



CONSOLIDATED FINANCIAL STATEMENT

for the year ending on 31 December 2021

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**Consolidated report on the profit or loss and other comprehensive income
for the year ending on 31 December**

<i>in BGN thousand</i>	Note	2021	2020
Operating income	7	575,147	386,252
Other revenue from the activity	8	8,829	8,363
Total revenues		583,976	394,615
Technological costs	9	(60,402)	(27,712)
Costs for materials	10	(6,086)	(4,687)
External services expenses	11	(12,707)	(12,521)
Expenses for depreciation and impairment of non-financial assets	15.16	(181,462)	(107,948)
Expenses for employees' remuneration	12	(73,535)	(71,966)
Recovered depreciation of financial assets	17,19,20 21,22,30	1,786	3,754
Revenues/(expenses) from impairment of inventories	18	5,654	(19,651)
Other expenses for the activity	13	(38,404)	(23,993)
Cost of natural gas used for balancing and the goods sold		(44,767)	(13,025)
Changes in the availability of finished goods and work in progress		52	(39)
Operating activity profit		174,105	116,827
Losses from investment accounted for by the equity method	5	(656)	(672)
Financial revenue	14	23,005	6,501
Financial expenses	14	(40,013)	(41,664)
Net financial revenues/(expenses)	14	(17,008)	(35,163)
Earnings before taxes		156,441	80,992
Expenses for taxes	24	(15,821)	(8,174)
Profit for the period relating to the owners of equity of the parent company		140,620	72,818
Other comprehensive income			
Components that will not be later reclassified in the profit or loss:			
Revaluation of property, plant and equipment	15	1,102,660	(107,717)
Revaluation of liabilities under defined benefit plans	27	(533)	(1,220)
Tax on other comprehensive income	24	(110,213)	10,894
Other comprehensive income/(loss), net of taxes		991,914	(98,043)
Total comprehensive income/(loss) for the period relating to the owners of equity of the parent company		1,132,534	(25,225)

The notes on pages 7 to 75 are an integral part of this financial statement.

Executive Director
Vladimir Malinov

Chief Accountant
Svetlana Koeva

Date: 31/03/2022
Pursuant to Audit report of 12/04/2022:
Dr. Mariana Mihaylova
Manager and Registered auditor in charge of the audit
RSM BG OOD
Audit Company

Consolidated statement of financial position

<i>BGN thousand</i>	Note	December 31, 2021	December 31, 2020
Assets			
Property, plant and equipment	15	5,685,806	4,539,525
Intangible assets	16	5,707	5,720
Investment in jointly controlled entities	5	26,386	126
Long-term receivables	17	162	168
Long-term receivables from related entities	30	17	137
Deferred tax assets	24	6,390	7,888
Total non-current assets		5,724,468	(4,553,564)
Inventories	18	70,831	85,070
Trade and other receivables	19	10,638	127,843
Assets under contracts	19	7,719	9,080
Receivables from related entities	30	7,300	3,361
Receivables related to income taxes		2,985	889
Cash in the form of bank deposits	22	117,231	-
Cash provided as a security	21	299,203	240,997
Cash and cash equivalents	20	218,291	66,524
Total current assets		734,198	533,764
Total assets		6,458,666	5,087,328

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Executive Director

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Chief Accountant

Svetlana Koeva

Date: 31/03/2022

Pursuant to Audit report of 12/04/2022:

Dr. Mariana Mihaylova

Manager and Registered auditor in charge of the
audit

RSM BG OOD

Audit Company

Consolidated statement of financial position (continued)

	Note	December 31, 2021	December 31, 2020
<i>in BGN thousand</i>			
Capital and reserves			
Share capital	23	1,414,786	1,225,519
Revaluation reserve	23	1,851,490	910,705
Reserve	23	103,064	85,754
Retained earnings		191,709	286,138
Total equity attributable to the sole owner of the parent company		3,561,049	2,508,116
Liabilities			
Trade and other liabilities	29	425,632	1,044,512
Liabilities under contracts	29	182,402	-
Long-term loans	28	1,063,559	785,156
Liabilities to related entities	30	148	241
Guarantees under contracts	31	400	16,461
Employees' benefits	27	8,839	8,903
Deferred tax liabilities	24	229,570	120,290
Deferred revenue from funding	25	161,364	134,790
Provisions	26	52,346	51,592
Total non-current liabilities		2,124,260	2,161,945
Liabilities under contracts	29	368,718	366
Trade and other liabilities	29	65,017	225,328
Short-term loans	28	225,950	136,191
Liabilities to related entities	30	27,802	14,247
Guarantees under contracts	31	84,515	39,748
Employees' benefits	27	1,202	1,202
Liabilities related to income taxes		100	32
Provisions	26	53	153
Total current liabilities		773,357	417,267
Total liabilities		2,897,617	2,579,212
Total equity and liabilities		6,458,666	5,087,328

The notes on pages 7 to 75 are an integral part of this financial statement.

Executive Director

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Chief Accountant

Svetlana Koeva

Date: 31/03/2022

Pursuant to Audit report of 12/04/2022:

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audit

RSM BG OOD

Audit Company

Consolidated statement of changes in equity
in BGN thousand
Balance on 1 January 2021

Earnings for the year

Other comprehensive income

Revaluation of property, plant and equipment

Revaluation of liabilities under defined benefit plans

Tax on other comprehensive income

Total comprehensive income for the year
Transactions with owners accounted for in equity

Dividends to the sole capital owner

Registered capital increase at the expense of retained earnings

Total transactions with owners

Transfer of revaluation reserve to retained earnings

Distribution of profit

Balance on 31 December 2021

	Share capital	Revaluation reserve	Reserve	Retained earnings	Total equity attributable to the sole owner of the parent company
Balance on 1 January 2021	1,225,519	910,705	85,754	286,138	2,508,116
Earnings for the year	-	-	-	140,620	140,620
Other comprehensive income					
Revaluation of property, plant and equipment	-	1,102,660	-	-	1,102,660
Revaluation of liabilities under defined benefit plans	-	-	(533)	-	(533)
Tax on other comprehensive income	-	(110,266)	53	-	(110,213)
Total comprehensive income for the year	-	992,394	(480)	140,620	1,132,534
Transactions with owners accounted for in equity					
Dividends to the sole capital owner	-	-	-	(79,601)	(79,601)
Registered capital increase at the expense of retained earnings	189,267	-	-	(189,267)	-
Total transactions with owners	189,267	-	-	(268,868)	(79,601)
Transfer of revaluation reserve to retained earnings	-	(51,609)	-	51,609	-
Distribution of profit			17,790	(17,790)	-
Balance on 31 December 2021	1,414,786	1,851,490	103,064	191,709	3,561,049

The notes on pages 7 to 75 are an integral part of this financial statement.

Executive Director

Vladimir Malinov

Chief Accountant

Svetlana Koeva

Date: 31/03/2022

Pursuant to Audit report of 12/04/2022:

Dr. Mariana Mihaylova

Manager and Registered auditor in charge of the audit

RSM BG OOD

Audit Company

Consolidated statement of the changes in equity (continued)
in BGN thousand

	Share capital	Revaluation reserve	Reserve	Retained earnings	Total equity attributable to the sole owner of the parent company
Balance on 01 January 2020	1,225,519	1,062,635	86,852	158,335	2,533,341
Earnings for the year	-	-	-	72,818	72,818
Other comprehensive income/(loss)					
Revaluation of property, plant and equipment	-	(107,717)	-	-	(107,717)
Revaluation of liabilities under defined benefit plans	-	-	(1,220)	-	(1,220)
Tax on other comprehensive income	-	10,772	122	-	10,894
Total comprehensive loss for the year	-	(96,945)	(1,098)	72,818	(25,225)
Transfer of revaluation reserve to retained earnings	-	(54,985)	-	54,985	-
Balance on 31 December 2020	1,225,519	910,705	85,754	286,138	2,508,116

The notes on pages 7 to 75 are an integral part of this financial statement.

Executive Director
Vladimir Malinov

Chief Accountant
Svetlana Koeva

Date: 31/03/2022
Pursuant to Audit report of 12/04/2022:
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Audit Company

Consolidated cash flows statement

for the year ending on 31 December

in BGN thousand

	Notes	2021	2020
Cash flows from operating activities			
Proceeds from trade counter parties		1,232,063	402,604
Payments to trade counterparties		(113,664)	(39,749)
Payments to staff and insurance institutions		(74,706)	(72,725)
Payments for income tax		(17,284)	(15,348)
Other taxes and excise duties recovered/(paid), net		266,946	122,212
Proceeds from interests and penalties on late payments		(676)	716
Other cash flows from operating activities		682	3,232
Total cash flows from operating activities		<u>1,293,361</u>	<u>400,942</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment		1,253,684	1,082,286
Acquisition of intangible assets		(28)	(66)
Proceeds from financing non-current assets		25,793	28,306
Cash provided as deposits	22	(117,350)	-
Cash provided as a security	21	(124,577)	(355,302)
Proceeds from cash provided as a security	21	74,066	343,145
Proceeds from interest on deposits and cash provided as a security	21	848	5,284
Payments related to share acquisition in a joint venture		(3,207)	(48)
Total cash flows from investment activities		<u>(1,398,139)</u>	<u>(1,060,967)</u>
Cash flows from financial activities			
Loans received	28	675,554	893,913
Paid loans	28	(307,618)	(250,557)
Dividends paid	30	(79,863)	-
Interest payments on loans received	28	(21,680)	(1,786)
Payments of interests to trade counterparties		(11,237)	-
Total cash flows from financial activities		<u>255,156</u>	<u>641,570</u>
Net change in cash and cash equivalents		<u>150,378</u>	<u>(18,455)</u>
Cash and cash equivalents on January 1	20	<u>66,524</u>	<u>97,528</u>
Effect of changes in foreign exchange rates, net		2,076	(12,607)
Effect of recovery of expected credit losses		(687)	58
Cash and cash equivalents on 31 December	20	<u>218,291</u>	<u>66,524</u>

The notes on pages 7 to 75 are an integral part of this financial statement.

Executive Director

Vladimir Malinov

Chief Accountant

Svetlana Koeva

Date: 31/03/2022

Pursuant to Audit report of 12/04/2022:

Dr. Mariana Mihaylova

Manager and Registered auditor in charge of the audit

RSM BG OOD

Audit Company

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Notes to the consolidated financial statement**1. Status and business activities**

Bulgartransgaz EAD and its subsidiary Balkan Gas Hub EAD (the Group) carry out activities related to natural gas transport and trade.

The parent company Bulgartransgaz EAD (the Company) is a company with its registered office in the Republic of Bulgaria. The Company is entered in the Commercial Register at the Registry Agency with UIC 175203478. The registered office of the Company is in Bulgaria, Sofia, 2 Lyulin district, 66 Pancho Vladigerov Blvd.

Bulgartransgaz EAD is a state-controlled entity. The sole owner of the Group is Bulgarian Energy Holding EAD.

Bulgartransgaz owns 100% of the shares of Balkan Gas Hub EAD, established in 2019.

The main subject of Bulgartransgaz EAD activities comprises of natural gas storage and transmission; maintenance, operation, management and development of gas transmission networks; maintenance, operation, management and development of underground gas storages; development of programmes and activities for compliance of natural gas transmission and storage activities with the requirements of the European energy law; development of a price policy for access to and transmission through gas transmission networks, natural gas storage and connection to gas transmission networks; natural gas transactions administration and organisation of natural gas market balancing in compliance with the requirements of existing legislation; engineering, investment, production and service activity; imports of goods, machinery and equipment related to corporate activities; centralised operating management, coordination and control on gas transmission networks operational regime.

By virtue of decision of the Energy and Water Regulatory Commission, Bulgartransgaz EAD has been certified as an 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 July 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 July 2009 on conditions for access to the natural gas transmission networks and Chapter Eight "a" of the Energy Act. The Decision was adopted in line with the opinion of the European Commission of 22 April 2015.

Pursuant to Art. 39, para 1 of the Energy Act, Bulgartransgaz EAD holds licenses issued by the regulatory authority Energy and Water Regulatory Commission EWRC:

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

The three licenses have a 35-years term of validity. The Group pays license fees for each license, specified in a tariff, approved by the Council of Ministers. The fees are the following: initial fee, paid with regard to issuance of the licenses and annual fees for the term of the license payable by the licensee for each year following the issue of the relevant license.

Balkan Gas Hub EAD subject of activity involves the establishment and operation of electronic platform providing conditions for conclusion of bilateral transactions and stock exchange market with physical and non-physical products – natural gas, energy products, energy carriers, energy green and white certificates, carbon emissions and others energy consumption products.

Bulgartransgaz EAD is a public-interest entity within the meaning of paragraph 1(22)(k) of the Additional Provisions of the Accountancy Act.

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,

Notes to the consolidated financial statement

Bulgartrngaz EAD effectively implemented as at 1 October 2017 an entry-exit pricing model for the access and transport services along the gas transmission system, property of the Group including the national gas transmission network (NGTN) and the gas transmission network for transit transmission (GTNTT). The entry-exit tariff model implementation replaces the pricing model of the natural gas access and transport services offered by Bulgartrngaz EAD from the "post stamp" system with uniform prices set out for transported natural gas quantities charged at exit points of the gas transmission network to 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.

The Parent company has a two-tier management system - Supervisory Board and Management Board. The Supervisory Board of Bulgartrngaz EAD as at 31/12/2021 is composed of: Kiril Georgiev, Snezhana Yovkova-Markova, Delyan Koynov, Stefan Iliev and Nikolay Stefanov, and the Management Board: Darina Koleva, Delyan Dimitrov and Vladimir Malinov. As at December 31, 2021, the Parent company is represented and managed by the Executive Director Vladimir Malinov. As at December 31, 2021 the members of the Parent company's Audit committee are: Viktor Ivanov, Velichka Ruseva and Silvia Todorova.

2. Basis for preparation

The Parent company's consolidated financial statement was drawn up in compliance with the International Financial Reporting Standards, developed and published by the International Accounting Standards Board (IASB) and adopted by the European Union (IFRS adopted by the EU). Within the meaning of para 1(8) of the Additional Provisions of the Accounting Act 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.

The consolidated financial statement has been prepared in Bulgarian lev (BGN), which is the functional currency of the Group. All amounts are shown in thousands of BGN (thousand BGN). (including 2020 comparative information) unless otherwise noted.

The management is responsible for the preparation and fair presentation of the information in this consolidated financial statement.

In the consolidated financial statement, in order to achieve presentation that provides more relevant information about the effect of operations and other events or circumstances on the financial condition of the Group, some of the items are presented differently compared to the separate financial statement for 2020. The change relates to the following items in the consolidated financial statement:

- Current long-term loans, amounting to BGN 9,279 thousand, have been reclassified from line Long-term loans to line Short-term loans;

The change concerns only the manner of presentation of items of the consolidated financial statement for the profit or loss and other comprehensive income for the year ending on December 31, 2020 and does not concern the manner of their evaluation.

At the date of preparation of this consolidated financial statement, the management has made an assessment of the Group's ability to continue its activities as an operating enterprise based on the information available for the foreseeable future, taking into account the possible effects of the continuing impact of Covid-19 pandemic. Following review of the Group's activities, the Management board expects that the Group has sufficient financial resources to continue operating in the near future and continue to apply the principle of an operating enterprise in drawing up the consolidated financial statement.

The pandemic did not have a significant impact on the Group's activities.

In a situation of pandemic, the Group continues to operate without interruption. The management has introduced anti-epidemic measures that apply to both staff and contractors it works with. Employees are provided with remote access to work and a shift regime, so that all anti-epidemic

Notes to the consolidated financial statement

measures are being observed and, accordingly, no significant effect on the organization and the method of work was reported.

In 2021, the Group's revenues increased, compared to 2020. The main customers of the Group have not significantly limited or stopped their activities due to the coronavirus.

The Group has not taken advantage of the government's special programmes in support of business and overcome the impact of the pandemic.

There were no serious changes or difficulties in the liquid flows of the Group.

According to the Management's assessment, the Group has not been significantly affected by the Covid-19 pandemic.

The consolidated financial statement was approved by the Management Board on 11 April 2022.

Details of the Group's accounting policies are disclosed in Note 4.

3. Changes in the accounting policy**3.1 New standards effective since 01 January 2021**

The Group has applied the following new standards, amendments and clarifications to IFRS, developed and published by the International Accounting Standards Board (IASB) which are mandatory for the annual period beginning on 01 January 2021 and have no effect on the financial statement:

Amendments to IFRS 4 Insurance contracts - deferral of IFRS 9, effective as of 1 January 2021, adopted by the EU

The amendments delayed the date of initial implementation of IFRS 17 by two years, i.e. for annual periods beginning on or after 1 January 2023 and resulted in a change in the fixed expiry date of the temporary exemption in IFRS 4 Insurance contracts from the implementation of IFRS 9 Financial Instruments so that companies are required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.

Amendments to IFRS 9, IAS 39, IFRS 4, IFRS 7 and IFRS 16 Reference Interest Rate Reform - Phase 2, effective as of 1 January 2021, adopted by the EU

The amendments include elements that affect financial reporting after the reference interest rate reform, including its replacement by alternative reference interest rates. The published amendments address issues that may affect financial reporting when the existing reference interest rate is actually replaced.

Amendments to IFRS 16 Leasing: Covid-19-related rent reductions after 30 June 2021, effective as of 1 April 2021, adopted by the EU.

The amendment of May 2020, which granted lessees an exemption from the need to treat the Covid-19-related rent discount as a modification of the lease, now may be applicable until 30 June 2022. The changes to Covid-19-related rent reductions after June 30, 2021 aim to:

- enable lessees to apply the practically appropriate measure to reductions in Covid-19-related rents, in particular payments initially due on or before 30 June 2021.
- require lessees, applying the amendment, to do so for annual financial periods beginning on or after 1 April 2021.
- enable lessees, applying the amendment, to do so retrospectively, recognizing the cumulative effect of the initial implementation of the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, if applicable) at the beginning of the annual reporting period, in which lessees apply the amendment for the first time
- indicate that during the reporting period in which the lessees apply the amendment for the first time, they are not required to disclose the information required by paragraph 28 (e) of IAS 8.

Notes to the consolidated financial statement**3.2 Standards, amendments and interpretations which have not become effective and are not applied as at an earlier date by the Group**

As at the approval date of this financial statement new standards, amendments and interpretations to the existing standards have been published but have not entered into force or have not been approved by the EU for the financial year starting at 1 January 2021 and have not been applied by the Company from an earlier date. They are not expected to have a significant effect on the Group's financial statements. The management expects all standards and amendments to be approved in the Group's accounting policy during the first period starting after the date of their entry into force.

Amendments are related to the following standards:

- Amendments to IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, effective as of 1 January 2022, adopted by the EU
- Annual improvements 2018-2020 in force as of January 1, 2022, adopted by the EU
- Amendments to IFRS 17 Insurance contracts, effective as of 01 January 2023, adopted by the EU
- Amendments to IAS 1 Presentation of Financial statements: Classification of liabilities as current or non-current, effective as of 1 January 2023; not yet adopted by the EU
- Amendments to IAS 1 Presentation of Financial statements, IFRS Statements to Annex 2: Disclosure of accounting policies in force since 1 January 2023, not yet adopted by the EU
- Amendments to IAS 8 Accounting policy, changes in accounting estimates and errors: Definition of accounting estimates, in force since 1 January 2023, not yet adopted by the EU
- Amendments to IAS 12 Income taxes: Deferred taxes on assets and liabilities arising from single transactions in force since 1 January 2023 have not yet been adopted by the EU
- Amendments to IFRS 17 Insurance contracts: Initial application of IFRS 17 and IFRS 9 - Comparative Information effective from 1 January 2023, not yet adopted by the EU.
- Amendments to IFRS 14 Regulatory Deferral Accounts, effective as of 1 January 2016, not yet adopted by the EU

4. Accounting policy**4.1 General provisions**

The most significant accounting policies, applied in preparing this consolidated financial statement, are listed below.

The consolidated financial statement has been prepared in accordance with the principles of valuation of all types of assets, liabilities, revenues and expenses in line with IFRS. The valuation bases are disclosed in detail in the consolidated financial statement accounting policy.

It should be noted that accounting estimates and assumptions were used in preparing the consolidated financial statement. Although they are based on information provided to the management at the date of preparation of the consolidated financial statement, the actual results may differ from the estimates and assumptions made.

4.2 Presentation of the consolidated financial Statement

The consolidated financial statement is set out in line with IAS 1 Presentation of Financial Statements.

Profit or loss report and other comprehensive income is presented in a single statement by the Group.

Two comparative periods are presented in the statement of financial position when the Group applies the accounting policy retrospectively, recalculates items in the financial statement or reclassifies items in the financial statement, and this has a material effect on the information in the statement of financial position as of the beginning of the previous period.

The Group has agreed to present two comparative periods in each case in order to ensure consistency in the presentation for each year.

Notes to the consolidated financial statement

Significant accounting policies set out below have been applied consistently in all periods presented.

4.3 Basis of consolidation

The financial statement of the Group consolidates the financial statements of the parent company - Bulgartransgaz EAD and its subsidiary - Balkan Gas Hub EAD as of December 31, 2021.

Subsidiaries are all entities controlled by the Parent company. Control is exercised when the Parent company is exposed to, or is entitled to, variable returns from its participation in the investee, and is able to influence that return through its powers over the entity.

The reporting period of the subsidiary ends on December 31.

All intra-group transactions and balances shall be eliminated, including the unrealized profits and losses on transactions between Group companies. When unrealized losses on intra-group sales of assets are eliminated, the related assets shall be tested for impairment from the Group's perspective. The amounts presented in the financial statement of the subsidiary have been adjusted, where necessary, to ensure compliance with the accounting policies applied by the Group.

Profits or losses and other comprehensive income from investments in the subsidiary, acquired or sold during the year, are recognized from the date of acquisition or, respectively, until the date of their sale.

If the Group loses control over the subsidiary, any investment retained in the former subsidiary shall be recognized at fair value at the date of control loss, with the change in the carrying amount reflected in profits or losses. The fair value of any investment retained in the former subsidiary at the date of loss of control shall be considered as the fair value on initial recognition of a financial asset in accordance with IFRS 9 Financial Instruments or, where appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity. In addition, all amounts recognized in other comprehensive income in respect of that subsidiary, shall be accounted for on the same basis as would be required if the Group has directly disposed of the related assets or liabilities (e.g. reclassified in the profits or losses or directly attributed to the retained earnings in accordance with the requirements of the relevant IFRS).

The profits or losses from write-off of an investment in a subsidiary represent the difference between:

- the amount of the fair value of the consideration received and the fair value of any retained investment in the former subsidiary and
- the carrying amount of assets (including goodwill) and liabilities of the subsidiary and any non-controlling involvement.

4.4 Investment in associates and jointly controlled entities

The Group determines the type of joint venture in which it participates, based on the rights and obligations laid down in the Joint activities agreement.

The joint venture is a contractual agreement in line with which the Group and other independent parties engage in an economic activity, which is subject to a joint control and the parties holding the joint control over the joint venture have the right to the joint venture net assets.

Associates are those entities over which the Group has the power to exercise significant influence, but which are neither subsidiaries, nor jointly controlled entities.

