BULGARTRANSGAZ

FINANCIAL STATEMENT

for the year ending on December 31, 2017

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Statement of profit or loss and other comprehensive income

For the year ending on December 31, 2017

In BGN '000s	**Notes**	**2017**	**2016**
Operating income	5	350 944	326 591
Other income	6	11 670	4 874
Total income		362 614	331 465
Technological costs	7	(68 413)	(60 954)
Cost of materials	8	(6 357)	(5 911)
Hired services costs	9	(7 253)	(11 730)
Amortization costs	13,14	(90 344)	(85 511)
Wages and salaries of employees	10	(59 748)	(57 370)
Other costs from activities	11	(42 455)	(40 224)
Changes in inventories of finished goods and work in progress	(8 897)	177	(8 897) (809) 315
Cost of natural gas used for balancing and sold goods		(8 897)	(809)
Operating profit		79 324	69 271
Financial income	12	1 759	4 712
Financial expenses	12	(12 818)	(252)
Net financial income / (expenses)	12	(11 059)	4 460
Profit before taxes		68 265	73 731
Tax expenses	21	(6 849)	(7 389)
Profit for the period		61 416	66 342
Other comprehensive income			
Components that will not be subsequently reclassified to profit or loss:			
Revaluation of properties, machinery and equipment	13	38 062	17 076
Revaluation of obligations under defined benefit plans	23	(152)	(1 006)
Tax on other comprehensive income		(3 791)	(1 607)
Other comprehensive income, net of taxes		34 119	14 463
Total comprehensive income for the period		95 535	80 805

The notes on pages 7 up to 58 are an integral part of this financial statement.

Executive Director
Vladimir Malinov

Chief Accountant
Svetlana Koeva

Date: 26.03.2018
Certified according to the Auditor's Report of 28.03.2018
Grant Thornton Ltd

Specialized Audit Company

Mariy Apostolov

Managing partner
Registered auditor in charge of the audit

Statement of the financial position

In BGN '000s	**Notes**	**December 31, 2017**	**December 31, 2016**
Assets			
Property, plant and equipment	13	1 743 986	1 755 256
Intangible assets	14	8 124	4 547
Investments in jointly controlled entities	15	3 256	-
Long-term receivables	16	12 130	31 254
Long-term receivables from related parties	25	8 385	24 709
Total non-current assets		1 775 881	1 815 766
Inventories	17	111 904	108 137
Commercial and other receivables	18	22 075	22 788
Receivables from related parties	25	19 088	23 110
Receivables in connection with income taxes		684	349
Prepayments for current assets		15	17
Cash and cash equivalents	19	411 058	240 353
Total current assets		564 824	394 754
Total assets		2 340 705	2 210 520

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Svetlana Koeva

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Statement of the financial position *(continued)*

In BGN '000s	Notes	December 31, 2017	December 31, 2016
Capital and reserves			
Registered capital	20	874 524	841 414
Revaluation reserve	20	830 555	839 038
Reserves	20	83 142	76 645
Retained earnings		320 756	282 943
Total equity		2 108 977	2 040 040
Liabilities			
Deferred tax liabilities	21	99 587	100 426
Deferred income from funding	22	91 103	46 710
Employees benefits	23	6 130	7 286
Liabilities to related parties	25	243	267
Contractual guarantees	26	821	1 434
Total non-current liabilities		197 884	156 123
Contractual guarantees	26	10 789	3 525
Commercial and other payables	24	10 380	9 733
Employees benefits	23	1 813	411
Liabilities to related parties	25	10 862	688
Total current liabilities		33 844	14 357
Total liabilities		231 728	170 480
Total equity and liabilities		2 340 705	2 210 520

The notes on pages 7 up to 58 are an integral part of this financial statement.

Executive Director
Vladimir Malinov

Chief Accountant
Svetlana Koeva

Date: 26.03.2018

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Registered auditor in charge of the audit

Statement of the changes in equity

In BGN '000s	Registered capital	Revaluation reserves	Reserves	Retained earnings	Total equity
Balance as at January 1, 2017	841 414	839 038	76 645	282 943	2 040 040
Profit for the year	-	-	-	61 416	61 416
Other comprehensive income					
Revaluation of properties, plant and equipment	-	38 062	-	-	38 062
Revaluation of obligations under defined benefit plans	-	-	(152)	-	(152)
Tax effect on other comprehensive income		(3 806)	15	-	(3 791)
Total comprehensive income for the year	-	34 256	(137)	61 416	95 535
Transactions with owners, recorded in the equity					
Dividends to the sole shareholder	-	-	-	(29 854)	(29 854)
Increase of the registered capital at the expense of the retained earnings	29 854	-	-	(29 854)	-
Increase in registered capital when acquiring investments in jointly controlled entities	3 256	-	-	-	3 256
Total transactions with owners	33 110	-	-	(59 708)	(26 598)
Profit allocation for 2016	-	-	6 634	(6 634)	-
Transfer of revaluation reserve to retained earnings	-	(42 739)	-	42 739	-
Balance as at December 31, 2017	874 524	830 555	83 142	320 756	2 108 977

The notes on pages 7 up to 58 are an integral part of this financial statement.

Executive Director
Vladimir Malinov

Chief Accountant
Svetlana Koeva

Date: 23.03.2018

Certified according to the Auditor's Report of 26.03.2018

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Mariy Apostolov
Managing partner
Registered auditor in charge of the audit

Statement of the changes in equity *(continued)*

In BGN '000s	**Registered capital**	**Revaluation reserves**	**Reserves**	**Retained earnings**	**Total equity**
Balance as at January 1, 2016	799 492	868 038	68 234	265 394	2 001 158
Profit for the year	-	-	-	66 342	66 342
Other comprehensive income					
Revaluation of properties, plant and equipment	-	17 076	-	-	17 076
Revaluation of obligation under defined benefit plans	-	-	-	(1 006)	(1 006)
Tax effect on other comprehensive income		(1 708)	-	101	(1 607)
Total comprehensive income for the year	-	15 368	-	65 437	80 805
Transactions with owners, recorded in equity					
Dividends to the sole shareholder	-	-	-	(41 923)	(41 923)
Increase of the registered capital at the expense of the retained earnings	41 922	-	-	(41 922)	-
Total transactions with owners	41 922	-	-	(83 845)	(41 923)
Profit allocation for 2015	-	-	9 316	(9 316)	-
Transfer of revaluation reserve to retained earnings	-	(44 368)	-	44 368	-
Balance as at December 31, 2016	841 414	839 038	77 550	282 038	2 040 040

The notes on pages 7 up to 56 are an integral part of this financial statement.

Chief Accountant

Executive Director

Vladimir Malinov

Svetlana Koeva

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Cash Flow Statement
For the year ending on December 31

In BGN '000s	Notes	2017	2016
Cash flows from operating activities			
Proceeds from trade contractors		335 485	307 838
Payments to trade contractors		(33 599)	(33 224)
Payments to employees and social security institutions		(59 287)	(58 137)
Payments for income tax		(11 813)	(12 066)
Proceeds from interest and penalties on delayed payments		596	988
Paid other taxes and excise duty		(21 575)	(166)
Other payments for operating activities, net		(1 115)	(1 473)
Cash flow from operating activities		208 692	203 760
Cash flows from investment activities			
Acquisition of property, plant and equipment		(51 438)	(113 768)
Acquisition of intangible assets		(890)	(2 797)
Proceeds from funding for non-current assets		54 352	26 350
Total cash flows from investing activities		2 024	(90 215)
Cash flows from financing activities			
Dividends paid		(29 854)	(41 923)
Proceeds from interest on loans granted		1 196	1 747
Total cash flows from financing activities		(28 658)	(40 176)
Net change in cash and cash equivalents		182 058	73 369
Cash and cash equivalents as at January 1	19	240 353	165 534
Net effect of changes in exchange rates		(11 353)	1 450
Cash and cash equivalents as at December 31	19	411 058	240 353

The notes on pages 7 up to 58 are an integral part of this financial statement.

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Notes to the Financial statement

1. Status and scope of activities

Bulgartransgaz EAD (the "Company") is a company with headquarters in Bulgaria. Company is registered in the Commercial Register at the Registry Agency with UIC 175203478. Registered office of the Company: Bulgaria, Sofia, district Lyulin - 2, 66, Pancho Vladigerov Blvd.

The Company is a state controlled entity. The sole shareholder of Bulgartransgaz EAD is Bulgarian Energy Holding EAD.

The main activity of the Company includes storage and transmission of natural gas, maintenance and operation, management and development of gas transmission networks; maintenance and operation, management and development of underground gas storages; development of programs and activities for compliance of gas transmission and storage activities with European Energy Law requirements; development of a pricing policy for access and transmission through gas transmission networks, administration of natural gas transactions and organization of balancing of the natural gas market in line with the existing legislation; engineering, investment, production and service activity, import of goods, machinery and equipment related the Company's activities; centralized operational management, coordination and control on the operational regime of the gas transmission networks.

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

Under Art. 39, Para. 1 of the Energy Act, the Company holds licenses issued by the regulatory authority Energy and Water Regulation Commission "EWRC":

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

By decision of EWRC № I1-L-214 of 03.06.2013 License № L-214-09 / 29.11.2006 about the activity "transit transmission of natural gas" issued to Bulgartransgaz EAD is amended to License for the activity "transmission of natural gas".

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

Bulgartransgaz EAD is a company of public interest within the meaning and order of para 1, item 22, k) of the Additional Provisions of the Accountancy Act.

In compliance with the requirements of Commission Regulation (EC) 715/2009 of 13 July 2009 on the conditions for access to natural gas transmission networks, the Energy Act and the regulatory framework, as of 01.10.2017 Bulgartransgaz EAD effectively implemented the entry-exit pricing model for the provided natural gas access and transmission services for the gas transmission system

Notes to the Financial statement

owned by the Company, including the National Gas Transmission Network (NGTN) and the Gas Transmission Network for Transit Transmission (GTNTT). The introduction of the entry/exit tariff model changes the pricing model of Bulgartransgaz EAD services for natural gas access and transmission, from the "postage stamp" system with uniform prices determined entirely for transported natural gas quantities, imposed on exit points of the gas transmission network, to an entry/exit model with a two-component tariff system and a predominant 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. In this regard, during the reporting period the Company has carried out a number of activities related to introduction of the tariff model and recognition of its basic parameters.

By Decision NGP-01/01.08.2017 of EWRC, the required revenues of Bulgartransgaz EAD for the period 2017-2019 and the basic parameters of the tariff model were approved. Based on the Decision and the Methodology setting out the prices for natural gas access and transmission through the gas transmission networks owned by Bulgartransgaz EAD, the transmission system operator establishes access and transmission prices by entry and exit points for the first price period 01.10.2017 – 30.09.2018.

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

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

As of 01.10.2017 Bulgartransgaz EAD introduced effective daily balancing regime in accordance with the Natural gas balancing rules and the Daily imbalance charge methodology in compliance with the requirements of Regulation 312/2014 establishing a Network Code on Gas Balancing of Transmission Networks.

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

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

Notes to the Financial statement

The Company has a two-tier management system - Supervisory Board and Management Board. Members of the Supervisory Board at December 31, 2017 are: Ventsislav Tsvetanov, Kiril Georgiev, Vladimir Mitrushev, and Members of the Management Board of Bulgartransgaz EAD are: Tanya Zaharieva, Delyan Dimitrov, Georgi Gegov. The company is represented and managed by the Executive Director Georgi Gegov.

As of the date of preparing this financial statement, the Members of the Management Board are: Tanya Zaharieva, Delyan Dimitrov, Vladimir Malinov. The company is represented and managed by the Executive Director Vladimir Malinov.

