



NON-FINANCIAL DECLARATION

of

Bulgartransgaz EAD

2018

Non-financial declaration
for the year ending on 31 December 2018

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In this non-financial declaration Bulgartransgaz EAD presents information on the Company business model and description of its environmental and social policies, as well as the objectives, risks, tasks and indicators of the results of the activities related to these issues.

It has been prepared in accordance with the requirements of Art. 48 of the Accountancy Act (Annex to the Annual report on the activity for the year ending on 31 December 2018).

1. SHORT DESCRIPTION OF BULGARTRANGAZ EAD BUSINESS MODEL

1.1. General information about the Company

Bulgartransgaz EAD is a sole-owned joint-stock company within the meaning of the Commercial Act, with a two-tier management system, registered by Decision № 1 of 15.01.2007, Company file No 16439/2006 of Sofia City Court. Head office and registered address: Republic of Bulgaria, the city of Sofia, Lyulin 2 district, 66 Pancho Vladigerov Blvd., UIC 175203478

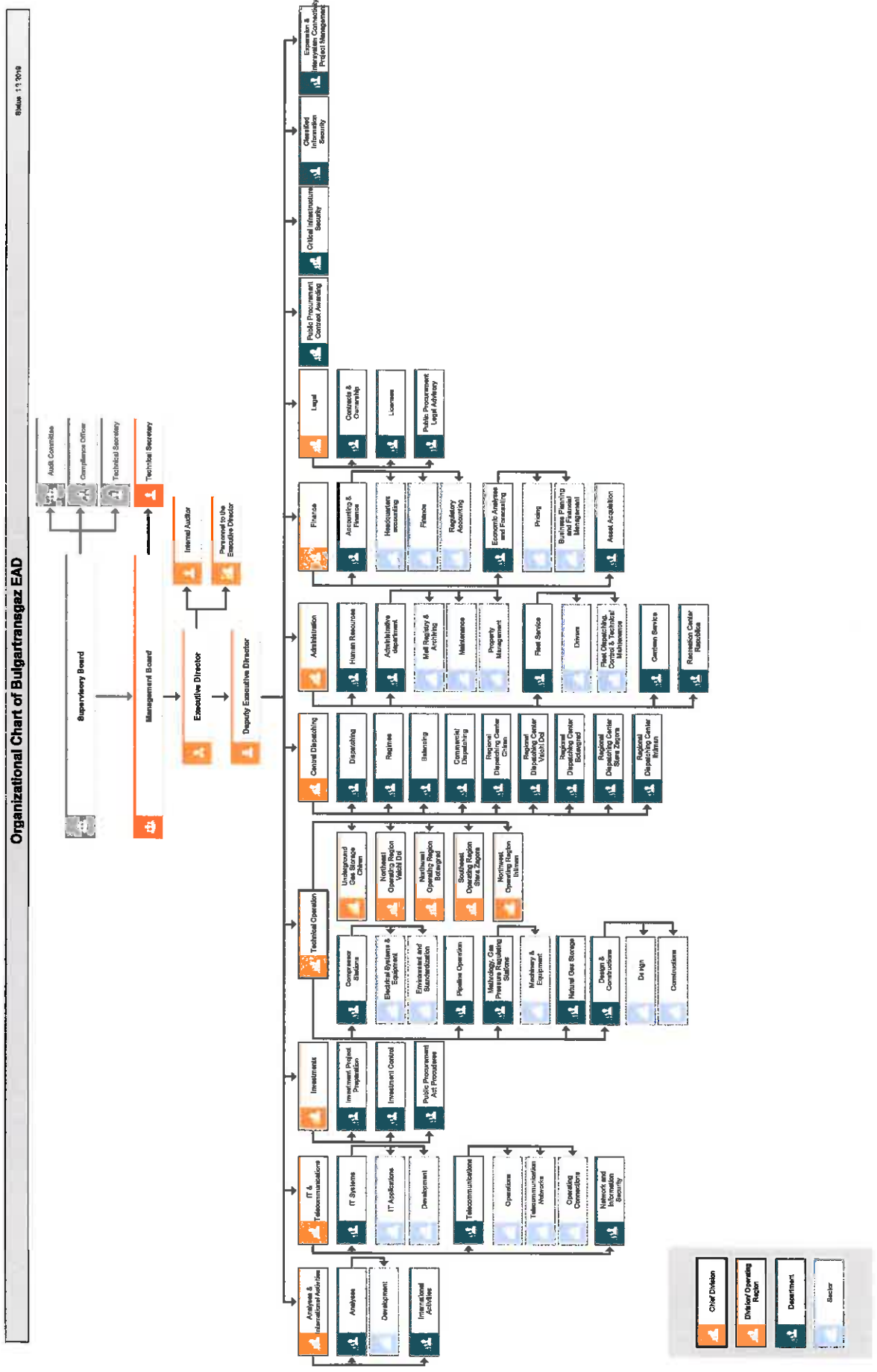
Bulgartransgaz EAD was established on 15.01.2007 for indefinite period of time through transformation of Bulgargaz EAD. The sole owner of the capital is Bulgarian Energy Holding EAD.