The Group accounts for its shareholding in associates and jointly controlled entities in accordance with the equity method.

Any subsequent variations in the percentage of Group's participation in the joint venture's equity are recognized in the carrying amount of the investment. Variations due to the profit or loss realized by the joint venture shall be recorded in the consolidated statement of profit or loss and other comprehensive income in line "Loss from investment accounted for under the equity method". These changes include subsequent depreciation or impairment of the fair value determined upon acquisition of the assets and liabilities of the jointly controlled entity.

Notes to the consolidated financial statement**4.5 Segment reporting**

Bulgartransgaz EAD and its subsidiary offer products and services involving transmission, storage, balancing and running of an electronic platform, ensuring the conditions required for conclusion of bilateral transactions and exchange market of natural gas, which also determines the main segment of the Group as the only one.

All transactions in the segment are carried out at prices of corresponding transactions between independent parties.

In segment reporting in accordance with IFRS 8 Operating Segments, the Group applies a measurement policy consistent with the measurement policy used in the consolidated financial statement.

If there are Group assets that do not directly relate to the activity of any of the segments, they are not distributed by segments. Information on the results of the individual segments, regularly reviewed by the Management, does not include the effects of single recurring events, such as restructuring, legal and impairment expenses when impairment is due to an isolated recurring event. Financial revenues and expenses are not included in the results of the operating segments and are regularly reviewed by the Management.

There have been no changes in the valuation methods used to determine the profits or losses of the segments in prior reporting periods. No asymmetric distribution between segments is applied.

4.6 Revenues**(a) Revenues under contracts with customers*****Recognition and estimate of the revenues from contracts with customers***

To determine whether and how to recognize the revenues, the Group applies the following 5 steps:

1. Identify the contract with the customer;
2. Identify the performance obligations;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations;
5. Revenues recognition when the performance obligations are satisfied.

Revenues from contracts with customers are recognized when the control over the goods and/or services promised in the contract is transferred to the customer to the extent that reflects the remuneration to which the Group expects to be entitled in exchange for those goods or services.

The control is transferred to the customer when (or as) performance obligation is fulfilled, according to the contract's terms and conditions, by transferring the promised good or service to the customer. An asset (good or service) is transferred when (or as) the customer obtains control over that asset.

In the initial evaluation of its contracts with customers, the Group assesses whether two or more contracts should be considered as bundled and accounted for as one, and whether the promised goods and/or services in each separate and/or bundled contract should be accounted for as one and/or more performance obligations.

Any promise to transfer goods and/or services that are identifiable (separately and in the context of the contract) is recognized as one performance obligation.

The Group recognizes revenue for each separate performance obligation at the level of an consolidated contract with a customer by analysing each specific contract's type, terms and conditions. For contracts with similar characteristics, revenues are recognized on a portfolio basis only if their bundling into a portfolio would not result in a materially different impact on the financial statement.

Contracts with customers typically involve a single performance obligation.

Measurement

Revenues are measured on the basis of the transaction price set for each contract.

When determining the transaction price, the Group takes into account the contract's terms and

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conditions and its usual commercial practices.

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

When (or as) a performance obligation is satisfied, the Group recognizes as revenue the value of the transaction price (which excludes estimates of the variable remuneration containing restrictions) that is attributable to that performance obligation.

The Group examines whether there are other promises in the contract, which are separate obligations to be fulfilled, for which part of the transaction price must be allocated.

The impact of variable remuneration, the availability of significant financing components, non-monetary remuneration (gas free of charge) and customer's remuneration are taken into account in determining the transaction price.

In cases where the customer contributes by providing goods or services (natural gas for technological needs) to support the Company in contract implementation, it shall obtain control of these goods or services. In determining the transaction price under contracts where the customer promises remuneration in a form other than payment in cash, the Company shall evaluate the non-monetary remuneration (or the promise of non-monetary remuneration) at fair value.

Obligations concerning implementation and approach for recognition of basic types of revenues under contracts with customers***Transport of natural gas to third parties, access and transport of natural gas***

Revenues from natural gas transport to third parties include natural gas transport from the border with Turkey to the borders with Greece, North Macedonia and Serbia.

Revenue from access and transport of natural gas include access and transport of natural gas at entry and exit points/zones along the national gas transmission network in the country, as well as exit and entry points/zones along the transit gas transmission network.

Balancing of the natural gas market

With respect to the Natural Gas Balancing Rules in force as of 01.10.2017, the parent company, in its capacity as a balancing entity, performs commercial balancing of the natural gas market, i.e. offsetting of the differences between the quantity of natural gas input by a gas transmission network user at entry points, and the quantity of natural gas off-taken by him at the network's exit points. The obligation of the balancing entity is to cover the individual imbalances of the gas transmission networks' users. The price for the balancing service is determined according to the terms and conditions of the Daily Imbalance and Neutrality Balancing Charge Calculation Methodology, approved by the EWRC. The price setting elements - the natural gas price approved for the public supplier, the price for natural gas sale to end natural gas suppliers and to customers connected to the gas transmission network, "small adjustment", which is a correction in the price of natural gas for balancing, expressed as a percentage of it, applied with a positive or negative mark, depending on the imbalance mark, in order to determine the daily imbalance charges and the imbalance charge, calculated on a daily basis, which the network user pays or receives depending on the amount of his daily imbalance. In order to achieve neutrality from the balancing activity, the Company shall also charge a balancing neutrality fee, which can be a positive or negative value, depending on the allocated natural gas quantities at each entry/exit point/zone of the gas transmission system owned by the parent company.

Natural gas storage

The activity of natural gas storage is carried out in the only underground gas storage on the territory of the country, Chiren UGS, owned by the Parent company. Chiren UGS is a complex group of underground and surface facilities - operating wells, collecting gas pipelines (gatherings), a compressor station of 10 MW total installed capacity, gas preparation, treatment, control and metering equipment, as well as other adjacent facilities. The technological process associated with the activity of natural gas storage is seasonal (cyclic) and means gas withdrawal/injection from/into the underground gas storage.

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All revenue from the main business of the Group, namely revenue from natural gas transmission to third countries, access and transmission, balancing and storage of natural gas is recognized over time as supply is a sequence of a separate service, which is a promise to supply natural gas that is substantially the same and has a uniform pattern of transfer to the customer.

Revenue is recognized in the profit or loss statement and other comprehensive income when natural gas is transported through the gas transmission network to the respective point of the customer. Revenue from sales is recognized on the basis of the quantities reported by the measuring devices or registered schedules.

The selling prices of the access and transport service carried out by the Parent company can be based on the regulated price and the fixed contract price. The transaction price can be set as a fixed remuneration for the transmission of individual quantities of the series of goods (quantities of transported natural gas).

The selling prices of the storage service carried out by the Parent company are based on the regulated price. The transaction price can be set as a fixed remuneration for storing the individual quantities of the series of goods (quantities of stored natural gas).

Allocation of the transaction price against the performance obligations is made on the basis of unit selling prices (statutory, contractual or market).

At the end of each period, the Group measures its progress towards a full settlement of the performance obligation met over time. The measurement shall be carried out by confirming the transported quantities and/or quantities nominated as per the schedule. I.e. an assessment is made of the quantities of natural gas transported for which the Group recognizes revenues from the access and transmission of natural gas.

Selling prices are fixed (regulated price, fixed price under a contract). The usual credit period is 10 to 30 days. In certain cases, the Group collects short-term advance payments from customers that do not have a significant component of funding. The collected advance payments by the customer are presented in the statement of financial position as liabilities under contracts with customers.

Revenues from the provision of access to and using an electronic natural gas trading platform

Balkan Gas Hub EAD was established as a natural gas trading platform operator in accordance with the Bulgarian Energy Act. In 2021, Balkan Gas Hub EAD offered the following services for access to its electronic trading platform:

- **Segment for offering quantities under the Gas Release Programme** provides the public supplier with a software and trading environment for quantities release, according to the amended and supplemented Energy Act of the Republic of Bulgaria.
- **Short-term (spot)** segment of the platform, which offers short-term standardized products "within the day", "day ahead", as well as temporal and locational products for the needs of balancing of the transmission system operator's network. Trade is carried out on an anonymous basis in accordance with the provisions of Regulation (EU) No 312/2014.
- **Long-term segment** of the trading platform, which offers products traded on a mid-term and long-term basis - weekly, monthly, quarterly and annual.

Revenues from the provision of access service to and using an electronic natural gas trading platform are recognized in the period in which the services are provided. The Group transfers the control over the services over time and therefore satisfies the performance obligation and recognizes revenues over time. In recognising the revenues from the service provided, the Group applies a measuring progress method, taking into account the resources invested.

In 2020, Balkan Gas Hub (BGH) commenced active operations. In order to be able to participate in the platform, BGH customers pay initially a registration fee of BGN 5,000. BGH enters into open-ended contracts with its customers to provide services for access to and use of the electronic natural gas trading platform. Contracts have standard terms and conditions that are the same for all customers. The contract requires the customer to pay an advance payment fee for initial registration in the platform. The fee is non-refundable. The initial administrative activities of the

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Group regarding registration do not transfer a good or service to the customer and therefore do not give rise to an obligation to perform.

The advance fee is an advance payment for future services for access to and use of the electronic natural gas trading platform. Therefore, the Group sets the transaction price, including the non-refundable advance fee, and recognises revenue for the services for access to and use of the electronic trading platform for natural gas in the course of their provision.

The Group management has considered that the revenues from the registration fee should be rescheduled for a period until June 30, 2021 and from July 1, 2021 until December 31, 2022, taking into account all the facts and circumstances such as: gas market development, presence of competitors after issuing of licenses for an organized exchange market, changes in services provision and implementation of a clearing mechanism.

Revenues from use of additional screens

In addition to the main contracts, the Group provides its customers with the option to use more than one screen to access and operate on the natural gas trading platform.

The Group considers that the option to use additional screens does not provide substantive right that the customer would not have received without concluding these basic contracts. The prices for use of additional screens reflect the unit sales prices for these services. As far as the option to use additional screens does not provide the customer with a substantive right, the Group concludes that this is not an obligation to perform in the contract. As a result, the Group does not allocate any part of the transaction price to the option to use additional screens. The Group recognises revenue for the use of additional screens if and when it provides these services.

Revenues from the use of an additional screen shall be recognised in the period over which the services have been provided. The Group transfers the control over the services over time and therefore satisfies the performance obligation and recognizes revenues over time. In recognising the revenues from the service provided, the Group applies a measuring progress method, taking into account the resources invested.

Revenues from data provision service

The Group offers a data reporting service on transactions concluded or registered through the Balkan Gas Hub platform in connection with the requirements of Regulation (EU) 1227/2011 on wholesale energy market integrity and transparency.

Revenue from data reporting services shall be recognised in the period over which the services have been provided. The Group transfers the control over the services over time and therefore satisfies the performance obligation and recognizes revenues over time. In recognising the revenues from the service provided, the Group applies a measuring progress method, taking into account the resources invested.

Revenues from services provided to the Group for a fixed amount shall be recognised when the Group transfers control over the customer's assets. Invoices for transferred services are being issued monthly, which reflects the linear method for their recognition, i.e. upon receipt of the assets from the customer.

Invoices shall be due for payment by the tenth day of the month following the month of the transaction.

Revenues from other services

Revenue from services provided is recognized in the period over which the services have been provided. The Group transfers the control over the services over time and therefore satisfies the performance obligation and recognizes revenues over time. If, at the end of the reporting period, the service under the contract is not fully provided, the revenue is recognized on the basis of the actual service provided by the end of the reporting period as a proportional part of the total services to be provided as the customer receives and uses the benefits simultaneously. This is determined on the basis of time actually spent on work performed against the total time expected

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required for that service.

The customer shall pay for the services provided on the basis of the clauses stipulated in the specific contract. The usual credit period is 10 to 30 days after the service has been delivered. In the event that the services provided by the Group exceed the payment, an asset is recognized under the contract. If payments exceed the services provided, a liability is recognized under the contract.

Revenues from sale of goods

Revenues from sales of goods and materials are recognized when the control over the assets is transferred. Delivery takes place when the assets have been submitted to the customer, the risks of potential losses have been transferred on to the buyer and/or he has accepted the assets in accordance with the sale contract. The usual payment term is up to 30 days after delivery.

Principal or agent

When a third party participates in the provision of goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation relating to provision of the particular goods or services (principal) or to arranging the third party to provide these goods or services (agent).

The Group is a principal when it controls the promised goods or services prior to its transfer to the customer. However, the Group does not necessarily act as a principal if it receives the ownership right of an asset only temporarily before the ownership right is transferred to the customer.

The Group is an agent if its performance obligation is to arrange the delivery of the goods or services by a third party. When the Group - agent fulfils the performance obligation, it recognizes revenue to the amount of the fee or commission it expects to be entitled to in exchange for arranging the goods and services to be provided by another party. The fee or commission of the Group may be the net amount of the consideration the Group retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

The main activity of the Group relates to transmission of natural gas through and on the territory of the country. The Group is primarily responsible for contract implementation and transport of the nominated natural gas quantities.

For some of its contracts the Group has no power to set the prices of the services to its customers and thus the benefit that the Group can receive from these services is limited. However, this is due not to the agency function of the Group acting as an intermediary between the producers and customers/traders of natural gas, but to its function of independent transmission operator of the gas transmission system of Bulgaria conferred by the legislation.

As a result of the related sales of the Group, the complete consideration for the transported natural gas quantities is due, and upon arising of the receivable, the Group is exposed to a credit risk for the receivable from the customer in exchange for the goods.

Material accounting estimates, valuations and assumptions related to revenue from contracts with customers are given in Note 7 and 8.

Balances under contracts***Trade receivables and assets under contracts***

The receivable is the right of the Group to receive a remuneration of a certain amount that is unconditional (i.e. before the payment of remuneration becomes due, it is only necessary a certain period of time to expire).

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

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Liabilities under contracts

As a liability under a contract the Group presents the payments received from the customer and/or an unconditional right to receive a payment before fulfilling its contractual obligations. Liabilities under a contract are recognized as revenue when (or as) it discharges its performance obligations.

For some of its trade receivables, the Group is entitled to receive irrevocable and unconditional bank guarantees or deposits to secure the respective receivable. The Group owes no interest for the time during which the amount of a deposit provided as a security has been retained by it, nor any additional payments of fees, expenses, etc. related to the security provided. The deposit shall be reimbursable and the bank guarantee released in the event of replacement of the form of financial security by the customer or upon termination of the contract with the customer when settling the relations with the Group.

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

After initial recognition, trade receivables and assets under the contract shall be reviewed for impairment in accordance with IFRS 9 Financial Instruments rules.

(b) Other revenue/income

Other revenue include operations that are incidental to the main activities of the Group and are revenue or income recognized by other standards and beyond the scope of IFRS 15.

	Recognition approach
Net profit from sale of property, plant and equipment.	Profits or losses arising from the disposal of a property, plant, equipment or intangible asset as a result of a sale are included in the profit or loss when the asset is written off. The asset is written off when control over the sold asset is transferred.
Revenue from revaluation of property, plant and equipment.	Revaluation revenue is recognized as revenue to the extent of previously accrued expenses.
Surplus assets and liquidation of assets.	Revenue from asset surpluses is recognized when the surplus is established.
Revenue from financing	Where a grant (financing) is related to an expense item, it is recognized as revenue for the periods necessary to compare it on a systematic basis with the expenses it is intended to offset. When the grant (financing) is related to an asset, it is presented as a liability and included in the revenues over the useful life of the related asset.
Revenues from insurance events	Revenue is recognized when the right of the Group to receive payment is established.
Revenues from penalties	Revenue is recognized when the right of the Group to receive payment is established.
Revenues from write-off of liabilities	Revenues from write-off of liabilities are recognized when the liability period expires or the creditor gives up his rights.

(c) Interests and dividend revenue

Revenues include revenues from interest on funds invested, profit from foreign currency transactions, revenues from interests of long-term receivables. Revenue from interest is recognized in profit and loss at the time of its accrue using the effective interest rate method.

The dividend revenue is recognized when the right to receive it is established.

4.7 Expenses

Expense is a decrease in the economic benefit over the reporting period in the form of expiry or decrease in assets or accumulation of liabilities, thus resulting to decrease in the equity independently from the decrease due to an allocation to the sole owner.

Expenses of the Group are recognised at the time of their occurrence and based on the principles of accrual accounting and compatibility. Where the economic benefit is expected to last for a couple of reporting periods, thereby making the connection with the income only general or indirect, the expenses are recognised in the consolidated profit or loss statement and any other

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overall revenue based on system and rational procedures rescheduling procedures. The objective behind similar procedures is expenses to be recognised in these reporting periods when the related economic benefit, linked with these items will be acquired and completely used. Any expense which will not result in future income or other economic benefit or when it will be established that it is more likely such economic benefit to not be classified as an asset in the consolidated statement of financial position shall be immediately recognised as running cost.

A reported obligation with no asset acquisition is also recognised to be an expense, i.e. provision.

All expenses of the Group are initially reported in line with economic elements – costs for: materials, raw materials and consumables, external services, depreciations, personnel, taxes, fees and any other similar payments, assets impairment, provisions under liabilities, balance sheet value of the sold assets, excise duty, contribution to the Security of the Electricity Systems Fund, fines, penalties, deficits/gaps, representative funds, training and qualification, technological losses, etc. After being reported as costs by economic elements, all Group costs are distributed as expenses also for: main, auxiliary, social and management activity.

Costs for the main activity relate to the natural gas services offered:

- Natural gas transmission to third countries on the basis of contractual relations with customers;
- Access and transport of natural gas through the national gas transmission network, owned by the Group, through high pressure gas pipelines, from the gas metering stations to the gas distribution stations to be further on supplied to natural gas end consumers;
- Storage – activity involving natural gas injection and its subsequent withdrawal to be further on supplied to end users. It is carried out in Chiren UGS; and
- Balancing - purchase and sale of natural gas with a view to covering the individual imbalances of the gas transmission networks users.

The Group reports two types of expenses related to the execution of services (goods) contracts with customers: expenses for contract conclusion and expenses for the implementation of the contract. When expenses are not eligible for deferral under IFRS 15, they are recognized as current at the time when they are incurred when they are not expected to be recovered or the deferral period is up to one year.

The following operational expenses are always presented as current expense when they arise:

- General and administrative expenses (unless they are at the expense of the customer);
- Expenses for writing-off inventories;
- Expenses related to obligation performance;
- Expenses for which the company cannot determine whether they are related to a satisfied or unsatisfied performance obligation.

(a) Interests and loans expenses

Financial expenses include interest expenses on loans, expenses resulting from an increase of liabilities due to approach by one period of the date fixed for the implementation of the obligations under defined benefit plans, and other financial operations - bank charges, commissions and others.

Loans expenses are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit and loss using the method of effective interest rate.

Profit and losses from foreign currency exchange differences are accounted on a net basis or as financial income or financial costs, depending on whether the exchange rate differences represent a net profit or net loss.

4.8 Property, plant and equipment**(a) Recognition and evaluation. Specific assets.***Initial recognition*

Property, plant and equipment are initially measured at their acquisition cost, which includes costs directly related to acquisition of the asset. Cost of acquisition of self-constructed assets includes

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the following:

- material costs and direct labour;
- costs directly related to bringing the asset to the condition necessary for the intended use;
- when the Group has the obligation to dismantle an asset or restore the terrain, estimate of costs of dismantling and restoring the site on which they are located;

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When property, plant and equipment include components with different useful lives, they are accounted for separately.

Subsequent evaluation

For the purposes of subsequent valuation of property, plant and equipment the Group applies the revaluation model in IAS 16. The revalued amount is the fair value on the date of revaluation, less subsequent depreciation and accumulated impairment losses.

The fair value of property, plant and equipment is determined based on market evidences presented in the report prepared by an independent certified appraiser.

Revaluation of property, plant and equipment is carried out every three years. When the fair value changes significantly for a shorter period this revaluation may be done more frequently.

As at 31 December 2021, an evaluation of the fair value of property, plant, equipment and transport vehicles (cargo and specialized) and the net realizable value of inventories, and impairment test have been made by a licensed appraiser. All vehicles other non-current assets and assets under construction are presented in the financial statement based on historical cost reduced by the accumulated depreciation and impairment losses.

Specific fixed asset of the Group is the buffer gas in Chiren UGS and in the gas pipeline. It is a constant quantity that only supports usability of the storage and pipeline without participating in the quantity transported or used for own technological needs natural gas. These quantities should not decrease because it will reduce the capacity of Chiren Underground Gas Storage and the gas pipeline.

Buffer gas in Chiren UGS and in transit and main gas pipeline is divided into depreciable and non-depreciable buffer gas. Depreciable buffer gas in Chiren UGS is that quantity of gas that will remain in the underground reservoir after closure the exploitation of gas storage and cannot be used for commercial purposes.

Non-depreciable buffer gas is a part of buffer gas in Chiren UGS, that could yield on the surface at a pressure of 35 bar of the gas pipeline upon currently available facilities.

Buffer gas in the gas pipeline is divided also into depreciable and non-depreciable buffer gas on the basis of the above assumption. Quantities buffer gas as well as their value are disclosed in *Note 15*.

Profits and losses upon writing off of property, plant and equipment (defined as a difference between the proceeds and the balance sheet value of the asset) are recognized net within other income/other expenses in profits and losses. When revalued assets are sold, the amounts included in the revaluation reserve are reclassified to retained earnings or loss.

At the end of each reporting period part of revaluation reserve is realized in accordance with the use of the asset by the company. The amount of the revaluation realized represents the difference between depreciation based on the revaluated balance sheet value of the asset and depreciation based on the acquisition cost.

Subsequent expenses

Subsequent expenses are capitalized only when it is likely that future economic benefits of these expenses will be received by the Group. Current repairs and maintenance are recognized as an expense upon their occurrence.

Depreciation

Property, plant, facilities and equipment are depreciated from the date on which they are installed

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and ready for use or for the acquired in a commercial manner, from the date when the asset is completed and ready for use. Depreciation is recognized to the extent of the initial value of the asset minus the expected residual value of the asset on a straight-line method, based on the expected useful lives of each of the components of property, plant, facilities and equipment. Depreciation is accounted for in profit or loss unless it is included in the balance sheet value of another asset. Depreciation and amortization of assets acquired under finance leases are charged to the shorter period between the contract and their useful life unless it is reasonably certain the acquisition of ownership by the end of the contract term. Land is not depreciated.

The expected useful life terms for the current and comparative period are as follows:

Buildings	7 - 70 years
Plants, facilities and equipment	3 - 50 years
Computer equipment and office furniture	3 - 12 years
Transport vehicles	3 - 15 years
Depreciable buffer gas	60 years
All the rest	3 - 15 years

The depreciation methods, useful life and residual values are reviewed as at each reporting date and corrected if necessary. The rough estimates of property, plant and equipment were revised as at December 31, 2021 (see also *Note 15*).

(b) Impairment of non-financial assets

The accounted values of non-financial assets of the Group, other than inventories and deferred tax assets, are reviewed on each reporting date to determine whether there are signs of impairment. If any, a rough estimate of the recoverable amount of the asset is made. An impairment loss is recognized always if the balance value of an asset or a cash-generating unit (CGU), part of which it is, exceeds its recoverable value.