As of December 31, 2017 members of the Audit Committee of the Company are: Snezhanka Kaloyanova, Irena Mihaylova and Dian Boev.

2. Basis of preparation

This financial statement was prepared in accordance with International Financial Reporting Standards (IFRS), drafted and published by the International Accounting Standards Board (IASB) and adopted by the European Union (EU). Within the meaning of para 1, item 8 of the Additional Provisions of the Accountancy Act applicable in Bulgaria, the term "IFRSs adopted by the EU" represent the International Accounting Standards (IAS) adopted in accordance with Regulation (EC) 1606/2002 of the European Parliament and the Council.

For the purpose of providing more appropriate information on the effect of the transactions and the other events or conditions on the corporate financial position, some of the items in the Financial statement are presented in a different way compared to the Financial statement of 2016. The change refers to the following items of the Statement of profit or loss and the other comprehensive income, the Statement of the financial position, the Statement of the changes in equity and the Cash flow statement.

- Incomes from negative natural gas imbalance amounting to BGN 318 thousand, presented in line Other operating income for 2016 were reclassified in line Operating income for 2016 in this Financial statement.
- Assets of carrying amount of BGN 249 thousand were reclassified from line Non-tangible assets for 2016 in line Property, plant and equipment in the Statement of the financial position for 2016 in this Financial statement.
- Accumulated actuarial losses amounting to BGN 4 355 thousand until 01.01.2016 were reclassified from Retained earnings in Reserves.
- Payments for acquired intangible assets in 2016 to the amount of BGN 2 797 thousand were reclassified from line Acquired property, plant and equipment in line Acquired intangible assets in the cash flows from investment activities of the Cash flow statement for 2016 in this Financial statement.

The changes concern only the way of presenting items of the Statement of profit or loss and the other comprehensive income, the Statement of the financial position, the Statement of the changes in equity and the Cash flow statement for 2016 and do not relate to the method of their evaluation.

The Financial statement was prepared in accordance with the principle of the operating enterprise.

The Financial statement was adopted by the Management Board on March 26, 2018.

Notes to the Financial statement

Detailed information on the accounting policies of the Company is disclosed in Note 31.

3. Functional currency and presentation currency

This financial statement is presented in Bulgarian lev (BGN), which is the functional currency of the Company. The entire financial information that is presented is in BGN and it has been rounded to the nearest thousand, unless otherwise stated.

4. Use of estimates and assumptions

In preparing this financial statement, the Management has done assessments, estimates and assumptions that affect the application on the accounting policies of the Company and the amounts of assets and liabilities, income and expenses reported. Actual results may differ from these estimates. Estimates and underlying assumptions are currently reviewed. Revisions of the estimates are recognized prospectively.

(a) Estimates

Information about critical estimates that are made in applying the accounting policies that have the most significant effect on the amounts recognized in the financial statement is included in the relevant Notes.

(b) Uncertainty in the assumptions and estimates

In preparing this financial report the Management has made a number of assumptions and estimates regarding the recognition and measurement of assets, liabilities, income and expenditures.

The actual results may differ from the assumptions and estimates of the Management and in rare instances may be fully in line with the preliminary evaluated results.

Information on the material assumptions and estimates that most affect the recognition and measurement of the assets, liabilities, income and expenses is submitted below.

Impairment of non-financial assets

Such amount shall be considered impairment loss with which the book value of a cash-generating asset or unit exceeds their realizable value, which is the higher of the fair value less costs to sell and its value in use. To measure the value in use the Management of the company measures the expected future cash flows for each cash-generating unit and determines the suitable discount factor with a view of measuring the current value of these cash flows. When calculating the estimated future cash flows the Management makes assumptions for the future gross profits. Such assumptions are connected with future events and circumstances. The actual results may differ and impose material adjustments in the company's assets in the next accounting year.

In most cases when determining the applicable discount factor an estimate of the suitable adjustments against the market risk and asset-related risk factors is made.

Useful life of depreciable assets

The Management reviews the useful life of depreciable assets at the end of each accounting period.

As at 31 December 2016 the Management determined the useful life of assets, representing the expected term for the use of the assets by the company. Carrying values of assets are analysed in notes 14 and 15. The actual useful life may differ from the evaluation made.

Inventories

Inventories are calculated at the lower value of the cost of acquiring and the net realizable value. When determining the net realizable value the Management takes into consideration the moist reliable available information as at the date of the estimate. To determine the impairment the Management must assess the rotation of assets mostly through their putting in use, including their use for technological purposes. The Management of the company believes that the book value of inventories, consisting mainly of natural gas and spare parts, represents the best estimate of their net realizable value as at the date of the report on the financial position in line with the requirements of IAS 2 „Inventories".

Impairment of credits and receivables

The Management assesses the adequacy of impairment of clients' unrecoverable and hard to recover debts based on receivables age analysis, historical experience for the level of writing off unrecoverable receivables, and analysis of the solvency of the respective client, changes in the contracted payment terms and conditions, etc. if the financial position and the results of the business activity of the clients deteriorate beyond what was expected, the value of the receivables to be written off in the next accounting periods may be higher than the estimated as at the reporting date. Further information is supplied in note 24.

Obligation for payment of defined benefit plans

The Management estimates once per year with the help of an independent actuary the obligation to pay defined benefit plans. The actual value of the obligation may defer from the estimate due to its uncertainty. The estimate of the obligation to pay defined benefit plans amounting to BGN 7 697 thousand (2015: BGN 7 135 thousand) is based on statistical indicators on inflation, health care expenses and mortality. Another factor that affect are the future salary increases provided for by the company. The discount factors are determined at the end of every year compared to the interest rates of long-term safe bonds, denominated in the currency, in which the defined benefits will be repaid (Bulgarian levs) and with maturity, corresponding approximately to the maturity of the relevant pension obligations. Uncertainty in the estimate exists regarding the actuarial assumptions, which may vary and impact significantly the value of the obligation to pay the defined benefits and the related expenses.

Fair values

Some accounting policies and disclosures of the Company require an assessment of fair value for both financial and non-financial assets and liabilities.

The Company has established a control framework for the assessment of fair values.

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

Significant issues related to the assessments are reported to the Audit Committee of the Company.

Upon the estimation of the fair value of the asset or liability, the Company uses observable data as possible. The fair values are categorized into different levels of the fair value hierarchy based on input data to the valuation techniques as follows:

• Level 1: quoted prices (unadjusted) in active markets for similar assets or liabilities.

Notes to the Financial statement

• Level 2: input data other than quoted prices included in Level 1 that directly (ie as prices) or indirectly (i.e. derived from prices) are available for viewing 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 that are used to estimate the fair value of the asset or liability can be categorized into different levels of the fair value hierarchy, then the fair value estimation is categorized in its entirety in this level of the fair value hierarchy whose input information is relevant to the overall estimation. The Company 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 estimation of the fair value is included in Note 27 - Financial Instruments and Note 28 Fair value estimation.

Provisions and contingent liabilities

The Company 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 linked to the company's position in the above court cases.

5. Incomes

In BGN '000s	**2017**	**2016**
Incomes from transit transmission of natural gas	207 378	207 547
Incomes from transmission of natural gas through the national gas transmission system	70 584	60 404
Incomes from natural gas storage	5 208	3 994
Incomes from balancing	6 926	318
Incomes from free of charge gas	60 848	54 328
Total	350 944	326 591

The operating incomes comprise mainly incomes from services provided in transmission of natural gas in the country, the transmission of natural gas from the Romanian border to the borders with Greece, Turkey and Macedonia (transit transmission under an agreement with OOO Gazprom Export - Russia) and natural gas storage in Chiren Underground Gas Storage and balancing of the natural gas market.

Upon carrying out the service of natural gas transmission from the Romanian border to Turkey, Greece and Macedonia, natural gas is needed for the compressor stations operation which is technological gas (gas for technological purposes). The technological gas required for operation of the compressor stations for transmission from Romania to Turkey, Greece and Macedonia is supplied free of charge to the Company by the user of that network, to whom the service is provided. Bulgartransgaz EAD take into account this free of charge gas as current income and expense which has no influence on the financial result.

With regard to the Balancing rules of the natural gas market in force since 01.10.2017, Bulgartransgaz EAD, as a balancing party, performs commercial balancing on the natural gas market, which is compensation of the differences between the natural gas quantities supplied by an user of

Notes to the Financial statement

the gas transmission network at the entry points and the natural gas quantities withdrawn by that user through the exit points of the network. The obligation of the balancing party is to cover the individual imbalances of the gas transmission networks' users. In this regard and in accordance with the introduced "entry-exit" tariff model since 01.10.2017, new contracts for access and transport were concluded with the customers and the Company realizes incomes 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.

6. Other income

In BGN '000s	**2017**	**2016**
Income from financing	10 059	2 433
Income from sale of goods	603	476
Income from penalties	226	424
Income from services provided in ERC Republika	219	287
Income from use of resources auxiliary network	142	142
Insurance indemnity	130	189
Incomes from collocation	55	48
Incomes from liquidation of properties, plant and equipment	48	184
Income from connection and hazardous natural gas works	46	105
Consultancy services	21	254
Others	121	332
	11 670	4 874

7. Technological expenses

The total costs for technological needs for 2017 amounts to 68 413 thousand BGN (2016: 60 954 thousand BGN) including technological costs for natural gas transmission from the border with Romania to Turkey, Greece and Macedonia to the amount of 60 891 thousand BGN (2016: 54 127 thousand BGN).

The amount of the unremunerated natural gas received for technological needs for transit transmission gas pipeline for 2017 amount to 60 848 thousand BGN (2016: 54 328 thousand BGN). The unremunerated technological gas received for natural gas transit transmission from the border with Romania to Turkey, Greece and Macedonia is recognized as current income. The unremunerated gas that is received is consumed to maintain the operation of compressor stations in connection with transit transmission. It is accounted as a current expense for technological needs.

8. Expenses for materials

In BGN '000s	**2017**	**2016**
Electric Energy, water and heat		
	2 695	2 644
Basic materials, including:	1 321	918
- Spare parts	990	815
- Other	331	103

Notes to the Financial statement

Auxiliary materials, including	2 341	2 349
- Fuels and lubricants	1 391	1 353
- Vehicle spare parts and accessories	232	255
- Economic inventory	63	216
- Tools	28	40
- Other auxiliary materials	627	485
	6 357	5 911

9. Expenses for hired services

In BGN '000s	**2017**	**2016**
Pipeline inspection	1 324	5 733
Security	1 505	1 460
Insurance	1 418	1 304
Consulting services	372	860
Garbage disposal fees, property tax and vehicle taxes	576	573
Service subscription	777	536
Repairs and Maintenance	656	503
Rent	61	173
Civil contracts	84	98
Laboratory tests	81	92
Vehicles expenses	80	84
Communications	86	83
Advertising	99	42
Transport services	30	30
Other expenses for hired services	104	159
	7 253	11 730

The fee for the independent financial audit for 2017 amounts to BGN 58 thousand excluding VAT. The amount of that fee includes the independent financial audit on Bulgartransgaz EAD annual financial statement for 2017 to the amount of BGN 41 thousand and a review of the interim financial statement of Bulgartransgaz EAD by 30 June 2017 in accordance with the requirements of the International Standard on review engagements (ISRE) 2410 amounting to BGN 17,000.

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

The other non-audit services are agreed-upon procedures concerning financial information under project "Construction of gas metering stations Giurgiu (Romania) and Russe (Bulgaria) - Gas interconnection between the Gas measuring station Russe and Gas measuring station Giurgiu by issuing a report on factual findings by the order of ISRS 4400 Engagements to perform agreed-upon procedures regarding financial information. The fee for these services amounts to BGN 29 thousand.

