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INDEPENDENT AUDITOR'S REPORT

To the sole owner of
Bulgartransgaz EAD
1336, Sofia, 66 Pancho Vladigerov bld.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Bulgartransgaz EAD and its subsidiary (the Group), which comprise the consolidated statement of financial position as at 31 December 2020 and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU and Bulgarian legislation.

Basis for Opinion

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

Key Audit Matters

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

Initial recognition of Property, plant and equipment Note 15 Property, plant and equipment, Note 36 Events following the reporting period date, Note 4.8 Accounting policy for reporting property, plant and equipment to the consolidated financial statements	
Key audit matter	How this matter was addressed during the audit
The parent company Bulgartransgaz EAD is the owner and operator of the natural gas transmission and storage infrastructure, part of the single Pan-European gas network. The Company operates under conditions of a dynamically changing world and respectively European energy sector and it is a major contractor in the implementation of gas projects in the region. In pursuance of the updated energy strategy, during the year 2020 Bulgartransgaz EAD is implementing, as a priority, a project for	During our audit, our audit procedures included, but were not limited to: - An overview of the Group's accounting policy regarding the initial recognition and subsequent measurement of property, plant and equipment and overall assessment for IFRS compliance; - Review of the Group's energy projects development on the basis of external sources of information and comparison with inside information provided by the Group; - Updating our understanding of the controls related to the financial reporting process for the acquisition of non-

Initial recognition of Property, plant and equipment

Note 15 Property, plant and equipment, Note 36 Events following the reporting period date, Note 4.8 Accounting policy for reporting property, plant and equipment to the consolidated financial statements

Key audit matter	How this matter was addressed during the audit
"Expansion of the gas transmission infrastructure of Bulgartransgaz EAD parallel to the northern (main) gas pipeline to the Bulgarian-Serbian border". At the end of the year 2020, assets with a total value of BGN 2 366 828 thousand under the project, related to the stage Pipeline network and the stage Rasovo Compressor Station, were put into operation. The newly acquired assets under the project represent almost 50% of the non-current assets of Bulgartransgaz EAD at the end of the period. Due to the importance of energy projects related to the recognition of significant groups of assets, including the specifics of their initial recognition, subsequent measurement and presentation in the consolidated financial statements of the Group, we have identified that issue as a key audit matter.	current assets, incl. authorization, initial registration, reconciliation of data between operating systems and the financial accounting system and performing a sampling for testing these controls in order to assess their operating effectiveness; - Research inquiries to the management of the Group and the responsible persons for the process of authorization, conclusion, execution and subsequent monitoring of the contracts' execution related to the project implementation, including its financing from external sources; - Review and analysis of contracts with contractors for the supply of materials, equipment and services for investment design, construction and commissioning of a site in order to ensure compliance with the amounts reported in terms of their completeness, accuracy and proper classification in the correct period; - Detailed tests, based on a sample principle, for reviewing and confirming information from primary documents (contracts, invoices, handover acts and protocols) with the accounting information regarding existence, gross valuation and proper classification of the newly acquired assets; - Procedures for confirmation of balances with external sources and check for compliance with the terms of the contracts; - Review and analysis of bank loan agreements for financing projects related to the acquisition of non-current assets to ensure compliance with the amounts reported in terms of their completeness, accuracy and appropriate classification; - Assessment of the adequacy of the disclosures in the consolidated financial statements, including the disclosures of the main assumptions and judgments related to the initial recognition of the assets related to the energy projects implementation.

Valuation at fair value of Property, plant and equipment

Note 15 Property, plant and equipment, Note 34 Determining fair values and Note 4.19 Use of estimates and judgments

Key audit matter	How this matter was addressed during the audit
The Group applies the revaluation model for subsequent measurement for the asset class Property, plant and equipment, which represents the fair value of the asset at the date of revaluation, less subsequent depreciation and accumulated impairment losses. The fair value of property, plant and equipment is estimated based on market evidence presented in a report prepared by an independent certified appraiser. Revaluation of property, plant and equipment is carried out every three years, unless there are indications of significant deviations in a shorter period of time. During the annual test for impairment of non-financial assets it was identified that the carrying amount of buffer gas exceeds its value in use by BGN 107 717 thousand and the corresponding impairment loss was recognized	During our audit, our audit procedures included, but were not limited to: - An overview of the Group's accounting policy regarding subsequent measurement of property, plant and equipment and compliance assessment with the applicable IFRS; - An overview of the estimated useful life of the non-current assets and analysis of the relevance of its estimation; - Assessment of the methodology used and the key assumptions used by the evaluator in determining the market value of the buffer gas from the point of view and on the basis of our knowledge of the Energy sector;