1.2. Management bodies in the company

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

The Company is managed and represented by an Executive Director, who carries out the operational management of the Company and organizes its activities.

1.3. Scheme of the organizational structure



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Bulgartransgaz EAD activities are carried out by the following independent divisions and departments:

- Chief Division Technical Operation, to which the following structural units are subordinated:
 - Northwest operational region Botevgrad
 - Northeast operational region Valchi dol
 - Southeast operational region Stara Zagora
 - Southwest operational region Ihtiman
 - Botevgrad Repair Workshop
 - Underground Gas Storage (UGS) Chiren
 - Division Natural gas storage
- Chief Dispatching Division
- Investment activities Division
- Legal Division
- Financial Economic Division
- Administrative Division
- Analyses and International Activities Division
- Information and telecommunication Division
- Public Procurement Award Dpt.
- Security of Classified Information Dpt.
- Critical Infrastructure Security Dpt.

1.4. Activities

As a combined operator, Bulgartransgaz EAD has the following responsibilities:

- Uniform management and reliable functioning of the natural gas transmission system and the underground gas storage facility (UGS);
- Maintaining the balance between natural gas import, production and consumption;
- Natural gas transport through the gas transmission system and natural gas storage in UGS in compliance with the quality and reporting requirements;
- Ensuring the optimal operational regime of the transmission system when carrying out the natural gas transmission activities;
- Maintaining the gas transmission system's facilities and sites and UGS in compliance with the technical and health and safety requirements;
- Development of the gas transmission system 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 based on Bulgartransgaz EAD registration and membership in the Construction Chamber.

1.5. Licenses and legal framework

Transmission along the national gas transmission network, the gas transmission network for transit transmission and natural gas storage are carried out by Bulgartransgaz EAD in accordance with the licenses issued by the State Energy and Water Regulatory Commission (EWRC):

- License for natural gas transmission (License №Л-214-06/29.11.2006 and №Л-214-0910/29.11.2006);
- License for natural gas storage on the territory of the Republic of Bulgaria (License №Л-214-10/29.11.2006).

1.6. Mission and vision

Mission

- **Mission** - to operate transparently, following the interests of the state and society, ensure conditions of security of supply, sustainable development of the natural gas market in the country and the region on a level playing field, play significant role in the process of natural gas market liberalization in the spirit of the pan-European energy policy. The mission derives both, from internal energy legislation, as well as from the European energy legislation and the Third Energy Liberalisation Package.

Vision

- **Vision** - positioning the company as a contemporary national and regional gas transmission operator, investing in maintaining and expanding reliable gas infrastructure, involved in cross-border energy projects and playing a key role in achieving the objectives of the pan-European free gas market. The desired vision is directly related to achievement of the main objectives set by the company.