The recoverable value of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In measuring the value in use, the estimated future cash flows are discounted to their present value using a discount rate before tax that reflects current market assessments, the money value over time and the risk specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are bundled together into the smallest possible bundle of assets that generates cash inflows from continuing use that are to a large extent independent of the cash inflows from other assets or CGU.

Impairment losses are recognized in profit and loss. Impairment losses recognized for CGU are allocated so as to reduce the assets accounting values in the unit proportionately. An impairment loss is recovered to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

4.9 Intangible assets

Intangible assets acquired by the Group, having a definite useful life are presented at acquisition price less accumulated depreciation and impairment losses.

Subsequent expenses

Subsequent expenses are capitalized only when they increase the future economic benefit of the asset to which they relate. All other expenses are recognized as an expense at the time of their occurrence.

Depreciation

Intangible assets are depreciated on a straight line basis in profit or loss based on their estimated useful economic life as of the date on which they are ready for use.

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The expected useful life terms for the current and comparative period are as follows:

Licenses for storage, transmission and transit transmission of natural gas	4 - 35 years
Software licenses and mobile telecommunications and radiotelephone network	2 - 10 years
Software products	2 - 8 years
Others	3 - 25 years

Depreciation methods, useful life and residual values are reviewed as at each reporting date and corrected if necessary.

4.10 Inventories

Inventories include: fuels, operating gas, property of the Group, used to cover the technological needs, balancing natural gas, spare parts, equipment, office materials, stationery and consumables, goods; work in progress and finished goods, including produced condensate.

Inventories are accounted at the lower of their cost and their net realizable value. The cost of inventories is based on the weighted average principle, and includes the acquisition costs of inventories, production costs or processing and any other costs relating to bringing the inventories to their present location and condition. The cost of manufactured goods and unfinished production includes labour costs, social security expenses and depreciation costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to complete the production cycle and those expenses that are necessary to make the sale. Spare parts and spare equipment are considered as property, plant, facilities and equipment when the Group expects to use them longer than an accounting period and they are used only in connection with a certain property, plant, facilities and equipment. For their accounting significant accounting policy 4.7 is applied.

The subsequent evaluation of natural gas (inventory) shall be determined as follows:

- The free of charge gas for compressor stations along the gas transmission network for transit transmission - at a price at which the public supplier sells natural gas to the end suppliers of natural gas and to the persons, to whom a license for production and transmission of heat has been issued, determined with EWRC Decision for the respective month in MWh.
- The natural gas in the gas transmission network for transit transmission which is not owned by Bulgartransgaz EAD - at a price at which the public supplier sells natural gas to the end suppliers of natural gas and to the persons, to whom a license for production and transmission of heat has been issued, determined with EWRC Decision for the respective month in MWh.
- The natural gas in the national gas transmission network - at a price at which the public supplier sells natural gas to the end suppliers of natural gas and to the persons, to whom a license for production and transmission of heat has been issued, determined with EWRC Decision for the respective month in MWh.
- The natural gas calorific difference entry-exit, generated in the gas transmission network - at a price at which the public supplier sells natural gas to the end suppliers of natural gas and to the persons, to whom a license for production and transmission of heat has been issued, determined with EWRC Decision for the respective month in MWh.

4.11 Financial instruments

(a) Recognition and derecognition

The Group initially recognizes a financial asset at the time when the company becomes a party to a contractual arrangement and classifies it according to its financial asset management model and the characteristics of the contracted cash flows.

The Group deducts the financial liability (or part of a financial liability) from its statement of the financial position when and only when it is paid off - that is, when the obligation specified in the contract is fulfilled, cancelled or its term has expired.

(b) Classification of initial financial asset assessment

Except for those trade receivables that do not have a significant financial component and which are valued at transaction price under IFRS 15, all financial assets are initially assessed at fair value,

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adjusted for transaction expenses (where applicable).

Financial assets different from those which are created and effective as hedging instruments, are classified into one of the following categories:

- Amortized cost
- Fair value in the profit or loss
- Fair value in other comprehensive income

Classification is determined by both:

- The Group's Business Model for Financial Asset Management;
- Characteristics of the contractual cash flow of the financial asset.

All revenues and expenses related to the financial asset which are recognized in the profit or loss are included in other expenses.

Subsequent evaluation of financial assets**(c) Financial assets at amortized cost**

Financial assets are evaluated at amortized cost if the assets meet the following requirements (and are not determined for measured under fair value in profit and loss):

- The company manages assets in a business model that aims to hold financial assets and collect contractual cash flows;
- Under the contractual terms of the financial asset at specific dates, cash flows arise, which are only principal and interest payments on the outstanding amount of the principal;

This category includes non-derivative financial assets such as loans, receivables with fixed or determinable payments that are not quoted in an active market. After initial recognition, they are measured at amortized cost using the effective interest method. Discounting is skipped when its effect is insignificant. Cash and cash equivalents, trade and other receivables and related party receivables are part of this category.

Trade and other receivables

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly correlated transaction costs. After initial recognition receivables are measured at amortized cost using the method of effective interest rate less the impairment losses.

Cash and cash equivalents

Cash and cash equivalents includes cash balances and call deposits with original maturities of three months or less from the date of acquisition, that are associated with insignificant risk of changes in their fair value and are used by the Group to manage short-term commitments.

Deposits with maturity of over three months are classified as short-term receivables in the consolidated statement of financial position.

Deposits set as collaterals for counterpart liabilities are classified as Cash provided as collateral in the consolidated statement of financial position.

(d) Impairment of financial assets

Financial assets that are within the scope of the impairment calculation are debt instruments evaluated at amortized cost.

The Group recognizes a revaluation allowance for expected credit losses from a financial asset, contract asset or credit obligation and a financial guarantee contract to which the impairment requirements apply. Expected credit losses are a probability-weighted estimate of the credit losses for the expected term of the financial instrument i.e. the cash deficit that represents the difference between the cash flows due to the Group and the cash flows that the Group expects to receive.

The Group wrote off a financial asset when the contractual rights on the cash flows from the asset are expired or the Group transfers the rights to receive the contractual cash flows of the financial asset in a transaction in which substantially all the risks and rewards of ownership of the asset are transferred. Any participation in transferred financial assets that are created or retained by the Group is acknowledged as a separate asset or liability.

Financial assets and liabilities are netted and the net amount is presented in the statement of

Notes to the consolidated financial statement

financial position when, and only when the Group has a legal right to net the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: trade and other receivables, receivables from related entities, cash and cash equivalents and cash provided as a collateral.

Impairment requirements under IFRS 9 use more forward looking information to recognize the expected credit losses - the "expected credit loss" model.

Instruments that fall within the scope of the requirements of IFRS 9 include loans and other types of debt financial assets measured at amortized cost, trade and other receivables, related party receivables.

Recognition of credit losses does not depend on the occurrence of a credit loss event. Instead, the Group 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.

The calculation of the expected credit losses is determined by the probability-weighted estimate of credit losses over the expected period of the financial instruments.

The Group uses a simplified approach to accounting trade and other receivables and related party receivables, and recognizes impairment loss as an expected credit loss over the entire period. This is the expected shortfall in contractual cash flows, given the potential for default at any time in the financial instrument's term. The company uses its accumulated experience, external indicators and long-term information to calculate the expected credit losses through customer allocation by industry and time structure of the receivables.

The Group recognizes a revaluation allowance for expected credit losses from a financial asset, loan receivable, contract asset or credit obligation and a financial guarantee contract to which the impairment requirements apply.

Determining the amount of expected credit losses

The Group estimates the expected credit losses of a financial instrument in a manner that shows:

- The exact and probability-weighted estimate of the asset determined by assessment of number of possible results;
- Value of the money over time; and
- Reasonable and supporting information for past events, current terms and conditions and future estimates for economic conditions which is available without significant expenses or efforts as of the reporting date.

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

Significant increase of the credit risk

At each reporting date, the Group assesses whether the credit risk of a financial instrument has increased significantly compared to the initial recognition. When making the estimate, the Group uses the change in the default risk arising during the life of the financial instrument instead of the change in the amount of expected credit losses. This assessment is made on the basis of a default risk comparison of the financial instrument at the reporting date by the default risk occurred at the date of initial recognition. Information is identified without unnecessary cost or efforts.

(e) Financial liabilities classification and measurement

The financial liabilities of the Group include loans received, trade and other liabilities. Financial liabilities are initially evaluated at fair value and, where applicable, adjusted for transaction costs unless the Group has designated a certain financial liability as measured at fair value in profit or loss.

Notes to the consolidated financial statement

Subsequently, financial liabilities are measured at amortized cost using the effective interest method.

All interest costs and, if applicable, changes in the fair value of the instrument that are reported in profit or loss are included in the financial expenses or financial revenues. Financial liabilities are initially recognized on their transaction date on which the Group becomes party under the contract conditions of the instrument. The Group wrote off a financial liability when its contractual obligations are discharged or cancelled or they are no longer valid.

Financial assets and liabilities are netted and the net amount is presented in the statement of financial position when, and only when the Company has a legal right to net the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

4.12 Leased assets

Leasing is defined as "a contract or part of a contract that convey the right to use an asset (the underlying asset) for a specified period of time in exchange for consideration". To apply this definition, the Group makes three fundamental judgements:

- Whether the contract contains an identified asset which is either explicitly indicated in the contract or identified by default at the time the asset is made available for use.
- The Group has the right to receive substantially all the economic benefits from the use of the asset throughout the period of use, within the defined scope of its right to use the asset under the contract.
- The Group has the right to manage the use of the identified asset throughout the entire period of use.

The Group measures whether it has the right to manage the "how and for what purpose" the asset will be used throughout the period of use.

Measurement and recognition of a lease by the Group as a lessee

On the commencement date of the lease, the Group recognizes the right-of-use asset and the lease liability in the statement of financial position. The right-of-use asset is measured at acquisition cost, which consists of the amount of the initial measurement of the lease liability, the initial direct costs incurred by the Group, an estimate of the costs that the lessee will incur to dismantle and move the underlying asset at the end of the lease and any lease payments made before the date of the lease commencement (less leasing incentives received).

The Group amortises the right-of-use asset using the straight-line method as of the effective date of the lease to the earlier of the two dates: the end of the useful life of the right-of-use asset or the expire of the lease contract. The Group also reviews right-of-use asset for impairment, where such indicators exist.

At the commencement date, the lessee assesses the lease liability at the present value of the lease payments for the right to use of the underlying asset during the lease contract term that were not paid as of the commencement date. Such might be:

- fixed payments less incentives to be received under the lease;
- variable lease payments that depend on an index or percentage that are estimated at the index value or the percentage as of the commencement date (e.g. a reference interest rate such as LIBOR);
- amounts expected to be payable by the lessee under the residual value guarantees;
- the price for exercising a purchase option if it is reasonably certain that the lessee will exercise that option; and
- payments of penalties for lease contract termination, if the term of the lease contract specifies the exercise of an option for termination of the contract by the lessee.

Lease payments shall be discounted at the interest rate set out in the lease if that rate can be directly determined. If this rate cannot be directly determined, the Group uses the interest rate it would have to pay in order to borrow for a similar period of time with similar collateral the funds needed to obtain an asset of similar value in a similar economic environment.

Notes to the consolidated financial statement

Following the commencement date, the lease liability decreases with the amount of payments made and increases with the interest amount. The lease liability is revalued to reflect measurements or changes to the lease or to reflect the adjusted sustainably fixed lease payments.

When the lease liability is revalued, the relevant adjustment is recognized in the right-of-use asset or recognized in profit or loss if the carrying amount of the right-of-use asset is already reduced to zero.

The Group has chosen to account for short-term leases and leases of low-value assets, using the practical relieves provided for in the standard. Instead of recognizing right-of-use assets and lease contract obligations, payments in respect to these are recognized as an expense in the profit or loss under the straight-line method for the term of the lease contract.

The Group as a lessor

The accounting policies of the Group under IFRS 16 has not changed towards the comparative period.

As a lessor, the Group classifies its lease contracts as operating or finance leases.

The lease contract is classified as a finance lease contract if it transfers substantially all the risks and benefits from the ownership to the underlying asset, and as an operating lease if it does not transfer substantially all the risks and benefits from the ownership to the underlying asset.

4.13 Equity, reserves and payment of dividends

The share capital of the Parent company represents the nominal value of the issued shares.

The revaluation reserve includes gains or losses from revaluation of non-financial assets.

The other reserves include:

- statutory reserves and general reserves formed in accordance with the effective commercial legislation and the Articles of Association of the Company
- reserve of revaluation on defined benefit plans - includes actuarial gains or losses from changes in demographic or financial assumptions and the return on plan assets.

Retained earnings include the current financial result and accumulated profits and uncovered losses from previous years.

Dividend payables to the sole owner are included in line "Liabilities to related entities" in the consolidated financial statement. All transactions with the sole owner of the Group are presented separately in the consolidated statement of changes in equity.

4.14 Employees benefits**(a) Short-term employees benefits**

Obligations for short-term employee benefits are measured on an undiscounted basis and are accounted as operating expenses as the services related to them are provided. As liability is recognized the amount that is expected to be paid under a short-term bonus in cash or plans for profit-sharing if the Group has a present legal or constructive obligation to pay this amount as a result of services in the past provided by the employee and this obligation can be estimated reliably.

The Group acknowledges as obligation the undiscounted amount of the estimated cost of paid annual holiday, that are expected to be paid to employees for their work for the past reported period.

(b) Defined contributions plans

The defined contribution plan is a plan for post-employment benefits under which a company pays contributions to another person and has no legal or constructive obligations to pay further amounts afterwards. The government of Bulgaria is responsible for providing pensions under defined contribution plans in Bulgaria. Obligations for payment of contributions for retirement plans with defined contributions are recognized as staff expenses in the current profit and loss. Contributions under a defined contribution plan that are due more than 12 months after the end of the provision of services of the employees, are discounted to their present value.

Notes to the consolidated financial statement**(c) Defined benefit plans**

The Group has an obligation to pay income upon retirement to those employees who retire in accordance with Art. 222, § 3 of the Labor Code (LC). Pursuant to these provisions of the Labor Code and the Collective Labor Agreement in Bulgartransgaz EAD upon termination of the employment contract of an employee of the Group, who acquired the right to pension, the Group pays a compensation of twelve gross wages in the event that the employee has acquired length of service in the Group over 10 years as of the date of retirement and compensation of five gross wages if the employee has acquired length of service in the Group up to 10 years. As at the date of the financial statement, the Management estimates the total amount of the potential expenditures for every employee based on a report prepared by an actuary. In Note 28 to the consolidated financial statement is mentioned the amount of the obligation accrued and the main assumptions on which the valuation of the obligation is made.

According to the requirement of the standard (para 78 of IAS 19) the rate with which the obligation will be discounted have to correspond to the market income as at the balance sheet's date, which bear high quality corporate bonds. Provided that there is no developed capital market, government bond market earnings should be used.

It is also appropriate the future rate of return of the Company assets to be used as a discount rate. Due to the long term nature of the obligation and the lack of such financial instruments that reflect profitability for a longer period of time, it is estimated that, as a discount rate can be applied the expected rate of profitability upon the instruments with longer maturities than the existing, following the requirements of Paragraph 81 of IAS 19.

Calculations are performed annually by a qualified actuary using the projected unit credit method. The Group recognizes all actuarial profit and loss arising from defined benefit plan at the expense of the other comprehensive income.

4.15 Grants provided by the state**Grants provided by the state bound with assets**

Grants provided by the state are recognized initially as deferred income at fair value when there is reasonable assurance that they will be received and that the Group will meet the conditions relate to the funds. Afterwards they are recognized in profit and loss as other income on a systematic basis for the useful life of the asset. Grants that compensate the Group for the expenses incurred are acknowledged in profit or loss on a systematic basis in the periods in which they arise.

4.16 Foreign Currency Transactions

The transactions in foreign currency are recorded into the functional currency at the exchange rate applicable on the day of the transaction. Monetary assets and liabilities denominated in foreign currencies are recorded into the functional currency at the exchange rate of the BNB on the day of the statement of financial position. Profit or loss from exchange differences arising on monetary positions is the difference between the amortized cost in the functional currency in the beginning of the period, corrected with the effective interest and payments during the period, and the amortized cost in foreign currency accounted at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are reported at fair value are converted to the functional currency at the exchange rate on the date to which the fair value was determined. Non-monetary assets and liabilities in foreign currency which are assessed at historical cost are converted into the functional currency at the exchange rate on the date of the transaction. Exchange rate differences arising of conversion are accounted in profit and loss.

Since January 1, 1999 the exchange rate of the Bulgarian lev (BGN) is fixed to the euro (EUR). The exchange rate is BGN 1.95583 / EUR 1.0.

4.17 Taxes

Corporate tax for the year comprises of current and deferred taxes. The income tax is recognized in profit and loss, except in the case of business combinations or items that are recognized directly in equity or in the other comprehensive income.

The current tax is the expected tax payable or receivable on the taxable income or loss for the year applying the tax rates entered into force or substantively enacted at the reporting date and all

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correction to outstanding taxes of previous years.

Deferred taxes are calculated on the temporary differences between the amounts of assets and liabilities recognized in the financial statement and the amounts used for taxation purposes. Deferred tax shall not be recognized for:

- temporary differences from initial recognition of assets and liabilities in a transaction that is not a business combination and that does not affect profit or loss, either for accounting or for tax purposes;
- differences related to investments in subsidiaries and jointly controlled entities insofar as they are unlikely to have a reverse effect in the foreseeable future; and
- taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax is measured at tax rates that are expected to apply to temporary differences when they appear back on the basis of laws that are in force or were entered substantially enacted at the reporting date.

Deferred tax assets and liabilities are offset only, if there is a legal basis for deduction of current tax assets and liabilities, and they refer to income taxes imposed by the same tax authorities.

A deferred tax asset is accrued for unused tax losses, credits and deductible temporary differences, as far as it is probable that future taxable profit will be available, against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced as far as it is no longer probable that future benefit will be realized.

In determining the current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes or interest may be payable. The Group considers that accruals for tax liabilities are adequate to all open tax years on the basis of assessment of many factors, including interpretations of tax law and former experience. This assessment is based on estimates and assumptions and may involve judgements about future events. New information may occur, according to which the Group may change its judgements about the adequacy of the existing tax liabilities; such changes to tax liabilities would impact tax expenses in the period when such determination is made.

4.18 Contingent assets, contingent liabilities, provisions

Provisions shall be recognized when it is probable that current liabilities as a result of past event will lead to an outflow of resources from the Company and a reliable estimate of the amount of the liability can be made. The timing or amount of the cash outflow may be uncertain. A present obligation arises from the existence of a legal or constructive obligation as a result of past events, such as guarantees, legal disputes or onerous contracts. Provisions for restructuring shall be recognized only if a detailed formal restructuring plan has been developed and implemented or management has disclosed the highlights of the restructuring plan to those that would be affected. Provisions for future operating losses shall not be recognized.

The amount recognized as a provision shall be calculated on the basis of the most reliable estimate of the costs, necessary to settle the current liability at the end of the reporting period, taking into account the risks and uncertainties related to the current liability. When a number of such liabilities exist, the probable need for an outflow to repay the liability shall be determined by considering the group of liabilities as a whole. Provisions shall be discounted when the effect of time differences in the value of the money is significant.

Compensations from third parties with regard to a liability that the Group is certain to receive, shall be recognised as a separate asset. This asset may not exceed the value of the relevant provision.

Provisions shall be reviewed at the end of each reporting period and their value shall be adjusted to reflect the best estimate.

Notes to the consolidated financial statement

In cases where an outflow of economic resources is considered unlikely to occur as a result of a current liability, a liability shall not be recognized. Contingent liabilities should be subsequently measured at the higher value between the comparable provision described above and the amount initially recognized, decreased by the accumulated depreciation.

Probable inflows of economic benefits, that do not yet meet the criteria for recognition of an asset, shall be considered contingent assets. They are described together with the contingent liabilities of the Group in Note 36.

4.19 Use of estimates and judgements

In preparing this consolidated financial statement, the management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets and liabilities, income and expenses. The actual result may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. The revision of estimates is prospectively recognized. In preparing the submitted separate financial statement, the significant management judgements in applying the Company's accounting policies and the main sources of uncertainty of the accounting estimates, do not differ from those disclosed in the interim financial statement of the Group as of June 30, 2021.

(a) Judgements

Information on critical judgements made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statement is set out in the relevant notes.

(b) Uncertainty of the assumptions and estimates

In preparing the financial statement, the management made a number of assumptions, estimates and assumptions about the recognition and measurement of assets, liabilities, revenues and expenses.

Actual results may differ from management's assumptions, and estimates, and, in rare cases, may be fully consistent with the estimated results.

Information on the material assumptions, measurements and estimates that have the most significant effect on the recognition and measurement of assets, liabilities, revenues and expenses is shown below.

Impairment of non-financial assets

An impairment loss is recognized as the amount by which the carrying amount of an asset or cash-generating unit exceeds their recoverable amount, which is the higher of fair value less costs of asset sale and its value in use. In order to determine the value in use, the Group's management calculates the expected future cash flows for each cash-generating unit and determines the appropriate discount factor in order to calculate the present value of those cash flows. In calculating the expected future cash flows, the management makes assumptions about the future gross profits. These assumptions are related to future events and circumstances. The actual results may differ and may require significant adjustments in the Group assets in the next reporting year.

In most cases, when determining the applicable discount factor, an assessment is made of the appropriate adjustments related to market risk and asset-specific risk factors.

Useful life of depreciable assets

The management reviews the useful lives of depreciable assets at the end of each reporting period.

The carrying amounts of the assets are analysed in notes 15 and 16. The actual useful life may differ from the evaluation made due to technical and moral obsolescence, or other factors that could subsequently affect the determination of useful lives.

Inventories

Inventories are valued at the lower of cost and net realizable value. In determining the net realizable value, the management takes into account the most reliable information available at the

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date of the estimate. Determination of impairment requires management to evaluate the turnover of inventories, mostly by putting them into use, including their use for technological purposes. The Group's management believes that the carrying amount of inventories, consisting primarily of natural gas and spare parts, is the best estimate of their net realizable value at the date of the statement of financial position, as required by IAS 2 Inventories. In 2021, the Group has reported reversal of an impairment loss of natural gas in the amount of BGN 5,654 thousand. (2020: an impairment loss of natural gas in the amount of BGN 19,651 thousand).

Measuring of the expected credit losses

Credit loss represents the difference between all contracted cash flows owed to the company and all cash flows that the company expects to receive. Expected credit losses are probability-weighted estimate of credit losses that require the company's assessment. Expected credit losses were discounted at the original effective interest rate (or at the loan-adjusted effective interest rate for purchased or initially created financial assets with credit impairment).

The assessment on the expected credit loss of long-term receivables was prepared on an individual basis taking into account all available facts and circumstances accompanying the existence and assessment of the receivables including the expected development of the procedural actions taken by the Group.

At each reporting date, the management assesses whether the credit risk of a financial instrument has increased significantly compared to the initial recognition.

