ANNUAL REPORT ON
BULGARTRANSGAZ EAD ACTIVITY
FOR THE PERIOD JANUARY 1 – DECEMBER 31, 2018

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This Annual Report on Bulgartransgaz EAD Activity provides commentary and analysis of the financial statements and other important information on the financial status and the results of the activity of the company covering the one-year period from January 1 to December 31, 2018.

It is drafted in line with the requirements of art. 39 of the Accounting Law, art. 187(e). art. 247, para. 1, 2 and 3 of the Commercial Law. The report on the activity consists of additional information as required under Annex 10 to Ordinance 2 as of 17/09/2003 of the Financial Supervision Commission (FSC). The company does not draft a declaration for cooperative management under art. 100(n), para. 7 and para. 8 of the Public Offering of Securities Act as the Code of Good Corporate Management, regulating specific powers in an exchange traded company, is not applicable to Bulgartransgaz's EAD activity and status.

1. GENERAL INFORMATION

Bulgartransgaz EAD is a company having its seat and registered office in the Republic of Bulgaria, Sofia, district Lyulin - 2, 66 Pancho Vladigerov Blvd.

The company is registered in the Trade Register at the Registry Agency with UIC 175203478.

The company is a state-controlled entity. The sole shareholder of the capital is Bulgarian Energy Holding EAD.

The company has 40 years of history and experience in the field of natural gas transport and storage, being the successor of SC Oil and Gas, which started its activity in 1973.

Activity subject

Bulgartransgaz EAD is a combined gas operator. Under Art. 39, para. 1 of the Energy Act, the company holds licenses issued by the regulatory authority Energy and Water Regulation Commission (EWRC):

- License for the transmission of natural gas on the territory of the Republic of Bulgaria (License № Л-214-06/29.11.2006);
- License for transit transmission of natural gas on the territory of the Republic of Bulgaria (License № Л-214-09/29.11.2006);
- License for storage of natural gas on the territory of the Republic of Bulgaria (License № Л-214-10/ 29.11.2006).

The three licenses are with a 35-years term. The company pays license fees for each license specified in a tariff approved by the Council of Ministers. The fees are: initial fee, which has been paid in connection with the issuance of the licenses and annual fees for the duration of

the license, payable by the licensee for each year following the issuance of the respective license.

By virtue of decision of the EWRC, Bulgartransgaz EAD has been certified as Independent Transmission Operator of the gas transmission system of Bulgaria in line with the requirements of Directive 2009/73/EC of the European Parliament and of the Council of 13.07.2009 concerning common rules for the internal market in natural gas, Regulation (EC) No.715/2009 of the European Parliament and of the Council of 13.07.2009 on conditions for access to the natural gas transmission networks and Chapter Eight „a" of the Energy Act. The decision has been approved in line with the opinion of the European Commission of 22.04.2015.

Bulgartransgaz EAD has the following responsibilities:

- Uniform management and reliable functioning of the natural gas transmission networks and the underground gas storage facility (UGS);
- Maintaining the balance between natural gas import, production and consumption;
- Natural gas transport through the gas transmission networks and natural gas storage in the UGS in compliance with the quality and reporting requirements;
- Ensuring the optimal operational regime of the transmission networks when carrying out the natural gas transmission activities;
- Maintaining facilities and sites of the gas transmission networks and UGS in compliance with the technical and health and safety requirements;
- Development of the gas transmission networks and UGS in compliance with the long-term forecasts and plans for gas supply development;
- Providing access to users to the natural gas transport and storage facilities on equal basis;
- Administrating natural gas transactions and organizing the balancing of the natural gas market.

Besides the licensed activities, Bulgartransgaz EAD performs: hot tapping, stopple operations, design of gas installation and facilities, leasing of dark optical fibres from highway cables which are not used for technological needs to be used by telecommunication operators, who have permits issued by the Communications Regulation Commission under the Electronic Messages Act, construction and installation works on Technological Part of gas installations and facilities.

Ownership and Management

Bulgartransgaz EAD is a sole-owned joint-stock company of the structure of Bulgarian Energy Holding EAD.

By an act of incorporation on January 15, 2007 Bulgartransgaz EAD is separated from Bulgargaz Holding EAD for an indefinite period of time. As of December 31, 2018, the company's registered capital amounts to BGN 874 524 255 allocated in 874 524 255 registered shares with a nominal value of 1 BGN. Sole capital owner of Bulgartransgaz EAD is Bulgarian Energy Holding EAD, where the Ministry of Energy has 100% registered capital.

Information on acquiring own shares

In 2018 Bulgartransgaz EAD did not acquire its own shares.

Capital Increase

In 2018 the capital of Bulgartransgaz EAD was not increased.

Information on arrangements known to the company (including after the end of the financial year), as a result of which changes in the relative share of bonds held by current shareholders or bondholders may occur in the future

Bulgartransgaz EAD has no valuable information on the presence of arrangements, as a result of which changes in the relative share of bonds held by current shareholders may occur in the future. The company has no issued bonds and does not envisage the use of such a financial instrument in the short term.

Bulgartransgaz EAD Management Bodies

In connection with the certification of Bulgartransgaz EAD as an independent transmission operator with Decision of Bulgarian Energy Holding EAD (BEH EAD) as of January, 25 2013, Bulgartransgaz EAD switches form one-tier to two-tier management system. Management bodies of the company are:

- Sole capital owner;
- Supervisory Board;
- Management Board.

The company is managed and represented by the executive director who carries out the operational management of the company and organizes its activities.

Members of Bulgartransgaz EAD Supervisory Board:

- Ventsislav Tsvetkov Tsvetanov
- Vladimir Valchev Mitrushev
- Kiril Georgiev Georgiev

Kiril Georgiev is Chairperson and Vladimir Mitrushev is Deputy Chairperson of the Supervisory Board of the company.

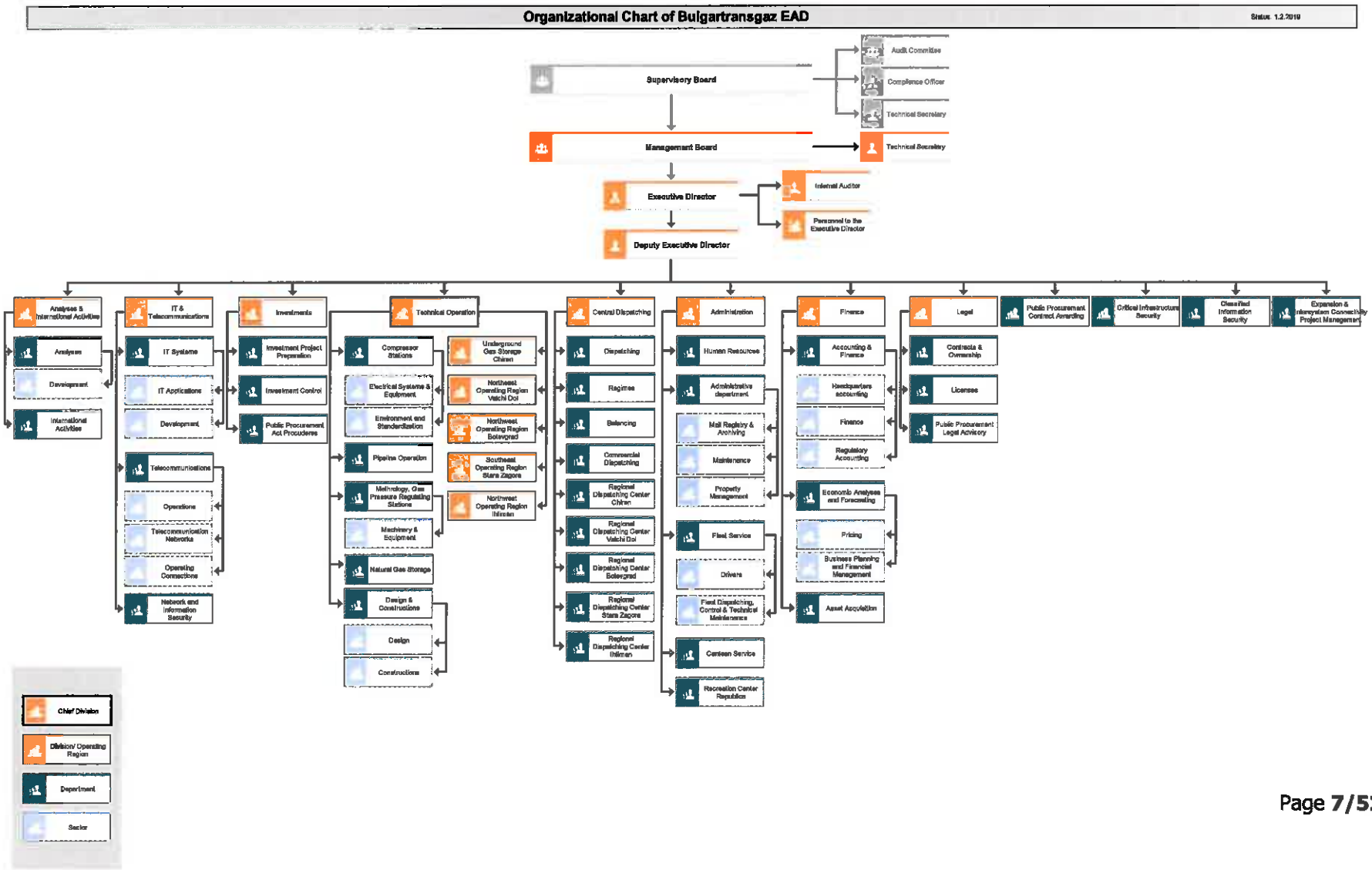
Members of Bulgartransgaz EAD Management Board:

- Tanya Trendafilova Zaharieva
- Delyan Valentinov Dimitrov
- Vladimir Asenov Malinov

Tanya Zaharieva is Chairperson of the Management Board of the company and Vladimir Malinov is Executive Director of Bulgartransgaz EAD.

Company's Branches

Bulgartransgaz EAD has no registered branches. The activity of the company is administratively divided to 6 operational regions which are not established as separate legal entities.


Organizational Chart of Bulgartransgaz EAD
Supervisory Board
Audit Committee
Compliance Officer
Technical Secretary
Management Board
Technical Secretary
Executive Director
Internal Auditor
Personnel to the Executive Director
Deputy Executive Director
Analyses & International Activities
Analyses
Development
International Activities
IT & Telecommunications
IT Systems
IT Applications
Development
Telecommunications
Operations
Telecommunication Networks
Operating Connections
Network and Information Security
Investments
Investment Project Preparation
Investment Control
Public Procurement Act Procedures
Technical Operation
Compressor Stations
Electrical Systems & Equipment
Environment and Standardization
Pipeline Operation
Metrology, Gas Pressure Regulating Stations
Machinery & Equipment
Natural Gas Storage
Design & Constructions
Design
Constructions
Underground Gas Storage Chiren
Northwest Operating Region Vidin Dol
Northwest Operating Region Botevgrad
Southeast Operating Region Stara Zagora
Northwest Operating Region Ihtiman
Central Dispatching
Dispatching
Regimes
Balancing
Commercial Dispatching
Regional Dispatching Center Chiren
Regional Dispatching Center Vidin Dol
Regional Dispatching Center Botevgrad
Regional Dispatching Center Stara Zagora
Regional Dispatching Center Ihtiman
Administration
Human Resources
Administrative department
Mail Registry & Archiving
Maintenance
Property Management
Fleet Service
Drivers
Fleet Dispatching, Control & Technical Maintenance
Canteen Service
Recreation Center Republika
Finance
Accounting & Finance
Headquarters accounting
Finance
Regulatory Accounting
Economic Analyses and Forecasting
Pricing
Business Planning and Financial Management
Asset Acquisition
Legal
Contracts & Ownership
Licenses
Public Procurement Legal Advisory
Public Procurement Contract Awarding
Critical Infrastructure Security
Classified Information Security
Expansion & Interesystem Connectivity Project Management
Chief Division
Division/ Operating Region
Department
Sector

Number of Personnel

The average staffing for 2018 is 1 167 workers and employees and the breakdown by classes according to the National Classification of Occupations and Positions (NKPD) 2011 is:

Personnel breakdown by classes	*Number*
Managers	99
Experts	90
Technicians and applied specialists	261
Assistant administrative staff	67
Staff engaged in population, trade, and security services	28
Qualified workers	249
Machine operators and assemblers	329
Positions not requiring special qualifications	44

Obligations of Management Board members

In accordance with the International Financial Reporting Standards adopted by the European Commission, members of the Management Board in their capacity as a managing body ensure that when preparing the financial statement for the financial year ended December 31, 2018, appropriate accounting policies have been adopted and applied, and prudent and reasonable estimates and forecasts are laid down. The members of the Management Board ensure that the applicable accounting standards are followed and the financial statement is prepared in accordance with company's principle.

Remuneration of key personnel

The Company has a related entity relationship with directors and employees with control functions. The total amount of the remunerations calculated in 2018 including personnel expenses is as follows:

- Remunerations paid to the Executive Director and members of the Management and Supervisory Board – 544 thousand BGN.
- Insurance contributions on remunerations of the Executive Director and members of the Management and Supervisory Board – 26 thousand BGN.

Information about the contracts under Art. 240(b) of the Commercial Law, concluded during the year

Members of the Supervisory Board, Management Board or persons associated with them are not in a contractual relationship outside the ordinary activity of the company or in a violation of the accepted market rules.

Information on the acquisition and holding of shares by the members of the Supervisory Board and the Management Board.

Members of the Supervisory and Management Board do not own shares of the company. They do not have privileges or exclusive rights to acquire shares and bonds of the company. All shares are owned by Bulgarian Energy Holding EAD.

Information as of December 31, 2018 on the participation pf members of boards in commercial companies as unlimited liability partners, the holding of more than 25 per cent of the capital of another company and their participation in the management of other companies or co-operatives as procurators, managers or board members (in accordance with Article 247(2)(4) of the Commercial Law)

Bulgartransgaz EAD Supervisory Board

Kiril Georgiev Georgiev – Chairperson of the Supervisory Board

- Does not participate as unlimited liability partner in commercial companies;
- Does not hold more than 25 percent of the capital of commercial companies;
- Does not participate in the management of other companies.

Vladimir Valchev Mitrushev – Member of the Supervisory Board

- Does not participate as unlimited liability partner in commercial companies;
- Does not hold more than 25 percent of the capital of commercial companies;
- Does not participate in the management of other companies.

Ventsislav Tsvetkov Tsvetanov – Member of the Supervisory Board

- Does not participate as unlimited liability partner in commercial companies;
- Does not hold more than 25 percent of the capital of commercial companies;
- Does not participate in the management of other companies.