1.7. Strategic and operational objectives

Strategic objectives

- Ensure the security and reliability of the gas transmission system and Chiren UGS;
- Development, modernization and expansion of the gas transmission and storage infrastructure and ensuring operational efficiency and flexibility of the system.
- Ensure the necessary conditions for establishing of a modern, efficient, liberalized gas market in accordance with the requirements of the European legislation.
- For realization of the strategic objectives, the following objectives have been outlined

Operational objectives

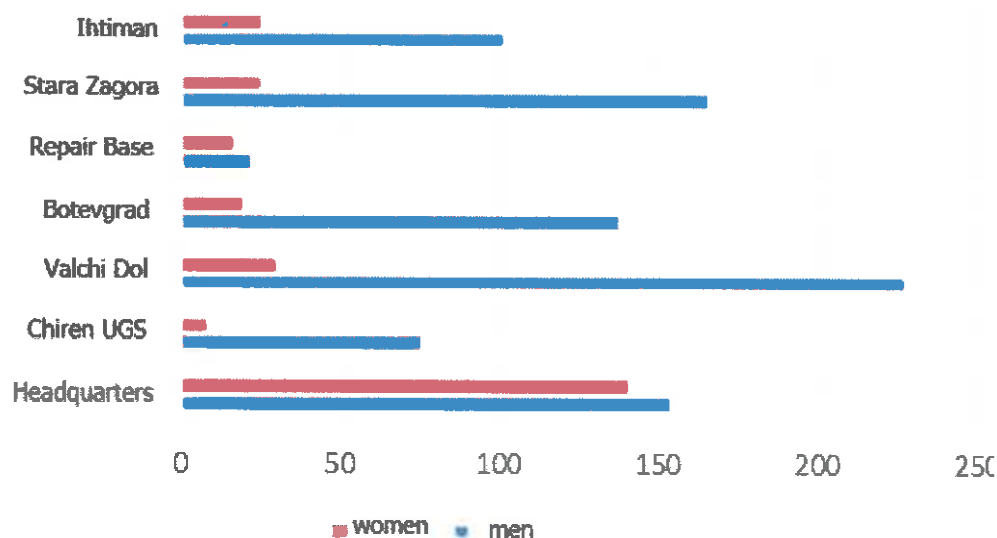
- Reliable and efficient operation of the gas transmission system under the conditions of a liberalized gas market;
- Providing alternative routes and entry border points for natural gas supply from various sources to consumers in the country;
- Construction of new gas pipeline branches for gasification of new regions and natural gas consumers;
- Optimization of the activities, business processes, rules and procedures for providing easily accessible and high quality services to its customers.
- Providing various types of natural gas transmission and storage services.

1.8. Personnel - number of personnel by regional units, education, age

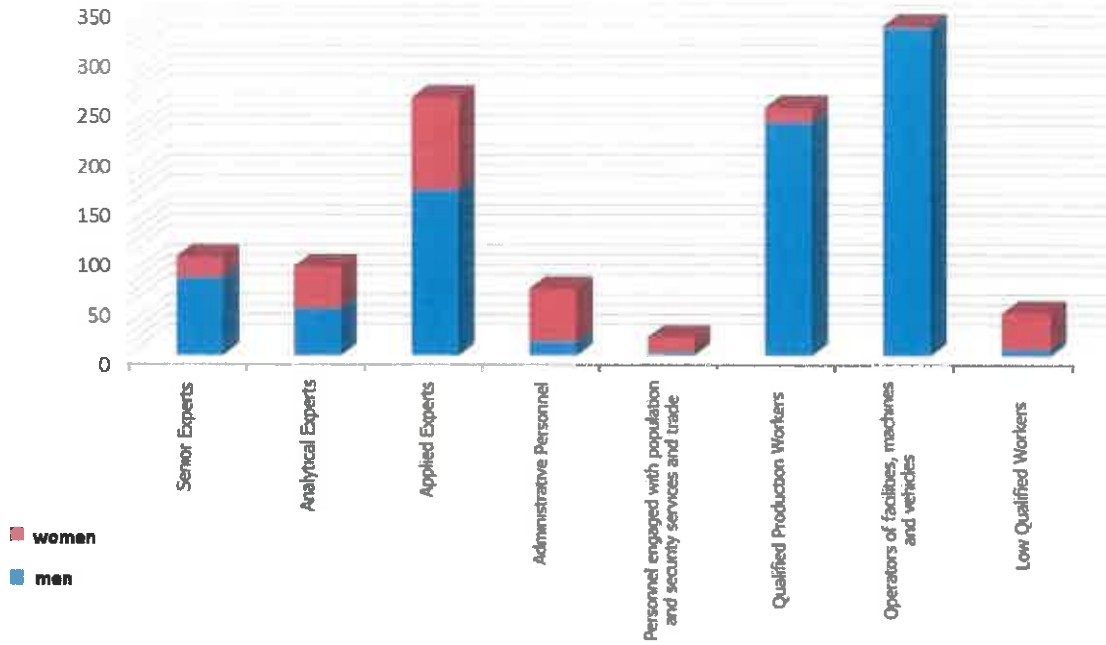
Bulgartransgaz EAD management pays special attention to human resources policy in order to create conditions for high motivation and personnel development prospects. The continuous improvement of the working conditions, provision of personnel development prospects and a high standard of living are key directions in the employment and social policy of the management and are reflected in the current Collective Labour Agreement.