Defined benefit payment obligation

The Management estimates, once a year, with the help of an independent actuary the obligation to pay defined benefit. The actual value of the obligation may differ from the preliminary estimate due to its uncertainty. The estimate of the obligation to pay defined revenues amounting to BGN 10 041 thousand (2020: BGN 10 105 thousand) is based on statistical indicators of inflation, health care expenses and mortality. Another factor that has an impact is the future salary increases provided for by the Group. The discount factors are determined at the end of each year against the interest rates of long-term risk-free bonds denominated in the currency in which the defined benefit (Bulgarian levs) will be paid and which have a maturity corresponding approximately to the maturity of the respective pension liabilities. Uncertainty in the estimate exists regarding the actuarial assumptions, which may vary and impact significantly the value of the obligations to pay defined benefits and the related expenses.

Fair values

Some of the Group's accounting policies and disclosures require fair values measurement for financial and non-financial assets and liabilities.

The Group has established a control framework of fair values measurement. Significant unobservable input data and adjustments of the estimates are being regularly examined. If information by third parties such as quotations from brokers or similar services, is used to measure the fair values, then the evidence obtained from third parties is assessed to support the conclusion that such measurements meet the requirements of IFRS, including the level in the fair value hierarchy in which such measurements should be classified.

Significant issues related to the measurements are reported to the Audit committee of the Group.

Upon measurement of the fair value of an asset or liability, the Group uses observable data as far as possible. The fair values are categorized in different levels of the fair value hierarchy based on input data in the measurement techniques, as follows:

- Level 1: quoted prices (unadjusted) in active markets for similar assets or liabilities.
- Level 2: input data other than quoted prices included in Level 1 that directly (i.e. as prices) or indirectly (i.e. derived from prices) are available to monitor for the asset or liability.
- Level 3: input data for the asset or liability that are not based on observable market data (unobservable input data).

If input data used for fair value measurement of the asset or liability can be categorized into different levels of the fair value hierarchy, then the fair value measurement is categorized in its

Notes to the consolidated financial statement

entirety in this level of the fair value hierarchy whose input information is relevant to the overall measurement. The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period in which the change has occurred.

More information about the assumptions made in fair value measurement is included in Note 33 Risks related to financial instruments and Note 35 Fair values measurement.

The last revaluation of property, plant and equipment was made by an independent appraiser by 31.12.2021. The evaluation was made in accordance with the requirements of International Accounting Standard 13 Fair Value Measurement.

Provisions and contingent liabilities

The Group is currently defendant in several court cases the outcome of which may result in liabilities other than the sum of the provisions recognized herein. Provisions will not be considered here in greater detail to avoid any prejudice related to the Group's position in the above court cases.

5. Basis of consolidation

Investment in a subsidiary

Bulgartransgaz EAD has invested in the subsidiary Balkan Gas Hub EAD and as at December 31, 2021 owns 100% of its capital in the amount of BGN 500 thousand.

Balkan Gas Hub EAD is sole-owned joint-stock company, incorporated by Bulgartransgaz EAD by a Management Board decision dated 15 January 2019 and approved by the Supervisory Board. Balkan Gas Hub EAD is registered in the Commercial Register and the Register of the Non-Profit Organizations at the Registry Agency on 18 January 2019. Balkan Gas Hub EAD is headquartered in the Republic of Bulgaria.

The main subject of activity of Balkan Gas Hub EAD involves the establishment and operation of electronic platform providing conditions for conclusion of bilateral transactions and exchange market with physical and non-physical products – natural gas, energy products, energy carriers, energy green and white certificates, carbon emissions and other energy consumption products. Balkan Gas Hub EAD shares are not quoted on a stock exchange.

All intra-group balances, transactions, revenues, expenses and profits and losses are eliminated in full

Below is a summary of Balkan Gas Hub EAD financial information prior to intra-group eliminations:

<i>in BGN thousand</i>	2021	2020
Non-current assets	61	64
Current assets	1,515	903
Total assets	1,576	967
Current liabilities	201	186
Total liabilities	201	186
Equity attributable to the owners of the parent company	1,375	781
Revenues	1,739	1,024
Profit/(loss) for the year attributable to the owners of the parent company	905	431
Profit/(loss) for the year	905	431
Total comprehensive income for the year	905	431
Net cash flows from operating activities	937	410
Net cash flows from investment activity	155	(525)
Net cash flows from financial activities	-	-
Net cash flow	1,092	(115)

Joint ventures

The Group has two jointly controlled entities.

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By virtue of a decision of the Board of Directors of Bulgarian Energy Holding EAD and an permission by the Minister of Energy, in 2017 Bulgartranzgaz EAD capital has increased in line with Art. 193 of the Commercial Act through in-kind contribution (apart), representing 50% of the shares of Bulgartel AD, property of BEH EAD. The in-kind contribution amounts to 3 thousand shares of Bulgartel AD capital amounting to BGN 3 256 thousand by issuing of 3 256 thousand new ordinary registered shares with voting rights and nominal value of BGN 1. On November 23, 2017 the capital increase with the in-kind contribution was registered in the Commercial register.

The rest of the capital and the voting rights are owned by Electricity System Operator EAD. The allocation of capital and voting rights are the basis for classifying the investment as such in a jointly controlled entity.

Bulgartel AD is headquartered in the Republic of Bulgaria. Bulgartel AD primary business includes commercial, marketing and engineering activities in telecommunications, construction, use and maintenance of telecommunication networks and information systems, and provision of telecommunication and information services, as well as any other activity not prohibited by law. Bulgartel AD shares are not quoted on a stock exchange.

Bulgartel AD is the sole owner of the capital of Bulgartel Skopje DOOOEL, registered in the Central Register of the Republic of North Macedonia. The company has its seat and registered address at: North Macedonia, the city of Skopje, Dimo Hadzhidimov Str.

The Group accounts for the investment in Bulgartel AD under the equity method in accordance with IAS 28 Investments in Associates. Summarized financial information for Bulgartel AD is presented below. It reflects the amounts presented in the financial statement of the joint venture after adjustments under the equity method (including fair value adjustments) or adjustments for differences in the accounting policy:

<i>in BGN thousand</i>	2021	2020
Non-current assets	8,716	9,281
Current assets	1,286	1,172
Cash and cash equivalents	639	601
Other current assets	647	571
Total assets	10,002	10,453
Non-current assets	5,913	5,037
Current liabilities	1,147	2,515
Total liabilities	7,060	7,552
Net assets	2,942	2,901
Revenues	3,365	3,113
Depreciation and impairment expenses	(764)	(759)
Interest expenses	(142)	(133)
Revenues/(Expenses) from income taxes	(4)	4
Profit/(loss) for the year	24	(179)
Other comprehensive income	17	(3)
Total comprehensive income for the year	41	(182)

Reconciliation of financial information indicated above with the carrying amount of investment in Bulgartel AD, calculated on the basis of the fair value of net assets, is presented as follows:

<i>in BGN thousand</i>	2021	2020
Total net assets of Bulgartel AD as at January 1	253	1,596
Profit/(loss) for the year	24	(179)
Other comprehensive income for the year	17	(3)
Total net assets of Bulgartel AD as at December 31	294	1,414
Shareholding of the Group	50 %	50 %
Share of the Group in the profit/(loss) of the jointly	12	(90)

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controlled entity

Share of the Group in the other comprehensive income of the jointly controlled entity	9	(1)
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Value of the investment in Bulgartel AD	147	707
Revaluation of investment	19	(581)
Carrying amount of investment	166	126

in BGN thousand

<i>Carrying amount as at 01 January 2020</i>	798
Losses from investments accounted for under the equity method	(672)
<i>Carrying amount as at 31 December 2020</i>	126
Losses from investments accounted for under the equity method	40
Carrying amount of the investment in Bulgartel AD as at December 31, 2021	166

Based on the expert evaluation, the Group has estimated that the carrying amount before evaluation does not exceed the recoverable amount of the investment and as a result, has recognized reversal of an impairment loss in the amount of BGN 19 thousand (2020: an impairment loss of BGN 581 thousand).

In forming the market value of the investment, a combination of three approaches was used - income approach, market approach and cost approach.

In line with a Council of Ministers' Decision of January 8, 2020 Bulgartransgaz EAD acquired a shareholding in Gastrade S.A. amounting to 20% of its capital. The Agreement for purchase and sale of shares from the capital of Gastrade S.A. between the seller, who is a natural person and Bulgartransgaz EAD was signed on 21.08.2020 and in connection with it, the Company has incurred expenses for acquisition of investment in an associated enterprise in 2020 in the amount of BGN 151 thousand.

According to the Agreement for purchase and sale of shares, an escrow agreement was signed between the parties and Eurobank Bulgaria AD in its capacity of escrow agent for the transaction. A Shareholders' Agreement was also signed that shall enter into force when the reference for a preliminary ruling takes place, laid down in the Agreement for purchase and sale of share capital of Gastrade S.A., namely - a position of the Commission on Protection Competition of the Republic of Bulgaria approving or not objecting to the signing thereof. As a result of the signed escrow agreement, Bulgartransgaz EAD has provided to the escrow account in Eurobank Bulgaria AD, in its capacity of escrow agent, cash in the amount of EUR 13,048 thousand as of 31.12.2020.

On 28 January 2021, the deal was finalized. Following the first payment under the Sale and Purchase Agreement of shares (EUR 6,024 thousand), a Share Transfer Agreement was signed on 28 January 2021. On the same date the shares were transferred in favour of Bulgartransgaz EAD and the Company was registered as a shareholder in the book of shareholders of Gastrade S.A. The final payment in the amount of BGN 13,738 thousand has been made subject to fulfilment of certain conditions at the beginning of 2022.

In the consolidated financial statements, the investment in Gastrade S.A. is accounted for using the equity method. As at 31 December 2021, the Group investment in Gastrade S.A. was assessed by a licensed appraiser, and its purpose is to determine the fair value of the investment as at the date of the financial statements. According to the appraisal report, the fair value of 20% of Gastrade S.A. equity as at 31 December 2021 is in the amount of EUR 15,937 thousand, which with registered 250,200 shares, is reflected in EUR 63.70 value per share (share).

The Group accounts for the investment in Gastrade S.A. under the equity method in accordance with IAS 28 Investments in Associates. Summarized unaudited financial information for Gastrade S.A. is presented below. It reflects the amounts presented in the financial statement of the joint venture after adjustments under the equity method (including fair value adjustments) or adjustments for differences in the accounting policy:

Notes to the consolidated financial statement

<i>in BGN thousand</i>	2021	2020
Non-current assets	3,086	-
Current assets	4,696	-
Cash and cash equivalents	1,241	-
Other current assets	3,455	-
Total assets	7,782	-
Non-current assets	1,389	-
Current liabilities	2,517	-
Total liabilities	3,906	-
Net assets	3,876	-
Revenues	-	-
Depreciation and impairment expenses	-	-
Interest expenses	(56)	-
Revenues/(Expenses) from income taxes	-	-
Profit/(loss) for the year	(3,482)	-
Other comprehensive income	-	-
Total comprehensive income for the year	(3,482)	-

in BGN thousand

<i>Carrying amount as at 01 January 2021</i>	26,916
Loss from investments accounted for using the equity method	(696)
Carrying amount of the investment in Gastrade S.A. as at December 31, 2021	26,220

The financial information about the jointly controlled entity may be summarized according to unaudited information, as follows:

	2021 thousand BGN	2020 thousand BGN
Assets	7,782	-
Liabilities	(3,906)	-
Revenues	-	-
Profit/(Loss) for the period	(3,482)	-
Share of the loss attributable to the Group	(696)	-

Impairment profits and losses of investments in jointly controlled entities are indicated in line Profits/(Losses) from investments, accounted for using the equity method in the consolidated statement of profit or loss and other comprehensive income.

The Group has not received any dividends during the reporting periods and has no contingent liabilities or other undertaken commitments related to the investment in the jointly controlled entity.

6. Segment reporting

The Management currently defines one segment of the Group, namely natural gas, as described in Note 4.5 to the accounting policies. This segment is monitored by the management, making strategic decisions based on the operating results of the segment.

Natural gas segment information can be analysed for the presented reporting periods as follows:

<i>in BGN thousand</i>	Natural gas 2021	Natural gas 2020
Revenues from:		
- the activities: access, transport, storage, balancing and operating an electronic platform for natural gas transactions	575,147	386,252
- other revenue	8,829	8,363

Notes to the consolidated financial statement

Revenues from the segment	583,976	394,615
Technological costs	(60,402)	(27,712)
Costs for materials	(6,086)	(4,687)
External services expenses	(12,707)	(12,521)
Expenses for depreciation and impairment of non-financial assets	(181,462)	(107,948)
Expenses for employees' remuneration	(73,535)	(71,966)
Accrued/(recovered) impairment of financial assets	1,786	3,754
Revenues/(expenses) from impairment of inventories	5,654	(19,651)
Other revenues from the activity	(38,404)	(23,993)
Cost of natural gas used for balancing and the goods sold	(44,767)	(13,025)
Changes in the availability of finished goods and work in progress	52	(39)
Segment operating profit	174,105	116,827
Segment assets	6,458,666	5,087,328
Segment liabilities	2,897,617	2,579,212

The revenues of the Group from customers are received on the territory of the Republic of Bulgaria.

The total revenues sum, the operating profit and assets of the segment are reconciled with the corresponding items in the consolidated financial statement of the Group as follows:

<i>in BGN thousand</i>	2021	2020
Revenues		
Total revenues	584,339	394,668
Elimination of cross-segment revenues	(363)	(53)
Group revenues	583,976	394,615
Profit		
Total Segment operating profit	174,105	116,827
Elimination of the profit from transactions between the segments	-	-
Group operating profit	174,105	116,827
Share of the financial result from investments accounted for under the equity method	(656)	(672)
Financial revenue	23,005	6,501
Financial expenses	(40,013)	(41,664)
Group profit before taxes	156,441	80,992

The Group's revenue is analysed for each main product and service type in Note 7 and Note 8.

7. Revenues

Segment information for revenues under customer contracts

The main revenue groups under customer contracts include:

<i>in BGN thousand</i>	2021	2020
Revenues from natural gas transport along the gas transmission network for transit transmission	345,540	272,299
Revenues from natural gas transport along the national gas transmission network	113,779	73,351
Revenues from natural gas storage	14,520	6,491
Revenue from balancing	63,836	17,918
Gas in-kind - non-cash consideration, received by the customer under a natural gas transport contract	35,751	15,188
Revenues from services related to access and use of the electronic natural gas trading platform	1,721	1,005

Notes to the consolidated financial statement
By location/Geographic markets
in BGN thousand

Internal market

Foreign markets

	575,147	386,252
	2021	2020
Internal market	210,005	90,172
Foreign markets	365,142	296,080
	575,147	386,252

Time of revenues recognition
in BGN thousand

Products and services transferred over time

	2021	2020
Products and services transferred over time	575,147	386,252
	575,147	386,252

The Group recognizes revenues from provision of services over time by the types presented in the table above.

The revenues from the activity are formed from the provision of access and transport services along the gas transmission network, from carrying out natural gas storage services in Chiren UGS, owned by Bulgartransgaz EAD and from concluded binding contracts for capacity booking for a period of 20 years after conducted Open Season procedure, according to the pan-European legal framework.

When performing the service of access and transport of natural gas, natural gas is required for the operation of the compressor stations and for other technological needs, which is a technological gas (gas for technological needs). The technological gas can be provided in kind (free of charge) by the users. Bulgartransgaz EAD accounts for this free of charge gas as current revenue and expense which has no impact on the financial result. Within the meaning of IFRS 15, the received gas in-kind is considered as non-cash consideration received by the customer for contract implementation.

With respect to the Natural Gas Balancing Rules, Bulgartransgaz EAD, in its capacity of a balancing entity, performs commercial balancing of the natural gas market, i.e. offsetting of the differences between the quantity of natural gas input by a gas transmission network user at entry points, and the quantity of natural gas off-taken by him at the network's exit points. The obligation of the balancing entity is to cover the individual imbalances of the gas transmission networks' users. In this regard and in accordance with the "Entry-exit" tariff model, contracts for natural gas purchase and sale for balancing were concluded with the customers and Bulgartransgaz EAD realized revenues from balancing corresponding to the balancing zones of the gas transmission networks on the territory of the Republic of Bulgaria - a national balancing zone and a transit balancing zone.

The revenues generated from services amounting to 1,721 thousand BGN represents revenues from providing a service to access and use the electronic platform for natural gas trading by customers of the Group who have participated in the GRP.

At the beginning of December 2019, Balkan Gas Hub EAD signed the Agreement for implementation of the Gas Release Programme, approved by the Energy and Water Regulatory Commission (EWRC) by Decision under Protocol No. 209, item 2. In this regard, in view of the auctions under the Gas Release Programme (GRP) for 2020, in accordance with the requirements of Art. 176a of the EA, Balkan Gas Hub EAD, as a party to the Agreement for implementation of the Programme and a provider of the software environment for its implementation, ensured the successful conduct of fifteen auctions for 2020 and twelve auctions for 2021.

As of 2020, Balkan Gas Hub EAD launched a short- and long-term segment on the trading platform as well as a brokering service which allows registration of contracts between trader and end customer/end supplier with a place of physical delivery an exit point to which the end customer/end supplier is connected. Short-term segment includes day-ahead, within-day and weekend products. In the long-term segment, products are traded for the week (Monday to Monday), calendar month, calendar quarter and calendar year. In addition, the long-term segment

Notes to the consolidated financial statement

also provides an opportunity to conclude and register non-anonymous transactions with a view to expanding the range of customer services.

By the end of 2021, there are over 50 participants in the short-term and long-term segments of the platform.

As an additional service, the Company also offers its customers the use of an additional screen.

In 2021, Balkan Gas Hub EAD offers services of reporting the transactions concluded or registered through Balkan Gas Hub EAD system in connection with the requirements of Regulation (EU) № 1227/2011 on the integrity and transparency of the wholesale energy market, through developed and implemented functionality of the company's information system. This type of service is divided into two subtypes: (1) Reporting service where Balkan Gas Hub sends to the Agency for the Cooperation of Energy Regulators (ACER) of the European Union data on the transactions of the respective market participant with wholesale energy products, executed on the organized market of Balkan Gas Hub, including matched and unmatched orders and (2) Service of providing access to data for self-reporting - for customers using another reporting organization. The Company also offers access to ready-to-report XML documents containing data on the transactions of the respective market participant on the organized natural gas market, prepared in the form and according to the requirements of ACER. Each platform member has the right to provide a Declaration of refusal to use the reporting services, which releases Balkan Gas Hub from the obligation to provide and/or report data and this remains responsibility of the platform member as a participant in the energy wholesale market.

8. Other revenues

in BGN thousand

	2021	2020
Revenue from financing	5,913	5,712
Revenue from connection and hazardous natural gas works	98	1,195
Revenues from sale of goods	448	361
Revenues from awarded receivables	385	-
Revenue from sale of inventories	353	99
Revenues from funding for electric power	336	-
Revenue from services provided in TRC Republika	225	209
Revenue from liquidation of properties, plant and equipment	152	128
Revenue from use of auxiliary network resources	144	144
Insurance compensations	156	12
Revenues from penalties	149	94
Revenue from collocation	110	103
Revenue from optic fibre rent	100	109
Others	260	197
	8,829	8,363

Regarding the sharp rise in electricity prices on exchange markets in the European Union at the end of 2021, the Bulgarian government, through the Ministry of Energy, adopted a business compensation program for the months from October 2021 until March 2022 inclusive. The purpose of this measure is to alleviate non-household electricity consumers in Bulgaria by reducing their electricity costs in the months of highest consumption and highest current prices.

Compensations for non-household electricity consumers are formed according to the mechanisms approved by the Council of Ministers and the Ministry of Energy.

According to the Program approved by Decision № 739/26.10.2021 of the Council of Ministers and replaced by Decisions № 771 and № 885 of the Council of Ministers of 2021. The Ministry of Energy granted price compensation for non-household consumers in the amount of BGN 110, VAT excluded per megawatt-hour consumed for the consumed energy in October and November and BGN 128.98, VAT excluded for December 2021.

Notes to the consolidated financial statement

The revenues generated by the Group with regard to the described compensations amount to BGN 336 thousand.

Main part of the Other revenue of the Group fall beyond the scope of IFRS 15 and is recognized by other standards.

Other revenues within the scope of IFRS 15 are, as follows:

<i>in BGN thousand</i>	2021	2020
Products transferred at a certain point of time		
Revenue from sale of goods and condensate	448	457

Products and services transferred over time

Revenue from services provided in TRC Republika	225	209
Revenue from use of auxiliary network resources	144	144
Revenue from collocation	110	103
Revenue from connection and hazardous natural gas works	98	1,195

Detailed description of the accounting policy for revenue recognition is given in Note 4.

9. Technological costs

The total costs for technological needs for 2021 amount to BGN 60 402 thousand (2020: 27 712 thousand), including technological costs for natural gas transport from the border with Turkey to the border with Greece, Serbia and North Macedonia in the amount of 47 850 thousand BGN (2020: BGN 18,039 thousand).

The in-kind technological gas received for natural gas transit transmission from the border with Turkey to the border with Greece, Serbia and North Macedonia, shall be recognized as current revenue. The received in-kind gas is used to maintain the operation of compressor stations in connection with transit transmission. It is accounted for as a current expense for technological needs.

10. Costs for materials

<i>in BGN thousand</i>	2021	2020
Electric power, water and heat	<u>2,502</u>	<u>1,926</u>
Basic materials, including:	<u>1,267</u>	<u>971</u>
- Spare parts	1,093	895
- Others	174	76
Auxiliary materials, including	<u>2,317</u>	<u>2,651</u>
- Fuels and lubricants	1,032	977
- Vehicle spare parts and accessories	264	199
- Business inventory	103	52
- Tools	26	7
- Other auxiliary materials	892	555
	<u>6,086</u>	<u>4,687</u>

Notes to the consolidated financial statement
11. External services expenses

<i>in BGN thousand</i>	2021	2020
Gas pipeline inspection	1,018	4,304
Security	2,397	2,034
Insurance	2,787	1,516
Subscription service	1,107	1,192
Consulting services	1,729	357
Repair and maintenance	1,892	1,019
Garbage disposal fees, property tax and vehicle taxes	703	567
Services for use of exchange trading platform	311	305
Civil contracts	93	87
Communications	239	198
Laboratory tests	46	77
Vehicles expenses	77	52
Advertising	49	70
Other expenses for external services	259	743
	<u>12,707</u>	<u>12,521</u>

The remuneration for audit services for 2021 amounts to BGN 51 thousand, excluding VAT. The amount of remuneration includes independent financial audit on Bulgartransgaz EAD annual separate financial statement for 2021 to the amount of BGN 40 thousand and a review of the interim separate and consolidated financial statement of Bulgartransgaz EAD by June 30, 2021 in accordance with the requirements of the International Standard on review engagements (ISRE) 2410 amounting to BGN 9,000. The remaining part of the remuneration is for audit of the consolidated financial statements.

During the year, the auditor has not provided tax consultations.

12. Expenses for employees' remuneration

<i>in BGN thousand</i>	Notes	2021	2020
Salaries and staff social expenses		62,982	61,253
Social security contributions		8,178	8,365
Expenses related to defined benefit plans	27	767	663
Unused paid annual leave		1,375	1,441
Contributions on unused paid annual leave		233	244
		<u>73,535</u>	<u>71,966</u>

The average number of personnel in 2021 is 1 127 people (2020: 1,153).