Bulgartransgaz EAD Management Board:

Tanya Trendafilova Zaharieva – Chairperson of the Management Board

- Does not participate as unlimited liability partner in commercial companies;
- Does not hold more than 25 percent of the capital of commercial companies;
- Does not participate in the management of other companies.

Delyan Valentinov Dimitrov - Member of the Management Board

- Does not participate as unlimited liability partner in commercial companies;
- Does not hold more than 25 percent of the capital of commercial companies;
- Does not participate in the management of other companies.

Georgi Kirilov Gegov - Member of the Management Board and Executive Director

- Does not participate as unlimited liability partner in commercial companies;
- Does not hold more than 25 percent of the capital of commercial companies;
- Does not participate in the management of other companies.

Actions in the field of research and development

Bulgartransgaz EAD is not engaged in R&D activities.

Information on pending court, administrative or arbitration proceedings concerning liabilities or receivables of the issuer, respectively the person under § 1e of the additional provisions of the Public Offering of Securities Act, amounting to at least 10 per cent of its own capital; if the total amount of the liabilities or receivables of the issuer, respectively the person under § 1e of the Additional Provisions of the Public Offering of Securities Act, in all initiated proceedings exceeds 10 per cent of its own capital, information shall be submitted for each proceeding separately.

At the date of the financial statement, Bulgartransgaz EAD is not a party to judiciary pending court, administrative or arbitration proceedings concerning debts or receivables, the total amount of which exceeds 10 per cent of the company's equity.

2. RESULTS OF THE COMPANY'S ACTIVITY IN 2018

Bulgartransgaz EAD transmission activities, natural gas transport to the borders with Greece, Turkey and Macedonia and storage are performed on the basis of issued licensees. The general requirements to the performance of these activities are laid down in the Energy Act and the regulations thereto in line with the European laws in the sector.

The EWRC carries out the ongoing monitoring on Bulgartransgaz EAD's activity including analysis and evaluation of the information for the reported results and periodical regulatory reviews.

Price for natural gas transmission

In line with the requirements of Regulation (EC) 715/2009 of the Commission of 13 July 2009 on conditions for access to the natural gas transmission networks, the Energy Act and the regulations Bulgartransgaz EAD effectively implemented as of 01.10.2017 an entry-exit pricing model for the access and transport services along the gas transmission system, property of the company. The implementation of the entry-exit tariff model replaces the pricing of the access and transport services offered by Bulgartransgaz EAD from the „post stamp" with individual prices set out for actually transmitted quantities charged at exit points of the gas transmission network with an entry-exit model with a two-component tariff system and prevailing component based on the booked capacity. The new system results from the requirements, imposed by the European and national regulatory framework in the natural gas sector.

By virtue of Decision НГП-01/01.08.2017 of the EWRC the allowed revenue of Bulgartransgaz EAD has been approved for the period 2017-2019 and the basic parameters of the tariff model. Based on the Decision and the Methodology laying down the access and transport along Bulgartransgaz EAD networks the TSO sets the access and transport prices at entry and exit points for annual pricing periods starting on October, 1.

The main characteristics of the entry/exit tariff model are the following:

- Multi-year pricing model - "Revenue cap" method. The first regulatory period is 3 years;
- Setting the price for natural gas access and transmission by entry and exit points/zones;
- Reimbursement through the access and transmission costs of the necessary revenues for carrying out the transmission activity, approved by the Commission for each regulatory period;
- Ensuring incentives to improve the operator's performance;
- Equal conditions to all transmission networks' users. Users shall be treated equally regardless of size, ownership or other factors;
- Ensuring price stability, transparency of the price setting process;
- Applying the Matrix Approach for cost allocation by entry and exit points/zones;
- Possibility to form a unified exit national zone;

- Possibility to reduce the prices for access to entry and exit points to/from the natural gas storage facilities.

Natural gas storage price – BGN 2.49/1000 nm³/month, approved by EWRC with Decision No.Ц-001/10.02.2005.

Natural gas transmission price to the borders with Greece, Turkey and Macedonia under a long-term contract with OOO Gazprom Export.

A cubic meter of natural gas shall refer to the natural gas quantity in a volume of one cubic meter at temperature of 20°C (293,15 K) and absolute pressure of 0,101325 MPa.

Daily balancing regime

As of October 1, 2017 Bulgartransgaz EAD introduced an effective daily balancing regime in line with the Natural Gas Market Balancing Rules and the Methodology setting out the daily imbalance charge in line with the requirements of Regulation 312/2014 establishing a Network Code on Gas Balancing of Transmission Networks.

The expected effect of the Regulation implementation is for the operators to carry out market-based balancing by using short-term standardized products, the network users to perform primary balancing, and the operators to play a role in the residual balancing, with a view to overall daily balanced system, for which mostly the users will be responsible, increased liquidity and competition, increase of the hubs' churn rate (the ratio between the commercial gas quantities and the physically supplied gas).

By introducing the new balancing regime, the requirements of the Regulation are fulfilled, in particular in the section for provision of information and daily financial clearance of the accumulated daily imbalances with a monthly settlement period.

Change in the unit of measure, used in reporting the natural gas, transported to national exit points

Consequently, to introducing the entry-exit tariff model in line with the requirements of the European and national regulatory framework in the natural gas field Bulgartransgaz EAD changed in 2017 the unit of measure, used for the reporting of natural gas from a unit measuring the quantity (nm³) to a unit measuring the energy (MWh).

2.1 Natural Gas Access Transmission

The natural gas supply to users on the territory of Bulgaria is performed mainly through the national gas transmission network which is a complex facility consisting of 1,835 km main gas pipelines and high pressure gas pipeline branches, three compressor stations (CS) – CS Kardam 1, CS Valchi Dol and CS Polski Senovets with 49 MW total installed capacity, gas regulating stations, gas metering stations, electrochemical protection system, communication system, information system and other ancillary facilities. The natural gas transmission network has a capacity sufficient to meet the current natural gas consumption. Currently about 45 % of the system's maximum technical capacity is being used. The natural gas transported through the national gas transmission network is supplied mostly by imports from Russia.

Bulgartransgaz EAD being a transmission system operator (TSO), via Chief Dispatching Division ensures uniform management, reliable functioning and transmission of natural gas through the gas transmission system and its metering in compliance with the quality requirements. Maintenance is also carried out at the sites and facilities of the gas transmission system in line with the technical requirements and the safety operation rules in compliance with the European regulations on environment protection and the network development plans of the gas transmission system.

According to the Chief Dispatching Division, the natural gas quantities transported through the national gas transmission system for the respective period are the following:

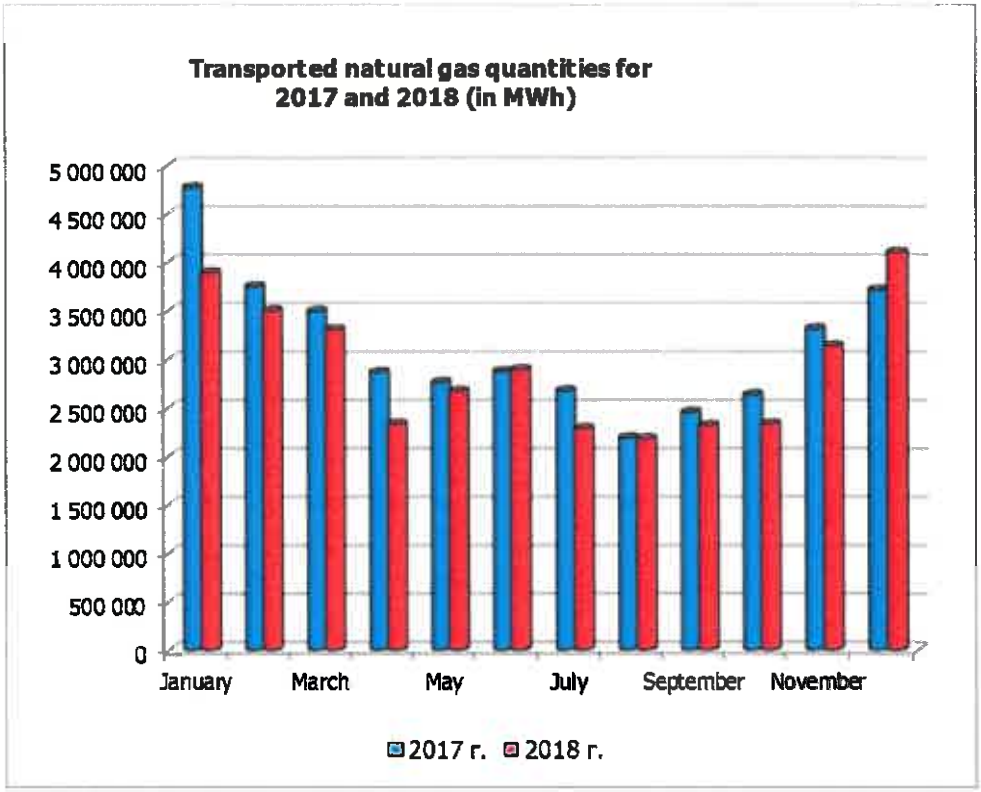
Transported Natural Gas Quantities, MWh			
Transport	**2017**	**2018**	**Correction 2018/2017 in %**
January	4 770 687	3 892 312	(18,41%)
February	3 748 959	3 499 013	(6,67%)
March	3 493 756	3 303 929	(5,43%)
April	2 862 061	2 330 119	(18,59%)
May	2 759 289	2 667 314	(3,33%)
June	2 870 455	2 891 379	0,73%
July	2 670 591	2 282 396	(14,54%)
August	2 185 922	2 174 070	(0,54%)
September	2 450 099	2 312 532	(5,61%)
October	2 631 451	2 329 144	(11,49%)
November	3 311 671	3 135 214	(5,33%)
December	3 712 963	4 101 796	10,47%
Total:	**37 467 904**	**34 919 218**	**(6,80%)**

There is a decrease by 6,80% (2 548 686 MWh) of the transported MWh natural gas quantities during 2018 compared to the transported MWh quantities for 2017.

There is a decrease in the transported MWh quantities in ten months of the reported period. The most significant difference in the transported quantities during the previous year is in January and April, with 18,41% less MWh of natural gas being transported in January, and 18,59% in April. Only during two of the months - June and December - more MWh of energy have been transported than in 2017. In June the transported MWh is more than those in the same month of the previous year - by 0,73% or 20 924 MWh and in December the transported energy is 10,47% or 388 833 MWh more.

The smallest MWh of natural gas was transported in August 2018 - 2 174 070 MWh, and the largest MWh - in December 2018 - 4 101 796 MWh.

The diagram below shows the dynamics of change in the transported MWh natural gas for the respective period.



Traditionally, year 2018 sees the trend of seasonality in the natural gas transmission and as it was mentioned above the largest MWh are transported in December. Over the first three months of the reported period, the transported gas gradually decreases and as of the middle of the reported period there is a smooth increase in September, November to the peak in December.

2.2 Natural Gas Transport to the Borders with Greece, Turkey and Macedonia

Bulgartransgaz EAD performs natural gas transmission through the territory of Bulgaria to neighbouring countries – Turkey, Greece and Macedonia. Quality and quantity analysis of the natural gas entry flows through these directions is carried out at the Gas Metering Stations (GMS) Negru Voda 2 and 3. The natural gas delivery along the directions is carried out at GMS Malkoclar for Turkey, GMS Strimonohori for Greece and GMS Jidilovo for Macedonia.

The natural gas transport contract in the above directions has been signed in 1998 with OOO Gazprom Export and with Annex No. 11 of 2006 the deadline has been extended to 2030. The value of the service is calculated on the basis of the transport quantities nominated and actually passed through.

The natural gas quantities transported to neighbouring countries for the given period are the following:

Natural gas quantities transported to Turkey, Greece and Macedonia by months, Nmcm								
Month	Turkey		Greece		Macedonia		Total	
	2017	2018	2017	2018	2017	2018	2017	2018
January	1 375,921	1 386,885	318,343	296,822	54,065	39,176	1 748,329	1 722,883
February	1 230,655	1 258,242	216,384	287,671	38,045	41,355	1 485,084	1 587,268
March	1 258,031	1 223,346	112,577	298,046	13,491	26,173	1 384,099	1 547,565
April	1 153,469	627,929	129,674	246,231	8,081	6,169	1 291,224	880,329
May	1 020,748	534,058	259,154	272,797	4,098	4,130	1 284,000	810,985
June	883,181	750,334	277,373	270,939	3,592	4,090	1 164,146	1 025,363
July	911,892	836,527	245,332	221,962	20,319	4,252	1 177,543	1 062,741
August	892,675	694,830	258,463	214,206	22,160	19,278	1 173,298	928,314
September	859,526	828,960	244,032	290,855	13,350	21,817	1 116,908	1 141,632
October	1 015,927	667,515	264,553	314,500	23,760	24,655	1 304,240	1 006,670
November	1 271,041	939,408	307,743	272,845	36,483	28,996	1 615,267	1 241,249
December	1 312,283	1 007,990	292,969	304,556	38,042	34,138	1 643,294	1 346,684
Total:	13 185,349	10 756,024	2 926,597	3 291,430	275,486	254,229	16 387,432	14 301,683

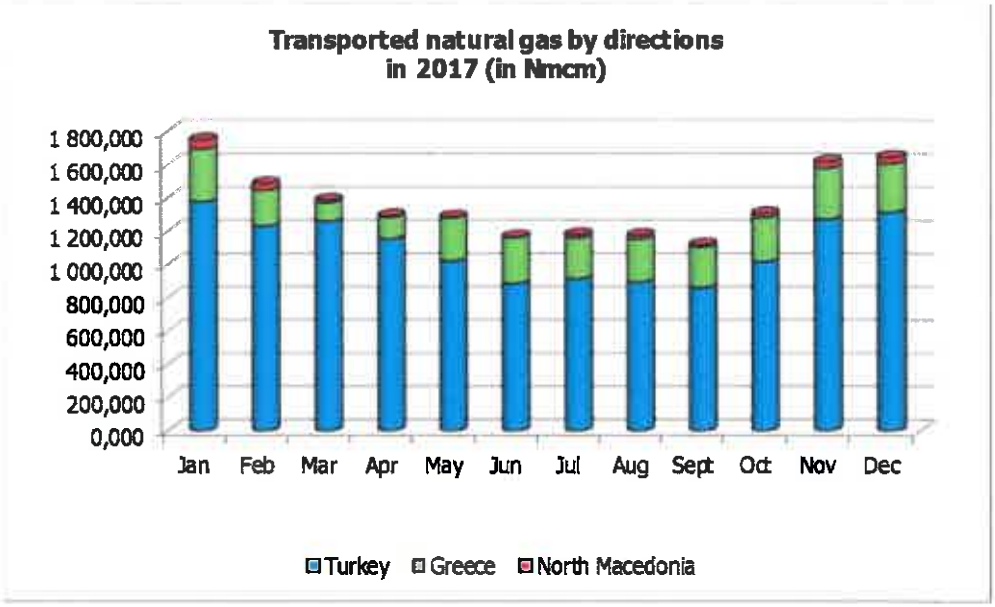
There is a decrease in the total transported quantities during 2018 (14 301,683 Nmcm) compared to the quantities transported in 2017 (16 387,432 Nmcm) with 2 085,749 Nmcm (12,73%). There is a decrease in the natural gas quantities transported to Turkey and Macedonia.