Notes to the Financial statement

10. Wages and salaries of employees

In BGN '000s	**Notes**	**2017**	**2016**
Wages and social expenses for the staff		50 753	49 163
Social security contributions		7 170	6 775
Costs related to defined benefit plans	23	573	509
Unused annual leaves		1 074	789
Contributions on unused annual full-pay leave		178	134
		59 748	57 370

The average number of personnel in 2017 was 1 160 people (2016: 1 141).

11. Other operating expenses

In BGN '000s	**2017**	**2016**
Costs for impairment of receivables	19 140	22 895
Costs for 5% Security of the Electricity System Fund	14 158	6 917
Excise duties	6 152	5 085
Business trips	942	1 043
Waste/scrap and missing properties, plant, equipment	233	725
Representation expenses	139	656
Membership fees of organizations	539	538
Training and Qualification	305	381
Single taxes	270	321
Licence fees	157	154
Insurances	25	143
Fines on legal acts	105	108
Waste of inventories	91	43
Other	199	320
Costs for impairment of inventories	-	895
	42 455	40 224

12. Financial income and expenses

Recognized in profits and losses

In BGN '000s	**2017**	**2016**
Loss from foreign currency exchange rate, net	(12 634)	-
Interest expenses, related to defined income plans	(154)	(214)
Interest expenses	-	(3)
Expenses on commissions	(30)	(35)
Financial expenses	(12 818)	(252)

Notes to the Financial statement

Interest income	1 759	2 599
Income from foreign exchange differences, net	-	2 113
Financial incomes	1 759	4 712
Net financial, income/(costs), acknowledged in profit and loss	(11 059)	4 460

Notes to the Financial statement

13. Property, plant and equipment

In BGN '000s	Land and buildings	Machinery and equipment	Buffer Gas	Transport vehicles	Economic inventory	Under construction	Advance payments for acquisition of non-current assets	Total
Book value								
Balance as at January 1, 2017	74 851	1 541 725	198 132	9 731	4 416	38 349	11 929	1 879 133
Acquired	12	1 437	-	46	264	52 120	8	53 887
Written-off		(581)	-	(71)	(49)	(5 604)	(8 362)	(14 667)
Revaluation	-	-	38 062	-	-	-	-	38 062
Netting against amortization	-	-	(2 884)	-	-	-	-	(2 884)
Reclassification from intangible assets	3	(4)	-	-	250	-	-	249
Transfers	65	28 999	-	21	2 185	(31 270)	-	-
Balance as at December 31, 2017	74 931	1 571 576	233 310	9 727	7 066	53 595	3 575	1 953 780
Amortization and Depreciation								
Balance as at January 1, 2017	3 098	114 694	-	3 670	2 415	-	-	123 877
Amortization costs	2 307	82 548	2 884	793	742	-	-	89 274
Amortization for written-off assets	-	(383)	(2 884)	(48)	(42)	-	-	(3 357)
Reclassification	-	(2)	-	-	2	-	-	-
Balance as at December 31, 2017	5 405	196 857	-	4 415	3 117	-	-	209 794
Balance value								
Balance as at January 1, 2017	71 753	1 427 031	198 132	6 061	2 001	38 349	11 929	1 755 256
Balance as at December 31, 2017	69 526	1 374 719	233 310	5 312	3 949	53 595	3 575	1 743 986

Notes to the Financial statement

In BGN '000s	Land and buildings	Machinery and equipment	Buffer Gas	Transport vehicles	Economic inventory	Under construction	Advance payments for acquisition of non-current assets	Total
Book value								
Balance as at January 1, 2016	56 243	1 343 586	183 115	7 813	3 205	185 929	11 325	1 791 216
Acquired	112	2 108	-	1 979	529	60 379	12 109	77 216
Written-off	-	(867)	-	(61)	(52)	(3 694)	-	(4 674)
Revaluation	-	-	41 576	-	-	-	-	41 576
Depreciation on account of the revaluation reserve	-	-	(24 500)	-	-	-	-	(24 500)
Netting against amortization	-	-	(2 059)	-	-	-	-	(2 059)
Reclassification from intangible assets	-	338	-	-	-	20	-	358
Transfers	18 496	196 560	-	-	734	(204 285)	(11 505)	-
Balance as at December 31, 2016	74 851	1 541 725	198 132	9 731	4 416	38 349	11 929	1 879 133
Amortization and depreciation								
Balance as at January 1, 2016	1 007	35 051	-	2 854	2 102	-	-	41 014
Amortization costs	2 091	79 808	2 059	848	362	-	-	85 168
Revaluation	-	-	(2 059)	-	-	-	-	(2 059)
Amortization for written-off assets	-	(454)	-	(32)	(49)	-	-	(535)
Reclassification from intangible assets	-	289	-	-	-			289
Balance as at December 31, 2016	3 098	114 694	-	3 670	2 415	-	-	123 877
Balance value								
Balance as at January 1, 2016	55 236	1 308 535	183 115	4 959	1 103	185 929	11 325	1 750 202
Balance as at December 31, 2016	71 753	1 427 031	198 132	6 061	2 001	38 349	11 929	1 755 256

Notes to the Financial statement

Notes to the Financial statement

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

Buffer gas is considered to be depreciable and non-depreciable.

Depreciable buffer gas in Chiren UGS is the quantity of gas, which will remain in the gas reservoir following the end of the operation of the storage facility.
Non-depreciable buffer gas is the part of the buffer gas in Chiren UGS, which could be withdrawn on the surface at gas pipeline pressure 35 bara using the currently existing facility.
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 offtaken in case of gas pipeline liquidation.

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

	Balance value In BGN '000s	
	Depreciable	Non-depreciable
2017		
Buffer gas - main gas pipelines	418	5 633
Buffer gas – Chiren UGS	167 840	51 370
Buffer gas – transit gas pipelines	641	7 408
	168 899	64 411
2016		
Buffer gas - main gas pipelines	358	4 729
Buffer gas – Chiren UGS	143 300	42 977
Buffer gas – transit gas pipelines	549	6 219
	144 207	53 925

As at 31 December 2017 the management reviewed the carrying values, recoverable values and the useful life of assets of the non-current assets by the company. The evaluations of the management are based on an independent evaluator as at the date of the financial statement. Consequently to the review and the impairment test it was established that at the evaluation date the price of BGN 1/nm^3, respectively 1 MWh deviates with more than the 5% allowed in line with the accounting policy of the company, thus indicating a revaluation of the buffer gas value. As a result of the changed gas prices a revaluation of the buffer gas value has been made (depreciable and non-depreciable) up to prices of EWRC by 31.12.2017.

For information on determining the fair value of assets from the group Property, plant and equipment, see Note 28.

All depreciation and impairment costs are included in the profit or Loss Report and the other comprehensive income on line „Depreciation Costs".

The company has no property, plant and equipment provided as collaterals to its liabilities.

Notes to the Financial statement

Property, plant and equipment - commissioned

The main sites that are under construction at December 31, 2017 are as follows:

- Design and drilling of an operational well E-73 at Chiren UGS to the amount of 11 154 thousand BGN, with the design and construction of the gathering pipes system, individual separating group and well telemetry, totalling to 10 983 thousand BGN**,**
- Modernization of the automatic control systems of gas turbine compressor units and the station systems at CS Valchi dol – automatic control system GCU 4, GCU 5 and GCU 6 the station systems at CS Valchi dol, totaling to 3 374 thousand BGN,
- Metering group (GMS) – a technological connection between the transit and main gas pipeline at CS Lozenets, totaling to 1 309 thousand BGN,
- Chiren UGS – closed cycle replacement of pipes of the gas motor compressor, totaling to 1 470 thousand BGN

Property, plant and equipment under construction

The main sites that are under construction at December 31, 2017 are as follows:

- Optic line Nikolaevo – Polski Senovets to the amount of 5 349 thousand BGN
- Transit gas pipeline to Turkey (looping) in the section Lozenets – Nedyalsko to the amount of 34 587 thousand BGN.

Advance payments for the acquisition of assets

The advance payments for the acquisition of assets totalling to BGN 3 575 thousand (2016: BGN 11 929 thousand) refer mainly to prepaid amounts under contracts for the construction of a transit gas pipeline to Turkey (looping) in the section Lozenets – Nedyalsko, modernization of existing systems on GCU management and station control systems as CS Valchi dol and Polski Senovets and construction and installation works for cable optic line Ihtiman - Dupnitsa.

Commitments for acquisition of property, plant and equipment

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

14. Intangible assets

In BGN '000s	**Software**	**Patents and licenses**	**Other**	**Total**
Book value				
Balance as at January 1, 2017	4 168	742	1 922	6 832
Acquired	4 865	31	-	4 896
Written off	(4)	-	-	(4)
Reclassification in property, plant and equipment	(249)	-	-	(249)
Balance as at December 31, 2017	8 780	773	1 922	11 475
Amortization				
Balance as at January 1, 2017	1 170	406	709	2 285
Amortization costs	876	67	127	1 070
Written off	(4)	-	-	(4)
Balance as at December 31, 2017	2 042	473	836	3 351
Balance value				
As at January 1, 2017	2 998	336	1 213	4 547
Balance as at December 31, 2017	6 738	300	1 086	8 124

In BGN '000s	**Software**	**Patents and licenses**	**Other**	**Total**
Book value				
Balance as at January 1, 2016	1 109	262	2 961	4 332
Acquired	2 858	-	-	2 858
Reclassification in property, plant and equipment	-	-	(358)	(358)
Reclassification	201	480	(681)	-
Balance as at December 31, 2016	4 168	742	1 922	6 832
Balance as at January 1, 2016	916	123	1 194	2 233
Annual amortization quota	150	67	126	343
Reclassification in property, plant and equipment	-	-	(291)	(291)
Reclassification	104	216	(320)	-
Balance as at December 31, 2016	1 170	406	709	2 285
Balance value				
As at January 1, 2016	193	139	1 767	2 099
Balance as at December 31, 2016	2 998	336	1 213	4 547

All amortization costs are included in the Statement of profit or loss and the other comprehensive income on line "Amortization Costs". The company had not pledged intangible assets as a collateral for its liabilities.

15. Investments in jointly controlled undertakings

By virtue of decision of Bulgarian Energy Holding EAD Board of Directors and an authorization of the Minister of Energy, in 2017 Bulgartransgaz EAD capital has been increased in line with article 193 of the Commercial Act by consideration in kind, representing 50% of Bulgartel EAD shares, owned by BEH EAD. The consideration is for 3 thousand shares of Bulgartel EAD capital, totaling to BGN 3 256 thousand, by means of emission of 3 256 thousand new ordinary registered shares with voting right with nominal value of BGN 1. On 23.11.2017 the capital increase with the consideration has been entered in the Trade register.

16. Long-term receivables

Considerable amount of long-term receivables are receivables of Bulgartransgaz EAD from Corporate Commercial Bank - bankrupt (CCB AD (n)) to the amount of 11 994 thousand BGN (2016: 31 134 thousand BGN). In 2017 the management of the company has made an assessment on the refundable amount of these receivables and as a result a depreciation loss to the amount of 19 140 thousand BGN (2016: 22 895 thousand BGN) has been acknowledged.

For part of the KTB (bankrupt) receivables to the gross amount of 18 035 thousand BGN there are special circumstances and in this respect the management of the company undertook actions to take out this amount from the bankrupt and its reimbursement to Bulgartransgaz EAD.