Notes to the consolidated financial statement

13. Other expenses for the activity

<i>in BGN thousand</i>	2021	2020
Expenses for the Energy System Security Fund	23,692	17,607
Insurance event	4,679	227
Waste/scrap and missing properties, plant, equipment	2,764	2 320
Training and qualification	2,539	75
Excise duties	1,818	1,073
Expenses on provisions for legal obligations	754	755
Membership fees of organizations	644	647
Business trips	343	456
One-off taxes	311	300
Licence fees	204	184
Representation expenses	36	48
Fines on legal acts	15	19
Donations	10	9
Waste of inventories	12	29
Others	583	244
	<u>38,404</u>	<u>23,993</u>

Detailed information on the Expenses for provisions under legal obligations is disclosed in Note 26 Provisions.

14. Financial revenues and expenses

<i>in BGN thousand</i>	2021	2020
Interest expenses on financial liabilities carried at amortized cost	(39,108)	(1,837)
Expenses for bank charges/commissions	(803)	(111)
Interest expenses related to defined benefit plans	(102)	(49)
Loss from foreign exchange differences, net	-	(39,667)
Financial expenses on financial liabilities that are not measured at fair value in profit or loss	<u>(40,013)</u>	<u>(41,664)</u>
Revenues from interest on financial assets at amortized cost	966	6,501
Profit from foreign exchange differences, net	22,039	-
Financial revenue	<u>23,005</u>	<u>6,501</u>
Net financial, revenues/(expenses) recognized in profit and loss	<u>(17,008)</u>	<u>(35,163)</u>

Interest expenses amount to BGN 39,108 thousand; (2020: BGN 1,837 thousand), of which BGN 22,348 thousand are interests under bank loan agreements.

Interest revenues amount to BGN 966 thousand; (2020: BGN 6 501 thousand), of which BGN 600 thousand are interest revenues on deposits and cash provided as collateral.

Notes to the consolidated financial statement

15. Property, plant and equipment

	Lands and buildings	Plants, facilities and equipment	Buffer (cushion gas)	Transport vehicles	Business inventory	Under constructio n	Advance payments for non-current asset acquisition	Total
<i>in BGN thousand</i>								
Book value								
Balance as at 1 January 2021	77,447	4,107,338	191,443	13,005	9,879	241,131	105,855	4,746,098
Acquired	86	9,777	-	878	503	330,698	8,862	350,804
Written-off	-	(2,733)	-	(24)	(10)	(25,132)	(99,058)	(126,957)
Revaluation	3,943	592,974	507,818	606	-	-	-	1,105,341
Impairment reimbursed at the expense of profit	(31)	58	-	(1)	-	-	-	26
Impairment at the expense of revaluation reserve	(191)	(2,489)	-	(1)	-	-	-	(2,681)
Netting against accumulated depreciation	(4,395)	(365,292)	(2,960)	(1,970)	(164)	-	-	(374,781)
Transfers	12,625	390,841	-	6	665	(404,137)	-	-
Balance as at 31 December 2021	89,484	4,730,474	696,301	12,499	10,873	142,560	15,659	5,697,850
Depreciation and impairment								
Balance as at 1 January 2021	3,085	192,455	-	5,412	5,621	-	-	206,573
Depreciation costs	1,652	173,382	2,960	1,041	1,217	-	-	180,252
Netting against accumulated depreciation	(4,395)	(365,292)	(2,960)	(1,970)	(164)	-	-	(374,781)
Balance as at 31 December 2021	342	545	-	4,483	6,674	-	-	12,044
Balance sheet value								
Balance as at 1 January 2021	74,362	3,914,883	191,443	7,593	4,258	241,131	105,855	4,539,525
Balance as at 31 December 2021	89,142	4,729,929	696,301	8,016	4,199	142,560	15,659	5,685,806

Notes to the consolidated financial statement

	Lands and buildings	Plants, facilities and equipment	Buffer (cushion gas)	Transport vehicles	Business inventory	Under constructio n	Advance payments for non-current asset acquisition	Total
<i>in BGN thousand</i>								
Book value								
Balance as at 01 January 2020	71,654	1,738,790	308,410	11,817	8,548	80,878	461,914	2,682,011
Acquired	33	4,605	-	1,315	441	2,536,075	11,147	2,553,616
Written-off	(1)	(2,289)	-	(30)	(1)	(1,496)	(367,206)	(371,023)
Impairment at the expense of revaluation reserve	-	-	(107,717)	-	-	-	-	(107,717)
Netting against accumulated depreciation	-	(1,320)	(9,250)	(97)	(122)	-	-	(10,789)
Transfers	5,761	2,367,552	-	-	1,013	(2,374,326)	-	-
Balance as at 31 December 2020	77,447	4,107,338	191,443	13,005	9,879	241,131	105,855	4,746,098
Depreciation and impairment								
Balance as at 01 January 2020	1,672	94,964	4,625	4,527	4,778	-	-	110,566
Depreciation costs	1,413	98,811	4,625	982	965	-	-	106,796
Depreciation on derecognised assets	-	(1,320)	(9,250)	(97)	(122)	-	-	(10,789)
Balance as at 31 December 2020	3,085	192,455	-	5,412	5,621	-	-	206,573
Balance sheet value								
Balance as at 01 January 2020	69,982	1,643,826	303,785	7,290	3,770	80,878	461,914	2,571,445
Balance as at 31 December 2020	74,362	3,914,883	191,443	7,593	4,258	241,131	105,855	4,539,525

Notes to the consolidated financial statement

The buffer /cushion/ gas of the Group is a specific non-current asset, a material part of which is the gas stored in the underground gas storage Chiren UGS and the remaining part is in the gas pipeline.

Buffer gas is divided into depreciable and non-depreciable.

Depreciable buffer gas in Chiren UGS is that quantity of gas that will remain in the underground reservoir after decommissioning of the gas storage.

Non-depreciable buffer gas is part of the buffer gas in Chiren UGS, that could be withdrawn on the surface at 35 bar pressure of the gas pipeline by the currently available facilities.

Buffer gas in the transit and main gas pipeline is also divided in depreciable and non-depreciable, and depreciable is the quantity of natural gas, which cannot be off-taken in case of gas pipeline liquidation.

More detailed information about the allocation of buffer gas is presented below:

	Balance value - thousands BGN	
	Depreciable	Non-depreciable
2020		
Buffer gas - main gas pipelines	337	4,837
Buffer gas - Chiren UGS	135,283	44,108
Buffer gas - transit gas pipelines	517	6,361
	<u>136,137</u>	<u>55,306</u>
2021		
Buffer gas - main gas pipelines	1,218	17,869
Buffer gas - Chiren UGS	488,900	162,947
Buffer gas - transit gas pipelines	1,867	23,500
	<u>491,985</u>	<u>204,316</u>

As at 31 December 2021, the Group management has measured the carrying amounts, recoverable values and useful life of non-current assets. Management's estimates are based on evaluation by an independent appraiser as at the date of the financial statements. The valuation was performed in accordance with the requirements of the International Accounting Standards (IAS), and in particular, IAS 300 Valuations for financial reporting, and where applicable, Technical information document 2 "Expense approach for valuation of tangible assets".

The evaluation methods used by the licensed appraiser are, as follows:

- Land evaluation - two approaches were used - a market analogues method with adjustment of derived comparable market prices and an approach based on initial land prices, depending on the land category with introducing the corresponding adjustments.
- Buildings evaluation - in accordance with IAS 16 for its intended purpose, the cost approach is applied as a basic approach by the "depreciated replacement cost" method. Other evaluation methods and approaches were used according to their relevance to the particular asset.
- The evaluation of plant, equipment and technological equipment - because of the specialized nature, configuration and uniqueness of the plant, equipment and facilities, owned by the Company and the absence of market evidence and analogies, the "depreciated replacement cost" method was applied. The value of the asset is evaluated by determining its new value as at the evaluation date, reflecting the cost of its acquisition, reduced by its physical wear, functional and economic depreciation as a result of its operation.

Notes to the consolidated financial statement

- Evaluation of specialized means of transport - a cost method and a method of market analogues were applied.

An impairment test was carried out, ascertaining that as at the evaluation date the value in use is higher than the carrying amount of fixed assets as at December 31, 2021, as well as than the formed value of the smallest cash-generating unit. The significant excess of the value in use against the carrying amount of the cash-generating unit is due to the initiated implementation of the large-scale Company investment programme.

For information on determining the fair value of assets in the Property, plant and equipment group, refer to Note 35.

All depreciation and impairment expenses are included in the consolidated statement of profit or loss and the other comprehensive income in line "Depreciation and impairment expenses of non-financial assets".

The Group has not pledged property, plant and equipment as collateral for its liabilities.

Property, plant and equipment run into operation

The Group is the owner and operator of a transmission and storage of natural gas infrastructure, part of the single European gas network. The company operates in a dynamic, constantly changing world and European energy market accordingly.

The number of entry and exit points of the gas transmission network and their capacities are expected to continue to increase in the coming years. This comes as a result from the development of the interconnection projects with Greece and Serbia, the reversing of existing interconnections and the realisation of the project for the expansion of the infrastructure between the Bulgarian-Turkish and the Bulgarian-Serbian border. These projects will enable natural gas supply from various sources, including the liquefied natural gas terminals in neighbouring countries, which in turn will contribute to boost the competition and will positively impact natural gas consumers in the country and the region. This will stimulate as well the demand for natural gas storage capacity.

The substantial assets constructed and run into operation in 2021 are the following:

- Compressor Station Nova Provadia in the amount of BGN 174,945 thousand;
- Expansion of Bulgartransgaz EAD gas transmission infrastructure parallel to the north (main) gas pipeline to the Bulgarian-Serbian border, pipeline network (Auxiliary part 1) in the amount of BGN 82,324 thousand;
- Reconstruction of Compressor Station Lozenets by construction of two new gas turbine compressor units (second stage of modernization) in the amount of BGN 76,493 thousand;
- Replacement of north (main) gas pipeline in the section PF Beglezh – VA Dermantsi – VA Batultsi – VA Kalugerovo - Stage 2 Gas transmission pipeline from VA Dermantsi to VA Batultsi in the amount of BGN 36,473 thousand.
- Reconstruction of Compressor Station Ihtiman by construction of one new gas turbine compressor unit (second stage of modernization) in the amount of BGN 35,763 thousand;
- Reconstruction of Compressor Station Petrich by construction of one new gas turbine compressor unit (second stage of modernization) in the amount of BGN 35,470 thousand;
- Transmission (main) gas pipeline in the section PF Beglezh – VA Dermantsi – VA Batultsi – VA Kalugerovo - Stage 3 Gas transmission pipeline from VA Batultsi to VA Kalugerovo in the amount of BGN 22,243 thousand.
- Gas pipeline branch Targovishte - N250, PN 5.4 Mpa - gas transmission pipeline - pipeline network and valve assembly (VA) and gas purification station (GPS) launch chamber and VA and GPS receiving chamber in the amount of BGN 11,137 thousand;

Notes to the consolidated financial statement

- Main and local optic cables - north main line from junction point at Serviceable amplifying station (SAS) Polski Senovets - an intermediate point of the route at valve assembly Miladinovtsi to junction point AGRS Targovishte in the amount of BGN 4,956 thousand;
- Chiren Underground Gas Storage - replacement of pipes of gas motor compressors open cycle in the amount of BGN 1,648 thousand.
- Compressor Station Polski Senovets - overhaul of the engine room at the Compressor Workshop worth BGN 1,465 thousand.

Property, plant and equipment under construction

The main sites under construction as at 31 December 2021 are the following:

- Rehabilitation, modernization and expansion of gas transmission system in the amount of BGN 32,011 thousand;
- Gas transmission pipeline with AGRS Panagyurishte - Pirdop in the amount of BGN 25,231 thousand;
- Gas transmission pipeline with AGRS Svishtov in the amount of BGN 16,445 thousand;
- Main optic cable Dupnitsa-Kulata in the amount of BGN 6,170 thousand.

Advance payments for assets acquisition

The advance payments for assets acquisition in the total amount of BGN 15,659 thousand (2020: BGN 105,855 thousand) refer mostly to: prepaid amounts under concluded contracts for construction and commissioning of a gas transmission pipeline from the Bulgarian-Turkish border to the Bulgarian-Serbian border, reconstruction of a gas pipeline branch Vratsa 1, construction and commissioning of a "Launch and receiving chambers of gas pipeline branch Burgas", construction and commissioning of a "Launch and receiving chambers of gas pipeline branch Dimitrovgrad", Interconnection Bulgaria-Serbia, construction and commissioning of an optic cable line to a gas transmission pipeline in the section PF Valchi Dol - VA Preselka, construction and commissioning of a gas transmission pipeline to Svishtov, construction and commissioning of a gas transmission pipeline to Panagyurishte and Pirdop, development of an investment design for Chiren UGS capacity expansion.

On 3 October 2019 a contract was signed with DZZD Ferrostaal Balkangaz for "Investment design, procurement of the necessary materials and equipment, construction and commissioning of stage CS Rasovo and stage CS Nova Provadia of site "Expansion of Bulgartransgaz EAD gas transmission infrastructure parallel to the north (main) gas pipeline to the Bulgarian-Serbian border". The total amount of the contract is EUR 179,378 thousand, VAT excluded. As at December 31, 2019 the Group has paid an advance in the amount of BGN 140,333 thousand, and as at December 31, 2021 the unused part of the advance amounted to BGN 5,642 thousand (2020: BGN 77,119 thousand).

Commitments for acquisition of property, plant and equipment

The commitments for acquisition of property, plant and equipment are all concluded contracts the Group for construction and commissioning of assets. In general they relate to the gas transmission network including all facilities required for its maintenance.

16. Intangible assets

<i>in BGN thousand</i>	Software	Patents and licenses	Others	Total
Book value				
Balance as at 1 January 2021	9,589	676	1,922	12,187
Acquired	959	264	-	1,223
Written-off	(2)	-	-	(2)

Notes to the consolidated financial statement

Balance as at 31 December 2021	<u>10,546</u>	<u>940</u>	<u>1,922</u>	<u>13,408</u>
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Depreciation

Balance as at 1 January 2021	4,647	601	1,219	6,467
Depreciation costs	1,043	64	129	1,236
Written-off	(2)	-	-	(2)

Balance as at 31 December 2021	<u>5,688</u>	<u>665</u>	<u>1,348</u>	<u>7,701</u>
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Balance sheet value

Balance as at 1 January 2021	<u>4,942</u>	<u>75</u>	<u>703</u>	<u>5,720</u>
Balance as at 31 December 2021	<u>4,858</u>	<u>275</u>	<u>574</u>	<u>5,707</u>

<i>in BGN thousand</i>	Software	Patents and licenses	Others	Total
Book value				
Balance as at 01 January 2020	9,051	676	1,922	11,649
Acquired	729	-	-	729
Written-off	(191)	-	-	(191)
Balance as at 31 December 2020	<u>9,589</u>	<u>676</u>	<u>1,922</u>	<u>12,187</u>
Depreciation				
Balance as at 01 January 2020	3,915	499	1,092	5,506
Depreciation costs	923	102	127	1,152
Written-off	(191)	-	-	(191)
Balance as at 31 December 2020	<u>4,647</u>	<u>601</u>	<u>1,219</u>	<u>6,467</u>
Balance sheet value				
Balance as at 01 January 2020	<u>5,136</u>	<u>177</u>	<u>830</u>	<u>6,143</u>
Balance as at 31 December 2020	<u>4,942</u>	<u>75</u>	<u>703</u>	<u>5,720</u>

All depreciation expenses are included in the consolidated statement of profit or loss and the other comprehensive income in line "Depreciation and impairment expenses of non-financial assets". The Group has not pledged intangible assets as collateral for its liabilities.

Significant part of the Group intangible assets are software products intended for the operation of the gas transmission system:

Geographic Information System (GIS) - Designed to implement a computer system for collecting, maintaining, analysing, integrating and visualizing geospatial data by awareness of the basic architectural, informational, technological, programming and technical issues. GIS is used and developed in connection with the Concept for development and implementation of a system for real-time monitoring and management of the processes of natural gas transmission and storage.

Pipeline Integrity Management Software (PIMS) - Software interface for data exchange between the Pipeline Integrity Management Software and IS WPS32 IS Dispatch Management Information System. Performs parametric diagnostics of the gas turbine compressor unit (GTCU) condition and data transmission to Bulgartransgaz EAD information system.

Notes to the consolidated financial statement

Another significant part of the Group's intangible assets, acquired in 2021, are software products designed to ensure the operation of the technological facilities of the gas transmission system, such as: Chiren UGS - a new modernized system has been implemented for monitoring and control of the technological processes and CS Nova Provadia - a new compressor station with 4 GTCUs has been run into operation, for which software tools for parametric diagnostics have been installed.

At the end of the reporting period, the Group has no commitments to acquire intangible assets.

17. Long-term receivables

The Group's long-term receivables in the amount of BGN 162 thousand (2020: BGN 168 thousand) are paid guarantee deposits and prepaid subscription service charges.

In 2021, BGN 3 081 thousand were received in Bulgartransgaz EAD bank account, which represent the allocated amount from the fourth partial account for allocation of the bankruptcy mass of Corporate Commercial Bank AD in bankruptcy (CCB AD (bankrupt)). This amount is in accordance with the stated for publication on 17.02.2021 in the Commercial Register by the administrators of Corporate Commercial Bank in bankruptcy (CCB AD (bankrupt)), fourth partial account for allocation of the available amounts among the bank creditors.

18. Inventories

<i>in BGN thousand</i>	2021	2020
Natural gas	36,124	54,387
Inventories	34,293	30,328
Unfinished production	59	61
Finished production	274	233
Fuel	62	46
Others	19	15
	<u>70,831</u>	<u>85,070</u>

As at 23 December 2020, a new Emergency Action Plan to safeguard security of gas supply to the Republic of Bulgaria is in force, according to which Bulgartransgaz EAD stores natural gas quantities in Chiren UGS, up to 70 mcm pursuant to an order of the Minister of Energy, issued under Article 70 of the Energy Act for imposing additional obligations to society. The quantities specified in the order constitute a reserve necessary to ensure continuity of supply in accordance with Annex VIII to Regulation 2017/1938.

In 2021, a total of BGN 58 332 thousand of the inventory have been reported as expense in the profit or loss (2020: BGN 50,121 thousand), including revenues from reversal of an impairment of inventories in the amount of BGN 5,654 thousand. (2020: costs of impairment of inventories in the amount of BGN 19,651 thousand).

The Group has recognised revenues from reversal of an impairment of inventories in the amount of BGN 5,654 thousand for 2021, according to a report of a licensed appraiser and the value of the available natural gas quantity in the gas transmission system and in Chiren UGS was estimated to its net realisable value. The reversal of impairments of inventories is a result of the increase in the market price of natural gas in 2021. The amount of impairments of inventories recognized as an expense for the period was BGN 7,222 thousand.

The Group has no inventory provided as collateral of liabilities.

19. Trade and other receivables and assets under contracts

<i>in BGN thousand</i>	2021	2020
Receivables from sales of services	8,263	15,973
Assets under contracts	7,719	9,080
Expected credit losses of trade receivables	(56)	(48)
Receivables from sales of services, net of impairments	<u>15,926</u>	<u>25,005</u>

Notes to the consolidated financial statement

Interests on deposits	3	428
Interest on cash provided as collateral	24	4
Judicial and awarded receivables	1,075	1,130
Expected credit losses from judicial and awarded receivables	(928)	(787)
Financial receivables	<u>16,100</u>	<u>25,780</u>
VAT recovery	1,291	110,178
Prepaid interest expenses on loans	-	327
Prepaid other expenses	363	255
Expenses for acquisition of investments in associates	-	151
Others	603	232
Non-financial receivables	<u>2,257</u>	<u>111,143</u>
Total trade and other receivables	<u>18,357</u>	<u>136,923</u>

All receivables are short-term. The Group's trade receivables related to access, transport and storage are due within 5 business days after issue and receipt of the invoice by the respective counterparty. The Group's trade receivables related to the Balancing activity are due by the 25th of the month in which the invoice was issued. The net balance value of trade and other receivables is considered as a reasonable estimate of their fair value. The trade receivables of the Group for the transactions concluded on the electronic trading platform for natural gas shall be paid by the 10th day of the month following the transaction.

All financial receivables of the Group have been reviewed in respect of events of default. For all trade receivables, a simplified approach has been applied to determine the expected credit losses as at the end of the period.

Impairment costs and their recovery were recognized in the separate statement of profit or loss and the other comprehensive income in line „Recovered impairment of financial assets. Impaired receivables are due by customers in connection with services rendered and ongoing court proceedings. The change in the corrective/adjustment amount for expected credit losses of trade receivables can be presented as follows:

<i>in BGN thousand</i>	2021	2020
Balance as at January 1	(835)	(408)
Corrective/Adjustment for expected credit losses	(383)	(764)
Recovery of impairment loss	234	11
Written off impairment	-	326
Balance as at December 31	<u>(984)</u>	<u>(835)</u>

The Group's exposure to credit and currency risks and losses is presented in Note 33 *Risks related to financial instruments*.

The Company has recognised the following assets and liabilities related to customer contracts:

The assets under contracts of the Group amount to BGN 7 719 thousand. (2020: BGN 9,080 thousand). They have arisen as a result of services rendered in December 2021 for which the Group is entitled to remuneration, but the invoice is issued in the month following the reporting one, in accordance with the clauses of the contracts concluded with the counterparties. The recognised contractual assets are reclassified as a trade receivable when the right to remuneration becomes unconditional i.e. upon acceptance by the customer.

Notes to the consolidated financial statement

The Group does not recognise an adjustment for expected credit and impairment losses on contractual assets.

20. Cash and cash equivalents

in BGN thousand

	2021	2020
Cash on current accounts	219,021	66,596
Cash	66	37
Gross value of cash and cash equivalents	219,087	66,633
Expected credit losses	(796)	(109)
Cash and cash equivalents	218,291	66,524

The change in the corrective/adjustment amount for expected credit losses of cash and cash equivalents can be presented as follows:

in BGN thousand

	2021	2020
Balance as at January 1	(109)	(167)
Corrective/Adjustment for expected credit losses	(716)	-
Recovery of impairment loss	29	58
Balance as at December 31	(796)	(109)

The Group has no restricted cash and cash equivalents.

The Group has earmarked expected credit losses of BGN 795 thousand regarding cash and cash equivalents, recognised as a result of the Group's exposure to risk related to financial institutions.