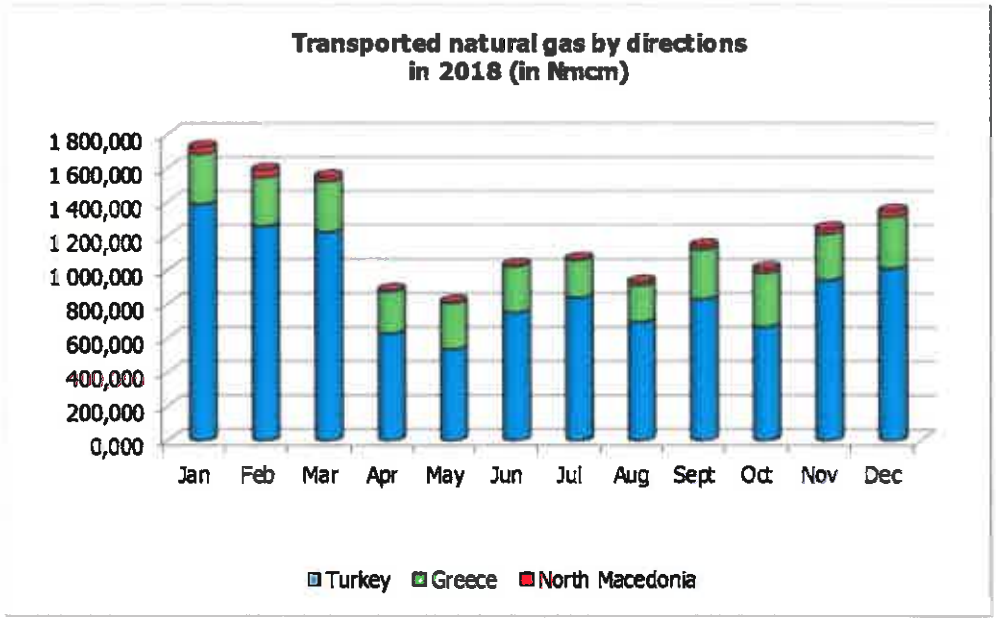
The natural gas quantities transported to Turkey in 2018 have decreased by 2 429, 325 Nmcm (18,42%) compared to the reported quantities in 2017.

An increase of 364,833 Nmcm (12,47%) in the transported natural gas quantities tor Greece has been reported for the period January - December 2018, compared to those in 2017.

Less natural gas quantities have been transported to Macedonia in the reported 2018 - by 21,257 Nmcm (7,72%) compared to the quantities transported in 2017.

The natural gas allocation to the borders with Greece, Turkey and Macedonia by directions and by moths in 2017 and 2018 is shown in the diagrams below.





In 2018 the actually transported natural gas quantities to Turkey are 10 756,024 Nmcm representing 76,83% of the contracted capacity for the same period amounting to 14 000,000 Nmcm. The actually transported quantities in this direction have dropped by 18,42% compared to the physically transported quantities in 2017 – 13 185,349 Nmcm.

The greatest natural gas quantities were transported in January - 1 386,885 Nmcm representing 102,73% of the nominated natural gas quantities for transmission - 1 350,000 Nmcm. In the following four months the transported quantities decrease and the smallest natural gas quantity was transported to the border with Turkey in May – 534,058 Nmcm which is 50,86% of the nominated quantity for the same month – 1 050,000 Nmcm. In June and July there is a smooth increase of the natural gas transport followed by a drop in August and then yet another smooth increase in September, 2018. In October, 2018 a drop in the transported

natural gas is registered followed by a smooth increase during the last two months until the end of the reported period.

The actually transported natural gas quantities to the border with Greece during 2018 are 3 291,430 Nmcm representing 109,71% of the capacity contracted for the same period amounting to 3 000,000 Nmcm.

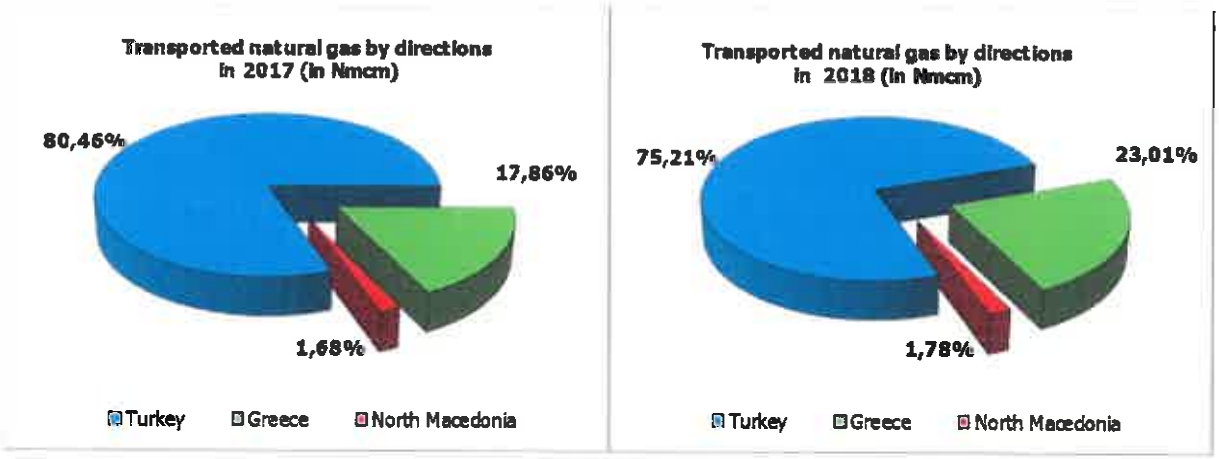
The greatest natural gas quantities were transported in October – 314,500 Nmcm representing 131,04% of the nominated natural gas quantities for transmission - 240,000 Nmcm. The smallest natural gas quantity was transported in August – 214,206 Nmcm which is 85,68% of the nominated quantity for the same month – 250,000 Nmcm.

It must be noted that for nine out of twelve months of the reported period, except for January, July and August 2018 the greater natural gas quantities out of the nominated ones have been transported to Greece. The greatest quantity beyond the nomination has been transported in March with 98,046 Nmcm which is 49,02% more (nominated 200,000 Nmcm, transported 298,046 Nmcm).

In 2018 the actually transported natural gas quantities to Macedonia are 254,229 Nmcm representing 31,78% of the capacity contracted for the same period amounting to 800,000 Nmcm. There is a 7,72% drop in the actually transported quantities in this direction compared to 2017 – 275,486 Nmcm.

The greatest natural gas quantities were transported in February – 41,355 Nmcm representing 61,72 % of the nominated quantities for transit transmission – 67,000 Nmcm. The smallest natural gas quantity was transported in June – 4 090,000 Nmcm which is 6,11% of the nominated quantity for the same month – 67,000 Nmcm.

The percentage allocation of transported natural gas quantities by directions (Turkey, Greece and Macedonia) in 2017 and 2018 is shown on the diagram below.



The allocation of the transported natural gas by direction shows a drop by 5,25% in the share to Turkey compared to the share in 2017. Its share during the period January – December 2017 is 80,46%, and drops to 75,21% in 2018. There is a growth by 5,15% in the share of

the transported quantities to Greece which represent 23,01% of the total natural gas transported to Greece, Turkey and Macedonia for 2018 compared to 17,86% in 2017. The share of the natural gas transported to Macedonia for 2018 increases with 0,10% compared to 2017, amounting respectively to 1,78% (in 2018) and 1,68% (in 2017) of the total natural gas quantities transported through the gas transmission network to the borders with Greece, Turkey and Macedonia.

2.3 Natural Gas Storage

The activity "Natural gas storage" is performed in the country's only underground gas storage facility Chiren (Chiren UGS), owned by Bulgartransgaz EAD. UGS Chiren is a complex system of underground and ground facilities – exploitations wells, gas gatherings, a compressor station of 10 MW total installed capacity, equipment for gas preparation, treatment, control and metering and other auxiliary equipment.

The technological process associated with the realization of the "natural gas storage" service is seasonal (cyclic) and is expressed in the withdrawal and injection of gas from/to the underground gas storage facility.

In 2018, 3 297 048 MWh of natural gas are withdrawn and 3 536 931 MWh are injected in Chiren UGS.

The total withdrawn and injected natural gas for the period January – December, 2017 and 2018 are shown in the table below:

Natural Gas Quantities Withdrawn and Injected in 2017 and 2018, MWh				
Month	Withdrawal 2017.	Withdrawal 2018	Injection 2017	Injection 2018
January	1 057 354	1 038 272	23 215	0
February	793 408	801 299	107	3 147
March	643 181	542 547	168 695	5 003
April	46 966	35 108	176 230	334 704
May	10 523	19 048	538 880	553 944
June	26 521	18 980	681 293	955 342
July	21 920	24 521	909 315	595 126
August	88 140	15 380	534 388	585 320
September	44 368	14 369	577 373	482 670
October	0	5 499	108 580	5 412
November	251 790	204 451	0	0
December	801 584	577 574	0	16 263
Total:	**3 785 755**	**3 297 048**	**3 718 076**	**3 536 931**

The natural gas owned by customers in the storage facility as of January 1, 2018 amounts to

2 295,589 MWh. The data in the table include the natural gas virtually withdrawn and injected.

The natural gas actually withdrawn, withdrawn for technological needs and virtually withdrawn in 2018 totals to 3 297 048 MWh, which is 12,91% or 488 707 MWh less compared to the gas withdrawn in 2017.

The actual and virtually injected gas in Chiren UGS in the period January – December, 2018 totals to 3 356 931 MWh, which is 4,87% or 181 145 MWh more than the gas injected in 2017.

As at December 31, 2018 the available gas of clients in Chiren UGS totals to 2 400 144 MWh, which is with 104 555 MWh (4,55%) more than the gas available at the end of 2017, a fact signalling an increase in the use of the storage facility.

3. FINANCIAL AND ECONOMIC STATUS

Information on the major characteristics of the internal control system and risk management system applied by Bulgartransgaz EAD in the process of preparing the financial statements.

Financial statements are prepared in compliance with the International Financial Reporting Standards (IFRS) drafted and published by the International Accounting Standards Board (IASB) and adopted by the European Union (EU). Within the meaning of para. 1(8) of the Additional Provisions of the Accounting Law applicable in Bulgaria, the term "IFRS adopted by EU" means International Accounting Standards (IAS) adopted in compliance with Regulation (EC) 1606/2002 of the European Parliament and of the Council.

Two new accounting standards which have effect on the company's financial statement, are in force as of January 1, 2018. Those are IFRS 15 Revenues from contracts with customers and IFRS 9 Financial Instruments. Company's management supported by its experts analysed the new standards and their impact as follows:

- There is no change in the manner, timing and amount of the revenue recognition under contracts with customers over the previous reporting periods. IFRS 15 reflected in the revenue announcing method. The company developed a new model for recognizing expected credit losses for future-oriented financial assets so as to recognize the expected credit losses. "Expected credit losses" model replaced the "incurred losses" model laid down in IAS 39. Instruments that fall under the scope of the new requirements include loans and other types of debt financial assets measured at amortized cost, trade and other receivables, related party receivables. Recognition of credit losses is no longer dependent on the occurrence of a credit loss event. Instead, the company considers a wider range of information in assessing credit risk and measuring the expected credit losses, including past events, current conditions, reasonable and sustained estimates that affect the expected collection of future cash flow of the instrument.

For both standards, the company has used the previous relief and has chosen not to recalculate previous periods. Differences, arising from the application of IFRS 9 in relation to classification, evaluation and impairment, are recognized in the opening balance of the retained earnings.

Financial and Economic Status

Bulgartransgaz EAD financial and economic status is analysed and examined on the basis of the prepared financial and accounting documents and the report on the financial status of the company for the period January – December, 2018 compared to the same reported period in 2017.

BGN '000s.

Financial Indicators	Report 01.01-31.12.2017	Report 01.01-31.12.2018	Change 2018/2017
Total revenues from operational activity [1]	362 614	372 828	2,82%
EBITDA [2]	169 668	135 058	(20,40%)
EBIT [3]	79 324	43 567	(45,08%)
EBT [4]	68 265	57 970	(15,08%)
EBITDA margin	46,79%	36,23%	(22,58%)
Total assets	2 340 705	2 777 786	18,67%
Property, machines and equipment	1 743 986	2 099 679	20,40%
Working capital [5]	530 980	621 700	17,09%
Cash available	411 058	517 922	26,00%
Equity	2 108 977	2 454 360	16,38%
Long term bank receivables	0	0	0,00%
Staff number	1 160	1 167	0,60%

1) Total revenues from operational activity includes revenues from non - monetary remuneration in the form of free of charge gas by the Customer Gazprom Export LLC.

2) EBITDA – Earnings before interest, taxes, depreciation and amortization;

3) EBIT – Earnings before interest and taxes;

4) EBT – Earnings before taxes

5) Working capital – Current assets minus current liabilities

Revenues, expenses and financial outcome

The main revenues of Bulgartransgaz EAD in the period January 1 – December 31, 2018 come from the licensed activities of natural gas access and transport, transport to the borders with Greece, Turkey and Macedonia, natural gas balancing and storage. Non-cash instruments in the form of natural gas free of charge by the Customer Gazprom Export LLC is included in the value of the revenues for natural gas transport to third parties.

Concerning the Natural Gas Market Balancing Rules effective as of October 1, 2017 Bulgartrangaz EAD as a Balancing entity, carries out the commercial natural gas market balancing, namely compensating the differences between the natural gas input by a network user at the entry point and the natural gas off-taken by such user at the exit points of the network. The obligation of the balancing entity is to cover the individual imbalances of network users of the gas transmission networks. The company generates balancing revenue corresponding to the balancing zones of the gas transmission networks on the territory of the Republic of Bulgaria.