By the end of 2018, the Company's personnel numbers 1 160 employees.

Personnel division by regional units as of December 31, 2017

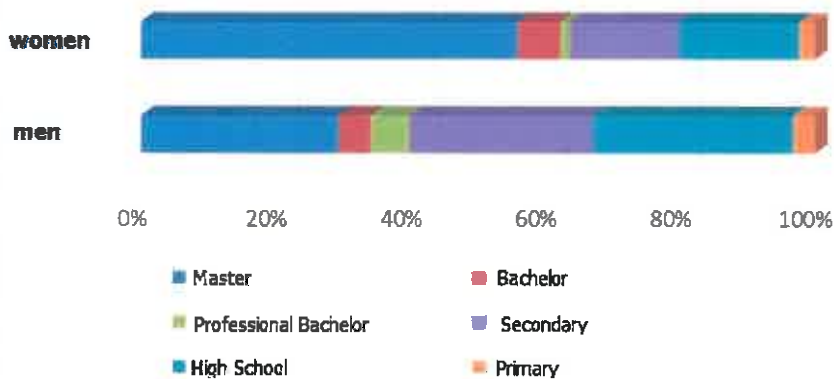


Personnel Division under the National classification of professions and job positions as of December 31, 2017



The small number of women compared to men in the company is resulting from the gender stereotypes for "male" and "female" jobs. The need to encourage women to work in sectors traditionally considered "male" has been taken into account. Women in the company are provided with the same opportunities for realization as men, considering their specific needs arising both from the nature of the sector in which they work, and the need for a balance between professional development and personal life. Opportunities have been created to develop women's individual abilities within the company, with a view to their effective preparation for leadership at all levels through specific and ongoing training.

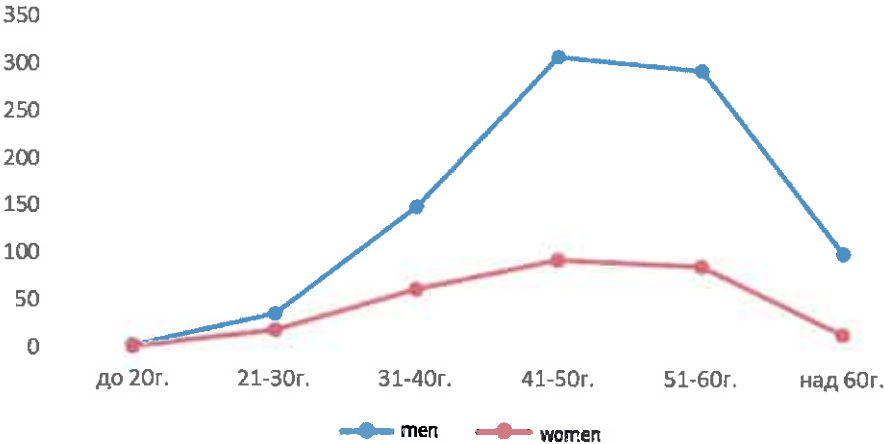
Personnel division by education degree as of December 31, 2017



The tendency of 2016 is maintained also in 2017 with the highest relative share of personnel with secondary specialized and secondary education - a total of 52%. This is due to the

requirement for education of the personnel operating the gas transmission system of the Company /compressor stations and gas distribution stations/ which should be secondary specialized or secondary. The relative share of personnel with higher education in 2017 represents 45% of the total. Their motivation and commitment to achievement of the Company's objectives has a positive impact on the decision-making process.