The Group's exposure to credit and currency risk and losses is presented in Note 33 *Risks related to financial instruments.*

21. Cash provided as a security

in BGN thousand

	2021	2020
Cash provided as a security	299,501	241,177
Gross value of cash provided as collateral	299,501	241,177
Expected credit losses	(298)	(180)
Cash provided as a security	299,203	240,997

The change in the corrective/adjustment amount for expected credit losses of cash provided as collateral can be presented as follows:

in BGN thousand

	2021	2020
Balance as at January 1	(180)	(268)
Corrective/Adjustment for expected credit losses	(118)	(26)
Recovery of impairment loss		114
Balance as at December 31	(298)	(180)

In 2021, Bulgartransgaz EAD concluded an additional agreement to a credit contract for securities with ING Bank N.V. for issuance and management of a bank guarantee in euro, securing the payment obligation of a pecuniary penalty, imposed by the European Commission on Bulgartransgaz EAD under Case AT.39849 BEH-gas in the amount of EUR 25,689 thousand. Pursuant to the contract, Bulgartransgaz EAD is obliged to maintain a financial security in the form of a pledge in the amount of not less than 25% of the commitment amount. The security amounts to USD 7,767 thousand at an annual interest rate of 0.20%

In 2020 and 2021, Bulgartransgaz EAD received credits for operating and investment costs from several financial institutions. They are secured with cash in the form of deposits up to 20% of the used and unpaid part of the credit, as follows:

- Bulgarian Development Bank AD - a security in the amount of USD 27,643 thousand, at an annual interest rate of 0.10%;

Notes to the consolidated financial statement

- Bulgarian Development Bank AD - a security in the amount of USD 7,387 thousand, with one-month LIBOR + margin to the interest rate index of 0.01% on an annual basis;
- Unicredit Bulbank AD - a security in the amount of USD 24,635 thousand, with one-month LIBOR + margin added to the interest rate index 0.10% on an annual basis;
- UniCredit Bulbank AD - a security in the amount of USD 12,126 thousand, at an annual interest rate of 0.10% on an annual basis;
- Raiffeisenbank /Bulgaria/ EAD - a security in the amount of USD 11,868 thousand, with one-month LIBOR + margin added to the interest rate index of 0.01% on an annual basis;
- DSK Bank EAD - a security in the amount of USD 11,014 thousand, with one-month LIBOR + margin to the interest rate index of 0.01% on an annual basis;
- DSK Bank EAD - a security in the amount of USD 15,222 thousand, with one-month LIBOR + margin to the interest rate index of 0.01% on an annual basis;
- Investbank AD - a security in the amount of USD 4,662 thousand;
- D Commerce Bank AD - a security in the amount of USD 3,612 thousand, at an annual interest rate of 0.01%;
- Eurobank Bulgaria AD - a security in the amount of USD 8,320 thousand, with one-month LIBOR + margin added to the interest rate index of 0.05% on an annual basis for the first twenty-four months of the contract term;
- Eurobank Bulgaria AD - a security in the amount of USD 4,876 thousand, with one-month LIBOR + margin added to the interest rate index of 0.05% on an annual basis for the first twenty-four months of the contract term;
- ING Bank N.V. - a security in the amount of USD 9,554 thousand at an annual interest rate of 0.28%;
- United Bulgarian Bank AD - a security in the amount of USD 2,368 thousand;
- United Bulgarian Bank AD - a security in the amount of USD 7,064 thousand, with one-month LIBOR + margin to the interest rate index of 0.01% on an annual basis;
- Citibank Europe AD - a security in the amount of EUR 6,504 thousand;

In line with a Council of Ministers' Decision of January 8, 2020 Bulgartransgaz EAD acquired a shareholding in Gastrade S.A. amounting to 20% of its capital. In connection with the execution of the transaction, an escrow agreement was signed between the parties and Eurobank Bulgaria AD in its capacity of an escrow agent for the transaction. As of 31.12.2021, BGN 13,738 thousand have been restricted on the escrow account.

22. Cash provided as bank deposits

in BGN thousand

	2021	2020
Cash provided as bank deposits	117,350	-
Gross value of cash provided as bank deposits	117,350	-
Expected credit losses	(119)	-
Cash provided as bank deposits	117,231	-

The change in the corrective/adjustment amount for expected credit losses of cash provided as collateral can be presented as follows:

in BGN thousand

	2021	2020
Balance as at January 1	-	-
Corrective/Adjustment for expected credit losses	(119)	-
Balance as at December 31	(119)	-

In October 2021, the Group concluded a deposit contract with the International Bank for Economic Co-Operation in the amount of EUR 60,000 thousand, with a deposit term of six months at an interest rate of 0.02% on an annual basis.

Notes to the consolidated financial statement
23. Capital and reserves
Share capital

The share capital is divided into 1 414 786 264 registered shares (2020: 1 225 519 155 registered shares). All shares have a nominal value of 1 BGN. The sole owner of the capital is Bulgarian Energy Holding EAD, whose principal is the Ministry of Energy.

The share entitles to one vote at the General Meeting of Shareholders, dividend right and liquidation share commensurate with the nominal value of the share.

The capital increases, registered in 2021, are financial dematerialized transactions that do not use cash or cash equivalents were used and were not recognised in the cash flows statement.

Reserve

The reserves of the Group include statutory reserves, other reserves and revaluation reserve of defined benefit plans under IAS 19 Employee benefits.

Statutory reserves

The statutory reserves include a "Reserve Fund", set up by at least 1/10 of the profit until the resources of the fund reach at least 1/10 of the registered capital. As at 31.12.2021 the statutory reserves of the Group amount to BGN 105,243 thousand (2020: BGN 87,453 thousand).

Other reserves

Other reserves amount to 7 027 thousand BGN and have been set up in 2009 by virtue of a decision of Bulgarian Energy Holding EAD, when the retained earnings for 2008 was transformed in Other Reserves following the deductions for Reserve fund.

Actuarial gains/losses

The accumulated actuarial (profits)/losses within 2011 - 2021 amount to 9 206 thousand BGN and are formed by the loss from revaluation of liabilities for retirement benefits. In 2021 the actuarial loss amounted to BGN 533 thousand.

Revaluation reserve

The accumulated revaluation reserve as at December 31, 2021 amounted to BGN 1 851 490 thousand. (2020: BGN 910,705 thousand).

Pursuant to the applicable legislation the revaluation reserve set up from revaluation of properties, plants and equipment, cannot be allocated for dividends.

According to the Company policy, each year the revaluation reserve shall be transferred to the retained earnings based on costs accounted for amortization of the revaluation reserve. Writing off of the revaluation reserve in retained earnings for 2021 amounted to BGN 51,609 thousand (2020: BGN 54,985 thousand).

24. Deferred tax assets and liabilities and tax expenses

The estimated tax expenses based on the tax rate in force in Bulgaria in the amount of 10 % (2020: 10%) and the actually recognized tax expenses in the loss or profit can be presented, as follows:

<i>in BGN thousand</i>	2021	2020
Taxes recognised in profits and losses		
Profit before tax	156,441	80,992
Tax rate	10 %	10 %
Estimated expense on income taxes	(15,644)	(8,099)
Tax effect from:		
Adjustments for revenues exempt from tax	19,414	7,566
Adjustments for expenses not recognized for tax purposes	(18,926)	(12,877)
Deduction of tax loss	-	14

Current tax

Notes to the consolidated financial statement

Current tax expense	(15,256)	(13,396)
Occurrence and reversal of temporary differences	(565)	5,222
Total tax expenses	(15,821)	(8,174)
Deferred tax expenses, recognized directly in the other comprehensive income	(110,213)	10,894

Current tax expenses include the accrual of corporate tax on profit amounting to 10% on the accounting profit, converted for the purposes of taxation. The amounts recognized in the other comprehensive income refer to revaluation of non-financial assets and revaluations under defined benefit plans.

The deferred taxes arise as a result of temporary differences and can be presented as follows:

Deferred tax liabilities (assets)	December 31, 2020	Recognised in the other comprehensive income	Recognised in the profit or loss	December 31, 2021
	thousand BGN	thousand BGN	thousand BGN	thousand BGN
Non-current assets				
Property, plant and equipment	120,290	110,266	(986)	229,570
Investment in jointly controlled entity	(237)	-	2	(235)
Long-term financial assets	(4,834)	-	313	(4,521)
Current assets				
Short-term financial assets	(203)	-	(134)	(337)
Inventories	(1,375)	-	1,289	(86)
Liabilities				
Employees' pensions	(1,011)	(53)	60	(1,004)
Provisions for unused leaves	(228)	-	22	(206)
Employees' benefits	-	-	(1)	(1)
	112,402	110,213	565	223,180

Deferred tax assets	(7,888)	(6,390)
Deferred tax liabilities	120,290	229,570
Recognised as:		
Net deferred tax liabilities	112,402	223,180

Deferred taxes for the comparative period 2020 can be summarized as follows:

Deferred tax liabilities (assets)	December 31, 2019	Recognised in the other comprehensive income	Recognised in the profit or loss	December 31, 2020
	thousand BGN	thousand BGN	thousand BGN	thousand BGN
Non-current assets				
Property, plant and equipment	135,371	(10,772)	(4,309)	120,290
Investment in jointly controlled entity	(179)	-	(58)	(237)
Long-term financial assets	(5,356)	-	522	(4,834)
Current assets				
Short-term financial assets	(56)	-	(147)	(203)
Inventories	(89)	-	(1,286)	(1,375)
Liabilities				
Employees' pensions	(974)	(122)	85	(1,011)
Provisions for unused leaves	(199)	-	(29)	(228)
	128,518	(10,894)	(5,222)	112,402

Deferred tax assets	(6,875)	(7,888)
Deferred tax liabilities	135,393	120,290
Recognised as:		
Net deferred tax liabilities	128,518	112,402

Notes to the consolidated financial statement

Upon calculation of deferred taxes as at December 31, 2021, tax rate of 10% was applied, defined by the Corporate Income Tax Law for 2021 (for 2020: 10%). All deferred tax assets are included in the consolidated statement of financial position.

25. Deferred revenue from funding

in BGN thousand

	Notes	2021	2020
Balance on 1 January		134,790	92,985
Received funding		32,487	11,904
Revenue recognised over the year	8	(5,913)	(5,722)
Balance on 31 December		<u>161,364</u>	<u>99,167</u>

Deferred revenue from funding, recognized in the consolidated statement of financial position, relate to non-current assets, whose acquisition and/or construction is partially financed by external organizations. The material part of the assets, subject to financing, are part of the Company's investment programme and as at the date of the financial statement they have been commissioned. In addition, the Company has been provided with funds to finance assets that are still under construction.

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, Pirdop and Bansko - Razlog". The total cost of the project was estimated to EUR 21,800 thousand, of which EUR 11,000 thousand is the grant from Kozloduy International Fund. The expected Bulgartransgaz EAD co-financing amounts to EUR 10,800 thousand.

On January 17, 2020 an amendment and supplement was signed - Grant Agreement № 057A, setting the deadline for the contract on 31.12.2020, the total value of the project was updated and the scheme for financing of the three projects was changed, without changing the total amount of the grant. By a letter dated 18.01.2021 from EBRD, the deadline for grant payment was extended until 30.06.2021. By a letter dated 23.08.2021 from EBRD, the deadline for grant payment was extended until 31.08.2021.

Having regard to implementation of the Grant Agreement Bulgartransgaz EAD concluded Consultancy contracts for design of transmission gas pipeline to Svishtov in the amount of EUR 329 thousand, transmission gas pipeline to Panagyurishte and Pirdop in the amount of BGN 937 thousand and transmission gas pipeline to Razlog and Bansko in the amount of BGN 787 thousand. Fifty percent (50%) of the total amount, excluding the costs for Designer's supervision, will be paid under Kozloduy International Fund (KIDSF) – European Bank for Reconstruction and Development (EBRD). Consultant contract was concluded for the Project management group in the amount of EUR 198 thousand. One hundred percent (100%) of this contract value shall be paid by funds of KIDSF - EBRD. Three contracts were also concluded for delivery of basic materials and equipment for Gas Transmission Pipeline to Panagyurishte and Pirdop and for Gas Transmission Pipeline to Svishtov at a total value of EUR 7,820 thousand. One hundred percent (100%) of the value of these contracts shall be paid by funds of KIDSF - EBRD.

As at the date of the financial statement, EUR 8,583 thousand were paid by the Bank for performed activities. According to the above described contracts, no further payment requests are to be sent to the bank and no further payments are expected.

On October 23, 2015 Grant agreement No INEA/CEF/ENER/M2015/1029442 was signed with the funding institution Innovation and Networks Executive Agency (INEA) for implementation of Action 6.20.2-0021-EN -SM-15, entitled "Conduct of 3D seismic surveys as a part of the Chiren UGS expansion project 6.20.2", which includes the activities "Conduct of 3D field seismic surveys on the Chiren structure" and "Quality control in conduct of 3D field seismic surveys and processing of data acquired", of expected total value EUR 7 800 thousand. The grant amount is 50% of the value of the Action i.e. up to EUR 3,900 thousand. As of the date of preparation of the financial statements

Notes to the consolidated financial statement

40% of the financing or EUR 1,560 thousand in line with the Art. 4.1.2 of the Grant Agreement have been received;

On April 27, 2016 Grant Agreement No INEA/CEF/ENER/M2015/1119568 was signed with the financing institution INEA for carrying out Action No.6.8.2-0055-BG-S-M-15, entitled „Preparatory activities in connection with PCI 6.8.2. implementation Rehabilitation, modernization and expansion of the Bulgarian gas transmission system“ of expected total value EUR 1 700 thousand. The grant amount is 50% of the value of the Action i.e. up to EUR 850 thousand. On January 29, 2020, a balance payment of EUR 179 thousand was received. An additional payment in the amount of EUR 1,000 was received on February 25, 2020, after an objection and additional documents concerning the reported audit costs have been submitted. The total amount of the received financing as of the date of preparation of the financial statement amounts to EUR 520 thousand.

On May 17, 2017, Grant Agreement No. INEA/CEF/ENER/M2016/1290626 was signed with the financing institution INEA for Action No 6.8.2-0026-BG-S-M-16, entitled „Preparatory activities for rehabilitation of section PF Valchi dol – VA Preselka of the transmission system, PCI 6.8.2.“, as part of PCI 6.8.2 „Rehabilitation, modernization and expansion of the Bulgarian gas transmission system“ of total estimated value EUR 364 thousand. The grant amount is 50% of the value of the Action i.e. up to EUR 182 thousand. An advance payment of EUR 73 thousand was received. On June 5, 2020 a request for refund (Debit note) of EUR 57 thousand of unspent amounts was received.

On May 17, 2017, Grant Agreement No INEA/CEF/ENER/M2016/1290649 was signed with the financing institution INEA for implementation of Action No. 6.25.4-0015-BG-S-M-16, entitled „Feasibility Study for the Balkan Gas Hub“, as part of PCI 6.25.4 „Infrastructure, required for the development of the Bulgarian gas hub“ – of total estimated value EUR 1 841 thousand. The grant amount is 50% of the value of the Action i.e. up to EUR 921 thousand. On February 27, 2020, a balance payment of EUR 262 thousand was received. The total amount of the received financing as of the date of preparation of the financial statement amounts to EUR 630 thousand.

On 1 April 2019, a Grant Agreement No INEA/CEF/ENER/M2018/1749550 was signed with the financing institution INEA for the implementation of Action No 6.8.2-0034-BG-W-M-18 „Construction works for PCI 6.8.2 Rehabilitation, modernization and expansion of the Bulgarian transmission system - Phase 2“ with estimated total value of EUR 67,961 thousand. The grant amount is 40% of the value of the Action i.e. up to EUR 27,185 thousand. An advance payment of EUR 5,714 thousand was received in 2019. Additional advance payment of EUR 286 thousand was received on April 29, 2020.

On 19 August 2019, a Grant Agreement No INEA/CEF/ICT/A2018/1817262 was signed with the financing institution INEA for implementation of Action No 2018-BG-IA-0134 entitled „Implementation and certification of information security management system in line with the requirements of ISO 27001“ of estimated total value EUR 189 thousand. The grant amount is 75% of the value of the Action i.e. up to EUR 142 thousand. As of the date of preparation of the financial statements 50% of the value of the financing or EUR 71 thousand in line with the Article 4.1.2 of the Grant Agreement has been received; In December 2021, an interim payment of EUR 9,418 thousand was received under the project, concerning costs incurred in the period 2019-2020.

On August 19, 2019 Grant Agreement No INEA/CEF/ICT/A2018/1817239 was signed the financing institution INEA for implementation of Action No.2018-BG-IA-0133 entitled „Establishment of a cyber security laboratory and protected environment for critical data and information systems“ of estimated total value EUR 199 thousand. The grant amount is 75% of the value of the Action i.e. up to EUR 149 thousand. As of the date of preparation of the financial statements 50% of the value of the financing or EUR 75 thousand in line with the Article 4.1.2 of the Grant Agreement has been received; A balance payment of EUR 49 thousand was received in December 2021. The total amount of the received funding under the project amounts to EUR 124 thousand.

Notes to the consolidated financial statement

A Contract was signed on October 1, 2020 between the Ministry of Energy (ME) and Bulgartranzgaz EAD according to which ME transferred free of charge the ownership right as well as the intellectual and industrial property rights connected thereto, including all of its copyrights to the extent permitted by law and agreed upon with the authors over a long-term tangible asset under construction, entered into the balance sheet of ME in connection with the realisation of: Project "Preparation, study and design for construction of Interconnection Bulgaria-Serbia" and project "Construction of Interconnection Bulgaria-Serbia", as well as all the documentation prepared during implementation of the two projects.

On October 7, 2020 under the Operational Programme "Innovation and Competitiveness" 2014-2020 (OPIC) an administrative contract was signed for direct provision of Grant No BG16RFOP002-4.003-0001-C01 for a project entitled "Completion of preparatory activities required for launching the construction of Interconnection Bulgaria-Serbia", with an estimated total cost of BGN 9,240 thousand. The grant amount is up to BGN 5,469 thousand. As of the date of preparation of the financial statements no payments have been received under the contract.

On December 11, 2020, Grant Agreement No INEA/CEF/ENER/M2018/2247243 was signed with the financing institution INEA for implementation of Action No. 6.8.3-0013-BG-W-M-20 PCI 6.8.3 "Interconnection Bulgaria-Serbia (IBS) - Construction activities" with estimated total cost of EUR 76,674 thousand. The grant amount is 36 % of the value of the Action i.e. up to EUR 27,603 thousand. As of the date of preparation of the financial statements, an advance payment of EUR 13,801 thousand or 50% of the value of the financing has been received.

26. Provisions

in BGN thousand

	Provision under case	Recultivation provision	Total
Carrying amount as at 31 December 2019	50,837	207	51,044
Provision accrued	755	-	755
Provision paid	-	(54)	(54)
Carrying amount as at 31 December 2020	51,592	153	51,745
Provision accrued	754	-	754
Provision paid	-	(100)	(100)
Carrying amount as at 31 December 2021	52,346	53	52,399

In 2019, the Group has recognised a provision for technical and biological recultivation of land in the amount of BGN 254 thousand. The provision was recognised in the value of the constructed assets to which it relates. The liability should be settled within the next 5 years on the basis of actually performed recultivation activities. By the date of the statement, the Group cannot estimate what part of the activities will be performed in the next year and therefore the provision was classified as current. In 2021 the provision released amounts to BGN 100 thousand. (2020: 54 thousand BGN)

The Company is a party to Case AT39849 BEH-gas initiated by the European Commission (EC) in connection with an official investigation procedure as to whether BEH EAD and its subsidiaries Bulgargaz EAD and Bulgartranzgaz EAD have violated the EU rules for competition on the natural gas market in the country.

Pursuant to Decision of the National Assembly of 24 November 2017 and Decision of the National Assembly of 26 July 2018 and after approval of the management bodies of Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartranzgaz EAD, as well as with regard to a letter Ref. No C-26-E-07 of 26 February 2019 of the Minister of Energy with instructions for taking action to implement the Decision of the 44th National Assembly of the Republic of Bulgaria on the completion of Case COMP/B1/AT.39849 BEH-gas of 24 November 2017, the parties under the case,

Notes to the consolidated financial statement

including Bulgartransgaz EAD, have decided to appeal the Commission's Decision under Case AT.39849 BEH-gas before the General Court of the European Union.

The appeal against the Decision was brought before the General Court of the European Union on 28 February 2019 by the Company legal representative White & Case LLP. A final summarized version of the appeal in accordance with the Practical Guide of the Court of Justice of the EU in case AT.39849 BEH-gas was submitted to the General Court of the EU by the procedural representative of the Company - White & Case LLP on April 5, 2019 and was accepted for consideration by the General Court of the EU on May 14, 2019 according to a letter T-136/19-14 in case T-36/19.

On 4 July 2019, the Bulgarian state, through the Ministry of Foreign Affairs, filed an application to intervene in support of the parties to the case, including Bulgartransgaz EAD.

The European Commission's defence was filed to the General Court of the European Union on 23 August 2019 and was received by the applicants on 19 September 2019. The applicants have requested the court to extend the deadline for submitting a response regarding the defence received by 19 December 2019.

The response of the applicants Bulgartransgaz EAD, Bulgargaz EAD and Bulgarian Energy Holding EAD regarding the defence of the European Commission was submitted on 19 December 2019.

The position of the Bulgarian state admitted to intervene in the case in support of the applicants was submitted to the General Court of the European Union on 20 February 2020.

The case is expected to be planned for an open session hearing within the calendar 2022.

As at December 31, 2018, the Company has accrued provisions for legal liabilities in the amount of BGN 50 244 thousand, which correspond to 1/3 of the pecuniary penalty determined by EC decision in the amount of EUR 77 068 thousand under Case AT.39849 BEH-gas.

In 2019, considering the EC decision that „in case a financial guarantee is provided, its sum will bear interest amounting to the main interest percentage, plus one and a half percentage, i.e. 1,5%“, and after a request sent in this regard to the EC and received reply, it becomes clear that as at 31 December 2019 the total sum of the pecuniary penalty is EUR 77 977 thousand for the three companies – Bulgartransgaz EAD, Bulgargaz EAD and Bulgarian Energy Holding EAD, and includes the principal of EUR 77 068 thousand and the interest for delay in payment amounting to EUR 909 thousand.

In 2019, based on the received reply and after a decision of the MB under item 6 of Protocol No.422/06.02.2020 additional provisions for legal obligations equal to the interest for delayed payment amounting to EUR 593 thousand have been accrued by Bulgartransgaz EAD. (1/3 part of the delayed payment interest of EUR 909 thousand).

In 2020, based on the received reply and after a MB decision under item 3 of Protocol No. 504/22.01.2021, additional provisions for legal obligations equal to the interest for delayed payment amounting to EUR 755 thousand have been accrued by Bulgartransgaz EAD.

In 2021, based on the received reply and after a MB decision under item 2 of Protocol No. 584/17.01.2022, Bulgartransgaz EAD accrued additional provisions for legal obligations equal to the interest for delayed payment amounting to EUR 754 thousand.

As at December 31, 2021 the accrued provisions for legal obligations under Case AT.39849 BEH-gas amount to BGN 52 346 thousand.

27. Employees' benefits

in BGN thousand

	2021	2020
Liability for defined benefit plans upon retirement – non-current	8,839	8,903
Liability for defined benefit plans upon retirement – current	1,202	1,202

Notes to the consolidated financial statement
Total liabilities for employees' benefits

10,041

10,105

Liabilities for defined benefit plans upon retirement

Pursuant to the requirements of the Labour Code and the Collective Labour Agreement upon termination of employment after the employee has acquired the right of receiving the old-age pension, the Group is obliged to pay the employee benefits in the amount of up to six gross salaries and additional benefit in line with the Collective Labour Agreement. The Company has accrued a legal obligation to pay retirement benefits to employees in line with the requirements of IAS 19 Employee Benefits based on the forecast payments for the next years discounted at the present moment with a long-term interest rate of risk-free securities.