3.1 Revenues. Analysis and dynamics of the revenues structure

A comparative analysis of the reported revenues during the first half of 2018 and the same period in 2017, and the dynamics of their change

Revenues from the activity	Report 01.01-31.12.2017		Report 01.01-31.12.2018		Change 2018 г./ 2017	
	Thousand BGN	Relative share	Thousand BGN.	Relative share	Thousand BGN	in %
Revenues from natural gas transport to the borders with Greece, Turkey and Macedonia	207 378	57,19%	202 894	54,42%	(4 484)	(2,16%)
Revenues from transport	70 584	19,47%	84 604	22,69%	14 020	19,86%
Revenues from natural gas storage	5 208	1,44%	5 228	1,40%	20	0,38%
Revenues from balancing	6 926	1,91%	13 215	3,54%	6 289	90,80%
Other revenues from the activity	72 518	20,00%	66 887	17,94%	(5 631)	(7,76%)
Including revenues from financing	10 059	2,77%	6 570	1,76%	(3 489)	(34,69%)
Net revenues from sale	**362 614**	**100,00%**	**372 828**	**100,00%**	**10 214**	**2,82%**
Financial revenues	7 824	2,11%	26 373	6,61%	18 549	237,08%
Total revenues:	**370 438**	**100,00%**	**399 201**	**100,00%**	**28 763**	**7,76%**

The total revenues earned in 2018 amount to 399 201 thousand BGN, and the net revenues from sales amount to 372 828 thousand BGN.

Compared to 2017, the total amount of the revenues earned by the company increased by 28 763 thousand BGN (7,76%), and the net revenues from sales also have increased by 10 214 thousand BGN (2,82%).

The free of charge gas provided under the long-term transport contract to the amount of 58 695 thousand BGN is accounted within the net revenues from sales. This gas is used mainly for fuel of the compressor stations along the gas transmission system for transport to the borders with Greece, Turkey and Macedonia and generates no real revenue for the company.

The revenues from non-cash instruments in the form of free of charge gas by the customer Gazprom Export LLC for the period January-December are lower compared to the same period of 2017, and such drop is with 2 153 thousand BGN (3,54%). The subtraction of revenue from the non-cash instruments, reported in 2018 and 2017 shows that the revenue from sales for 2018 are higher than the ones reported in 2017 with 12 367 thousand BGN (4,10%), and this is the result of the realized higher revenue from transport to clients in the country and balancing revenue.

In the total structure of the revenues earned in 2018, the revenues from natural gas transport to the borders with Greece, Turkey and Macedonia have the biggest share amounting to 202 894 thousand BGN with a relative share in the net revenues from sales of 54,42%. The reported revenues from transport to the borders with Greece, Turkey and Macedonia in 2018 compared to the reported ones in 2017 have decreased with BGN 4 484 thousand (2,16%) which, on the one hand, is due to the natural gas quantities transported which are 2 085,75 Nmcm less, and on the other hand, the lower USD exchange rate. The average USD exchange rate in 2018 is 1,6570 BGN/USD, at an average exchange rate of 1,7348 BGN/USD in 2017, with the lowest USD exchange rate in the winter months of 2018, when greater natural gas quantities have been transported.

The revenues generated from natural gas transmission in 2018 amounting to 84 604 thousand BGN being 22,69% of the company's net sales are by 14 020 thousand BGN (19,86 %) higher compared to 2017 regardless of the fact that the transported natural gas quantities in 2018 are less with 2 548 686 MWh or 6,80%. The increase of revenue from transmission of natural gas is a result of the introduced entry-exit tariff model as of October 1, 2017.

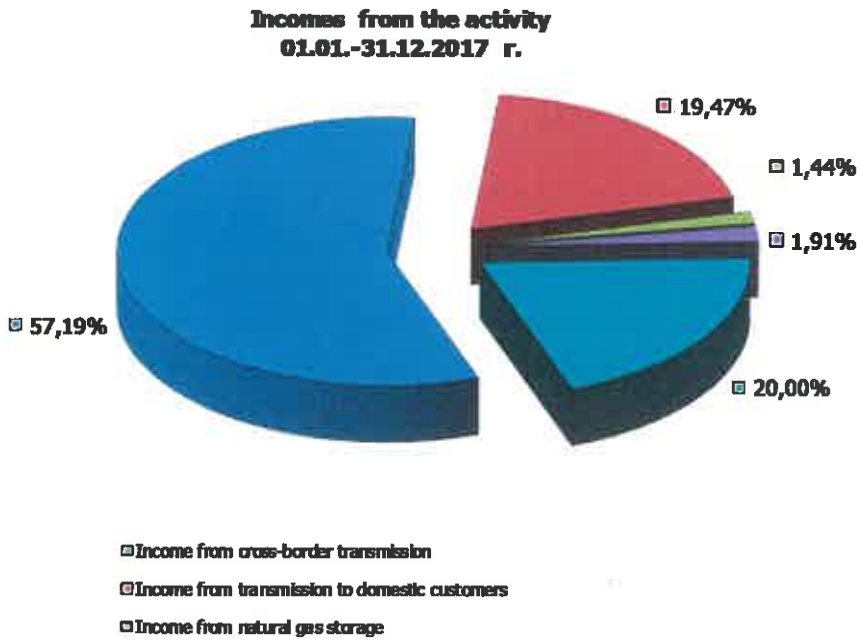
The revenues reported from natural gas storage in 2018 amount to 5 228 thousand BGN (1,40% of the net revenues from sales) and the reported revenues in the previous year amount to 5 208 thousand BGN.

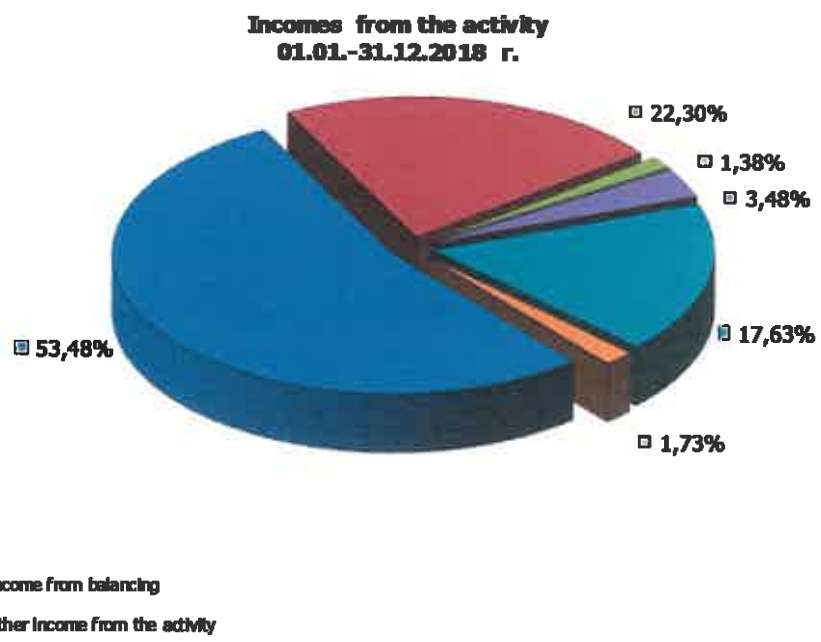
Over the period January 1 – December 31, 2018 revenue from balancing totalling to BGN 13 215 thousand BGN have been generated (3,54% of net revenue from sales). When comparing with the same period of 2017, a growth in revenue from balancing is reported with 6 289 thousand BGN (90,80 %) which is a result of the terms and conditions under the signed new contracts for natural gas transport in connection with the entry-exit tariff model effective as of October 1, 2017.

Company's other revenues being 17,94% of the net revenues from sales are with 5 631 thousand BGN (7,76%) less than the generated ones in 2017. For the period January 1 - December, 31 2018, 66 887 thousand BGN are reported, and in 2017 – 72 851 thousand BGN (including the amount of the non-cash remunerations). The lower "Other revenues" during the current reporting period are mostly due to the reported revenue from financing which are with 3 489 thousand BGN (34,69%) less than the reported 10 059 thousand BGN in 2017.

The reported financial revenue in 2018 are 237,08% more than the ones reported in 2017. Compared to the reported 7 824 thousand BGN over the period January 1 – December 31, 2017 raise is accounted with 18 549 thousand BGN - over the same period in 2018 the reported ones are 26 373 thousand BGN. This is due to the higher revenue from the change in the exchange rate over the current period (totalling to 23 652, where in 2017 the reported ones amount to 6 065 thousand BGN). Revenues and expenses from exchange rate differences do not represent a real cash expense but accounting report of the change in the value of available cash in foreign currency resulting from a change in the exchange rate of the dollar. This recalculation is carried out at the end of each month in order to correctly represent the BGN equivalent of foreign exchange.

The structure of the reported net revenues from sales in 2018 compared to the reported ones in 2017 is shown on the diagram below:


Incomes from the activity
01.01.-31.12.2017 г.
19,47%
1,44%
1,91%
20,00%
57,19%
Income from cross-border transmission
Income from transmission to domestic customers
Income from natural gas storage


Incomes from the activity
01.01.-31.12.2018 г.
22,30%
1,38%
3,48%
17,63%
1,73%
53,48%
Income from balancing
Other income from the activity

3.2 Expenses. Analysis and Dynamics of the Expenses Structure

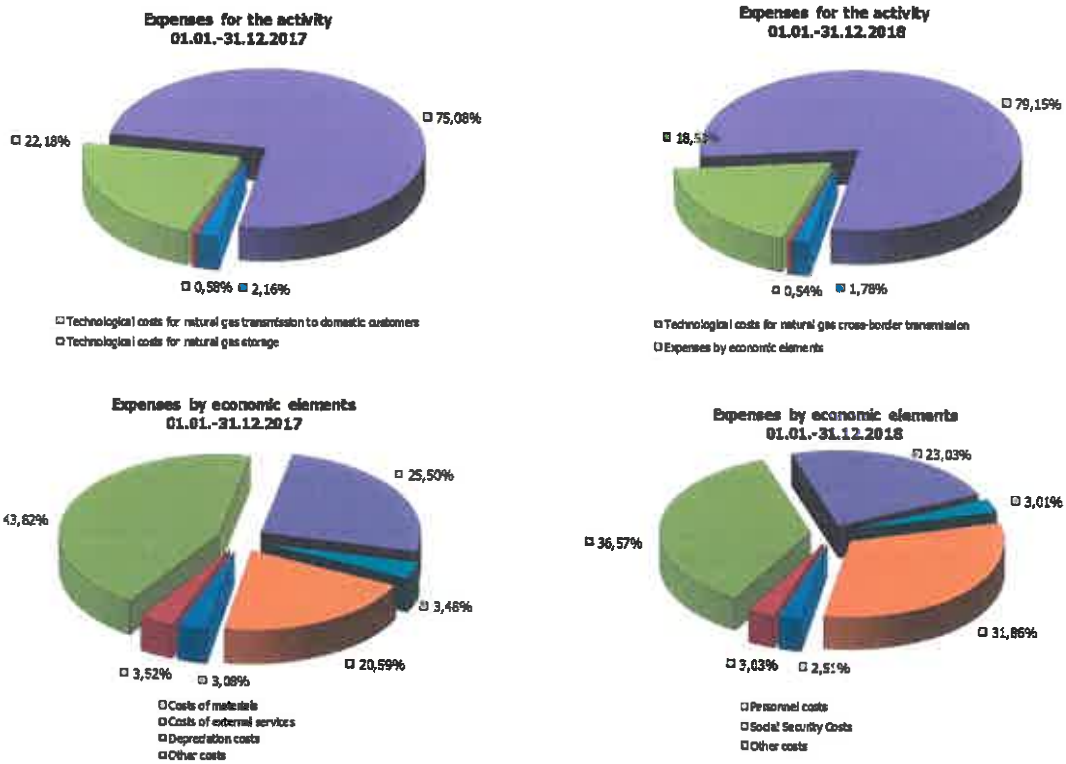
Expenses from the activity	Report 01.01-31.12.2017		Report 01.01-31.12.2018		Change 2018 / 2017	
	Thousand BGN	Relative share	Thousand BGN	Relative share	Thousand BGN .	in %
Technological costs	**68 413**	**24,92%**	**65 914**	**20,85%**	(2 499)	**(3,65%)**
Technological costs for natural gas transmission to customers in the country	5 923	2,16%	5 642	1,78%	(281)	(4,74%)
Technological costs for natural gas storage	1 599	0,58%	1 698	0,54%	99	6,19%
Technological costs for natural gas transport to the borders with Greece, Turkey and Macedonia	60 891	22,18%	58 574	18,53%	(2 317)	(3,81%)
Expenses by economic elements	**206 157**	**75,08%**	**250 192**	**79,15%**	**44 035**	**21,36%**
Costs of materials	6 357	2,32%	6 286	1,99%	(71)	(1,12%)
Costs of external services	7 253	2,64%	7 573	2,40%	320	4,41%
Depreciation costs	90 344	32,90%	91 491	28,94%	1 147	1,27%
Personnel costs	52 578	19,15%	57 610	18,22%	5 032	9,57%
Social security costs	7 170	2,61%	7 530	2,38%	360	5,02%
Other expenses	42 455	15,46%	79 702	25,21%	37 247	87,73%
Operating costs	**274 570**	**100,00%**	**316 106**	**100,00%**	**41 536**	**15,13%**
Costs, including:	**8 720**	**2,89%**	**13 155**	**3,86%**	**4 435**	**50,86%**
Changes in the availability of finished goods and work in progress	(177)	(0,06%)	(167)	(0,05%)	10	(5,65%)
Cost of natural gas used for balancing and the goods sold	8 897	2,94%	13 322	3,90%	4 425	49,74%
Financial expenses	**18 883**	**6,25%**	**11 970**	**3,51%**	**(6 913)**	**(36,61%)**
Total costs	**302 173**	**100,00%**	**341 231**	**100,00%**	**39 058**	**12,93%**

The expenses reported in 2018 are as follows:

- Technological costs for natural gas transport through the national gas transmission network, the network for natural gas transport to the borders with Greece, Turkey and Macedonia and natural gas storage amounting to 65 914 thousand BGN (20,85 %) of the operating costs;
- Costs by economic elements amounting to 250 192 thousand BGN (79,15 % of the operating costs);

- Financial costs amounting to 11 970 thousand BGN;

The structure of Bulgartransgaz EAD reported operating costs, including the expenses by economic elements for the period January - December 2018 compared to the structure of the costs for the same period of 2017 is shown in the diagram below:



Comparing the company's general costs reported in the period January-December 2018 to the general costs during the same period in 2017, there is an increase by 39 286 thousand BGN (12,93 %), namely from 302 173 thousand BGN in 2017 to 341 231 thousand BGN in 2018.

The operating costs are by 41 536 thousand BGN (15,13 %) higher than those reported in 2017. The increase of the operating costs is due to the higher expenses by economic elements by 44 035 thousand BGN (21,36 %).