17. Inventories

In BGN '000s	**2017**	**2016**
Natural gas	87 041	83 778
Materials	24 346	23 848
Unfinished production	207	233
Finished production	247	217
Fuel	37	34
Other	26	27
	111 904	108 137

The substantial part of the inventory is natural gas stored in Chiren UGS. On the basis and in pursuance of the Order No. D-16-675 / May 21, 2014 of the Minister of Economy and Energy, 140 mcm natural gas regarding a need arisen for additional obligations to the community.
In 2017, a total of 72 075 thousand BGN of the inventories have been reported as an expense in the profit or the loss (2016: 65 116 thousand BGN). In 2017 there is no depreciation of inventories (2016: 895 thousand BGN). Expenses reduction as a result of a refund of depreciations which have been acknowledged in previous periods has occurred in 2017, totalling to 265 thousand BGN (2016: 0 thousand BGN).

The company has no inventories provided as collaterals.

18. Trade and other receivables

In BGN '000s	**Notes**	**2017**	**2016**
Receivables from sales of services		22 108	21 563
Discount for depreciation and uncollectibility	27	(326)	(326)
Receivables from sales of services, net of devaluation		21 782	21 237
VAT for refund		-	1 191
Prepayment expenses		189	253
Other		104	107
		293	1 551
		22 075	22 788
Total trade and other receivables, including:			
		22 075	22 788
Current		22 075	22 788

All receivables are short-term. The net balance value of the trade and other receivables shall be acknowledged as reasonable approximate evaluation at their fair value.

The Company's exposure to credit and currency risks and devaluation losses related to trade and other receivables are presented in Note 27 *Financial instruments.*

19. Cash and cash equivalents

In BGN '000s	**2017**	**2016**
Cash in current accounts	227 610	95 095
Short-term deposits with maturity up to 3 months	183 380	145 189
Cash	68	69
Cash and cash equivalents	411 058	240 353

The company has no restricted cash and cash equivalents.

The Company's exposure to credit and currency risks and devaluation losses related to trade and other receivables are presented in Note 27 *Financial instruments.*

As at December 31 interest is added on deposits maturing in the next year and the amount of the interest receivables is included in deposits value.

20. Equity and reserves

Share capital

The share capital is divided into 874 524 255 registered shares (2016: 841 414 350 registered shares). All shares have a nominal value of 1 BGN. Sole shareholder 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 quota which is commensurate with the nominal share value.

With a decision of the Board of Directors of Bulgarian Energy Holding EAD and with an approval of the Minister of Energy in 2017 Bulgartransgaz EAD’s capital is increased in line with art. 197 of the Trade Act with 29 854 thousand BGN which are a residue of the net profit of the company for 2016 by issuing 29 854 thousand new ordinary registered shares with the right to vote with nominal value of 1 BGN.

By virtue of decision of Bulgarian Energy Holding EAD Board of Directors and an authorization of the Minister of Energy, Bulgartransgaz EAD capital has been increased in line with article 193 of the Commercial Act by consideration in kind, representing 50% of Bulgartel EAD shares, owned by BEH EAD. The consideration in kind is for 3 thousand shares of Bulgartel EAD capital, totaling to BGN 3 256 thousand, by means of emission of 3 256 thousand new ordinary registered shares with voting right with nominal value of BGN 1.

The capital increase is a financial dematerialized transactions, where no cash or cash equivalents were used and they were not reflected in the cash flow report.

Reserves

The reserves of the Company include statutory reserves, other reserves and reserves from accounting from the effects from applying the revised IAS 19 Employees Benefits.

Statutory Reserves

The statutory reserves include a "Reserve Fund" with source of formation 1/10 of the profit at least, while the resources of the fund reach 1/10 of the share capital at least. As at December 31, 2017 the statutory reserves of the company amounts to thousand BGN 81 512 (2016: 74 878 thousand BGN).

Other reserves

Other reserves amount to 7 027 thousand BGN and have been formed in 2009 by virtue of a decision of Bulgarian Energy Holding EAD, when the retained earnings for 2008 has been transformed in Other Reserves following deductions for the reserve Fund.

Actuarial profit/loss

The accumulated (profits)/losses for the period 2011 to 2017 amount to 5 397 thousand BGN and have been formed from the Loss from remeasuring the obligations to compensate upon retirement. In 2017 the actuarial loss totaled to 137 thousand BGN, net after tax.

Revaluation reserve

As at the date of drawing-up this report a review has been conducted on the fair values and assets' useful life from the group of properties, plants and equipment reported as at December 31, 2017.

Pursuant to the applicable legislation the revaluation reserve from revaluation of properties, plants and equipment, may not be distributed as dividends.

According to the Company policy, each year the revaluation reserve shall be transferred to retained earnings based on costs accounted for amortization for the revaluation reserve. Writing-off the revaluation reserve in the retained earnings for 2017 amounts to 42 739 thousand BGN (2016: 44 368 thousand BGN).

The accumulated revaluation reserve as at December 31, 2017 amounts to 830 555 thousand BGN (2016: 839 038 thousand BGN).

21. 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 % (2016: 10%) and the actually recognized tax expenses in the loss or profit can be presented, as follows:

In BGN '000s	**2017**	**2016**
Taxes recognized in profit and loss		
Profit before taxes	68 265	73 731
Tax rate	10 %	10 %

Estimated expenses on income tax	6 826	7 373
Tax effect on adjustments for incomes exempt from tax	(6 538)	(5 976)
Tax effect on adjustments for expenses not recognized for tax purposes	11 190	11 185
Current tax		
Current tax expense	11 478	12 582
	11 478	12 582
Emergence and reversal effect of temporary differences	(4 629)	(5 193)
Total tax expenses	6 849	7 389
Deferred tax expenses, recognized in the other comprehensive income	3 791	1 607

Current tax expenses include the accrual for corporate income tax rate of 10% on accounting profit, converted for purposes of taxation. Any 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:

Recognized deferred tax assets and liabilities *In BGN '000s*	**2017**	**2016**
Property, plant and equipment	105 469	104 425
Depreciation of long-term receivables	(4 834)	(2 919)
Inventories	(89)	(181)
Obligations under defined benefit plans	(794)	(770)
Liabilities for unused annual holidays	(165)	(129)
	99 587	100 426

The deferred tax assets and liabilities are due on the following positions:

	Assets		Liabilities		Net	
In BGN '000s	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Property, plant and equipment	-	-	105 469	104 425	105 469	104 425
Trade receivables	(4 834)	(2 919)	-	-	(4 834)	(2 919)
Inventories	(89)	(181)	-	-	(89)	(181)
Obligations under defined benefit plans	(794)	(770)	-	-	(794)	(770)
Liabilities for unused annual holidays	(165)	(129)	-	-	(165)	(129)
Tax (assets) liabilities	(5 882)	(3 999)	105 469	104 425	99 587	100 426
Offsetting tax	5 882	3 999	(5 882)	(3 999)	-	-

Net tax (assets) liabilities	-	-	99 587	100 426	99 587	100 426

Upon calculation of deferred taxes as at December 31, 2017 tax rate of 10% is applied, which is defined by the Law on Corporate Income Tax for 2017 (for 2016: 10%). All deferred tax assets are included in the Statement of Financial Position.

22. Deferred income from financing

In thousand BGN	**Notes**	**2017**	**2016**
Balance as of 1 January		46 710	22 599
Received funding		54 452	26 544
Income, recognized over the year	6	(10 059)	(2 433)
Balance as of 31 December		91 103	46 710

Deferred income from financing, recognized in the Statement on the Financial Position, relate mostly to non-current assets, whose acquisition and/or construction is financed partly by external organizations. The material part of the assets, subject to financing, are part of the company's investment program and as of the date of drafting this Financial Statement have been commissioned. In addition the company has received financing means for assets, still under construction.

In May месец 2014 a Grant Agreement 057 has been signed by Bulgartransgaz EAD and the EBRD, ensuring grant financial aid for the company from KIDSF for „Construction of transmission gas pipelines with AGRSs to Svishtov, Panagurishte, Pirdop and Bansko - Razlog". The project's total value is set to be 21 790 thousand BGN, of which the KIDSF grant amounts to 11 000 thousand euros. The expected co-financing from Bulgartransgaz EAD amounts to 10 790 thousand euros.

Having regard to the Grant Agreement Bulgartransgaz EAD signed a Consultancy Contract for the design of transmission gas pipeline to Svishtov to the amount of 272 012,54 euros. Fifty percent (50%) of the total amount of the contract price will be paid with moneys from the KIDSF – European Bank for Recovery and Development (EBRD).

On 3 April 2015 a Grant Agreement has been signed with the financing institution INEA for the Action with No.7.4.2-0061-BG-S-M-14, entitled „Feasibility Study for the Interconnection Turkey-Bulgaria (ITB)". The total value of the FS is assessed to be 380 thousand euros, of which the financial aid under CEF is up to 190 thousand euros. As of the date of drafting the Financial Statement a total of 143 thousand euros – paid in advance and 86 thousand euros final payment have been received following a final technical and financial report in line with article 4.1.2 of the Grant Agreement.

On October 23, 2015 Bulgartransgaz EAD officially signed a Grant Agreement for the Action with No. 6.20.2-0021-BG-S-M-15, entitled "Conduct of 3D seismic surveys as a part of the Chiren UGS expansion project 6.20.2", which includes the activities "3D field seismic studies on the Chiren structure area" and "3D seismic studies quality control and processing the acquired data, with expected total value 7 800 thousand euros. The amount of grant is 50% of the amount of the Action – up to 3 900 thousand euros. As of the date of drafting the Financial Statement, 40% of the value of the financing or 1 560 thousand euros have been received in line with the article 4.1.2 of the Grant Agreement.

On 27 April 2016 Grant Agreement has been signed with the financing institution INEA for the Action with No.6.8.2-0055-BG-S-M-15, entitled „Preparatory activities in connection with PCI 6.8.2. Rehabilitation, modernization and expansion of the Bulgarian gas transmission network" with an expected value of 1 700 thousand euros. The size of the grant is 50% of the amount of the Action – up to 850 thousand euros. As of the date of drafting this Financial Statement 40% of the value of the financing or 340 thousand euros have been received in line with article 4.1.2 of the Grant Agreement.

On 3 November 2016, a Grant Agreement has been signed with the financing institution INEA for the Action with No.6.20.2-0011-BG-S-M-16, entitled „Implementation of software product for the modelling and determining optimum regimes of operation of Chiren UGS in connection with its expansion", as part of PCI 6.20.2 Expansion of Chiren UGS capacity – with a total expected value of 260 thousand euros. The size of the grant is 50% of the amount of the Action – up to 130 thousand euros. As of the date of drafting this Financial Statement 40% of the amount of the financing or 52 thousand euros have been received in line with article 4.1.2 of the Grant Agreement.

On 17 May 2017, a Grant Agreement has been signed with the financing institution INEA for the Action with No.6.8.2-0026-BG-S-M-16, entitled „Preparatory activities for the rehabilitation of section PF Valchi dol – VA Presleka of the gas transmission network, PCI 6.8.2.", as part of PCI 6.8.2 „Rehabilitation, modernization and expansion of the Bulgarian gas transmission network" – with a total expected value 364 thousand euros. The size of the grant is 50% of the amount of the Action – up to 182 thousand euros. As of the date of drafting this Financial Statement 40% of the amount of the financing or 73 thousand euros have been received in line with article 4.1.2 of the Grant Agreement.

On 17 May 2017, a Grant Agreement has been signed with the financing institution INEA for the Action with 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" – with a total expected value 1 841 thousand euros. The size of the grant is 50% of the amount of the Action – up to 921 thousand euros. As of the date of drafting this Financial Statement 40% of the amount of the financing or 368 thousand euros have been received in line with article 4.1.2 of the Grant Agreement.