The liability recognized in the consolidated financial statement regarding defined benefit plans is the current value of the liability of paying defined benefits at the end of the reporting period.

The estimated amount of liabilities under defined benefit plans upon retirement at each reporting period and the expenses recognized in profit and loss are based on an actuarial report (information on the parameters and assumptions used is disclosed below).

Movements in the current value of liabilities under defined benefit plans
in BGN thousand

	2021	2020
Current value of the liability as at January 1	10,105	9,744
Interest expenses for the period	102	49
Current service costs for the period	767	663
Income paid	(1,466)	(1,571)
Actuarial loss for the period	533	1,220

Current value of the liability as at December 31

10,041

10,105

Costs recognised in profits and losses
in BGN thousand

	2021	2020
Current service costs	767	663
Interest expenses	102	49
	869	712

The costs for current professional service are included in line Employee expenses Net interests expenses are included in the consolidated statement of profit or loss and other comprehensive income in line „Financial expenses“ (see Note 12).

The total amount of actuarial loss under the Company's defined benefit plans, recognized in the other comprehensive income, amounts to BGN 533 thousand (2020: BGN 1 220 thousand), due to changes in the financial assumptions.

Actuarial assumptions

The principal actuarial assumptions at the financial statement date (presented as average values) are shown as follows:

	2021	2020
Discount rate as at December 31	1%	0.5%
Salaries' increase for 2021	-	4.00%
Salaries' increase for 2022	7.10%	1.10%
Salaries' increase for 2023	1.10%	-

**Current value of the liability under
defined benefit plan as at
December 31**
effect in BGN thousand

	2021	2020
Discount rate	+1.25%	-0.75%
Future salaries increase	+2.1%	+0.1%

Notes to the consolidated financial statement

	10,733	9,413	10,801	9,477
Life expectancy	+1	-1	+1	-1
	10,179	9,885	10,239	9,955
Staff turnover	+1%	-1%	+1%	-1%
	9,316	10,747	9,383	10,822

The sensitivity analysis is based on a change in only one of the assumptions. It may differ from the actual change in the obligations for defined benefits as the changes in assumptions are very often interrelated.

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it provides an approximation of the sensitivity of the assumptions set out.

28. Loans received

The loans include the following financial liabilities:

<i>in BGN thousand</i>	Current		Non-current	
	2021	2020	2021	2020
Financial liabilities measured at amortized cost:				
Bank loans	225,725	136,191	1,063,559	785,156
Interest	225	-	-	-
Total carrying amount	<u>225,950</u>	<u>136,191</u>	<u>1,063,559</u>	<u>785,156</u>

In 2020 and 2021, Bulgartransgaz EAD received credits for operating and investment costs from several financial institutions. The credit is secured with cash in the form of deposit of up to 20% of the used and unpaid part of the credit. The information on the loans received and the cash provided as a security is as follows:

Financial institution	Principal in thousand EUR	Annual interest rate on the loan	Cash provided as a security in thousands US dollars	Annual interest rate on the deposit
Unicredit Bulbank AD	98,333	EURIBOR+1,60%	24,635	LIBOR+0,10%
Unicredit Bulbank AD	50,000	EURIBOR+1,35%	12,126	0.10%
Raiffeisenbank /Bulgaria/ EAD	50,000	EURIBOR+1,75%	11,868	LIBOR+0,01%
DSK Bank EAD	50,000	EURIBOR+1,65%	11,014	LIBOR+0,01%
DSK Bank EAD	70,000	EURIBOR+1,65%	15,222	LIBOR+0,01%
Eurobank Bulgaria AD	33,000	EURIBOR+2,00%	8,320	LIBOR+0,05%
Eurobank Bulgaria AD	20,000	EURIBOR+2,00%	4,876	LIBOR+0,05%
ING Bank N.V.	39,456	BIR+2,10%	9,554	0.28%
United Bulgarian Bank AD	9,759	EURIBOR+1,30%	2,368	-
United Bulgarian Bank AD	30,000	EURIBOR+1,40%	7,064	LIBOR+0,01%
Investbank AD	20,000	EURIBOR+1,75%	4,662	-
D Commerce Bank AD	15,500	EURIBOR+1,75%	3,612	0.01%
<i>syndicated loan between</i>				
Bulgarian Development Bank AD	60,967	EURIBOR+2,00%	27,643	0.10%
International Investment Bank	49,167	EURIBOR+2,00%	-	-
<i>syndicated loan between</i>				
Bulgarian Development Bank AD	15,000	EURIBOR+2,00%	7,387	LIBOR+0,01%
International Investment Bank	<u>15,500</u>	<u>EURIBOR+2,00%</u>	<u>-</u>	<u>-</u>

Notes to the consolidated financial statement

Total	626,682		150,351	
Financial institution	Principal in BGN thousand	Annual interest rate on the loan	Cash provided as a security in thousand EUR	Annual interest rate on the deposit
Citibank Europe AD	63,601	BIR+1,70%	6,504	-
Total	63,601		6,504	

The loan contracts concluded with Unicredit Bulbank AD in BGN and with United Bulgarian Bank AD in EUR are short-term and are related to the provision of working capital in the parent company. The contract concluded with Citibank Europe AD, is also short-term and is intended for the purchase of a shareholding in the capital of Gastrade S.A.

All other loans received by Bulgartransgaz EAD are long-term. The principals of the long-term loans are with a grace period ranging from 12 to 17 months for the various loans, and interest is paid each month. The funds are intended to cover Bulgartransgaz EAD investment expenses related to implementation of the Balkan Stream project on the territory of the country and other large-scale investment projects.

Changes in the Group's liabilities arising from a financial activity, can be classified as follows:

in BGN thousand

	Short-term loans	Long-term loans	Total
1 January, 2021	136,191	785,156	921,347
Cash flows:			
Repaid credits	(221,409)	(86,208)	(307,617)
Payments of interests	(719)	(20,962)	(21,681)
Proceeds	113,584	561,970	675,554
Non-monetary changes:			
Interest accrued	944	21,404	22,348
Current part of long-term credits	(9,279)	9,279	
Prepaid interest receivable	-	(327)	(327)
Offset interest expenses on loans against collateral revenues	-	(115)	(115)
Reclassification	206,638	(206,638)	-
31 December 2021	225,950	1,063,559	1,289,509

in BGN thousand

	Short-term loans	Long-term loans	Total
01 January 2020	391,191	-	391,191
Cash flows:			
Repaid credits	(250,557)	-	(250,557)
Payments of interests	(782)	(1,004)	(1,786)
Proceeds	177,712	716,201	893,913
Non-monetary changes:			
Interest accrued	1,157	680	1,837
Interest for a future period	-	327	327
Offset loan with a collateral	(192,203)	-	(192,203)
Exchange rate differences	794	-	794
Loan received by offsetting of a liability	-	78,234	78,234
Offset interest expenses on loans against collateral revenues	(400)	(3)	(403)
Reclassification	9,279	(9,279)	-
31 December 2020	136,191	785,156	921,347

Notes to the consolidated financial statement
29. Trade and other obligations and liabilities under contracts

<i>in BGN thousand</i>	2021	2020
Liabilities to suppliers	436,800	1,146,906
Liabilities under contracts	551,120	366
Amounts charged under contract	45,278	115,616
Liabilities to the staff for unused full-pay annual leave	2,065	2,287
Liabilities to insurers	338	128
Other liabilities	281	359
	<u>1,035,882</u>	<u>1,265,662</u>

Liabilities to the budget:

Liabilities for Security of the Electricity System Fund (5%)	2,890	1,580
Liabilities for social security contributions	1,160	1,273
Personal income tax	1,199	1,167
Liabilities to customs	301	94
Liabilities for taxes on expenses	310	300
VAT to be paid	22	20
Other liabilities to the budget	5	110

Total trade and other liabilities

<u>1,041,769</u>	<u>1,270,206</u>
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<i>in BGN thousand</i>	2021	2020
Non-current trade and other liabilities	608,034	1,044,512
Current trade and other liabilities	433,735	225,694
Total trade and other liabilities	<u>1,041,769</u>	<u>1,270,206</u>

Most of the Group's trade liabilities as at December 31, 2021 are related to the implemented activities under project "Expansion of the gas transmission infrastructure of Bulgartransgaz EAD parallel to the north (main) gas pipeline to the Bulgarian-Serbian border", stage: "Pipeline network" with a length of 474 km, payable to Association Consortium Arkad and received advance payment of amounts due under a capacity booking contract with Gazprom Export LLC.

Liabilities to Association Consortium Arkad amount to a total of BGN 457,172 thousand as of December 31, 2021, of which BGN 31,541 thousand are accrued amounts for completed and accepted project activities, which are to be invoiced by the suppliers. According to the terms of the contract, the liabilities will be paid on the basis of a repayment plan in equal monthly installments until January 1, 2031. The annual interest rate is 3%. After analysis and review of the project deliveries and activities, as well as in accordance with all available documents, the management expects that the accrued amount will be close to the final amount, subject to invoicing. This assessment of the management is based on the available up-to-date information as of the date of preparation of the financial statement (agreed values, no data on non-performance of the contract and availability of the legally required documents for site commissioning). Accordingly, the amount is included as part of the newly acquired project construction assets in compliance with the requirements of IAS 16.

On July 26, 2021, Gazprom Export LLC made an advance payment of amounts due under a concluded capacity booking contract for the period from July 1, 2021 until June 30, 2023. The total amount due for the period, calculated at a forecast annual indexation of the applicable tariffs under the effective contract, for gas years 2021/2022 and 2022/2023 of 1,7% totals to BGN 704 477 888,26, VAT excluded. When applying a discount factor on an annual basis, the advance payment sum totals to BGN 683 302 760,39, VAT excluded. As at 31 December 2021, the Company has classified the long-term and short-term portion of the advance payment from Gazprom Export LLC.

Notes to the consolidated financial statement

The liabilities under contracts of the Group amount to BGN 551,120 thousand (2020: BGN 366 thousand) and have arisen as a result of advances received from contractors under contracts for connection to the gas transmission network and deferred revenues as at December 31, 2021, which are advance paid registration fees of the Group, which will be recognized as current income until December 31, 2022.

The Group's exposure to liquidity and currency risk is presented in Note 33.

30. Related entities

The Group's related entities include a principal, represented by the Ministry of Energy, the sole owner, jointly controlled entities, key management personnel and entities under joint control.

The parent company and the ultimate controlling entity is Bulgarian Energy Holding EAD (BEH).

The Group has transactions with the following companies from the BEH group:

Bulgarian Energy Holding EAD	controlling company
Bulgargaz EAD	subsidiary of BEH
NEK EAD	subsidiary of BEH
ESO EAD	subsidiary of BEH
Mini Maritsa Iztok EAD	subsidiary of BEH
NPP Kozloduy EAD	subsidiary of BEH
Bulgartel EAD	jointly controlled entity with ESO
South Stream Bulgaria AD	jointly controlled entity of BEH
Gastrade S.A.	Jointly controlled entity

The transactions with related parties are presented as follows:

- Dividend due and interests in connection with it to Bulgarian Energy Holding EAD for 2019 and 2020;
- Provision of services involving access and transport, storage and balancing of natural gas to Bulgargaz EAD;
- Bulgargaz EAD Membership agreement on Balkan Gas Hub EAD trading platform.
- Payments for purchased natural gas from Bulgargaz EAD;
- Electric power transmission by ESO EAD;
- Purchase of electric power from NEK EAD;
- Contract settling the relations involving the use of Bulgartransgaz EAD auxiliary network resources by Bulgartel EAD and the use of Bulgartel EAD public electronic communication network by Bulgartransgaz EAD;
- A lease agreement of real estate concluded between Balkan Gas Hub EAD and Bulgartel AD of duration until 31.03.2023. The Company has provided a guarantee deposit under the lease agreement in the amount of BGN 7 thousand, recoverable at the end of agreement duration.
- Provision of electronic communications services by Bulgartel AD to Balkan Gas Hub EAD.

Transactions with related party were not made under special conditions. The guarantees received relate to the terms of the commercial contracts applicable to unrelated parties as well.

Transactions with related entities

<i>in BGN thousand</i>	Transactions value during:		End balances	
	2021	2020	31.12.2021	31.12.2020
Transactions with the owners				
BEH EAD				
Dividend	(79,601)	-	-	-
Interests for dividend	(262)	-	-	-
	<u>(79,863)</u>	<u>-</u>	<u>-</u>	<u>-</u>

Notes to the consolidated financial statement

Transactions with related entities

Transactions with BEH subsidiaries Bulgargaz EAD

Sales:

	Transactions value during:		End balances	
Transmission, storage and balancing services	102,151	58,151	5,083	2,923
Services rendered of natural gas trading platform	389	27	50	-
Penalties for overdue payments	-	18	-	1
Interest long-term receivables	-	-	-	-
Judicial payables	-	-	1,373	1,373
Expected credit losses	-	-	(1,177)	(956)
	102,540	58,196	5,329	3,341

Purchase of:

Purchase of natural gas	(21,526)	(3,745)	(6,302)	(312)
Guarantees under contract	-	-	(21,282)	(13,816)
Deferred revenues from registration fee	-	-	-	(2)
	(21,526)	(3,745)	(27,584)	(14,130)

ESO EAD

Guarantees	-	-	10	16
Electric power transmission services	(97)	(21)	(36)	(4)
	(97)	(21)	(26)	12

Mini Maritsa Iztok EAD

Services rendered	2	2	-	-
	2	2	-	-

NEK EAD

Services rendered	(59)	-	(67)	-
	(59)	-	(67)	-

South Stream Bulgaria EAD

Rent	1	1	-	-
	1	1	-	-

Transactions with jointly controlled entities

Bulgartel EAD

Sales:

Provision of resources, optical fibres and collocation	354	357	15	20
Long-term receivables	-	-	-	114
Provided deposit for real estate rent	-	7	7	7
	354	364	22	141

Bulgartel EAD

Purchase of:

Notes to the consolidated financial statement

Transactions with related entities

	<i>Transactions value during:</i>		<i>End balances</i>	
Use of resources of the auxiliary network and communication services	(44)	(49)	(241)	(341)
Services received	(29)	(20)	(9)	-
Guarantees	-	-	(13)	(13)
	(73)	(69)	(263)	(354)
<i>Gastrade S.A.</i>				
Amount provided as collateral for a letter of credit	(1,956)	-	1,956	-
	(1,956)		1,956	
Total receivables from related entities	-	-	7,317	3,498
Total liabilities to related entities	-	-	(27,950)	(14,488)

The aggregated estimates with related entities are as follows:
in BGN thousand

	2021	2020
Non-current receivables from related entities	17	137
Current receivables from related entities	7,300	3,361
	<u>7,317</u>	<u>3,498</u>
<i>in BGN thousand</i>		
	2021	2020
Non-current liabilities to related entities	148	241
Current liabilities to related entities	27,802	14,247
	<u>27,950</u>	<u>14,488</u>

Most of the trade receivables from related entities are due from the Group in connection with services for transmission, storage and balancing of natural gas and services for access to Balkan Gas Hub EAD platform in the amount of BGN 5,133 thousand as at 31.12.2021, paid according to the usual commercial practice of the Group and according to the terms agreed with the customer.

The Group also reports judicial receivables in gross amount (before impairment) from the same related party in the amount of BGN 1,373 thousand as of December 31, 2021, which amounts are disputed in connection with case № 458 according to the inventory of Sofia City Court for unpaid principal and due penalties for delayed payments under a contract for natural gas transport through the gas transmission networks of Bulgartransgaz EAD.

Most of the liabilities to related parties of the Group are due to Bulgargaz EAD and have arisen as received guarantee deposits BGN 21 287 thousand (BGN 13,816 thousand as of 31.12.2020), required by the Company as part of the credit risk management mechanisms under the terms and conditions of the Daily Imbalance and Neutrality Balancing Charge Calculation Methodology.

The change in the corrective/adjustment amount for expected credit losses of receivables from related entities can be presented as follows:

	2021	2020
<i>in BGN thousand</i>		
Balance as at January 1	(956)	(92)
Corrective/Adjustment for expected credit losses	(221)	(881)
Recovery of impairment loss	-	17

Notes to the consolidated financial statement
Balance as at December 31

(1,177)	(956)
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Remuneration to key management personnel

The Group has a related entity relationship with directors and employees with controlling functions. The Group's key management personnel include the Supervisory and Management Boards members of the parent company.

The total amount of accrued remunerations included in personnel costs is as follows:

<i>in BGN thousand</i>	2021	2020
Remunerations paid to the key management personnel	684	617
Social security contributions on key management personnel remunerations	43	28
Total expenses for remunerations of the key management personnel	727	645

Involvement of key management personnel in management of other companies

The Supervisory Board members of the parent company as at the date of consolidated statement preparation are the following:

Kiril Georgiev Georgiev – Chairperson of the Supervisory Board
Snezhana Bobeva Yovkova - Markova - Deputy Chairperson of the Supervisory Board
Delyan Ivanov Koynov - Member of the Supervisory Board
Stefan Milenov Iliev - Member of the Supervisory Board
Nikolay Ivanov Stefanov - Member of the Supervisory Board

The Management Board members at the date of the statement are the following:

Darina Hristova Koleva - Chairperson of the Management Board
Delyan Valentinov Dimitrov – Member of the Management Board
Vladimir Asenov Malinov - Member of the Management Board and Executive Director

31. Guarantees under contracts

<i>in BGN thousand</i>	2021	2020
<i>Non-current guarantees</i>		
Guarantees under contracts for assets' construction	354	16,461
Guarantees under contracts for access, transport, storage and balancing	46	
	<u>400</u>	<u>16,461</u>
<i>Current guarantees</i>		
Guarantees under contracts for assets' construction	10,562	9,598
Guarantees under contracts for access, transport, storage and balancing	64,309	25,292
Trade deposits	9,487	4,825
Deposits for participation in procedures	157	33
	<u>84,515</u>	<u>39,748</u>
	<u>84,915</u>	<u>56,209</u>

Most of the obligations under received guarantees of the Company represent:

- guarantees - sums withheld under construction works contracts that are paid depending on the stage of implementation of the construction sites in line with the clauses of the contract;
- sums to guarantee payments under natural gas Storage contracts and Access and transport contracts, which each user of the service is obliged to deposit as collateral for the nominations for capacity and access;

Notes to the consolidated financial statement

- amounts to secure payments for purchase and sales of natural gas for balancing.
- amounts to secure payments for purchase and sale of natural gas for balancing on the natural gas trading platform.

32. Financial assets and liabilities by categories

The balance sheet values of the Group financial assets and liabilities can be presented in the following categories:

Financial assets

in BGN thousand

Debt instruments at amortised cost:

	2021	2020
Long-term receivables	87	87
Trade and other receivables	16,123	25,780
Receivables from related entities	7,320	3,498
Cash and cash equivalents	218,291	66,524
Cash in the form of bank deposits	117,231	-
Cash provided as a security	299,203	240,997
	<u>658,255</u>	<u>336,886</u>

Financial liabilities

in BGN thousand

Financial assets accounted for at their amortized cost

	2021	2020
Long-term loans	1,063,559	785,156
Short-term loans	225,950	136,191
Trade and other liabilities - long-term	425,632	1,044,512
Trade and other liabilities - short-term	56,825	218,182
Liabilities to related entities	27,702	14,147
Guarantees under contracts	84,915	56,209
	<u>1,884,583</u>	<u>2,254,397</u>

33. Risks related to financial instruments
Financial Risk Management
Overview

The Group is exposed to various types of risks with respect to its financial instruments. For more information on the Group's financial assets and liabilities by categories, refer to *Note 32*. The most significant financial risks the Group is exposed to are market risk, credit risk and liquidity risk.

This note presents information on the Group exposition to each of the above risks, the objectives of the Group, the policies and processes of measuring and managing the risk and the management of capital.

General risk management provisions

The Management Board is responsible for identifying and managing the risks the Group faces. The risk management policy of the Group has been developed to identify and analyse the risks faced by the Group, set limits on taking risks and controls, monitor risks and compliance with the limits set. These policies are subject to periodic review to reflect changes in market conditions and in the Group's activities. The Group, through its training and management standards and procedures, aims at developing a constructive control environment in which all employees understand their roles and responsibilities.

Credit risk

Credit risk is the risk that one party to a financial instrument may fail to fulfil its obligation and thus cause a loss to the other party. The Group's credit risk consists of the risk of financial loss in a situation where a customer fails to fulfil their contractual obligations.

The Group is exposed to credit risk in case any of its customers fail to pay their liabilities. Customers' credit worthiness is assessed by taking into account their financial position, past experience and other factors.

Notes to the consolidated financial statement

In order to manage and limit the credit risk from the balancing activity, the Group takes measures by imposing specific contractual requirements, which include obligations to provide and maintain financial collateral in the form of a guarantee deposit in a bank account or provide an irrevocable and unconditional bank guarantee in favour of the Group, or corporate guarantee (security), payable to the Group. It is possible that the Group, as an operator, will impose restrictions on the volume of trade transactions carried out at a virtual point up to the amount guaranteed by financial collateral, as well as take other measures to limit the credit risk from the balancing activities. The carrying amount of financial assets, net of impairment losses, represents as far as possible the credit risk to which the Group is exposed.

Credit risk exposure

The balance sheet value of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is as follows:

<i>in BGN thousand</i>	Notes	2021	2020
<i>Debt instruments at amortised cost:</i>			
Trade and other receivables	17.19	16,210	25,867
Receivables from related entities	30	7,320	3,498
Cash and cash equivalents	20	218,291	66,524
Cash in the form of bank deposits	22	117,231	
Cash provided as collateral	21	299,203	240,997
		<u>658,255</u>	<u>336,886</u>

Trade and other receivables

The maximum exposure to credit risk for trade and other receivables and receivables from related entities at the reporting date by type of customers is as follows:

<i>in BGN thousand</i>	2020	2019
Residents	12,829	6,154
Non-residents	<u>10,701</u>	<u>23,211</u>
	<u>23,530</u>	<u>29,365</u>
<i>including</i>		
Related entities	7,320	4,541
Unrelated entities	16,210	24,131

The Group has provided financial assets as collateral under loan contracts in the amount of BGN 299 501 thousand (2020: BGN 241 177 thousand), described in detail in Notes 21 and 28.

Impairment losses

The time structure of trade and other financial receivables (excluding judicial ones) as at the date of the statement, is as follows:

<i>in BGN thousand</i>	2021	2020
Neither overdue, nor impaired	14,298	23,774
Overdue between 1-30 days	3	12
Overdue between 31-90 days	19	14
Overdue between 91-120 days		9
Overdue over 120 days	<u>1,633</u>	<u>1,628</u>
	<u>15,953</u>	<u>25,437</u>

The time structure of the receivables from related entities as at the date of the statement, is as follows:

<i>in BGN thousand</i>	2021	2020
Neither overdue, nor impaired	7,121	3,079
Overdue over 120 days	<u>-</u>	<u>2</u>
	<u>7,121</u>	<u>3,081</u>

Notes to the consolidated financial statement

With respect to trade receivables, the Group is exposed to significant credit risk to the majority of its counter parties having similar characteristics, as trade receivables consist of a small number of customers in the same industry. The difference in geographical area predetermines to some extent the diversification of risk. Based on historical indicators, the management believes that the credit assessment of non-expired trade receivables is good. The activities of the Group's customers have not significantly affected by Covid-19 pandemic, there is no data for serious disruptions or suspension of activities. Receivables have been collected regularly, according to the agreed terms and conditions and for this reason no additional impairment had to be charged.