There is also an increase in the cost of natural gas used for balancing and the goods sold 4 425 thousand BGN (49,74 %) compared to the reported value in the period January-December 2017, amounting to 8 897 thousand BGN. This increase in the reported value is due to the natural gas sold to contractors in connection with the gas imbalance in the system.

In 2018 there is a decrease of the technological costs which amount to 65 914 thousand BGN and are by 2 499 thousand BGN (3,65 %) less than the reported 68 413 thousand BGN in 2017, due to the less technological costs for natural gas transport to the borders with Greece, Turkey and Macedonia as well as the lower costs for natural gas transport to customers in the country.

When comparing the technological costs for natural gas transport to the borders with Greece, Turkey and Macedonia with the data reported for 2017, there is a decrease by 2 317 thousand

BGN (3,81 %), from 60 891 thousand BGN for the period January-December 2017 to 58 574 thousand BGN for the same period in 2018.

The technological costs for natural gas transport to domestic customers amount to 5 642 thousand BGN, with a decrease of 281 thousand BGN (4,74%) compared to 2017.

The technological costs for natural gas storage amount to 875 thousand BGN and are higher than the reported ones in the period January-June of the previous year by BGN 270 thousand (44,63 %).

The costs by economic elements have increased by 5 253 thousand BGN (5,56 %) compared to those incurred in the first half of 2017. This is mainly due to the increase in the personnel costs resulting from the update of the basic salary, in accordance with the signed Collective agreement. The higher "Other costs" also contribute to the increase in the costs by economic elements.

The reported costs for materials for the period January-December 2018 amount to 6 286 thousand BGN and account for 2,00% of the operating costs, and their decrease by 71 thousand BGN (1,12 %) compared to the same period in 2017 is mainly due to lower reported costs of electricity, water and heat by 174 thousand BGN (6,46 %). The lower cost in turn is due to the lower number of operating hours of the gas compressor units in CS Valchi Dol – from 5 391 hours in 2017 to 4 119 hours in 2018. There is also a decrease of 62 thousand BGN (4,69 %) in the costs for main materials, as well as 51 thousand BGN (22,87 %) at other costs for materials.

The costs for external services amount to 7 573 thousand BGN and account for 2,40 % of the Company's operating costs, which is an increase with 320 thousand BGN (4,41%) in 2018, compared to the reported 7 253 thousand BGN in 2017, which is due to the higher security costs by 225 thousand BGN (14,95%) and consultant services costs by 163 thousand BGN (43,82%). The growth in the security costs is as a result of the new terms and conditions of the signed general contract for the company. On the other hand, there are lower costs reported for repair works by 235 thousand BGN (35,82%) which is in line with the approved investment program of the Company, subscription service costs by 42 thousand BGN and advertising costs by 33 thousand BGN.

The depreciation costs amount to 91 491 thousand BGN and account for 28,94 % of the Company's operating costs. Their increase by 1 147 thousand BGN (1,27 %) in the period January-December 2018 compared to the same period in 2017, is due to the introduction of new assets into operation.

The personnel and social security costs amount to 65 140 thousand BGN.

The other expenses of the activity of Bulgartransgaz EAD amount to 79 702 thousand BGN and account for 25,21 % of the operating costs, marking an increase of 37 247 thousand BGN (87,73 %) compared to 2017 when they amount to 42 455 thousand BGN. The increase is mainly due to the fine imposed by the European Commission on Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD amounting to EUR 77 068 000 for blocking competitors' access to key gas infrastructure in Bulgaria in violation of antitrust EU rules. The

part, which Bulgartransgaz EAD has to repay represents 1/3 of the total amount of the fine and amounts to 50 244 thousand BGN.

Another significant reason for the higher "Other Operating Costs" is the amount of compensation and costs under Arbitration Case No. 7/2017, undertaken by S.A.L.P. SpA - Italy against Bulgartransgaz EAD, and all expenses incurred on it are included in other expenses and amount to BGN 1 378 000. The claim is for compensation for damages resulting from delay in the implementation of Contract № KIDSF-GA14B- A-08 for the "Construction of a High-Pressure Gas Pipeline and an Automated Gas Regulation Station in Silistra" dated September 18, 2012, together with the legal interest on the indicated sum as of the date of the claim, as well as the costs incurred in the arbitration case. On February 4, 2019, the Arbitration Court ordered Bulgartransgaz EAD to pay the above amount.

On the other hand, the accrued in 2018 expense for impairment of receivables of Bulgartransgaz EAD from Corporate Commercial Bank amounting to 5 352 thousand BGN, according to a Decision of the Board of Directors No. 286/17.07.2018 from a meeting of the Managing Board is lower than the one in 2017 when it was to the amount of 19 140 thousand BGN. The excise costs, which are 1 117 thousand BGN (18.16%) less than the reported 6,152 thousand BGN in 2017, are also lower as a result of the reported lower costs for technological needs. The costs incurred for personnel training and qualification are also lower, 161 thousand BGN are reported in the current year which is by 144 thousand BGN (47,21%) less than the reported in 2017 where the amount is 305 thousand BGN. When compared to 2017, the reported expenses for fines under normative acts and representative purposes are by 41 thousand BGN less.

The reported financial expenses of the Company for the period January-December 2018 amount to 11 970 thousand BGN. They are by 6 913 thousand BGN (36,61 %) less than the incurred 18 883 thousand BGN in the same period of 2017. This is due to the reported lower costs for exchange rate differences (representing 98,46 % of the financial expenses) which change from 18 699 thousand BGN in 2017 to 11 782 thousand BGN in 2018.

Following analysis of the expenses and revenues, a conclusion can be made that **the revenues from the activities under the three licenses cover the costs incurred by Bulgartransgaz EAD.**

3.3 Statement of the Financial Position

Statement of the financial position	Statement 01.01-31.12.2017		Statement 01.01-31.12.2018		Change 2018/2017	
	Thousand BGN	Relative share	Thousand BGN	Relative share	Thousand BGN	in %
Total non-current assets, including	**1 775 881**	**75,87%**	**2 117 121**	**76,22%**	**341 240**	**19,22%**
Property, plant and equipment	1 743 986	74,51%	2 099 679	75,59%	355 693	20,40%
Intangible assets	8 124	0,35%	7 198	0,26%	(926)	(11,40%)
Long-term receivables	136	0,01%	145	0,01%	9	6,62%
Other long-term receivables	11 994	0,51%	6 817	0,25%	(5 177)	(43,16%)
Long-term receivables from related parties	8 385	0,36%	26	0,00%	(8 359)	(99,69%)
Investments in jointly controlled entities	3 256	0,14%	3 256	0,12%	0	0,00%
Current assets, including	**564 824**	**24,13%**	**660 665**	**23,78%**	**95 841**	**16,97%**
Stocks	111 904	4,78%	104 852	3,77%	(7 052)	(6,30%)
Trade and other receivables	22 075	0,94%	23 266	0,84%	1 191	5,40%
Prepayments for current assets	15	0,00%	15	0,00%	0	0,00%
Receivables from related parties	19 088	0,82%	14 610	0,53%	(4 478)	(23,46%)
Cash and cash equivalents	411 058	17,56%	517 922	18,65%	106 864	26,00%
Other current assets	684	0,03%	0	0,00%	(684)	(100,00%)
Total assets	**2 340 705**	**100,00%**	**2 777 786**	**100,00%**	**437 081**	**18,67%**
Total equity and reserves	**2 108 977**	**90,10%**	**2 454 360**	**88,36%**	**345 383**	**16,38%**
Total liability, including	**231 728**	**9,90%**	**323 426**	**11,64%**	**91 698**	**39,57%**
Non-current liabilities	197 884	8,45%	284 461	10,24%	86 577	43,75%
including liabilities to related parties	243	0,01%	219	0,01%	(24)	(9,80%)
Current liabilities	33 844	1,45%	38 965	1,40%	5 121	15,13%
including liabilities to related parties	10 862	0,46%	11 906	0,43%	1 044	9,61%
Total equity and liabilities	**2 340 705**	**100,00%**	**2 777 786**	**100,00%**	**437 081**	**18,67%**

As of December 31, 2018, the Company owns **total assets** amounting to 2 777 786 thousand BGN, and their amount has increased by 437 081 thousand BGN (18,67 %) compared to the value reported as of December 31, 2017 (2 340 705 thousand BGN).

Non-current assets represent 76,22 % of the total value of the Company's assets. Their value as of December 31, 2018 amounts to 2 117 121 thousand BGN. By the end of 2018 there was an increase of 19,22% in the total value of non-current assets compared to their value at December 31,2017 (1 775 881 thousand BGN).

The increase in the value of the non-current assets compared to the reported ones as of December 31, 2017 is mainly due to the greater value of "Property, plant and equipment". The substantial assets built and run into operation in 2018 are:

- Expansion of transit gas pipeline to Turkey in the section Compressor Station (CS) Lozenets - Pigging facility Nedyalsko amounting to 46 779 thousand BGN;
- Main and local optic cables to transmission gas pipelines in the section from Valve assembly (VA) Nikolaevo to CS Polski Senovets amounting to 5 491 thousand BGN;
- Modernization of systems for automatic control of the gas compressor unit and the general systems of CS Polski Senovets - automatic control system of GCU №1, GCU №2, GCU №3 and GCU №4 and of the general systems of CS Polski Senovets, amounting to 3 492 thousand BGN;
- Optic cable main line Batultsi-Nikolaevo-Pleven and local optic cable Zlatna Panega amounting to 2 270 thousand BGN;
- Optic cable main line from Botevgrad region to Chiren area, sections Botevgrad - Batultsi and Batultsi – Chiren;
- Reconstruction of a protective device at the transition of the transit gas pipeline to Greece via the Struma River to the town of Boboshevo, amounting to 744 thousand BGN;

The decrease in "**Other long-term receivables**" by 5 177 thousand BGN (43,16 %) is due to the depreciation of the receivables acknowledged as of December 31, 2018 of Corporate Commercial Bank AD which has declared bankrupt. The depreciation is made based on Decisions approved by Bulgartransgaz EAD Management Board under Protocol No. 258/01.03.2018 and Protocol No. 286/17.07.2018. As of December 31, 2018 Bulgartransgaz EAD receivables from the bankrupt bank amounts to 6 817 thousand BGN.

The **long-term receivables** from related parties have decreased by 8 359 thousand BGN (99,69 %) compared to their value as of December 31, 2017 which is due to the concluded agreement with Bulgargaz EAD for payment of the liabilities for the provided natural gas transmission and storage services.

Property, plant and equipment account for the largest share in non-current assets – 2 099 679 thousand BGN (75,59% of the Company's non-current assets), and compared to their value as of December 31, 2017 they have increased by 355 693 thousand BGN (20,40 %).

The balance amount of the **Intangible fixed assets** decreases by 926 thousand BGN - from 8 124 thousand BGN as of December 31, 2017 to 7 198 thousand BGN at the end of 2018 due to accrued depreciation of the assets.

The non-current assets under item **"Investments in jointly controlled entities"** include the value of the acquired 3 203 shares of the capital of Bulgartel EAD to the total amount of

3 256 thousand BGN, also recorded in the share capital of the Company. The shares represent 50% of the share capital of Bulgartel AD.

As of December 31,.2018 the **current assets** amount to 660 665 thousand BGN, of which Stocks –104 852 thousand BGN, Trade and other receivables amounting to 23 266 thousand BGN, Receivables from related parties – 14 610 thousand BGN and Cash and equivalents – 517 922 thousand BGN.

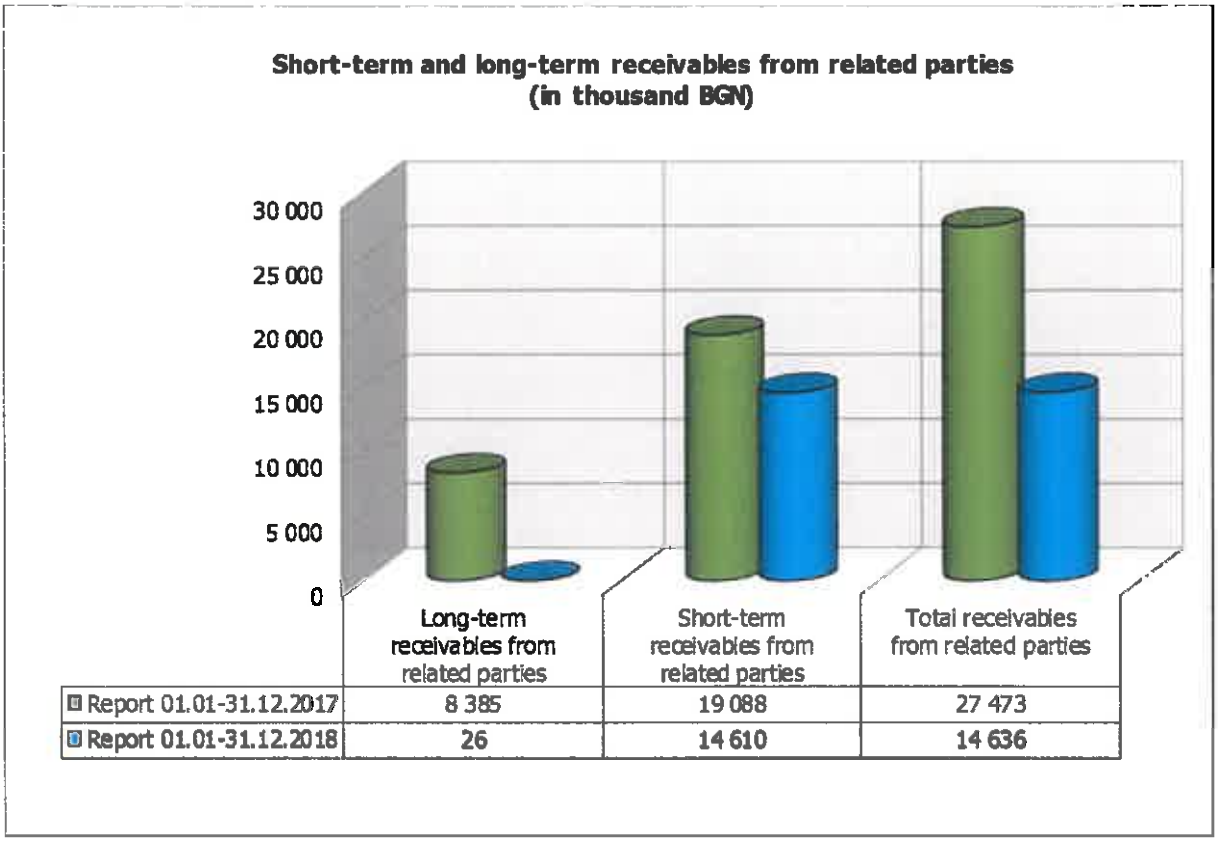
The value of current assets as of December 31,.2018 has increased compared to their value as of December 31, 2017 by 95 841 thousand BGN (16,97 %). The increase in value of the current assets is due mainly to the increase in Cash and equivalents by 106 864 thousand BGN (26,00%).