23. Employee Benefits

In BGN '000s	**2017**	**2016**
Liability for defined benefit plans for retirement – non-current	6 130	7 286
Liability for defined benefit plans for retirement - current	1 813	411
Total liabilities for employee benefits	7 943	7 697

Liabilities for defined benefit plans upon retirement

Pursuant to the requirements of the Employment Code and the Collective Agreement where the employment is terminated when the employee has acquired retirement rights for pension and age, the company is obliged to pay the employee benefits to the amount of up to six gross salaries and additional benefit in line with the Collective Agreement. The company has estimated a legal obligation for benefits payment to the hired persons upon retirement 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 safe securities.

The liability recognized in the financial statement regarding defined benefit plans is the current value of the obligation to be paid of defined incomes at the end of the reporting period.

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

Movements in the present value of liabilities under defined benefit plans

In BGN '000s	**2017**	**2016**
Present value of the obligation as at January 1	7 697	7 135
Interest expenses for the period	154	214
Current traineeship expenses for the period	573	509
Income paid	(633)	(1 167)
Actuarial loss for the period	152	1 006
Present value of the obligation as at December 31	7 943	7 697

Expenses recognized in profit and loss

In BGN '000s	**2017**	**2016**
Expenses for current work experience	573	509
Interest expenses	154	214
	727	723

Expenses linked with current service cost are included in „Personnel costs". Net interests costs are included in the Profit and Loss report and the other comprehensive income on line „Financial costs" (see Note 12).

The total amount of actuarial loss in line with the company's defined benefit plans, recognized in the other comprehensive income, amounts to 152 thousand euros, due to changes in the financial assumptions.

Actuarial assumptions

The principal actuarial assumptions at the reporting date (represented as average values) are presented as follows:

	2017	**2016**
Discount rate as at December 31	2%	3%
Wage increase for 2017	-	5,47%
Wage increase for 2018	6,87%	3%
Wage increase for 2019	2%	-

	Current value of the obligation under defined benefit plan as of December 31			
Effect in BGN '000s	**2017**		**2016**	
Discount rate	+1%	-1%	+1%	-1%
	7 442	8 509	7 551	7 848
Future salary increase	+1%	-1%	+1%	-1%
	8 425	7 506	8 256	7 198
Life expectancy	+1 г.	-1 г.	+1 г.	-1 г.
	8 038	7 836	7 800	7 583
Staff turnover	+1%	-1%	+1%	-1%
	7 428	8 462	7 121	8 230

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

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

24. Trade and other liabilities

In BGN '000s	**2017**	**2016**
Payables to suppliers	2 324	3 724
Liabilities to employees for unused annual holidays	1 649	1 293
Payables to employees for remuneration	-	1
Obligations to insurers	113	118
Other liabilities	176	136
	4 262	5 272
Liabilities to the budget:		
Liabilities for 5% of Security of the Electricity System Fund	1 514	1 397
Payment of VAT	1 585	-
Obligations for social security contributions	1 047	981
Income tax of physical entities	978	933
Liabilities to customs	723	828
Liabilities for expense tax	270	321
Other liabilities to the budget	1	1
	10 380	9 733

The Company's exposure to liquidity and currency risks are presented in Note 27.

25. Related parties

Parent company and ultimate controlling entity for the Company is Bulgarian Energy Holding EAD (BEH).

The Company has transactions with the following companies from the group of BEH:

Bulgarian Energy Holding EAD	Controlling entity
Bulgargaz EAD	Subsidiary of BEH
Bulgartel EAD	Joint controlled entity with ESO (subsidiary of BEH until November 2017)
NEK EAD	Subsidiary of BEH
ESO EAD	Subsidiary of BEH
Mini Maritsa Iztok EAD	Subsidiary of BEH
South Stream Bulgaria AD	Joint controlled entity of BEH

The transactions with related parties are presented as follows:

- Providing services of natural gas transmission, storage and balancing to Bulgargaz EAD;
- Payments for purchased natural gas from Bulgargaz EAD;
- Purchase of electricity from ESO EAD

- Contract for settlement of the relations on Bulgartel EAD use of resources of Bulgartransgaz EAD auxiliary network and Bulgartransgaz EAD use of the facilities of Bulgartel EAD of its public electronic communications network.
- Services for business trips of employees provided by NEK EAD and Mini Maritsa Iztok EAD.

Transactions with other related parties

Transactions with related parties

	Transactions value in		***Final balances***	
In BGN '000s	**2017**	**2016**	**2017**	**2016**
BEH EAD				
Dividend	29 854	41 923	-	-
	29 854	41 923	-	-
Bulgargaz EAD				
Sales:				
Services of transmission, storage and balancing	71 948	63 204	2 547	7 172
Penalties for overdue payments	-	174	1	1
Interest long-term receivables	1 196	1 751	-	-
Long-term receivables	-	-	8 369	24 661
Current part of the long-term receivables	-	-	16 292	15 717
	73 144	65 129	27 209	47 551
Purchase of:				
Transmission and storage services	-	-	-	(8)
Purchase of natural gas	(12 179)	(1 307)	(1 160)	-
Contractual guarantees	-	-	(9 666)	(648)
	(12 179)	(1 307)	(10 826)	(656)
Bulgartel EAD				
Sales:				
Provision of resources, optical fibres and collocation	266	214	239	213
Interest for overdue payments	20	22	9	7
	286	236	248	220
Bulgartel EAD				
Purchase of:				
Use of resources of the auxiliary network and communication services	(48)	(45)	(269)	(292)
	(48)	(45)	(269)	(292)
South Stream Bulgaria AD				
Rent	1	1	-	-
	1	1	-	-

NEK EAD				
Business trips	-	(5)	-	-
	-	(5)	-	-
ESO EAD				
Open guarantee	-	(69)	16	48
Electricity transmission services	(73)	(2)	(10)	(7)
	(73)	(71)	6	41
Mini Maritsa Iztok EAD				
Services provided	3	5	-	-
	3	5	-	-
Total receivables from related parties	-	-	27 473	47 819
Total liabilities to related parties	-	-	11 105	955

Aggregated calculations with related parties as follows:

In BGN '000s	**2017**	**2016**
Non-current receivables from related parties	8 385	24 709
Current receivables from related parties	19 088	23 110
	27 473	47 819

In BGN '000s	**2017**	**2016**
Non-current liabilities to related parties	243	267
Current liabilities to related parties	10 862	688
	11 105	955

Remuneration of key management personnel

The Company has related party transactions with directors and employees having control functions. Total amount of the accrued remunerations included in the personnel costs as follows:

In BGN '000s	**Notes**	**2017**	**2016**
Remunerations paid to the Executive Director and to the members of the Management and Supervisory Board		471	412
Social security contributions on the remunerations of the Executive Director and the members of the Management and Supervisory Board		25	24
Total costs for remuneration of key management personnel		496	436

Participation of key management personnel in the management of other companies

Members of the Supervisory Board at the date of statement preparation:

Kiril Georgiev Georgiev - Chairman of the Supervisory Board

- Does not participate as an unlimited liability partner in commercial companies;

- Does not hold more than 25 percent of the capital of trading companies;
- Does not participate in the management of other companies.

Vladimir Valchev Mitrushev - Member of the Supervisory Board
- Does not participate as an unlimited liability partner in commercial companies;
- Does not hold more than 25 percent of the capital of commercial companies;
- Does not participate in the management of other companies.

Ventsislav Tsvetkov Tsvetanov - Member of the Supervisory Board
- Does not participate as an unlimited liability partner in commercial companies;
- Does not hold more than 25 percent of the capital of commercial companies;
- Does not participate in the management of other companies.

Members of the Management Board at the date of statement preparation:

Tanya Trendafilova Zaharieva- Chairperson of the Management Board
- Does not participate as an unlimited liability partner in commercial companies;
- Does not hold more than 25 percent of the capital of commercial companies;
- Participates in the management of:
  Cooperation Coop Account, UIC 203273682 as a Member of the Management Board;

Delyan Valentinov Dimitrov - Member of the Management Board
- Does not participate as an unlimited liability partner in commercial companies;
- Does not hold more than 25 percent of the capital of commercial companies;
  Participates in the management of State enterprise Communication Construction and Reconstruction, UIC 175444109 as a Member of the Management Board;

Vladimir Asenov Malinov - Member of the Management Board and Executive Director
- Does not participate as an unlimited liability partner in commercial companies;
- Does not hold more than 25 percent of the capital of commercial companies;
- Does not participate in the management of other companies.

26. Guarantees under Contracts

In BGN 000's	**2017**	**2016**
Non-current guarantees under contracts	821	1 434
Current guarantees under contracts	10 789	3 525
	11 610	4 959

Major part of the Company's obligations on received guarantees are the following:

• guarantees – withheld amounts under construction contracts, being paid depending on the stage of execution of the sites under the terms of the contract;

• amounts (credit limit) to guarantee the payments under Natural Gas Transport and Access Contracts that each user of the service is required to provide as collateral for the capacity and access nominations. Bulgartransgaz EAD withholding of amounts on provided credit limit is made automatically during the capacity booking procedures in the amounts specified in items 8.10 and

8.11 of the General Conditions of the Transport and Access Contracts signed with the customers after 01.10.2017.

• Amounts to secure payments for purchase and sale of natural gas for balancing.

27. Financial instruments

Financial risk management

Review

The Company is exposed to various risks regarding its financial instruments. The most significant financial risks the company is exposed are market risk, credit risk and liquidity risk.

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

General considerations of risk management

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

Credit risk

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

The Company is exposed to credit risk in the event that customers do not pay their liabilities. The credit quality of the customers is assessed taking into account the financial standing, previous experience and other factors.
Regarding the Rules on Balancing of the natural gas market, effective as of 01.10.2017, Bulgartransgaz EAD, in its capacity as a balancing party, is engaged in commercial balancing of the natural gas market, which is a compensation for the differences between the natural gas quantity delivered by a certain user of the gas transmission network at the entry points and the natural gas quantity offtaken by that user through the exit points of the network. The obligation of the balancing party is to cover the individual imbalances of the gas transmission networks' users. In this regard and in accordance with the introduced "Entry-exit" tariff model as of 01.10.2017, new Transport and access contracts have been concluded with the customers and each user of the service is obliged to deposit as security for the capacity and access nominations, amounts (credit limit) to guarantee the payments under the Natural Gas Transport and Access Contracts.

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

Exposure to credit risk

The carrying amount of the financial assets is the maximum credit exposure. The maximum exposure to credit risk at the statement date is as follows:

In BGN '000s	**Notes**	**2017**	**2016**
Trade and other receivables	18	21 855	21 237
Long-term receivables from KTB AD (bankrupt)	16	11 994	31 134
Receivables from related parties	25	27 473	47 819
Cash and cash equivalents	19	411 058	240 353
		472 380	340 543

Trade and other receivables

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

In BGN '000s	**2017**	**2016**
Residents	30 601	48 164
Non-residents	18 727	20 980
	49 328	69 144
including		
Related parties	27 473	47 819
Unrelated parties	21 855	21 325

In BGN '000s	**2017**	**2016**
Customers transit transmission of natural gas	18 934	20 774
Customers access, transmission and storage of natural gas	30 048	47 920
Other trade receivables	346	450
	49 328	69 144

Most significant is the exposure of Bulgargaz EAD owing 27 209 thousand BGN at December 31, 2017 (2016: 47 551 thousand BGN). The receivables of Bulgargaz EAD were classified as current and non-current depending on the period in which they will be received. The collection of receivables from Bulgargaz EAD in relation to services rendered by Bulgartransgaz EAD for natural gas transmission and storage shall be carried out under an approved schedule of payment in accordance with the payment schedule prepared to contracts concluded between the parties at market interest rate.