Valuation at fair value of Property, plant and equipment Note 15 Property, plant and equipment, Note 34 Determining fair values and Note 4.19 Use of estimates and judgments	
Key audit matter	How this matter was addressed during the audit
at the expense of the accumulated revaluation reserve. As a result, the carrying amount of the buffer gas as of 31.12.2020 amounts to BGN 191 443 thousand, included in the line Property, plant and equipment in the consolidated statement of financial position. Due to the specific nature of the buffer gas as a non-current asset, and due to the lack of similar assets to be treated as market analogues, the valuator used the replacement cost method, which is part of the cost approach. The valuation is influenced by assumptions about replacement value, physical, functional, and economic obsolescence of the buffer gas and residual useful life. Economic factors are also considered, such as the price of natural gas announced by the Energy and Water Regulatory Commission (EWRC), which is one of the main indicators of the presence or absence of impairment of the specific asset of the Group. Therefore, these estimates are characterized by some uncertainty related to the use of different forecasts and assumptions with a certain degree of subjectivity. Due to the specifics of the valuation process, the type of assets and the significant use of fair value at level 3 of the fair value hierarchy, as well as the materiality of this group of assets, we have identified this issue as a key audit matter.	- Testing of the input data on which the valuation of the buffer gas is based, against appropriate supporting documentation, to assess their accuracy, reliability and completeness; - Study of the economic conditions that affect the environment in which the Group operates, as well as business plans and strategies that may affect the risks of significant inaccuracies, deviations and inconsistencies regarding the usability of available assets; - Assessment of the professional qualification, competency and experience of the hired certified appraiser for the purposes of the preparation of valuation report of the market value of the buffer gas; - Performing of independent impairment tests based on our knowledge of the Group's nature and activities, as well as, specific features of the buffer gas of the Group when considering external and internal indicators of impairment; - Reconciliation of the results as per the valuation report with the accounting registers and consolidated financial statement items affected by the valuation; - Assessment of the adequacy of the disclosures in the consolidated financial statements.

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

Management is responsible for the other information. The other information comprises the consolidated annual management report, including the consolidated corporate governance statement, consolidated non-financial declaration and other required information according to Article 61, Paragraph (3) of the Regulations for implementation of the Public Enterprises Act, prepared in accordance with Bulgarian Accountancy Act, but does not include the consolidated financial statements and our auditor's report thereon.

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

We have nothing to report in this regard.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going

concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Report on Other Legal and Regulatory Requirements

In addition to our responsibilities for reporting under ISAs, described above in section "Information Other than the Consolidated Financial Statements and Auditor's Report Thereon", regarding consolidated annual management report, including the consolidated corporate governance statement, consolidated non-financial declaration, and other required information according to Article 61, Paragraph (3) of the Regulations for implementation of the Public Enterprises Act, we have performed the additional procedures contained in the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). The procedures on the existence, form and contents of the other information have been carried out in order to state whether the other information includes the elements and disclosures in accordance with Chapter Seven of Bulgarian Accountancy Act, Bulgarian Public Offering of Securities Act and Statement Pursuant to Article 37, Paragraph (3) of Bulgarian Energy Act.

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

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

- i. the information in the consolidated management report is consistent with the consolidated financial statements for the same reporting period;
- ii. the consolidated management report is prepared in accordance with the applicable legal requirements, including Chapter Seven of Bulgarian Accountancy Act and Article 100m, paragraph (7), subparagraph (2) of Bulgarian Public Offering of Securities Act;



- iii. the consolidated corporate governance statement for the financial year contains the required information in accordance with the applicable legal requirements, including Article 100m, paragraph (7), subparagraph (1) of Bulgarian Public Offering of Securities Act;
- iv. the consolidated non-financial declaration is prepared and made available in accordance with the requirements of Bulgarian Accountancy Act;
- v. as a result of the acquired knowledge and understanding of the activities of the Group and the environment in which it operates, we have found no cases of material misrepresentation in the consolidated management report.

Statement Pursuant to Article 37, Paragraph (3) of Bulgarian Energy Act

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

- (a) The parent company maintains its accounting and recordkeeping in a way which produces an information for each licensed activity as well as any other activity including regulated activities and non-regulated. The Bulgartransgaz EAD maintains analytical information regarding the activities of natural gas transmission through the territory of the country as well as to Greece, North Macedonia and Serbia, as well storage and balancing as well as supplementary management activity and non-regulated activity;
- (b) The parent company maintains its accounting activities in a way which produces the information for each business unit within the organizational structure;
- (c) The financial reporting is organized and maintained in a way which ensures the necessary information for regulatory purposes as follows:
 - ✓ Assets and liabilities are classified into the respective activities they are assigned to;
 - ✓ Revenues and expenditures for the main licensed activities are reported based on analytical subaccounts for types of licensed activities;
 - ✓ Revenues and expenditures for non-licensed activities – supplementary, management and non-regulated activities, as well as, total revenues and expenditures for licensed activities are allocated between the main licensed activities based on a coefficient.

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

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

- Grant Thornton OOD was appointed as statutory auditor of the consolidated financial statements of Bulgartransgaz EAD for the year ended on 31 December 2020 by a decision of the Board of Directors of the sole owner Bulgarian Energy Holding EAD, taken at a meeting held on 19 May 2020, for a period of one year;
- The audit of the consolidated financial statements of Bulgartransgaz EAD for the year ended on 31 December 2020 has been made for second consecutive year of continuous commitment for statutory audit of this Group performed by us;
- In support of our audit opinion, we have provided a description of the most significant assessed risks, a summary of the auditor's response and where relevant, key observations arising with respect to those risks in the section „Key audit matters“ of this report;
- We confirm that our audit opinion is consistent with the additional report to the audit committee, which was provided in accordance with Article 60 of Bulgarian Independent Financial Audit Act;
- We declare that prohibited non-audit services referred to in Article 64 of Bulgarian Independent Financial Audit Act were not provided;
- We confirm that we remained independent of the Group in conducting the audit;
- For the period for which we were engaged as statutory auditors, we have not provided any other services to the Group in addition to the statutory audit not being disclosed either in Group's consolidated annual management report or the consolidated financial statements.

Grant Thornton Ltd.
Audit firm

Marly Apostolov
Managing partner



Emilia Marinova
Registered auditor responsible for the audit

07 June 2021 r.
Bulgaria
Sofia, 26, Cherni Vrah Blvd.