Receivables from related parties

Bulgartransgaz EAD receivables from related parties (long and short-term receivables and deferred payments) amount to 14 636 thousand BGN as of December 31, 2018, and as absolute value decrease by 12 837 thousand BGN (46,73%) compared to the reported value as of December 31, 2017 – 27 473 thousand BGN.

Long-term receivables from related parties reported as of December 31, 2018 decrease compared to the data as of December 31, 2017 – the value of receivables is lower by 8 359 thousand BGN (99,69 %), and the drop is from 8 385 thousand BGN to 26 thousand BGN as a result of Bulgargaz payment of the long-term part of receivables for services rendered for natural gas transmission and storage. Short-term receivables from related parties dropped from 19 088 thousand BGN as of December 31, 2017 to 14 610 thousand BGN as of December 31, 2018, with a difference of 23,46 %.

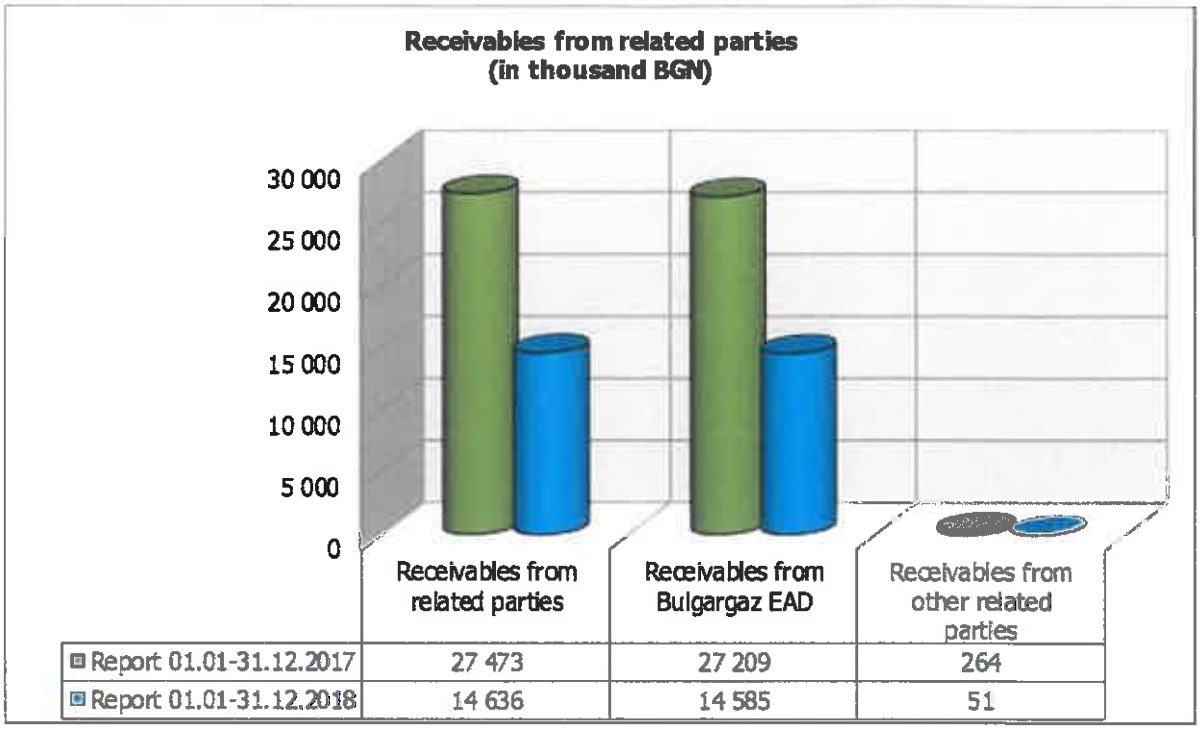
Receivables from related parties (long-term and short-term) are shown in the diagram below:



The main receivables from related parties of Bulgartransgaz EAD are from Bulgargaz EAD for the provided services of natural gas transmission and storage. As of December 31 2017, they amount to 27 209 thousand BGN, decreasing by 12 624 thousand BGN (46,40 %) to 14 585 thousand BGN as of December 31, 2018 (receivables from Bulgargaz EAD represent 99,65 % of the trade receivables from related parties). With a view of reducing the receivables and improving collection, an agreement was signed with Bulgargaz EAD on deferred payment of the accumulated receivables for the provided services, and a repayment schedule was signed. As of December 31 2018, the long-term receivables from Bulgargaz EAD are fully repaid.

Receivables from other related parties also decrease – from 264 thousand BGN as of December 31, 2017 they decrease by 213 thousand BGN to 51 thousand BGN as of December 31.2018.

Receivables from Bulgartransgaz EAD related parties are shown in the diagram below:



The Company's equity as of December 31, 2018 amounts to 2 454 360 thousand BGN and has increased by 345 383 thousand BGN (16,38 %) compared to the value reported in 2017.

As of December 31 2018, the Company's registered capital amounts to 874 524 thousand BGN, and its value remains unchanged compared to the value as of December 31, 2017.

The retained earnings of the Company as of December 31, 2018 is by 68 535 thousand BGN (26,43 %) higher than the reported one at the end of 2017.

As of December 31, 2018, the accumulated retained earnings amount to 327 875 thousand BGN, and during 2018 it has reduced by the due dividend to the sole owner of the capital Bulgarian Energy Holding EAD for 2018 to the amount of 27 738 thousand BGN and create reserves to the amount of 5 940 thousand BGN from the net profit for 2017 to the Reserve fund. The initial effect of applying IFRS 9 which represents the recognized expected credit loss of the Company's financial assets at the amount of 1 002 thousand BGN before tax effects, is recognized at the expense of retained earnings.

The revaluation reserve as of December 31, 2018 is 1 116 684 thousand BGN and its amount increases by 286 129 thousand BGN (34,45%) compared to the value as of December 31, 2017 as a result of a revaluation of the assets of the Property, Plant and Equipment Group by a licensed inspector in 2018. A revaluation reserve amounting to 327 828 thousand BGN was formed in 2018. According to the Company's policy, the revaluation reserve is allocated to retained earnings on an annual basis on the basis of the amortization of the revaluation reserve. The write-off of revaluation reserve in retained earnings for 2018 amounts to 41 699 thousand BGN (2017: 42 739 thousand BGN).

Non-current liabilities as of December 31, 2018 increase by 86 577 thousand BGN (43,75%) compared to the reported ones at the end of 2017 – from 197 884 thousand BGN

to 284 461 thousand BGN as of December 31, 2018 which is as a result of a Decision under Case AT.39849 BEH-Gas as of December 17, 2018 where the European Commission imposes a fine on Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD amounting to EUR 77 068 000 for blocking competitors' access to key gas infrastructure in Bulgaria in violation of antitrust EU rules. The fine is distributed equally among the three companies. The part which Bulgartransgaz EAD has to pay amounts to 50 244 thousand BGN and entering it in non-current liabilities of the company is the main reason for the higher value.

In addition, the increase of the non-current liabilities is due to the higher deferred revenues from funding by 1 883 thousand BGN (2,07%) which is due to the following funding received in 2018:

- Reimbursements from "National Investments Plan" Account by Orders No. Е-РД-16-600/09.12.2016, No. Е-РД-16-599/09.12.2016 and No Е-РД-16-885/15.12.2017 of the Minister of Energy for CS Ihtiman to the amount of BGN 12 791 636,51, CS Petrich to the amount of BGN 12 791 629,63 and CS Lozenets to the amount of BGN 25 583 273,02.
- For CS Strandzha by Order No E-RD-16-886/15.12.2017 of the Minister of Energy, the costs subject to reimbursement amount to BGN 30 699 925,12. In 2017 the project realization costs have been partially reimbursed in size of BGN 22 240 703,06. On October 10, 2018 the remaining part of the funds indicated in Order of the Minister of Energy up to the full amount as set up by NIP has been reimbursed.

Current liabilities according to the reported data as of December 31, 2018 amount to 38 965 thousand BGN and increase by 5 121 611 thousand BGN (15,13%) compared to the reported ones as of December 31, 2017 (33 844 thousand BGN).

As of December 31 2018, the balancing value of Trade and other liabilities is 17 062 thousand BGN, by 6 682 thousand BGN (64,37%) higher than the value as of December 31, 2017 – 10 380 thousand BGN. The higher amount is due to the accrued amount of the compensation and costs under Arbitration Case No. 7/2017, undertaken by S.A.L.P. SpA - Italy against Bulgartransgaz EAD, and all expenses incurred on it to the amount to 1 378 thousand BGN which are included in other liabilities as part of Current and other liabilities of the company.

"Guarantees under contract" as part of current liabilities decreases compared to the end of 2017 (by 2 295 thousand BGN) and as of December 31, 2018 they amount to 8 494 thousand BGN. Main part of the liabilities under guarantees received by the Company are the following:

- guarantees - sums retained under construction contracts, to be paid according to the stage of execution of the sites under the terms of the contract;
- sums (credit limit) to guarantee payments under the Contracts for natural gas access and transport that each user of the service is bound to provide as collateral for the capacity and access requests;
- sums to secure payments for purchase and sale of natural gas for balancing.

Liabilities to related parties (current and non-current) amount to 12 125 thousand BGN (219 thousand BGN long-term liabilities and 11 906 thousand BGN short-term). They have increased by 1 020 thousand BGN (9,19 %) as compared to December 31,2017.

3.4. Financial indicators

Financial indicators	Statement 01.01-31.12.2017	Statement 01.01-31.12.2018
Liquidity indicators		
Total liquidity	16,69	16,96
Quick ratio	13,38	14,26
Absolute liquidity	12,15	13,29
Profitability indicators		
Sales revenue profitability	0,20	0,15
Cost effectiveness of spending	0,28	0,17
Profitability of equity	0,03	0,02
Profitability of long-term tangible assets	0,04	0,02
Profitability of assets	0,03	0,02
Performance indicators		
Revenue profitability indicator	0,74	0,86
Cost effectiveness of spending	1,36	1,16
Turnover rate of long-term tangible assets	0,18	0,16
Turnover of assets	0,13	0,11
Financial autonomy indicators		
Debt ratio	0,11	0,13
Financial autonomy indicator	15,00	10,65
Long-term assets funding ratio	1,25	1,25
Short-term assets funding ratio	3,92	4,00

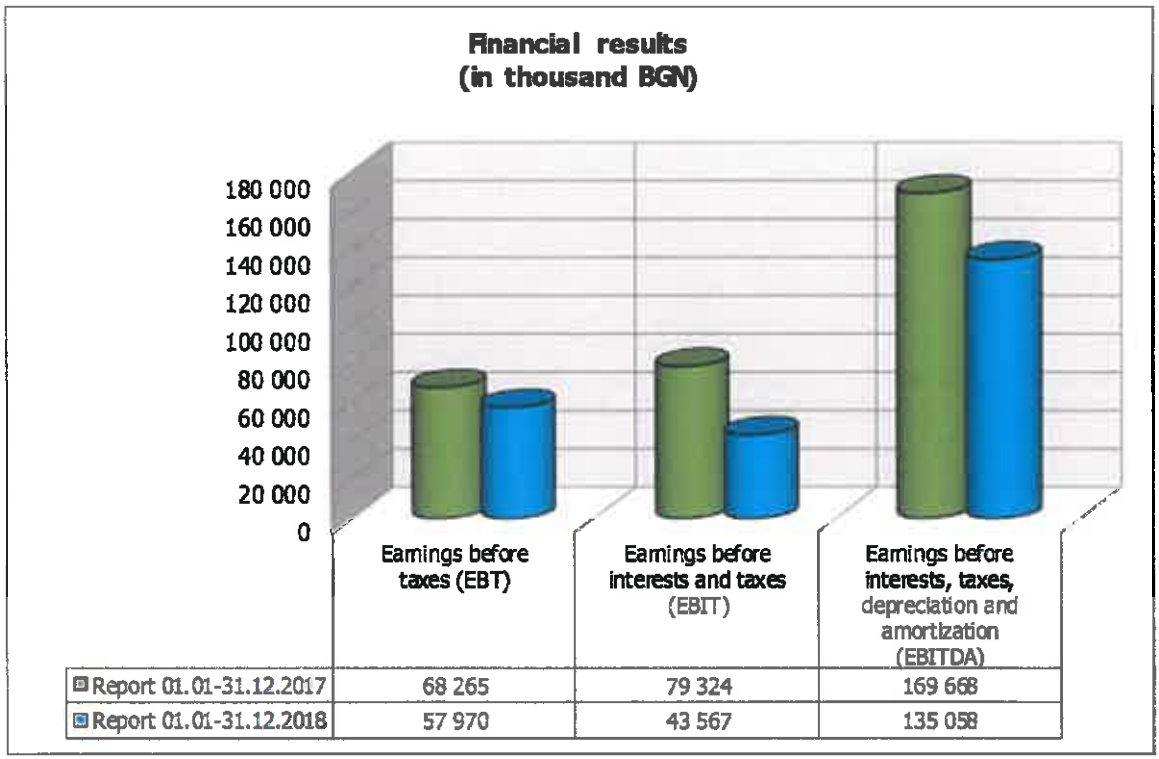
- Total liquidity indicator as of December 31, 2018 is 16,96 and shows how many BGN of short-term assets accounts for one BGN current payables. High total liquidity indicator ensures better opportunities to meet current payables.
- Quick ration indicator as of December 31, 2018 is 14,26 and shows the level of the most liquid part of short-term assets against the short-term payables.
- Sales revenue profitability indicator (earnings before taxes/net sales revenue) as of December 31, 2018 is 0,15 and shows that every 1 BGN of revenues makes profit of 0,15 BGN.
- Cost effectiveness of expenses (revenue/expenses) is 1,16 and shows that, 1 BGN expenses realized 1,16 BGN revenue in the period January-December 2018.

- Financial autonomy indicator at the end of 2018 is 10,65 and shows the level of financial independence from using borrowed funds. Values of the indicator above 1 show good financial autonomy.
- Debt ratio shows the level of dependence of the company in settling its financial liabilities on creditors. The indicator determines the reported liabilities for 1 BGN of equity. As of December 31, 2018, 0,13 BGN liabilities are reported for 1 BGN of equity.
- Long-term assets funding ratio shows what part of the long-term assets is funded by the fixed capital. Its value at the end of 2018 is 1,25 and shows that the company has available net working capital.
- Company's short-term assets funding ratio is 4,00 as of December 31, 2018 and gives an indication of the part of short-term assets, which is formed by own working capital.