Impairment losses

The time structure of trade and other receivables at the date of reporting that are not impaired, is as follows:

In BGN '000s	**2017**	**2016**
Neither overdue, nor impaired	19 781	21 416
Overdue between 31-90 days	14	-
Overdue between 90-120 days	16	-
Overdue more than 120 days	2 044	-
	21 855	21 416

The time structure of receivables from related parties at the date of reporting that are not impaired, is as follows:

In BGN '000s	**2017**	**2016**
Neither overdue nor impaired	27 240	47 638
Overdue between 1-30 days	20	19
Overdue between 31-90 days	39	38
Overdue between 90-120 days	6	19
Overdue more than 120 days	168	105
	27 473	47 819

The change in impairment of the trade and other receivables can be presented as follows:

In BGN '000s	**2017**	**2016**
Balance at January 1	29 521	6 626
Loss due to impairment	19 140	22 895
Balance at December 31	48 661	29 521

Liquidity risk

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

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

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

The following table presents the contractual maturities of financial liabilities based on the earliest date on which the Company 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:

December 31, 2017

In BGN '000s	**Note**	**Bal. value**	**Contractual cash flow**	**Up to 6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Non-derivative financial liabilities								
Trade and other liabilities	24	2 089	(2 089)	2 089	-	-	-	-
Guarantees under contracts	26	11 610	(11 610)	1 404	9 449	417	75	265
Liabilities to related parties	25	10 838	(10 838)	1 838	9 000	-	-	-
		24 537	(24 537)	5 331	18 449	417	75	265

December 31, 2016

In BGN '000s	Note	Bal. value	Contractual cash flow	Up to 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities								
Trade and other liabilities	24	3 578	(3 578)	3 578	-	-	-	-
Guarantees under contracts	26	4 959	(4 959)	3 276	249	133	418	883
Liabilities to related parties	25	664	(664)	664	-	-	-	-
		9 201	(9 201)	7 518	249	133	418	883

Market risk

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

Currency risk

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

Exposure to currency risk

The Company's exposure to currency risk is as follows based on financial assets and liabilities expressed in foreign currency and recalculated in BGN:

In '000s	**EUR**	**USD**	**EUR**	**USD**
	December 31, 2017		December 31, 2016	
Cash and cash equivalents	9 073	53 014	5 431	2 097
Receivables on deposits	9 779	63 602	9 779	20 410
Trade receivables	6	18 749	125	20 807
Trade liabilities	(876)	-	(430)	-
Net exposure of the financial statement report	17 982	135 365	14 905	43 314

The following significant exchange rates are applicable during the year:

	Average exchange rate		**Exchange rate at the reporting date**	
BGN	**2017**	**2016**	**2017**	**2016**
EUR 1	1,95583	1,95583	1,95583	1,95583

USD 1	1,73439	1,76833	1,63081	1,85545
GBP 1	2,23181	2,39251	2,20442	2,28437

Sensitivity Analysis

Increase of the exchange rate of the Bulgarian lev (BGN) against USD, as presented below as at December 31, 2017 would have increased/decreased equity and profit and loss by the amounts shown below. This analysis is based on variations in the exchange rates of the foreign currency which Company deems reasonably possible at the end the accounting period. The analysis assumes that all variables, in particular interest rates, remain unchanged and it ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis as in 2016, although reasonably the possible variations in exchange rates have been different, as shown below.

	Increase		**Decrease**	
Effect In BGN '000s	**Equity**	**Profits and losses**	**Equity**	**Profits and losses**
December 31, 2017				
USD (4.5 percent movement)	6 091	6 091	(6 091)	(6 091)
December 31, 2016				
USD (2.1 percent movement)	910	910	(910)	(910)

Interest rate risk

The Company is not exposed to interest rate risk as it has no financial assets and liabilities of floating interest rate.

Sensitivity analysis of the fair value for fixed interest rate instruments

The Company does not report financial assets and liabilities with fixed interest rate at fair value through profit and loss. Therefore, changes in interest rates on the balance sheet date would not affect profit and loss.

Capital management

The Company manages its capital so that to ensure its operation as an acting enterprise while simultaneously it seeks to maximize returns for the sole shareholder, by optimizing the ratio between debt and equity (return on invested capital). The goal of management is to ensure stable future development of the Company.

The Management Board's policy is to maintain a strong capital base thus to maintain the confidence of clients, creditors and the market in general, and to be able to provide conditions for business development in the future.

The Company is not subject to externally imposed capital requirements.

There are no changes in the approach to the management of capital during the year.

28. Determination of fair values

Some accounting policies and disclosures of the Company require determination of fair values for financial and non-financial assets and liabilities. Fair values have been determined for accounting and disclosure based on the methods below. When applicable in the respective notes is disclosed additional information on the assumptions made in determining fair values of the specific asset or liability.

(i) Property, plant and equipment

The fair value of property is the estimated amount for which the property could be exchanged at the acquisition date between a willing buyer and seller in a transaction at market conditions with proper marketing and the parties have acted consciously. The fair value of property, plant and equipment is based on the market approach and the approach of the acquisition price using market prices for similar items when available and replacement value when appropriate. An estimate of the amortized cost of replacement reflects the corrections for physical wear as well as functional and economic obsolescence. The methods used to estimate the fair value of fixed assets of the Company are described in Note 14 *Property, plant and equipment.*

(ii) Trade and other receivables

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

Company reports non-current receivables from related parties, which are subject to interest accrual at the market interest rate and therefore these receivables are not discounted.

(iii) Non-derivative financial liabilities

Fair values which are determined for disclosure purposes are calculated on basis of the present value of future cash flows of principal and interest discounted at the market interest rate as at the reporting date.

Notes to the Financial statement

Accounting classifications and fair values

Fair values compared to balance sheet values (carrying amounts)

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, 2017		**Balance value**			**Fair value**			
In BGN '000s	**Note**	**Loans and receivables**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets that are not assessed at fair value								
Cash and cash equivalents	19	411 058	-	411 058	-	-	411 058	411 058
Trade and other receivables	16,18	34 155	-	34 155	-	-	34 155	34 155
Receivables from related parties	25	27 473	-	27 473	-	-	27 473	27 473
		472 686		472 686	-	-	472 686	472 686
Financial liabilities that are not assessed at fair value								
Guarantees under contracts	26	(11 610)		(11 610)	-	-	(11 610)	(11 610)
Trade and other payables	24	(2 089)	-	(2 089)	-	-	(2 089)	(2 089)
Liabilities to related parties	25	(10 838)	-	(10 838)	-	-	(10 838)	(10 838)
		(24 537)		(24 537)	-	-	(24 537)	(24 537)

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.

Notes to the Financial statement

Accounting classifications and fair values

Fair values compared to balance sheet values

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

December 31, 2016		**balance sheet value**			**Fair value**			
In BGN '000s	**Note**	**Loans and receivables**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets that are not assessed at fair value								
Cash and cash equivalents	19	240 353	-	240 353	-	-	240 353	240 353
Trade and other receivables	16,18	52 802	-	52 802	-	-	52 802	52 802
Receivables from related parties	25	47 819	-	47 819	-	-	47 819	47 819
		340 974		340 974	-	-	340 974	340 974
Financial liabilities that are not assessed at fair value								
Guarantees under contracts	26	(4 959)		(4 959)	-	-	(4 959)	(4 959)
Trade and other payables	24	(3 578)	-	(3 578)	-	-	(3 578)	(3 578)
Payables to related parties	25	(664)	-	(664)	-	-	(664)	(664)
		(9 201)		(9 201)	-	-	(9 201)	(9 201)

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

Fair value evaluation of non-financial assets

The table below presents the level in hierarchy of non-financial assets at December 31, 2017 and December 31, 2016, periodically evaluated according to the fair value:

December 31, 2017	Level 3
in BGN '000s	
Properties, plants and equipment:	
- land	10 102
- buildings	59 424
- plants, facilities and equipment	1 374 719
- buffer (cushion) gas	233 310
- transport vehicles	5 312

December 31, 2016	Level 3
n BGN '000s	
Properties, plants and equipment:	
- land	10 106
- buildings	61 647
- plants, facilities and equipment	1 427 031
- buffer (cushion) gas	198 132
- transport vehicles	6 061

Revaluations are made in the following regularity:

• When the assets' fair value undergoes only minor changes, the revaluation is made every three years;
• When the assets' fair value changes substantially in relatively short time intervals, revaluation is made so that the balance sheet value (carrying amount) of the assets does not differ materially from their fair value.
As of December 31, 2017, the Company management has reviewed the transfer amounts, recoverable amounts and useful lives of the non-current assets. The Management's estimates are based on an independent valuer's review as of the date of the financial statement. As a result of the review and the impairment test, it has been established that at the evaluation date, the price of BGN 1/m³ or 1 MWh is of more than the allowed deviation of 5%, according to the accounting policy of the company, which is an indication of revaluation of the buffer gas value. Due to the changed gas prices, a revaluation of the buffer gas (depreciable and non-depreciable) was made to the prices of the EWRC as of 31.12.2017.
According to the accounting policy of the Company, revaluation of Property, plant and equipment is due to be carried out in 2018.

29. Conditional assets and liabilities

Bank guarantees from third parties to the amount of BGN 14 361 thousand have been issued in favour of the Company.
With Directive 2009/29/EC are defined the basic parameters of emissions trading for the period from 2013 up to 2020, as for the production of electricity it is not supposed to allocate free quotas and all quotas must be purchased by installations through tender. Possibility of free allocation on transitional

principle of installations producing electric power is provided by Art. 10c only in the event that the Member State meets certain requirements.

Bulgaria took the opportunity to compensate the electricity under Art. 10c by which sector "Electricity Production" will move progressively from free allowances to quotas provided by tender. In exchange for providing free allowances each installation that meet the specified requirements will have to implement projects for the amount equal to free allowances allocated.

In connection with the above and in accordance with Directive 2009/29/EC and Communication (2011/ C 99/03) of the Commission, Guidance document on the optional application of Article 10c of Directive 2003/87/EC, the Ministry of Energy prepared a National Investment Plan (NIP) including investment projects.

Taking into account the requirements set, Bulgartransgaz EAD applied for and was included in the NIP. The projects for modernization of 4 compressor stations CS Ihtiman, CS Lozenets, CS Petrich and CS Strandzha were approved for funding by the National Investment Plan Account, given the fact that the realization of these projects is expected to decrease by about 15% the CO2 emissions released in air by the aforementioned compressor stations.

So far by Orders No Е-РД-16-600/09.12.2016 and Е-РД-16-599/09.12.2016 and № Е-РД-16-885/15.12.2017 of the Minister of Energy, Bulgartransgaz EAD have received reimbursement of costs from the National Investment Plan Account for CS Ihtiman amounting to 12 791 636.51 BGN, for CS Petrich amounting to 12 791 629.63 BGN and for CS Lozenets amounting to BGN 25 583 273,02, which is the full amount of funds provided in the NIP, determined in accordance with the adjusted value of the investment due to a change in the reference value of greenhouse gas emissions № RD-16-1101/23.08.2012 of the Minister of Economy and Energy.

By Order No E-RD-16-886/15.12.2017 of the Minister of Energy, the costs of project implementation at CS Strandzha amounting to BGN 22 240 703,06 have been partially reimbursed. Reimbursement of the funds is forthcoming to the total amount of the funds set in the NIP amounting to BGN 30 699 925.12.