Personnel division by age as of December 31, 2017



The chart shows that employees over 50 years occupy a relatively high relative share due to increase of the period of people working activity and deterioration in workforce age structure.

2. SOCIAL POLICIES - DESCRIPTION, OBJECTIVES, RISKS, TASKS, KEY INDICATORS

2.1. Main strategic priorities for human resources development in the company

Training and development of human potential

One of the main priorities in the company work is the professional development of the company's employees and the recruitment of qualified specialists. The main objective is to develop the overall knowledge and skill potential of the company in the field of the engineering aspects of the development of natural gas transmission and storage infrastructure, other related engineering areas, information technology, national and Community regulatory base in the gas business, analysis and business development planning.

Human Resources Management is a procedure of Bulgartransgaz EAD integrated management system regulating the procedure and responsibilities in the management of human resources to provide competent and trained personnel.

The human resources management activities covered by this procedure include:

- planning the need for personnel;
- identifying and documenting the necessary competence of the personnel;
- recruitment and appointment of personnel;
- initial, ongoing and unscheduled training to maintain and enhance the competence and retraining of the personnel;
- evaluating the effectiveness of the training courses.

The requirements toward the competence of personnel are determined on the basis of applicable legal requirements for the particular activity and are contained in established job descriptions.

Planning of ongoing training is done at the end of each previous year. The managers plan the trainings necessary for the activity of the respective organizational unit by setting issues, costs and number of participants.

The applications filled in by the managers are summarized by the Training and Development Specialist, Human Resources Department, Administrative Division in the template OД-BT-025 Personnel Qualification and Retraining Program, submitted for approval by the Executive Director of the company.

In order to assess the efficiency of the training, immediately after the training, the employee who completed the training fills in the template OД-BT-014 Assessment of the training.

All filled-in templates are collected by a Training and Development specialist, Human Resources Department.

Three months after the training, a Training and Development specialist with Human Resources Department sends an Inquiry Card to the immediate head of the employee or the employees who have completed the training to assess the effect of the training. The head of department assesses the efficiency of the training in terms of employee/employee performance by completing the questionnaire and sends it to the Training and Development specialist with Human Resources Department.

Estimates of the effectiveness of the provided training are input data for the review of the integrated management system by the management.

Development of the personnel motivation management system

To this end the company relies on the further development of internal communication, internal career development and talent management systems.

The main purpose of motivating Bulgartransgaz EAD personnel is to achieve the maximum possible synergy between the interests and objectives of the company and the interests and objectives of the each employee and worker.

The social policy of the company is entirely aimed at motivating the employees, ensuring health and safety at work, food expenses, medical services, transport, rest, supplementary pension insurance, etc.

The social policy of Bulgartransgaz EAD includes:

- **Canteen and food expenses:**

Bulgartransgaz EAD offers canteens to workers and employees, wherever possible.

The company assists employees by paying the food expenses.

- **Transport for workers and employees**

The company provides commuting transport from the domicile to the place of work for its workers and employees or within the limits laid down in the collective labour agreement pays the value of the cheapest public transport.

- **Encouragement of the parents working in the company**

- One-off support for a new-born or adopted child of a worker;
- Reimbursement of the costs of crèches and nursery schools;
- Payment of costs for food for preschool children as well as schoolchildren;
- One-off annual financial assistance for the beginning of the school year for working parents with students and full-time students.

- **Care for the health status of workers:**

For treatment in a hospital for three days or more, as well as for surgical treatment, the company assumes 100% of the cost of treatment beyond what is covered by the health insurance for hospital stay, treatment, medication, surgical treatment;

Upon medical prescription for post-operative and/or post-hospital treatment, the company pays 100% of the costs incurred;

In case of proven occupational disease of employees and workers, the company covers 50% of the cost of the treatment and 30% of the cost of treatment of a non-occupational disease for thermal cure or sanatoria for a period of 14 days;

The company reimburses staff costs for purchase of corrective eyewear once every two years.