From the abovementioned regarding financial indicators of Bulgartransgaz EAD, we can conclude that the company has high financial sustainability and financial independence from external creditors.

3.5. Financial results

The 2018 financial results as a difference in the costs and revenues is the accounting earnings before taxes to the amount of 57 970 thousand BGN.



The overall financial position as of December 31, 2018 remains good due to the achieved good financial results and the reported good financial indicators.

The submitted analysis shows that Bulgartransgaz EAD implements and is able to continue to implement without difficulties its obligations arising out from article 170 of Energy Act to ensure the uniform management and reliable functioning of the gas transmission network, the natural gas transmission and the maintenance and development of the gas transmission network.

4. REVIEW OF THE RISKS AT WHICH THE COMPANY IS EXPOSED

Financial risk management

Review

The Company is exposed to various risks regarding its financial instruments. For more information on the Company financial assets and liabilities by category, refer to *Note 28.* The most significant financial risks the company is exposed are market risk, credit risk and liquidity risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and capital management of the Company.

General risk management

The Management Board is responsible for identification and management of risks faced by the Company. The Company's policy for risk management has been developed so as to identify and analyse the risks faced by the Company, to establish limits on taking risks and controls, and to monitor risks and adherence to limits that are established. These policies are reviewed regularly to reflect the changes in market conditions and the activity of the Company. The Company, through its standards and procedures for training and management, aims to develop a constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk that one party to a financial instrument fails to meet its obligation and thus cause the loss to the other party. Credit risk of the Company is the risk of possible financial loss in a situation where a client fails to meet its contractual obligations.

The Company is exposed to credit risk in the event that customers do not pay their liabilities. The credit quality of the customers is assessed taking into account the financial position, previous experience and other factors.

Regarding the Rules on Balancing of the natural gas market, effective as of 01.10.2017, Bulgartransgaz EAD, in its capacity as a balancing party, is engaged in commercial balancing of the natural gas market, which is a compensation for the differences between the natural gas quantity delivered by a certain user of the gas transmission network at the entry points and the natural gas quantity offtaken by that user through the exit points of the network. The obligation of the balancing party is to cover the individual imbalances of the gas transmission networks' users. In this regard and in accordance with the introduced Entry-Exit Tariff Model as of 01.10.2017, new Transport and access contracts have been concluded with the customers and each user of the service is obliged to deposit as security for the capacity and access nominations, amounts (credit limit) to guarantee the payments under the Natural Gas Transport and Access Contracts.

The transferred value of the financial assets, net of depreciation losses, represents the maximum extent of the credit risk to which the Company is exposed.

Liquidity risk

Liquidity risk is the risk in which the Company may not be able to meet its financial obligations when they are due. The policy in this area aims to ensure sufficient liquidity with which to serve obligations when they become due, including exceptional and unforeseen situations.

As the nature of the Company's activity is related to regular natural gas transmission and storage, liquidity risk control consists notably in:

- careful planning of all cash inflows and outflows based on monthly forecasts;
- payment terms in transactions with related parties and customers which are carried out within one month.

Market risk

Market risk is the risk in case of changes in the market prices, as foreign exchange rate, interest rates or equity prices, the Company's income or the value of its investment to be affected. The purpose of market risk management is to control market risk exposures within acceptable parameters while optimizing the return.

Currency risk

The Company is exposed to currency risk upon purchase and/or sales denominated in a currency other than the functional currency of the Company. Company's main transactions are in BGN and EUR in relation to the received technical and other services. Currency risk on these purchases is associated with possible fluctuations in foreign currency but it is minimal due to the fixed exchange rate of the BGN to the EUR set by the Bulgarian National Bank (BNB). The Company carries out transactions in US dollars and currency risk associated with fluctuations in US dollar exists and therefore it has to be calculated.

5. COMPLETED ACTIVITIES UNDER THE INVESTMENT, PRE-INVESTMENT AND OPERATION PROGRAMME

Investment Programme aims to support the combined gas operator's policy with specific and concrete measures. Bulgartransgaz EAD with its Investment Programme provides for the conditions for sustainable development of the natural gas market in Bulgaria, the security and reliability of the gas transmission system, including the natural gas transport to the borders with Greece, Turkey and Macedonia and the gas storage infrastructure, as well as their integration into the European single gas market.

The total amount of the invested funds for implementation of the updated as of December 13, 2018 Programmes for pre-investment preparation, Investments and Maintenance for 2018 amount to 60 915 thousand BGN.

The allocation of the invested funds for 2018 by types of licensing activities is as follows:

Programme / Section / Licensed Activity	Report for the period January 1 - December 31, 2018
TOTAL Annual programmes for Pre-Investment preparation, Investment and Maintenance:	**60 915**
I. TOTAL Annual programme for Pre-Investment preparation and Investments:	**56 433**
SECTION I.1 - Investments	**49 600**
I.1.1. Natural gas transport to the borders with Greece, Turkey and Macedonia	26 849
I.1.2. Natural gas transport	22 639
I.1.3. Natural gas storage	56
I.1.4. Total for distribution by types of activities	56
SECTION I.2 - Supply of machinery and equipment	**6 833**
II. TOTAL Annual Maintenance Programme:	**4 482**
SECTION II.1 - Current inspections, repairs and maintenance	**1 836**
II.1.1. Natural gas transport to the borders with Greece, Turkey and Macedonia	546
II.1.2. Natural gas transport	1 101
II.1.3. Natural gas storage	18
II.1.4. Total for distribution by types of activities	171
SECTION II.2 - Delivery of materials and consumables	**2 646**

6. MAJOR PROJECTS OF THE COMPANY

In 2018 the work on the major projects for extension and maintenance of networks and facilities for transmission, transport to the borders with Greece, Turkey and Macedonia and natural gas storage owned by Bulgartransgaz EAD continued.

- **PROJECTS OF COMMON INTEREST (PCI)**

On 23 November, 2017 the European Commission adopted and published a Third PCI List consisting of 173 key energy infrastructure projects that will contribute to the achievement of European energy and climate goals. The projects are key building blocks of the EU's energy union. The List includes 110 electricity and smart grid projects, 53 gas projects and 6 oil projects. For the first time, four cross-border CO2 building projects are included in the PCI List. The aim of projects listed in the natural gas sector is to achieve diversification and integration of energy markets, both within and outside the EU, thus increasing energy security and competitiveness.

In 2018 an information was submitted regarding the PCI projects implemented by Bulgartransgaz EAD to be included in the ENTSOG TYNDP 2018 which is a mandatory step before submitting an application for inclusion on the Fourth PCI List of EU.

Bulgartransgaz EAD is a project promoter to the following PCIs:

PCI 6.8.2 REHABILITATION, MODERNIZATION AND EXPANSION OF THE EXISTING GAS TRANSMISSION SYSTEM

PCI 6.8.2 is a complex project for the modernization, rehabilitation, and expansion of the existing gas transmission infrastructure on the territory of Bulgaria, including the following types of activities:

- Modernization and rehabilitation of compressor stations
- Inspections to determine and characterize the gas pipelines' condition;
- Repair and replacement of gas pipeline sections following inspections
- Expansion and modernization of the existing gas transmission network;
- Implementation of systems for optimization of the management process of the network technical condition.

The modernization, rehabilitation and expansion of the existing gas transmission infrastructure will guarantee the secure and reliable natural gas transmission, will enhance the efficiency, reliability and flexibility of the transmission system and provide the required capacities and pressures. The implementation of the activities planned will secure the technical capabilities for transmission of additional natural gas quantities through the territory of the country, coming in through the existing and new entry and exit points and opportunities for diversification of the directions of transmission depending on the market interest.

PCI 6.8.2 is a priority project for the Central and South Eastern Europe Gas Connectivity (CESEC) Initiative of the European Commission.

Given the nature of the activities and the time frame of the project it is divided into 3 phases of implementation covering the following activities:

Phase 1: Comprises of the initial project activities launched in the period 2013-2015 which the company has already completed by company's own funds and funds from the National Investment Plan.

Phase 2: Includes actions launched in 2016 that are major part of the project, as well as a logical and natural continuation of Stage 1.

Phase 3: Conditional infrastructure required after the final investment decision on realization of Stage 2 of project Interconnection Bulgaria-Serbia (IBS) related to a capacity increase of the interconnector.

The following activities were completed in 2018 regarding the large scale and complex project for rehabilitation, modernization and expansion of the existing gas transmission system.

Phase 1:

- ***Gas pipeline Lozenets – Nedyalsko***

The construction of a 20 km gas pipeline section CS Lozenets - Nedyalsko was completed in June 2018 with its commissioning.

The implementation of PCI 6.8.2, Phase 1 was completed with the completion of this activity.

Phase 2:

The activities under Stage 2 of PCI 6.8.2 are implemented by the Company's own funds and co-financing under the Connecting Europe Facility (CEF) under two grant agreements:

1. Grant Agreement No INEA/CEF/ENER/M2015/1119568 for Co-financing of Preparatory activities related to PCI 6.8.2 implementation. The amount of the grant under the agreement is 50% of the amount of the action - up to EUR 850 000 (eight hundred and fifty thousand), covering the following three main activities:

- Preparatory activities regarding the rehabilitation (reinforcement) of the Northern semi-ring of the gas transmission system.
- Preparatory activities for modernization of 3 compressor stations by integration of low-emission gas turbine compressor units;
- In-line inspections of two gas pipeline sections.

2. Grant Agreement No INEA/CEF/ENER/M2016/1290626 for co-financing of Action "Preparatory activities related to rehabilitation of the gas transmission system in the section PF Valchi Dol - VS Preselka". The amount of the grant under the agreement is 50% of the amount of the Action - up to EUR 182 000 (one hundred eighty two thousand).

In October, 2018 Bulgartransgaz EAD submitted a project proposal in the frameworks of 2018-2 CEF Energy call for proposals. The Project Proposal entitled "Construction works within PCI 6.8.2. Rehabilitation, modernization and expansion of the Bulgarian gas transmission system - Phase 2" covers activities on supply and construction (including construction supervision) of 2 sections of the Northern semi-ring of the gas transmission network with a total length of 81 km and Stage 2 of the modernization of 3 compressor stations.

The implementation of the activities of PCI 6.8.2. Phase 2 in 2018 proceed as follows:

- ***Stage 2 of the modernization of 3 compressor stations by integrating 4 gas turbine compressor units (GTCUs)***

In 2018, procedures assessing the need for an Environmental Impact Assessment (EIA) have been held for each of the compressor stations and as a result the Ministry of Environment and Water (MoEW) issued opinions not to carry out an EIA.

Detailed design plans have been developed and harmonized for the sites of CS Lozenets and CS Ihtiman which are to be approved by the National Expert Council on Spatial Planning and Regional Policy at the Ministry of Regional Development and Public Works (MRDPW).

In July 2018, a public procurement was announced entitled: Modernization of 3 compressor stations by integrating 4 low emission GTCUs.

In September 2018, a procedure for the selection of contractor for consultancy activity under Art. 166, para. 1 of the Spatial Development Act (SPA) for the site: Modernization of 3 compressor stations by integrating 4 low emission GTCUs:

- ***Rehabilitation and replacement of sections part of the Northern semi-ring of the gas transmission network with a total length of 81 km.***
- 58 km section: PF Beglesh – VA Dermantsi – VA Batultsi – VA Kalugerovo):

In October 14, 2016, a contract is signed with subject "Preparatory activities related to rehabilitation and reinforcement of the northern semi-ring of the gas transmission system with pre-investment studies and investment design for construction site "Replacement of a transmission (main) gas pipeline in the section PF Beglej - VS Dermantsi - VS Batultsi - VS Kalugerovo under Project of common interest 6.8.2, which is under implementation.

EIA Report has been prepared and a Decision No. 3-3/2018 of the Minister of Environment a Water has been issued which approves the realization of the investment intention.

A Detailed Spatial Plan - Parcelling Plan and investment design, detailed phase have been drafted.

- In 2018 a procedure under the PPA was held and a contract was concluded for the construction of a gas transmission pipeline in the section VA Batults - VA Kalugerovo. 23 km section: PF Valchi Dol – VA Preselka:

In December 15, 2017, a contract was concluded with subject "Study and investment design for construction site "Replacement of a transmission (main) gas pipeline in the section PF Valchi Dol - VS Preselka" under Project of common interest 6.8.2, which is in progress. In October, 2018 the procedure on the assessment of the need of EIA was completed and a decisions of the competent environmental authority (MOEW) was issued thus approving the realization of the investment decision.

PCI 6.20.2 Chiren UGS Expansion

The project Chiren UGS expansion envisages capacity increase in stages of the only gas storage on the territory of Bulgaria in order to achieve larger gas volumes stored, increased gas reservoir pressure and higher daily average withdrawal and injection rates. The project provides for increase of the working gas volume up to 1 bcm and increase of the injection and withdrawal deliverability up to 8-10 mcm/d.

In 2016 a new deviated operatio well E-72 was completed and commissioned, thus marking the start of the process for modernization and expansion of Chiren UGS. Another new deviated operation well E-73 was completed during the same year which was commissioned in the Autumn of 2017.

To fully complete the project for the expansion of Chiren UGS (PCI 6.20.2) another 10 exploitation wells are planned to be drilled up to 2020, including ground equipment replacement. 3D Seismic Studies are in process of implementation. Bulgartransgaz EAD applied for their funding under CEF in 2015. The project proposal has been approved for funding and a Grant Agreement was concluded to the amount of up to EUR 3.9 million (50% of the total project's value) with Innovation and Networks Executive Agency (INEA) to the European Commission. The project includes two main activities - Activity 1 - Conduct of 3D field seismic surveys on Chiren structure area and Activity 2 - Quality control of 3D field seismic surveys and processing of data acquired. Following a public procurement, contractors have been selected and contracts have been signed for both activities and the contract for 3D studies was signed in march, 2018.