The expected loss levels are based on the sales revenue profile for the last 48 months before December 31, 2021 and December 31, 2020, as well as on the corresponding historical credit losses during that period. Historical percentages are being adjusted to reflect the current and future macroeconomic factors affecting the customer's ability to settle the outstanding amount.

The final balance of the expected credit losses on trade receivables, receivables from related parties and other financial receivables as of December 31, 2021 shall be equal to the opening balance of the expected credit losses on trade receivables as follows:

<i>BGN thousand</i>	2021	2020
Initial value of the expected credit losses as at January 1	(2,080)	(935)
Recovery of impairment loss	233	200
Corrective/Adjustment for expected credit losses	(607)	(1,671)
Written off impairment	-	326
Final value of the expected credit losses as at December 31	<u>(2,454)</u>	<u>(2,080)</u>

Impairments that are not expected credit losses, but are reflected in the consolidated statement of profit or loss and other comprehensive income in line Recovered impairments of financial assets:

Income from reversal of impairment in connection with cash received from CCB (n)	3,081	5,225
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Liquidity risk

Liquidity risk is the risk where the Group is not able to meet its financial liabilities when they become due. The policy in this area is focused on ensuring that sufficient liquidity is available to meet the liabilities when they become due, including in emergencies and unforeseen situations.

Since nature of the Group's activities are related to regular transport and storage of natural gas, the credit risk control consists mostly of:

- Careful planning of all cash inflows and outflow based on monthly forecast;
- Payment conditions of transactions with related entities and customers executed on a monthly basis.

The following table presents the contractual maturities of financial liabilities based on the earliest date on which the Group may be obliged to pay them. The table shows the undiscounted cash flows, including principals and interests:

Listed below are the contractual maturities of financial liabilities, including estimated interest payments that exclude the effect of netting arrangements:

31 December 2021

in BGN thousand	Note	Balance sheet value	Contractual cash flows	Up to 6 months	6-12 months	1 - 2 years	2 - 5 years	More than 5 years
Non-derivative financial liabilities								
Loans received	28	1,289,509	(1,354,724)	121,632	126,382	271,939	793,728	41,042
Trade and other liabilities	29	482,457	(534,654)	25,068	-	36,614	208,050	264,922
Guarantees under contracts	31	84,915	(84,915)	7,940	76,575	44	310	46

Notes to the consolidated financial statement

Liabilities to related
entities

30

27,702	(27,702)	8,137	19,565	-	-	-
1,884,583	2,001,995	162,777	222,522	308,598	1,002,088	306,010

31 December 2020

<i>in BGN thousand</i>	Note	balance sheet value	Contractual cash flows	Up to 6 months	6-12 months	1 - 2 years	2 - 5 years	More than 5 years
Non-derivative financial liabilities								
Loans received	28	921,347	(921,347)	66,576	60,336	-	41,440	752,995
Trade and other liabilities	29	1,262,694	1,262,694	55,580	162,602	96,907	315,698	631,907
Guarantees under contracts	31	56,209	(56,209)	9,679	30,069	16,147	268	46
Liabilities to related entities	30	14,147	(14,147)	1,038	13,109	-	-	-
		2,254,397	(2,254,397)	132,873	266,116	113,054	357,406	1,384,948

Market risk

Market risk is the risk of change in market prices as foreign exchange rate changes, interest rates or capital instruments prices, the Group income or the value of its investments that may be affected. The objective of market risk management is to control the exposure to market risk within acceptable limits by optimizing the return.

Currency risk

The Group is exposed to currency risk in case of purchases and/or sales denominated in a currency other than the functional currency of the Group. The Group mainly deals in BGN and EUR in connection with the provided technical and other services. The currency risk for these purchases, due to possible fluctuations in the foreign exchange rate, is minimal due to the fixed exchange rate of the Bulgarian LEV to the EUR, determined by the BNB. The Group also deals in US dollars, therefore credit risk is considered, related to fluctuations in the exchange rate of the dollar.

Exposure to currency risk

The Group's exposure to foreign currency risk is as follows based on financial assets and liabilities, which are presented in foreign currency and are recalculated in BGN:

Notes to the consolidated financial statement
in BGN thousand

	EUR	USD	EUR	USD
	December 31, 2021		December 31, 2020	
Cash and cash equivalents	161,223	45,218	54,229	1,763
Cash provided as collateral	26,458	273,067	25,520	215,657
Cash in the form of deposits	117,353	-		
Trade receivables	3,345	6,221	1,686	14,101
Loans	(1,225,899)	-	(813,522)	-
Trade liabilities	(600,596)	-	(1,749)	-
Net exposure from the financial statement	(1,518,116)	324,506	(733,836)	231,521

The following significant exchange rates are applicable during the year:

	Average exchange rate		Exchange rate at the reporting date	
<i>BGN</i>	2021	2020	2021	2020
EUR	1.95583	1.95583	1.95583	1.95583
USD	1.65461	1.71539	1.72685	1.71539

Sensitivity analysis

Increase of the exchange rate of the Bulgarian lev (BGN) against USD as at December 31, 2021 would increase/decrease its equity and profits and losses by the amounts shown below. This analysis is based on variations in the exchange rates of the foreign currency which the Group considers to be reasonably possible at the end the reporting period. The analysis assumes that all variables, especially interest rates, remain unchanged and ignores any impact of forecast sales and purchases. The analysis was made on the same basis as in 2020, although the reasonably possible variations in exchange rates have been different, as shown below.

	Increase		Decrease	
<i>Effect in BGN thousand</i>	Equity	Gains and losses	Equity	Gains and losses
December 31, 2021				
USD (3.8 percent movement)	(11,170)	(11,170)	11,170	11,170
December 31, 2020				
USD (6.5 percent movement)	(13,539)	(13,539)	13,539	13,539

Interest risk

The Group's bank loans are with a floating interest rate, formed by a fixed interest rate plus a spread (margin), which is a variable component based on 1m Euribor. In 2021, 1m Euribor has a negative value, so the interest rate can be considered fixed. For this reason, the Group is not exposed to interest rate risk.

Fair value sensitivity analysis for fixed interest instruments

The Group does not account for financial assets and liabilities with fair value fixed interest rate in gains or losses. Therefore, changes in interest rates at the date of the financial statement would not affect gains and losses.

34. Capital management

The Group manages its capital in such a way as to ensure its functioning as a going concern, while also aiming to maximize the return on the sole owner of the capital by optimizing the debt-to-

Notes to the consolidated financial statement

equity ratio (return on invested capital). The purpose of the Management is to guarantee stable future development of the Group.

The Management Board's policy is to maintain a strong capital base so as to maintain the confidence of customers, creditors and the market as a whole, and to provide conditions for future business development.

The Group is not subject to externally imposed capital requirements.

During the year there were no changes in the approach to management of the Group capital.

The Group determines the adjusted capital based on the carrying amount of equity presented in the statement of financial position.

Net debt includes the sum of all liabilities reduced by the carrying amount of cash and cash equivalents.

The capital for the presented reporting periods can be analysed as follows:

<i>BGN thousand</i>	2021	2020
Equity	3,561,049	2,508,116
Adjusted capital	2,561,049	2,508,116
Total liabilities	2,897,617	2,579,212
- Cash and cash equivalents	(218,291)	(66,524)
Net debt	2,679,326	2,512,688
	1:1	1:1

Ratio of adjusted capital to net debt

Maintaining the ratio in 2021 is mainly due to implementation of the Group's large-scale investment programme.

35. Determining fair values

Some of the Group's accounting policies and disclosures require fair values measurement for financial and non-financial assets and liabilities. Fair values are determined for reporting and disclosures purposes based on the methods below. Where applicable, additional information on the assumptions made in determining fair values of the specific asset or liability is disclosed in the relevant notes.

Financial assets and liabilities accounted for at fair value or for which fair value disclosure is required in the statement of financial position are grouped into three levels according to the fair value hierarchy. This hierarchy is determined based on the significance of the input used to determine the fair value of financial assets and liabilities, as follows:

- Level 1: market prices (unadjusted) in active markets for similar assets or liabilities.
- Level 2: input other than market prices included in Level 1 that can be observed for a certain asset or liability, either directly (i.e. as prices) or indirectly (i.e. based on prices); and
- Level 3: input for a certain asset or liability that is not based on observed market data.

A financial asset or liability is classified at the lowest level of material input used to determine its fair value.

The fair value of the Group's non-financial assets is determined on the basis of reports of independent licensed appraisers.

Fair value estimates are based on observed prices of recent market transactions for similar properties, adjusted for specific factors such as area, location and current use.

Material unobservable data relate to the adjustment for the specific factors applicable to the Group's property, plant and equipment.

(i) Property, plant and equipment

The fair value of property is the estimated amount for which the property can be exchanged at the

Notes to the consolidated financial statement

acquisition date between a willing buyer and seller in a transaction at market conditions after proper marketing and parties acting deliberately. The fair value of property, plant and equipment is based on a market approach and approach of the acquisition price by using market prices for similar items when available and replacement value when appropriate. The estimate of the amortized cost of replacement reflects the adjustments for physical wear, as well as functional and economic obsolescence.

As at 31 December 2021, the Group's management reviewed the carrying values, recoverable values and the useful life of non-current assets and subsequent fair value measurement. Management's estimates are based on evaluation by an independent appraiser as at the date of the financial statements. The valuation was performed in accordance with the requirements of the International Accounting Standards (IAS), and in particular, IAS 300 Valuations for financial reporting, and where applicable, Technical information document 2 "Expense approach for valuation of tangible assets".

In valuation of machinery, equipment and technical equipment for the valued assets, the cost-based approach was assessed as acceptable and possible to be implemented through the Acquisition costs based method ("depreciated replacement cost").

The income-based approach is not used as there are no clearly identifiable incomes for assets from which to develop reliable forecasts of future cash flows. In addition, information on short and mid-term lease rates for similar assets, that could be used to forecast income, is not available and is not public.

The market comparison approach was not used due to the absence on the national market of representative data from transactions with similar assets.

The valuation was made based on a study of the available documentation in terms of the year of acquisition and method of operation, value of acquisition. The factors taken into account in valuation, are the following: service life, degree of operating fitness, quality and technical level, reliability.

The Acquisition costs based method ("depreciated replacement cost") measures the value of an asset by determining its new value as at the valuation date, reflecting the costs of its acquisition, reduced by its physical wear, functional and economic depreciation as a result of its operation.

The valuation of the available (depreciable and non-depreciable) buffer (cushion) gas by location was made based on prices set by the EWRC. In that case, the price for calculations of buffer gas fair value was 102.33 BGN/MWh, determined and valid for the period from 01.12.2021 MWh and as of 31.12.2021. The depreciable gas was evaluated by deducting its physical wear from the replacement value based on a total operating life of 60 years.

The lands were evaluated by applying the Method of market analogues, with adjustment of derived comparable market prices.

The buildings are mostly specialized, i.e. there is actually no developed active market for them, so the main approach applied to them was through the "depreciated replacement cost" method. Other evaluation methods and approaches were used according to their relevance to the particular asset. Depreciated replacement cost is directly related to setting of the new replacement cost that includes all costs (routine and additional) for construction of a building of the same functional characteristics, as well as the associated costs for design, Designer's supervision, construction supervision, temporary structures during construction and other inherent costs.

To determine the market value of means of transport, a cost method and a method of market analogues have been applied.

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(ii) Trade and other receivables

The fair values of trade and other receivables are determined as the current value of future cash flows discounted at market interest rates as at the reporting date. Short-term non-interest receivables are measured at original invoice value if the discounting effect is insignificant. Fair value shall be determined at initial recognition and for disclosure purposes at each reporting period.

(iii) Non-derivative financial liabilities

Fair values that are determined for disclosure purposes are measured on the basis of the current value of future cash flows of principals and interests discounted at the market interest rate as at the reporting date.

Accounting classifications and fair values
Fair values compared to balance sheet values

The fair values of financial assets and liabilities, together with the balance sheet values included in the statement of financial position, are as follows:

December 31, 2021		Balance sheet value		Fair value	
<i>in BGN thousand</i>	Note		Total	Level 3	Total
Financial assets not measured at fair value					
Cash and cash equivalents	20	218,291	218,291	218,291	218,291
Cash provided as a security	21	299,203	299,203	299,203	299,203
Cash in the form of bank deposits	22	117,231	117,231	117,231	117,231
Trade and other receivables	17.19	16,210	16,210	16,210	16,210
Receivables from related entities	30	7,320	7,320	7,320	7,320
		658,255	658,255	658,255	658,255
Financial liabilities not measured at fair value					
Loans	29	(1,289,509)	(1,289,509)	(1,289,509)	(1,289,509)
Guarantees under contracts	31	(84,915)	(84,915)	(84,915)	(84,915)
Trade and other liabilities	29	(482,457)	(482,457)	(482,457)	(482,457)
Liabilities to related entities	30	(27,702)	(27,702)	(27,702)	(27,702)
		(1,884,583)	(1,884,583)	(1,884,583)	(1,884,583)

December 31, 2020		Balance sheet value		Fair value	
<i>in BGN thousand</i>	Note		Total	Level 3	Total
Financial assets not measured at fair value					
Cash and cash equivalents	20	66,524	66,524	66,524	66,524
Cash provided as a security	21	240,997	240,997	240,997	240,997
Trade and other receivables	17.19	25,867	25,867	25,867	25,867
Receivables from related entities	30	3,498	3,498	3,498	3,498
		336,886	336,886	336,886	336,886
Financial liabilities not measured at fair value					
Loans	28	(921,347)	(921,347)	(921,347)	(921,347)
Guarantees under contracts	31	(56,209)	(56,209)	(56,209)	(56,209)
Trade and other liabilities	29	1,262,694	1,262,694	(1,262,694)	(1,262,694)
Liabilities to related entities	30	(14,147)	(14,147)	(14,147)	(14,147)
		(2,254,397)	(2,254,397)	(2,254,397)	(2,254,397)

Notes to the consolidated financial statement

Based on the analyses made, the management believe that the balance sheet values of the financial assets and liabilities may be accepted as reasonable approximation to their fair value.

Fair value assessment of non-financial assets

The table below presents the levels in hierarchy of non-financial assets as at December 31, 2021 and December 31, 2020, periodically measured at fair value:

<i>in BGN thousand</i>	31/12/2021	31/12/2020
Property, plant and equipment:	Level 3	Level 3
- land	12,126	11,471
- buildings	77,016	62,891
- plants, facilities and equipment	4,729,929	3,914,883
- buffer (cushion) gas	696,301	191,443
- transport vehicles	8,016	7,593

Revaluations shall be made in the following frequency:

- When the assets' fair value undergoes only minor changes, revaluation is made every three years.
- When the assets' fair value changes substantially at relatively short intervals, revaluation is made so that the carrying amount of assets does not differ materially from their fair value.

As at 31 December 2021, the Group's management reviewed the carrying values, recoverable values and the useful life of non-current assets and subsequent fair value measurement. Management's estimates are based on evaluation by an independent appraiser as at the date of the financial statements. The valuation was performed in accordance with the requirements of the International Accounting Standards (IAS), and in particular, IAS 300 Valuations for financial reporting, and where applicable, Technical information document 2 "Expense approach for valuation of tangible assets".

An impairment test was carried out, ascertaining that as at the evaluation date the value in use is higher than the carrying amount of fixed assets as at December 31, 2021, as well as than the formed value of the smallest cash-generating unit. The significant excess of the value in use against the carrying amount of the cash-generating unit is due to the initiated implementation of the large-scale Group investment programme.

36. Contingent assets and contingent liabilities

Bank guarantees from third parties in the amount of BGN 63 955 thousand have been issued in favour of the Group.

On July 1, 2019, a Group guarantee was issued in favour of the Company under a Capacity booking contract in the amount of BGN 1 085 313 thousand by a foreign legal entity.

The Group reports as a contingent asset, respectively contingent liability, Operational balancing account (OBA). This is a joint account in which the daily balance position of two Transmission System Operators at the interconnection point is recorded. The operator responsible for calculating the daily balance position and the total balance position, respectively, shall update the OBA on a daily basis and send it to the other operator. The operational balancing account is reported off-balance.

During the year various legal claims were brought against the Group. Except of those for which provisions have already been accrued, the Group management considers that the claims are unfounded and that they not very likely to incur expenses for the Group in settling them. This judgement of the management is supported by the opinion of lawyers from the Group's legal department and by independent legal consultants. None of the aforementioned claims is set out in detail here, so as not to have a serious impact on the Group's position in dispute resolution.

Tax obligations

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The latest tax audits of the Group have been carried out by the tax administration as follows:

- Corporate tax - until 31 December 2012;
- VAT - until 31 August 2013;
- Personal Income Tax - until 31 December 2012;
- Social Security - until 31 May 2018.

In 2021, the Group has undergone tax audits in connection with the requests for VAT refund, which arise as a result of implementation of the investment programme.

As at the date of preparation of the separate financial statement, the Group is subject to:

- Audit by the National Revenue Agency in connection with corporate tax, tax on representation expenses, tax on social expenses under the Corporate Income Tax Act (CITA), tax on vehicle expenses, value added tax, tax on dividends and liquidation shares of legal entities and tax on income of foreign legal entities for the period 2015;
- Inspection by the National Revenue Agency in connection with corporate tax, tax on representation expenses, tax on social expenses under the Corporate Income Tax Act (CITA), tax on vehicle expenses, value added tax, tax on dividends and liquidation shares of legal entities and tax on income of foreign legal entities for the period 2016-2020;
- Inspection by the National Revenue Agency in connection with employment and non-employment relationships for the period 2015-2020;

The Group's management does not consider that there are significant risks as a result of the dynamic fiscal and regulatory environment in Bulgaria, which would require adjustments in the financial statement for the year ending on December 31, 2021.

37. Events following the reporting period date

No corrective events have occurred between the date of the financial statement and the date of its adoption. Significant non-corrective events have been as follows:

- On January 27, 2022 at the General meeting of Gastrade S.A. shareholders in Athens, a unanimous final investment decision was approved for construction of the liquefied natural gas terminal in Alexandroupolis, Greece, thus launching the project. Bulgartransgaz EAD approved the above by decisions under item 6 of Protocol of the Management Board No. 587/25.01.2022 of Bulgartransgaz EAD Management Board, approved by a decision under item 1 of Protocol of the Supervisory Board No. 5/25.01.2022 of Bulgartransgaz EAD Supervisory Board and Decision No. 14/2022 of the Board of Directors of Gastrade S.A. of 26.01.2022, as well as decisions under item 1 of Protocol of the MB No. 588/27.01.2022 of Bulgartransgaz EAD Management Board, approved by a decision under item 1 of Protocol of the SB No. 6/27.01.2022 of Bulgartransgaz EAD Supervisory Board. The expected term of construction of the terminal in Alexandroupolis, Greece and the beginning of commercial operation is the end of 2023.
- On 21.02.2022, following negotiations and information, membership conditions and offer provided by Balkan Gas Hub EAD (BGH), the company ICGB AD, an investor and operator of the Interconnection Greece - Bulgaria (IGB), became the second gas transmission network operator in Bulgaria, who has chosen the organized exchange market of BGH for his full membership and for implementation of the European and national requirements for network balancing. ICGB AD membership on BGH market will significantly increase BGH advantage over the competitive exchanges and will lead to improved trading volumes, i.e. further stimulation of liquidity.
- By Act for offsetting or refund № P-29002922049532-004-001/22.03.2022, the National Revenue Agency repealed Audit Act № 29002921003507/07.12.2021 and reimbursed to Bulgartransgaz EAD an amount of BGN 47 thousand together with the statutory interest.

On 21 February 2022, by decree of the President of the Russian Federation (RF), the Donetsk People's Republic and Lugansk People's Republic were recognized as independent states. On 24

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February 2022, the Ministry of Defence of the Russian Federation announced a "special military operation" on the territory of the Republic of Ukraine. The hostilities received widespread international condemnation, and many countries imposed sanctions on assets and operations owned by the Russian state and certain individuals. The invasion triggered a refugee crisis among Ukrainian citizens.

The economic consequences of the military conflict in Ukraine cannot be assessed, but they are already indicating extremely serious effects on the overall global economy. Energy and raw material prices - including wheat and other cereals - have risen sharply, further exacerbating inflationary pressures from supply chain disruptions and recovery from Covid-19 pandemic. Price shocks are expected to have an impact on a global scale. The continuation of the military conflict increases the significance of economic damages. They are expected to affect all sectors of economy, both in Bulgaria and the EU. The IMF notes that sanctions against Russia are affecting global economy and financial markets, and will have significant side effects in other countries. In this regard, the major risks to the Group's activities, identified by the management, are as follows:

- The main risk for the country is the possible interruption of natural gas supplies by Gazprom Export LLC (which is one of the two main suppliers of Bulgargaz EAD) as a result of imposed sanctions (by Bulgaria and/or the EU) or due to actions by on the Russian side. So far, there are no indications of such a development, and the possible interruption of supplies could lead to a restrictive regime of natural gas supply. As a result of introducing a restrictive regime/temporary restriction of supplies for the period, to the extent that by decision of Bulgartransgaz EAD (up to 48 hours) or of the Minister of Energy (up to 48 hours), it will be administratively determined for which customers the available natural gas quantities in the country will be used. In addition, a possible restrictive regime/temporary restriction of supply may be accompanied by suspension/restriction of transit transmission to neighbouring markets.
- Trade restrictions are possible in case market members are negatively affected by the military actions in the Republic of Ukraine, which could lead to a decrease of the Company revenues from licensing activities.

The Group has a deposit provided in International Bank for Economic Co-Operation (Note 22). In February and March 2022, the Bank was subject to an update of its credit rating by Fitch, resulting in "B-" rating and is capable of fulfilling its financial commitments. Given the status of the bank as an international financial institution, similar to the status of the European Bank for Reconstruction and Development (EBRD) and others, it is not subject to sanctions and restrictions imposed by the EU.

Regarding the above, the Group has reviewed activities, counterparties and economic relationships that could be exposed at risk. At this stage, the Group management is not able to predict whether and how the military conflict will end, as events develop extremely dynamically, but according to the analysis made, the management has not identified exposure to foreign currency risk or increased credit risk to counterparties in connection with these events.

Uncertainties about the effect of EU sanctions and restrictions are expected to affect trade volumes and cash flows of many businesses. As the situation is extremely dynamic, the Group management is not able to reliably assess the impact of war on the future financial situation and the results of its activities in 2022 in terms of the overall effects on the national economy, the European natural gas market, the continuity of natural gas supplies to Bulgaria and the neighbouring countries, and considers that it is possible to have a negative impact. This, in turn, could lead to a change in the carrying amounts of the Group's assets, determined in the financial statements when performing a number of assessments and assumptions by the management and taking into account the most reliable information available as at the date of the estimates.