of the year	**22,942**	-
Parent company — Bulgarian Energy Holding EAD		
Borrowing received during the year	405,000	852,509
Borrowing payments received during the year	(492,515)	(192,509)
Reclassified non-current borrowing	(370,000)	-
Accrued expenses for interests for the year	21,322	6,455
Interest paid during the year	(21,878)	(5,899)
Offsets against dividend payables	-	57,515
Payables on borrowing received at the end of the year	**260,000**	**718,071**
TOTAL CURRENT BORROWINGS	**282,942**	-

1/ In 2022, the company received three borrowings 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%. and the repayment terms in February 2023, July 2023 and December 2023, respectively. In 2023, the borrowing of BGN 60 million matures. has been renegotiated until July 2024, as well as the interest rate of 3.275%.

In April 2023 a new credit line agreement was signed with BEH EAD with a limit of up to BGN 200 million and maturity in April 2024.
In 2023, the amount and term of the borrowing of BGN 457 million were renegotiated, with the amount being reduced to BGN 370 million maturing in December 2028. The funds received are used for the company's operational needs and ensuring the supply of natural gas.

2/ In 2022 the Company has received a borrowing from the Ministry of Energy in the amount of BGN 800,000 thousand, secured by a special pledge of current and future receivables from Toplofikacia Sofia EAD.

The borrowing bears an annual interest rate of 2% and matures on 12 March 2025. The principal and interest are paid according to a repayment plan. Interest shall become payable from February 2024.

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

(G) KEY MANAGEMENT PERSONNEL REMUNERATIONS

The key management personnel includes members of the Board of Directors. Key management personnel remunerations are as follows:

	YEAR ENDED 31 DECEMBER	
	2023	**2022**
Short-term benefits to key management personnel		
Employee benefits expenses	(561)	(393)
Social security expenses	(18)	(22)
Total	**(579)**	**(415)**

As at the end of each of the reporting periods, the Company had no payables to key management personnel of the Company relating to their emoluments.

37. EVENTS THAT OCCURRED AFTER THE END OF THE REPORTING PERIOD

No adjusting events occurred between the date of the financial statements and the date of their adoption.

The following significant non-adjusting events have occurred:

1/ On 11 January 2024, an appeal was lodged by the European Commission against the judgment of the Court of First Instance, seeking to set aside the judgment of the General Court in its entirety. On the basis of the appeal, case C-14/24 R was brought before the Court of Justice of the European Union — *European Commission v BEH and others*. BEH Group has the right to reply within two months from the date of receipt of the appeal by the European Commission.

2/ By a supplementary agreement of March 2024 between Bulgargaz EAD and TPP Varna EAD, it was agreed that TPP Varna EAD would establish a special pledge in favour of Bulgargaz EAD under the Special Pledges Act, instead of a mortgage, to secure the obligations under the final judgment. For the receivables of Bulgargaz EAD for provided annual capacity product and expenses, totalling BGN 3,746 thousand, a court settlement was concluded on 10 May 2024 between Bulgargaz EAD and TPP Varna EAD, as the receivables were rescheduled with a repayment plan.

3/ On 27 March 2024, by Decree of the Council of Ministers No 63 and Decision of the Council of Ministers No 210, the Minister of Energy was instructed to negotiate and acquire on behalf of the State, by concluding the respective contracts, the receivables of Bulgargaz EAD from Toplofikacia Sofia EAD as at 31 December 2023 for an amount not higher than the market value determined by an independent assessor. Decision of the Council of Ministers No 279 of 12 April 2024 repealed Decision of the Council of Ministers No 210 of 2024.

4/ On 23 April 2024, a new composition of the Board of Directors of Bulgargaz EAD was entered into the Commercial Register of the Registry Agency:

- Ivan Topchiysky — Chairman of the Board of Directors;
- Veselin Sinabov — Executive Member of the Board of Directors and Executive Director
- Mihail Milkov — Member of the Board of Directors;
- Byanka Racheva — Member of the Board of Directors;
- Marin Filipovski — Member of the Board of Directors;

4/ In May 2024 Bulgargaz EAD has launched two new tenders to offer part of the reserved capacities for regasification, storage and transmission of LNG under the Agreement with the Turkish energy company BOTAŞ BORU HATLARI İLE PETROL TAŞIMA A.Ş. These tendering procedures aim to realise the reserved capacity and reduce the cost of unused capacity.

The first auction is subject: provision of regasification, storage and transportation service of LNG supplied by the participants at terminals in Turkey to VTT Bulgaria (virtual trading point). 'Bulgargaz EAD offers the service in two variants: for a period of 6 months from 01 July 24 or for a year from 01 January 25 for the next 5 years.

The second tender procedure is for the transfer of rights and obligations under the agreement concluded with the Turkish company Botaş, which include the regasification, storage and transmission of LNG supplied by the participants at Turkish terminals to the point of interconnection Strandja 1/Malkochlar. Bulgargaz EAD offers the participants in the procedure 3 possible options regarding the period for which the rights and obligations are transferred. 1 of 5 years and 2 of 10.

5/ In May 2024 Bulgargaz EAD claimed damages of over EUR 400 million against Gazprom Export as a result of the termination of natural gas supplies at the end of April 2022. In accordance with the provisions of the contract, Gazprom Export was sent an invitation to settle the claim voluntarily within a period not exceeding one month. If no agreement is reached, a case will be brought before the Court of Arbitration of the International Chamber of Commerce in Paris. The decision on the claim and its amount was based on extensive financial and legal analysis.

38. DISCLOSURE ACCORDING TO LEGAL REQUIREMENTS

These financial statements have been audited by the audit firm Grant Thornton LTD and the audit firm Zaharinova Nexia EOOD, on the basis of a contract concluded between Bulgarian Energy Holding EAD and DZZD Audit BEH.

The Company does not charge for independent financial audit. The consolidated financial statements of Bulgarian Energy Holding EAD include disclosure of accrued amounts for services provided by the registered statutory auditors for an independent financial audit. During the period the registered statutory auditors did not provide any other services.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements as at 31 December 2023 (including comparatives) were approved for issuance by the Board of Directors on 30 May 2024.