The company is a party under Case AT.39849 - BEH gas initiated by the European Commission (EC) regarding an official proceeding to investigate whether BEH EAD and its subsidiaries Bulgargaz EAD and Bulgartransgaz EAD distort the competition rules of the EU in the natural gas market in the country. The procedure was initiated in relation to the European Commission concerns that BEH EAD and its subsidiaries impede their potential competitors from gaining access to the Bulgarian gas transmission network and natural gas storage facility by explicitly or implicitly denying access to third parties or delaying it, as well as, a possible prevention of access of the competitors to the main gas pipeline for import by booking capacity on the territory of Romania.

On 24.11.2017 the National Assembly of the Republic of Bulgaria took a decision on undertaking all necessary actions to protect the interests of the Republic of Bulgaria and the companies: Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD, including actions for appeal of a possible EC prohibition decision regarding the closure of Case COMP/B1/AT.39849 - BEH Gas.

At the date of preparation of the Company financial statement, the EC has not taken a formal decision on closure of BEH Gas case, as well as a decision on the possible amount of the financial penalty for Bulgarian Energy Holding EAD and its subsidiaries Bulgargaz EAD and Bulgartransgaz EAD. The Company management has analysed and evaluated the available information regarding the possible outcome of BEH Gas Case and is unable to assess reliably the potential or expected effects about the outcome of the case.

30. Events after the reporting period date

By virtue of Bulgartransgaz EAD Supervision Board decision of 13.02.2018 Vladimir Malinov has been appointed member of the Management Board. EWRC's decision of 22.02.2018 confirms the decision of the Supervisory Board.

Changes in the Management Board have been entered in the Trade Register on 01.03.2018.

Currently the members of Bulgartransgaz EAD Management Board is: Tanya Zaharieva, Delyan Dimitrov, Vladimir Malinov. The Charperson of Management Board is Tanya Zaharieva, The Executive Director is Vladimir Malinov.

By virtue of Bulgartransgaz EAD Management Board decision of 01.03.2018 and approval by the Supervisory Board of 02.03.2018, the acquisition of assets and some of the lands of South Stream Bulgaria AD has been approved. The forthcoming acquisition has been planned so as to keep them within the BEH Group and possible use them when implementing future Bulgartransgqaz EAD infrastructure projects. At the time of preparing these Financial Statements of the Company the approximate value of the assets, subject to acquisition, is evaluated to be BGN 13 188 thousand. Taking actions to acquire the assets of South Stream Bulgaria AD comes after the decisions and approvals of the competent authorities have been duly made – the Minister of Energy, the Board of Directors of the single owner, the corporate Management and Supervisory Boards.

31. Significant accounting policies

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

(a) Income

Income are gross inflows from economic benefits over the period, generated in the course of the Company's normal business, where such inflows result in increase in the equity other than the increases, linked with the contributions of the sole owner.

No amounts, collected in the name of third parties, e.g. VAT, and no amounts, collected in the name of other companies, are included in the income.

(i) Income from sale of materials, production and goods

Income from sale of goods in the normal course of business is acknowledged at the fair value of the received or expected to be received remuneration, net of returns, trade discounts or works. Income from sale of goods is recognized at the time when there is convincing evidence, usually in the form of an executed contract of sale, that significant risks of ownership are transferred to the buyer, receipt of the remuneration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing participation of the Management in the governance of goods and the amount of revenue can be measured reliably.

Income for each transaction is recognized simultaneously with the expenses incurred for that.

Company recognizes income from sale of goods in food establishments and others.

(ii) Income from services

Income from rendered services is acknowledged at fair value of what has been received, what is to be received or is due to compensation, net of returned goods, trade discounts or works. The income and expenses related to the same transaction are acknowledged in the same reporting period. In cases when the outcome cannot be estimated reliably, the income is recognized only to the extent that the costs are recoverable.

Income from sales of services comprise mainly of license activities of the Company, namely the services rendered in transmission of natural gas in the country, transmission from the Romanian border to the border with Greece, Turkey and Macedonia and storage of natural gas.

(iii) Income from balancing

Income from balancing in the normal course of business is acknowledged at the fair value of the received or expected to be received remuneration, net of returns, discounts or rebates. The income and expenses related to the same transaction are acknowledged in the same reporting period. In cases when the outcome cannot be estimated reliably, the income is recognized only to the extent that the costs are recoverable.

Income from balancing include income from natural gas sale, received as a result from the activity, income from the differences in the prices of the natural gas purchased for the physical balancing and natural gas realised along the gas transmission network for transit transmission and the national gas transmission network.

(iv) Income from gratuitous gas for compressor stations of transit gas pipeline

Income from gratuitous gas for compressor stations of transit pipeline is recognized in profit and loss in fair value. The amount of such income is disclosed in Note 5 Income.

(v) Rent income

Income from rentals is recognized in profit and loss on a straight-line method for the rental period. Additional payments received are recognized as an integral part of the total rental income for the period of the lease. Rental income from sublease given by the Company property is recognized as other income.

(vi) Income from financing

Income from financing is recognized in profit and loss in the amount of depreciation accrued for sites built with funds from financing programs.

(b) 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 Company 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 Profit and Loss Report and any other 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 Financial Position Statement shall be immediately recognised as running cost.

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

All expenses of the Company are initially reported in line with economic elements – costs for: materials, raw materials and consumables, external services, depreciations, personnel, taxes, charges, 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, lacks, representative moneys, training and qualifications, technological losses, etc. After being reported as costs by economic elements, all costs for the company are distributed as expenses also for: main, auxiliary, social and governance activity.

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

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

(c) Financial income and expenses

Financial income includes income from interest on funds invested, profit on foreign currency transactions, and interest income on long-term receivables. Interest income is recognized in profit and loss as it is accrues using the method of effective interest rate.

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

Loan expenses, which 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 for 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.

(d) Property, plant and equipment

(i) 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 the following:

- material costs and direct labour;
- costs directly related to bringing the asset to the condition necessary for its intended use;
- when the company has the obligation to dismantle an asset or restore the terrain, the 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 Company 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.

Land, buildings and equipment, the buffer gas, including specialized transport vehicles owned by the

Company are estimated based on an assessment report prepared by an independent certified appraiser as at June 30, 2015 (see also Note 13). As at December 31, 2017 a review of the fair value of property, plant, equipment and transport vehicles (cargo and specialized) and the net realizable value of inventories, and impairment test has been made. All passenger cars other non-current assets and assets under construction are presented in financial statement based on historical cost less accumulated depreciation and impairment losses.

Specific fixed asset to Bulgartransgaz EAD is the buffer gas in Chiren UGS and in the 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 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 be produced 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 and their value also are disclosed in Note 13.

Profits and losses upon written off of property, plant and equipment (defined a balance 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. 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.

(ii) Subsequent costs

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

(iii) Amortization

Property, plant, facilities and equipment are depreciated from the date on which they are installed and ready for use or about 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 of assets acquired under finance leases are charged to the shorter period between the contract and their useful live unless it is reasonably certain the acquisition of ownership by the end of the contract term. Land is not depreciated.

The expected useful live 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
Others	3 - 15 years

Depreciation methods, useful lives and residual values are reviewed as at each reporting date and corrected if necessary. Rough estimates to certain property, plant and equipment were revised as at December 31, 2017 (see also *Note 13*).

(e) Intangible assets

(i) Intangible assets

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

(ii) Subsequent costs

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

(iii) Amortization

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

The estimated useful live 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 radio-telephone network	2 - 10 years
Software products	2 - 8 years
Others	3 - 25 years

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

(f) Leased assets

Lease contracts under which the Company assumes substantially all risks and benefits of the ownership are classified as finance leases. Upon initial acknowledgement the leased assets are accounted at the lower of fair value and the present value of the minimal lease payments. After the acknowledgement, the asset is accounted for in accordance with the accounting policy applicable to the respective asset.

Other than these leases are operating lease contracts and they are not acknowledged in the statement of financial position of the Company.

(g) Joint ventures

The Company determines the type of the joint venture, based on the rights and obligations provided for the Joint Activity Agreement.
The joint venture is a contractual agreement in line with which the Company and other independent parties undertake 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.
The Company reports its shareholding in the joint undertaking at cost.

(h) Impairment

(i) Non-derivative financial assets

The financial asset that is not accounted at fair value in profit and loss, is reviewed at each reporting date to determine whether there are objective evidences that it is impaired. The financial asset is impaired if there are objective evidences of impairment as a result of one or more events that occurred after the initial acknowledgement of the asset and this loss event has affected the estimated future cash flows of that asset, that can be estimated reliably.

The objective evidence that a financial asset is impaired includes default or delinquency by a debtor, restructuring of his obligation to the Company under conditions that the Company would not consider otherwise, indications that a debtor will become insolvent, unfavourable changes in the payment status of the debtor, economic conditions that lead to defaults. The Company considers 20% decrease as a significant fall, and the period of over 9 months is considered as continuous decline.

Financial assets accounted at their amortized cost

The Company takes into account evidence of impairment of financial assets accounted at their amortized cost (loans and receivables) for a particular asset. All individually significant assets are checked for specific impairment.

Impairment losses for a financial asset accounted at amortized cost is calculated as the difference between its book value and the present value of the expected future cash flows discounted at the original effective interest rate. An impairment loss is recognized in profit or loss and reflected to a corrective account that decreases trade and other receivables. When an event occurring after the recognition of impairment reduces the impairment loss, this reduction is reflected back through profits and losses.

(ii) Non-financial assets

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

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing 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, value of the money in time and the risk specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest possible group 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 is allocated so as to reduce the accounting amounts of assets 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.

(i) Inventories

Inventories include: fuels, operating and free of charge gas, property of the Company, 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 a "weighted average", 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. 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 company 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 is applied significant accounting policy 31 (d).

(j) Financial instruments

(i) Non-derivative financial assets

The Company initially acknowledges loans and receivables and deposits on the date on which they are incurred. All other financial assets are initially acknowledged on the trade date on which the

Company becomes party under the contract provisions of the instrument. The company writes off a financial asset when the contractual rights to the cash flows from the asset are repaid or the Company 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 Company is acknowledged as a separate asset or liability.

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

The Company has the following non-derivative financial assets: Trade and other receivables, cash and cash equivalents.

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 loans and receivables are measured at devaluated cost using the method of effective interest rate minus the impairment losses (see Note 31 (h).

Loans and receivables include cash and cash equivalents and trade and other receivables.

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 Company to manage short-term commitments.

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

(ii) Non-derivative financial liabilities

The Company has the following non-derivative financial liabilities: Trade and other liabilities. Such financial liabilities are initially acknowledged at fair value plus any directly connected to the transaction costs. After initial acknowledgement these financial liabilities are measured at amortized cost using the method of effective interest rate.

Financial liabilities are initially acknowledged on their transaction date on which the Company becomes party under the contract provisions of the instrument. The Company writes 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.

(iii) Share capital

Common shares

Common shares are classified as equity. Marginal costs directly related to the issuance of the common shares are acknowledged as a deduction from equity, net of any tax effects. The capital of the Company is presented at historical cost at the date of last registration.

(k) Leasing

(i) Payments under lease contracts

Payments made under operating leases are recognized in profit or loss on a straight-line method during the lease contract.

Minimum lease payments under financial lease are allocated among financial costs and reduction of the outstanding obligations. Financial costs are allocated to each period during the lease term so to achieve a constant periodic interest rate of the remaining part of the obligation.

(ii) Determining whether an Arrangement contains a Lease

Upon occurrence of agreement, the Company determines whether it is or it contains a lease. That is if the following two criteria are met:

- implementation of the agreement depends on the use of specific asset or assets; and
- agreement forwards the right to use the asset(s).

Upon occurrence or after a reassessment of the arrangement, the Company separates payments and other remunerations required under this Arrangement, to such a lease payments and those for other elements on the basis of their relative fair value. If the Company concludes that for a finance lease it is impossible to separate the payments reliably, the asset and liability are recognized in an amount equal to the fair value of the basic asset. After that the liability is reduced when the payments are made and it is recognized as imputed finance cost on the liability using the interest rate determined by the Company.