- **Providing leisure and rest to the employees**

The company once a year assists the workers and employees with amounts as laid down in the collective labour agreement to organize their holiday.

- **Others**

- In case of robbery, assault, fire, theft and other extraordinary accidents with employees of the company and their personal and family property, by decision of the Management Board, one-off financial assistance may be given to the victims upon presentation of the relevant documents;
- In the event of the death of a worker in the company, one-off financial assistance is paid to the deceased relatives;
- Prizes are given to the employees of the company who have at least one year of service, who have completed anniversaries - 30, 40, 50 and 60 years, as well as on retirement;
- The company pays one-off sums as laid down in the collective labour agreement to help meet the Easter and Christmas holidays;
- The company also supports the celebration of the Occupational Holiday of the Power Engineer with a one-off financial support determined by the Management Board within the limit agreed in the collective labour agreement

2.2. Corporate culture

One of the success factors on the path to achieving the mission, vision, strategic and operational objectives of the company is the building of a corporate culture based on certain principles and values. The adopted Code of Ethics establishes the standards of conduct in the company.

Professional ethics requires every employee and employee of the company to:

- Follow in all their business activities by the mission, vision, goals, shared principles and values of Bulgartransgaz EAD;
- Employees of Bulgartransgaz EAD strive to avoid any situations giving rise to conflict of interest and, in the event of their occurrence, make the necessary efforts to stop them by informing their immediate superior.
- Employees of Bulgartransgaz EAD cannot use their official position to fulfil their personal interests or interests of their family. They shall promptly inform their immediate superior if the performance of an official task can lead to a conflict between their duties and their personal interests.
- They do not favour in any way nor create commercial advantages for one or more companies at the expense of others, including companies that are part of the vertically integrated undertaking.
- Employees of Bulgartransgaz EAD cannot accept or offer gifts in their interactions with partners, suppliers, representatives of state authorities or other institutions unless they are advertising materials and cannot accept, nor offer money, services or other benefits.
- Bulgartransgaz EAD employees shall not allow themselves to fall in financial dependence or in other commitment with outside persons or organizations.
- To observe the established hierarchy of internal organizational relations, following strictly the internal rules, the orders of their superiors and company management and not to interfere with the other employees' work.
- Not to carry out unlawful orders, nor such orders whose execution could lead to violations of the law.
- In case of irregularities and/or violations of law, in any aspect of the company's activities, immediately inform their immediate superior.

- To adhere to a polite tone of conversation and vocabulary, not to use offensive expressions and epithets or aggressive poses and gestures. It is inadmissible to carry weapons as well as the use of physical violence in the workplace.
- To respect the rights and personal dignity of the people with whom they communicate.
- Do not discriminate against colleagues or outside people based on gender, race, age, religion, property status, health status, political convictions or nationality.
- Not to abuse their official position in the form of pressure or harassment in any form whatsoever with the employees subordinated in the organization hierarchy.
- To adhere to a constructive and cooperative way of communication and behaviour.
- Make maximum effort in fulfilling both their direct duties and the implementation of tasks of a team, extraordinary or project nature. When performing tasks requiring group or team implementation and when requesting assistance to perform tasks beyond the scope of direct duties, adhere to the principles of teamwork, active participation, prioritization of tasks, allocation of tasks according to the competence and employment of employees, informing all stakeholders, including their immediate superior.
- Do not allow behaviour that could be interpreted as a violation of good manners.
- Abstain from commenting on the personal and professional qualities of colleagues beyond what is required to fulfil his or her duties.