PCI 6.25.4 Project for establishing a gas hub in Bulgaria (Infrastructure that will enable the development of a Bulgarian Gas Hub)

In connection with the implementation of PCI 6.25.4 related to the construction of a Balkan Gas Hub, in December 2015 a joint working group (including representatives of the Bulgarian government, European Commission and experts from the gas sector) was set up whose main task was to support the development of the trade concept, business model and financial plan of Balkan gas hub. Within the period 4 - 6 September 2016, investors round table was held in the city of Varna, during which Bulgartransgaz EAD presented to the interested parties the concept of building a Balkan gas distribution hub on the territory of Bulgaria. The Prime Minister Mr. Boyko Borissov, the Deputy Prime Minister of EU Funds and Economic Policy Mr. Tomislav Donchev, the Minister of Energy Mrs Temenuzhka Petkova, the Chairperson of the Energy and Water Regulatory Commission Mr. Ivan Ivanov and others attended the event. Mr. Dominique Ristori, Director-General of DG Energy to the EC and Mr. Klaus-Dieter Borchardt, Director of Internal Energy Market Directorate attended on behalf of the European Commission. In connection with the identified next step of the project implementation concerning the need of a feasibility study, in November 2016 Bulgartransgaz EAD applied under the CEF with Action "Feasibility Study for the project Bulgarian Balkan Gas Hub" for co-financing in the amount of up to EUR 920,5 thousand. In May 2017, a Grant Agreement INEA/CEF/ENER/M2016/1290649 has been signed for the implementation of "Balkan Gas Hub Feasibility Study". In September 2017 a public procurement to award the implementation of the FS has been launched. On March 15, 2018 Bulgartransgaz EAD and the selected Consortium DZZD AF-EMG Consult signed a contract for preparation of a Balkan Gas Hub Feasibility study.

On 12/06/2018 in the European Commission's premises in Brussels the interim results of the Balkan Gas Hub Feasibility Study were presented. Several route options for gas infrastructure on the territory of the Republic of Bulgaria were presented including two options which are drafted based on the expected natural gas supply sources.

The first phase provides for a new entry capacity from Turkey and a new exit capacity to Serbia, and second entry point near Varna and new exit capacity to Oryahovo. Greece and Turkey (existing and new infrastructure) are being considered as other entry points.

On 27 November, 2018 members of the Technical and Economic Expert Committee of Bulgartransgaz EAD took a decision to adopt the Feasibility Study of Balkan Gas Hub. Feasibility Study of Balkan Gas Hub was successfully completed within the Grant Agreement deadline - 4 April, 2018.

PCI 6.25.1. Project Easting - Bulgaria

During the Fourteen Annual Conference of Gas Infrastructure Europe in Sofia, hosted by Bulgartransgaz EAD in the period 9-10 June, 2016, Bulgartransgaz EAD and Eustream signed a Memorandum of Understanding for cooperation between the two Parties when analysing the prospects for gas markets development in order to identify the expected demand for capacity of the Eastring gas pipeline.

On July 13 2016, a MoU on the Eastring project was signed in Bratislava between the Bulgarian Ministry of Energy and the Slovak Ministry of Economy. The document expresses both parties' support for the project, in line with EU legislation. Through it, the parties recognize the need for joint coordinated work for the project implementation. The MoU also states that the two countries will identify all intergovernmental and other agreements which relate to the project that will be required to be concluded when it enters a binding phase.

At the initiative of the Eustream, the party coordinating the process, in September 2016, joint discussions with the other Eastring project participants were launched to prepare application papers for the feasibility study of the project, within the active second window for 2016 under CEF. The project application was submitted within the announced deadline - 8 November, 2016. The Action, entitled "Feasibility Study for the Eastring project" has been approved for funding in 2017, and the awarded financial aid totals to EUR 1 000 000.

In 2017 Eustream signed a contract for implementation of the feasibility study. The implementation of the Eastring Feasibility Study started in September 2017 having a one-year deadline for completion. Following its completion, the results were officially presented to the interested parties within the meeting hold in Bratislava, Slovakia on 20 September, 2018. The aim of the feasibility study was to design a bidirectional interconnection to the main gas transmission corridor of Europe between Slovakia and a South-East Europe border (Black Sea or Turkey). The capacity of the bidirectional gas pipeline with 1400mm diameter and 100 bara operating pressure will be up to 20 bcm/y at the first stage, with potential increase to 40 bcm/y in the next phase. CAPEX for Phase I of the project are estimated to EUR 2.6 billion. If an investment decision is taken, the new gas pipeline may become operational in the beginning of 2025.

Pursuant to the results of the feasibility study on the territory of Bulgaria, Stage 1 of the project development provides for the construction of a new gas pipeline DN 1400 with approximate length of 262 km from a new entry-exit point on the Bulgarian-Romanian border to a new entry-exit point to an internal EU border on the territory of Bulgaria. One new compressor station and one new gas metering station are to be constructed.

Projects, co-financed by the European Bank for Reconstruction and Development (EBRD)

In May 2014, Bulgartransgaz EAD and the European Bank for Reconstruction and Development (EBRD) signed a Grant Agreement № 057 providing grants from Kozloduy International Fund for construction of three gas transmission pipelines with Automatic gas regulation stations (AGRS) to Svishtov, Panagyurishte and Pirdop, Bansko and Razlog. The total cost of the three projects was estimated to EUR 21,790 million, of which EUR 11 million is the grant from Kozloduy International Fund. Bulgartransgaz EAD co-financing amounts to EUR 10,79 million.

The agreement was signed as a result of the decision of the Assembly of the Donors to the Kozloduy International Fund and was affected by the key role of the Ministry of Energy, conducting active and consistent negotiations aimed at considering the three branches as projects of high economic and social value.

The development of the national gas transmission network in the country with the three new gas pipeline branches will enable the gasification of the municipalities Svishtov, Pirdop, Panagyurishte, Bansko and Razlog. The projects implementation will enable natural gas supply to seven other municipalities - Belene, Nikopol, Zlatitsa, Strelcha, Mirkovo, Chavdar, Chelopech by construction of gas distribution networks from these branches.

Gas transmission pipeline with AGRS to Bansko and Razlog

The gas pipeline is approximately 40 km and 273 mm in diameter. One Automatic gas regulation station is planned to be built. The total project cost estimate is EUR 9,68 million, of which EUR 4,84 million granted by Kozloduy International Fund. Besides the two municipalities Bansko and Razlog, the towns Banya and Dobrinishte are expected to be gasified as well.

A consultant contract was signed for a gas pipeline design with the Gaztek-Povvik consortium selected according to the EBRD rules and tender procedures. The deadline for completing the signed contract and obtaining the building permit was extended compared to the initially agreed deadline by 12 months - until March 2019 due to bad weather conditions and respectively impossibility to carry out field activities, delay of the competent authority in issuing EIA decisions and the need for additional time to explore and develop an alternative (for the beginning section of the route) proposed by the local administration of Municipality Simitli during the procedures under the Environmental Protection Act (EPA).

On May 12, 2018 the project was announced as a project of national importance by virtue of Decision No 312/10.05.2018 of the Council of Ministers.

The project activities completed in 2018 are as follows:

- EIA Report and Impact Assessment Report are prepared. Public consultations of the EIA Report were held and a meeting of the Supreme Environmental Expert Council was held in November.
- Detailed Spatial Plan - Parcelling Plan (DSP-PP) - preliminary draft has been prepared, preliminary contracts for connection to the electricity network of CEZ Distribution Bulgaria AD have also been signed.

Three route options, including technological sites, were developed for site Gas transmission pipeline to Razlog and Bansko. By EIA Decision № 4-4/2018 of 20.12.2018, the Minister of Environment and Water approved implementation of the investment proposal under Option 1 (red). Option 1 optimally combines economic, technical, geographic, technological, environmental, market and legal views to facilitate site realization.

By Decision № 223/21.12.2018 of the Minister of Environment and Waters, preliminary implementation of the above EIA Decision was approved.

A field archaeological survey (stage I) was carried out. According to the measures for sites' protection prescribed in the Scientific report on the results of the conducted field archaeological surveys within the easement areas of construction site "Gas transmission pipeline to Razlog and Bansko", the following activities are to be carried out:

- pre-archaeological survey of two sites;

- carrying out supervision within the boundaries of the investment intention (the boundaries of the gas pipeline easement area and on the territory of the sites of the future gas transmission pipeline).

Gas transmission pipeline with AGRS to Panagiurishte - Pirdop

The gas pipeline's length is 62 km, diameter DN 250 and operating pressure PN 54 bar. Two Automatic gas regulation stations are planned to be constructed. The total project value is EUR 7,2 million, of which EUR 3,6 million granted by Kozloduy International Fund. In addition, Bulgartransgaz EAD will invest 1.25 million own funds for purchase of technological sites, establishment of easement, state fees, payment of compensations, etc.

The realization of the project is expected to enable gasification of 3 municipalities - Pirdop, Zlatitsa, Panagiurishte and possible gasification of the Minicipalities of Lesichovo, Strelcha, Mirkovo, Chavdar and Chelopech, located in the region of Tsentralno Srednogorie.

Decision №2-PR/2016 of the Ministry of Environment and Water stipulated carrying out of EIA and assessment of the extent of impact.

Three route options, including technological sites, were developed for site Gas transmission pipeline to Panagiurishte and Pirdop.

On May 12, 2018 the project was declared as a project of national significance by virtue of Decision No 312/10.05.2018 of the Council of Ministers.

By EIA Decision № 5-4/2018 of 20.12.2018, the Minister of Environment and Water approved implementation of the investment proposal for Gas transmission pipeline to Panagiurishte and Pirdop under Option 3 (green).

The prepared DSDP - Parcelling plan, phase preliminary was approved by the Contracting authority and submitted for coordination with the relevant institutions.

A field archaeological survey (stage I) was carried out. A preliminary and complete archaeological survey is forthcoming of the localized 12 sites (stage II), which according to the measures for sites' protection prescribed in the Scientific report on the results of the conducted field archaeological surveys within the easement areas of construction site "Gas transmission pipeline to Panagiurishte and Pirdop", are as follows:

- pre-archaeological survey of three sites;
- complete archaeological survey of seven sites;
- carrying out supervision of nine sites and within the boundaries of the gas pipeline easement areas and of the technological sites.

Gas transmission pipeline with AGRS to Svishtov

The gas pipeline length is about 42 km, diameter DN 200 and operating pressure PN 54 bar. Power supply is to be provided from VA Patresh, located at the Northern semi-ring of the main gas pipeline to AGRS Svishtov, which will be located to the south of the town of Svishtov.

The total project value is expected to amount EUR 4.72 million, of which EUR 2.36 million granted by Kozloduy International Fund. The project implementation is expected to enable gasification of a total of 3 municipalities - Svishtov, Nikopol and Belene located in the region of Central Northern Bulgaria on the bank of the Danube River.

On 28.02.2017, a contract was signed between Bulgartransgaz EAD and RAP Systems Bulgaria OOD for the following activities: preparation of DSDP-PP - preliminary draft and DSDP-PP - Final; conducting procedures for coordination and approval of DSDP; elaboration of Technical and Detailed Design; procedures for coordination and approval of the investment projects and obtaining a building permit for the site and designer supervision during construction.

DSDP-PP phase Preliminary design has been agreed with Bulgartransgaz EAD and all interested instances in 2017.

On May 12, 2018 the site was announced as a site of national significance by virtue of Decision No 312/10.05.2018 of the Council of Ministers.

By the middle of 2018 DSDP-PP - Final was developed for the site and coordinated with Bulgartransgaz EAD and all interested instances. On 12.12.2018 DSDP-PP - Final was approved by the National Expert Committee on Spatial Development and Regional Policy to the Ministry of Regional Development and Public Works.

After field archaeological survey (Stage I) conducted in 2017, in 2018 an archaeological survey of the localized 4 sites (Stage II) has been carried out, which activities are expected to be finalized by mid-2019.

7. EVENTS OCCURED AFTER THE DATE OF THE FINANCIAL STATEMENT

By Decision of the Management Board of 15.01.2019 and approval by the Company Supervisory Board, Bulgartransgaz EAD established a sole-owned joint-stock company named Balkan Gas Hub EAD. The new company was entered in the Commercial Register at the Registry Agency on 18.01.2019.

On March 18, 2019, Bulgartransgaz EAD concluded a contract with ING Bank N.V. for issuance and management of an unsecured bank guarantee in euro, guaranteeing the obligation for payment of a pecuniary penalty, imposed by the European Commission on Bulgartransgaz EAD under Case AT.39849 BEH-gas, amounting to EUR 25,689 thousand.

8. FUTURE DEVELOPMENT OF THE COMPANY

Bulgaria enjoys strategic geographical location, well-developed gas infrastructure and after the completion of the new projects that are currently underway has the potential to become one of the key elements to achieving diversification of sources and routes of supply of natural gas to the region.

Bulgartransgaz EAD is the owner and operator of the natural gas transmission infrastructure, part of the common pan-European gas network. The company operates in a dynamically changing global and European energy sector.

The number of entry points through which gas enters the gas transmission network is expected to increase considerably in the coming years provided the development of the projects for interconnections with Greece, Turkey and Serbia. They together with the new connection with Romania which was commissioned in 2016 will enable natural gas supply from different sources, thus contributing to the boost of competition and will positively impact natural gas users. The new gas interconnections will greatly increase the entry capacity to Bulgaria from Greece and Turkey and will secure an opportunity for access to and gas supplies from LNG terminals in the countries.

Other regional conceptual gas projects are also considered that would impact the market development, increase of the diversification and the security of supply and the infrastructure development accordingly: the concept for the construction of a gas distribution centre on the territory of the Republic of Bulgaria – Balkan Gas Hub; the basic design for bi-directional supply of natural gas through the territories of Slovakia, Romania, Bulgaria, Hungary, the Czech Republic and Austria – Eastring; projects within the Southern Gas Corridor and others.

With regard to the intense exploration of local natural gas fields and development concessions on the territory of the country (both onshore and in the Black Sea shelf) the share of local production is expected to increase in the next 10 - 15 years, including proof of the resources in block „A-Lovech" – Koynare, section Deventsi through the drilling of wells and tests thereof and after proving the potential of the Galata block again through tests in the wells (newly drilled and old ones).

Currently Chiren UGS is viewed as storage facility of local importance and main instrument guaranteeing the security of supply, however in the longer run the prospects are the storage facility to become a commercial storage playing material role in the development o0f

competition and increase of the advantages to natural gas users in the integrated and interconnected regional market. The development of the new as well as the planned interconnections with Romania, Turkey, Greece, Romania and Serbia will increase the market integration in the region and is the prerequisite for the ever more important role of Chiren UGS in securing an additional flexibility of the gas transmission systems at regional level, critical contribution to the management of congestions and seasonal optimization in the use of the gas transmission systems.

Despite the relatively low share of end consumption gas is an important natural resource with a potential of increasing its share in the overall national energy consumption over the next years. The share of gas supplies to households in the country is still low compared to other gas markets, however constantly on the rise. Encouraging the gasification by means of expanding the gas transmission network to new regions and securing access to natural gas to new municipalities, distribution companies and new non-household users is a priority of Bulgaria's Energy Strategy, and Bulgartransgaz EAD activity accordingly.

These prospects are underlining the objectives and investment plans of Bulgartransgaz EAD.

EXECUTIVE DIRECTOR

Vladimir Maliov

HEAD FINANCE DIVISION

Lyubomir Lyubenov