2.3. Occupational Health and Safety Management System (OHSMS)

In 2014 Bulgartransgaz EAD implemented an Occupational health and safety management system (OHSMS) according to the requirements of BS OHSAS 18001:2007 Occupational Health and Safety Management Systems. Requirements

In the occupational health and safety policy, senior management has declared their commitment to develop high culture of occupational health and safety in all Company activities and levels. The objectives and tasks set by the Management is to ensure:

- all necessary work resources, actions and rules (internal and statutory) to reduce risks and prevent accidents for both, their own personnel and any external contractors and visitors the Company is responsible for;
- safe working places by preventing, assessing risks and implementing appropriate measures to reduce and manage occupational risks;
- continuous control over strict application of the statutory requirements, internal rules and instructions related to occupational health and safety through internal inspections and audits. In addition, inspections are carried out in Bulgartransgaz EAD by authorized control bodies and an external audit of the OHSMS is performed each year by the certifying company;
- appropriate personnel training to enhance the culture and personal responsibility for safe work of each employee;
- active exchange of information with the personnel with the requirements for safe work, as well as dialogue with the personnel to resolve various problems and inconsistencies arisen during work;
- measures to continuously improve the occupational health and safety management system.

Every year, Bulgartransgaz EAD management reviews the Occupational Health and Safety Management System and examine the reports for the activities during the period of the last

external audit of the Certifying Company. The aim is to determine the extent of implementation of the health and safety policy and identify the resources needed to fulfil the health and safety policy and objectives.

3. ENVIRONMENTAL POLICIES - DESCRIPTION, OBJECTIVES, RISKS, TASKS, KEY INDICATORS

Bulgartransgaz EAD develops a high culture of environmental protection in all activities and at all levels of the company's structure. The basic rule in this respect is that by ensuring environmentally friendly behaviour that complies with regulatory requirements, any incident or negative environmental impact can be avoided. The following activities related to the company environmental policy are carried out in order to fulfil the undertaken environmental protection commitments:

1. Ensure the necessary actions to maintain the environmental management system in accordance with the legal requirements of environmental legislation and any other obligations to comply with. The company has a developed, implemented and certified Environmental Management System (EMS) that fully meets the requirements of ISO 14001:2015 Environmental Management Systems. At the end of 2016, Bulgartransgaz EAD successfully passed the certification audit according to the requirements of the standard, and in 2017 - the first supervisory one related to the functioning of EMS, carried out by TÜV Rheinland Bulgaria EOOD.
2. The company applies and puts into operation the best available techniques. This is evidenced by the implemented projects for modernization of the compressor stations (CS) Ihtiman, Petrich, Lozenets and Strandzha, related to installation and commissioning of low-emission gas turbine compressor units, meeting all applicable environmental requirements.
3. Strategies, programs and projects are being developed to reduce and prevent environmental pollution. Bulgartransgaz EAD annual investment and maintenance program comprises measures for which the necessary funds are provided for implementation of activities related to compliance of the operational regions with the regulatory requirements. These include implementation of the second stage of CS modernization, as well as re-equipment of the combustion chambers of 6 GTU type THM 1304/11 (CS Kardam, CS Strandzha and CS Provadia) with low emission combustion chambers and modernization of their automatic control systems (ACS).
4. Develops its activity to implement risk reduction policy of major accidents and failures, and mitigate their consequences by a safety management system. In 2017, an updated Safety Report of Chiren UGS was successfully updated, agreed and approved by Decision No 124-A2/2017 for operation of a high-risk company, directly related to gas storage operation, ensuring environment protection and, in particular, use and storage of hazardous chemicals.
5. Increasing the employees' level of qualification on environmental protection issues, according to developed and existing personnel training program.
6. Monitoring of basic environmental parameters of significant environmental impact - according to certain monitoring plans including monitoring of emissions released into the ambient air, monitoring of water, noise, soils, etc. Performing an assessment of compliance with the applicable regulatory requirements.
7. Efficient waste management generated by the production activity according to the regulatory requirements. Preparation of Construction waste management plans applied in carrying out investment activities of the company related to construction.
8. Liaise constantly with control authorities and all involved parties in solving environmental problems related to environmental protection under the applicable environmental legislation.
9. Continuous improvement of the environmental management system to enhance environmental performance.

The company examines periodically the adequacy of the environmental policy and provides the necessary resources for implementation of the stated policy and the environmental protection objectives. Convinced that people are the most valuable asset, every employee is expected, in accordance with their responsibilities and competence, to contribute to the implementation of environmental policy and objectives.

Executive Director

Vladimir Malinov

HEAD OF FINANCIAL ECONOMIC DIVISION

Lyubomir Lyubenov