(l) Employee benefits

(i) Defined contributions plans

The defined contribution plan is a plan for post-employment benefits under which company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. 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 costs 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.

(ii) Defined benefit plans

The Company 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 the provisions of the Labor Code and the Collective Labor Agreement in Bulgartransgaz EAD upon termination of the employment contract of an employee of the Company, who acquired the right to pension, the Company pays a compensation of twelve gross wages in the event that the employee has acquired length of service in the Company 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 Company 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 24 to the 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 (Paragraph 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 it the market income of the government bonds should be used.

It is appropriate also as a discount rate to be used the future rate of return on assets of the Company. 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 method of projected credits units.

Company recognizes all actuarial profit and loss, arising from defined benefit plans to the account of the other comprehensive income.

(iii) Short-term employee 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 Company 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.

Company 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.

(m) Government grants

(i) ***National Investment Plan***

Decision C(2013) 8455 on "State aid SA 34385 (2013/N) allows Bulgaria to use derogation under article 10c, para.5 of Directive 2003/87/EC on the allocation of free of charge allowance of greenhouse gas emissions in line with Article 10c of Directive 2003/87/EC in exchange for investments in electricity generating installations and in energy infrastructure (National Investment Plan pursuant to Article 10c of the Directive for Emission Trading Scheme (ETS)).

The government support of the Company's projects included in the NIP of the R. Bulgaria shall be treated as grants from the state related to incomes in the form of transfer of non-monetary resource for use by the enterprise.

In 2016 Bulgartransgaz EAD in line with Section V – Account NIP of the Ordinance on organization and control of the NIP implementation, has submitted an Application for reimbursement of costs incurred for the implementation of the following projects:

- BG-$-0101 for the „Modernization of CS Ihtiman
- BG-$-0102 for the „Modernization of CS Petrich
- BG-$-0103 for the „Modernization of CS Lozenets
- BG-$-0104 or the „Modernization of CS Strandzha

Currently with Orders No Е-РД-16-600/09.12.2016, Е-РД-16-599/09.12.2016 and Е-РД-16-885/15.12.2017 of the Minister of Energy, Bulgartransgaz EAD have received reimbursement of costs from the National Investment Plan Account for CS Ihtiman to the amount of 12 791 636.51 BGN, CS Petrich to the amount of 12 791 629.63 BGN and CS Lozenets to the amount of 25 583 273,02 BGN, which is the full amount of the financial means provided for in the NIP, determined in line with the corrected investment value due to change in the reference value of greenhouse emissions under Ordinance РД-16-1101/23.08.2012 of the Minister of Economy and Energy.

Concerning CS Strandzha with Ordinance Е-РД-16-886/15.12.2017 of the Minister of Energy, the project costs have been partly reimbursed in the amount of BGN 22 240 703,06. The full amount of the financial means as set out in the NIP of BGN 30 699 925,12 is to be reimbursed.

(ii) Trading allowances for greenhouse gas emissions

Due to a lack of accounting standard or interpretation under IFRS that specifically deal with the accounting transactions related to emissions of greenhouse gases (CO2 emissions), the Company's management has developed accounting policies that are considered as most relevant and reliable to meet the needs of the users of financial information. Under the national plan for the allocation of quotas for trade in greenhouse gas emissions for the period 2013-2020, approved by the European Union's Commission, Bulgartransgaz EAD is entitled to a certain amount of allowances. Emissions provided are not reported as an asset, and upon sale, if any, the gross value of the sale of emissions is accounted.

Quotas for greenhouse gas emissions (CO2 emissions) received free from the state are not recognized in the statement of financial position and are subject to off-balance sheet monitoring. When the annual emissions exceed the available quota, the obligation for the excess is measured at the fair value of greenhouse gases to the end of the reporting period for which are due and provision is accrued. Total number of the quotas reached is determined by presenting a report verified by an independent, accredited verification body.

Further clarification regarding the granted free of charge quotas are set out in Note 29 Contingent liabilities.

(iv) 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 Company will meet the conditions connected with the funds, and then recognized in profit and loss as other income on a systematic basis for useful life of the asset. Grants that compensate the Company for expenses incurred are acknowledged in profit or loss on a systematic basis in the periods in which the costs arise.

(n) Foreign currency

(i) 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 devaluated cost in the functional currency in the beginning of the period, corrected with the effective interest and payments during the period, and the devaluated 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.

(o) Taxes

The annual income tax comprises current and deferred taxes. The income tax is recognized in profit and loss with the exception of this one that relates to business combinations or items that have been recognized directly in the equity or in 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 correction to outstanding taxes of previous years.

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

- temporary differences on initial recognition of assets and liabilities in a transaction that is not a business combination and that don not affect profit or loss, neither accounting nor taxable purposes;
- differences related to investments in subsidiaries and jointly controlled entities to the extent it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax is assessed using the 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 in force at the reporting date.

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

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

In determining the current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes or interest may be payable. The Company 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 judgments about future events. A new information may occur, that changes the Company's judgment about the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expenses in the period when such determination is made.

32. Application of new and revised IFRS

(A) New and Amended Standards and clarifications to IFRS which have entered into force as of January 1, 2017.

The following new standards, amendments and clarifications to IFRS developed and published by the International Accounting Standards Board (IASB) are mandatory to be applied as of January 1, 2017:

- IAS 7 Statement of Cash Flows (amended) effective from January 1, 2017, endorsed by the EU.

These amendments require additional disclosure to enable the users of financial statements to assess the changes in liabilities taken place as a result of the financial activity. The Company categorizes these changes, resulting from cash flows and non-cash changes with additional categories in line with the requirements of IAS 7.

- IAS 12 „Income Taxes" (amended) enforced on 1 January 2017, endorsed by the EU.

These amendments relate to the recognition of deferred fiscal assets for unused losses and clarify how to account deferred tax assets concerning debt instruments, measured at fair value.

The Company does not apply the above changes in the IFRS, since they have no impact on the Company's Financial Statements.

(b) Standards, amendments and clarifications, which have not yet become effective and are not applied as at an earlier date by the Company

As at the approval date of this financial statement new standards, amendments and clarifications 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 January 1, 2017 and have not been applied by the Company at an earlier date. Information on these standards and amendments which have effect on the financial statement of the Company is available below.

The management expects all standards and amendments to be approved in the company's accounting policy during the first period starting on or following the date of their coming into force. As at date of drafting this financial statement, the management of the company is analysing the expected effects from the amended standards.

- **IFRS 9 Financial Instruments in force from January 1, 2018, endorsed by the EU.**

The International Accounting Standards Committee (IASC) issued IFRS 9 Financial instruments and completed the process on the replacement of the IAS 39 Financial Instruments: Recognition and measurement. The new standard introduces significant changes in the financial assets' classification and measurement and a new expected credit loss impairment model. IFRS 9 also includes a new guidance for hedge accounting. The company's management is in process of evaluating the IFRS 9 effect on the financial statement and therefore no qualitative information can be provided. At this stage the following areas have expected effect:

- Classification and assessment of the company's financial assets shall be reviewed based on the new criteria concerning the contractual cash flows for the assets and the business model via which they have been managed; The Company holds most of the financial assets to collect the relevant cash flows and assesses the types of cash flows to correctly classify the financial assets.

Consequently to the analysis, the new requirements are not expect to have any impact on the classification and reporting of these financial assets mostly consisting of trade receivables.

- Depreciation on the basis of the expected loss shall be recognized regarding trade and other receivables of the Company, unless they are classified at fair value in the profit or loss in line with the new criteria. Concerning contractual assets generated when applying IFRS 15 and trade receivables the Company will apply a simplified model recognising the expected impairment losses, since these assets contain no financial component. As of the date of drafting this Financial Statement, the Company presently in process of finalizing its credit policy concerning the trade and other receivables. Preliminary analyses show that no material effect in the amount of the impairment of the trade and other receivables compared the currently applied approach is expected.

- **IFRS 15 Revenues from Contracts with Customers, effective from January 1, 2018, endorsed by the EU.**

IFRS 15 supersedes IAS 18 Revenue and IAS 11 Construction Contracts and the related clarifications and introduces a new revenue recognition model on the basis of control. The standard introduces a comprehensive complex of principles, rules and approaches to the recognition, reporting and disclosure of information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The underlying principle of the standard is the creation of a five-step model to be applied to revenues from contracts with customers, allowing the determination of parameters and timing of the revenue, proportionate to the obligations of each party to the transaction between them.

The introduction of this standard may result in the following changes:

a) in case of complex contracts with combined sales of goods and services – a clear distinction between the goods and services of each component and condition under the contract will be needed;

b) a possibility for a change in the time of recognising the sale;

c) increase in the disclosures; and

d) introduction of additional rules on the recognition of revenue from a certain type of contracts – licenses; consignments; one-off preliminary charges; guarantees.

The Company plans to adopt IFRS 15, using the modified retrospective enforcement for the annual periods, starting on or after 1 January 2018. As a result the Company/Group shall not enforce the requirements of IFRS 15 on the presentation of comparative period.

The management started to measure the effect of the application of this new standard and has reached the following assessment concerning the offered services:

The Company offers services mostly related to the access, transport, storage and balancing and transit of natural gas along its gas transmission system. In line with IFRS 15, revenues will be recognised when the Company discharges its obligation and satisfies the requirements of transferring the service to the customer. In addition revenues will be recognised for these contracts to the extent it is probable that no material deviation in the sum of cumulative revenue will take place. Based on the estimate, carried out by the Company, the timing and amount of revenues from the access and transport and balancing, which will be recognised are basically similar. A special analysis of the Contract for Transit transmission of natural gas through the territory of the Republic of Bulgaria to neighbouring countries - Turkey, Greece and Macedonia, valid by 2030 has been carried out. The analysis focuses on the obligations of Bulgartransgaz EAD, the timing of the implementation, the pricing of the agreed remuneration, calculated based on the nominated and actually transported natural gas quantities, the conditions for receiving the remuneration. The application of IFRS 15 concerning this contract may result in changes in the way of presenting the revenue from gas transit and the related receivables.

The requirements for the presentation and disclosure in IFRS 15 are more detailed compared to the current IFRS. The requirements for the presentation represent a material change compared to the current practice and considerably increase the scope of disclosures, required to be made in the Company's individual financial statement. Most of the requirements to the disclosures in IFRS 15 are new and the Company is still in a process of evaluating the effect from these requirements. In 2018 the Company continues the testing of the respective systems, internal controls, policies and procedures, required for the collection and disclosure of the required information.

- **IFRS 15 „Revenues from contracts with customers" (amended), effective as of 1 January 2018, endorsed by the EU.**

These amendments include instructions for the identification of obligations to be carried out, reporting of intellectual property licenses and assessment whether a principal or an agent is meant (gross or net representation of revenue).

- **IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (amended), the date of entry into force is not determined yet, not yet endorsed by the EU.**

These amendments result from the inconsistency between the requirements of IFRS 10 and IAS 28 when treating a sale or consideration in kind of assets between the investor and the associate or the joint venture. Consequently to these amendments a profit or loss is recognised in full amount, when the transaction include business regardless of whether the business is set apart in a subsidiary. Partial profit or loss is recognised, when the transaction includes assets, which do not represent business, even if these assets are property of the subsidiary.

- **IAS 28 „Investments in Associates and Joint Ventures (amended) – Long-term participations in associates and joint ventures, effective as of 1 January 2019, not yet endorsed by the EU**

The amendment clarifies that the companies must report long-term participations in associates and joint ventures to which the equity method is not applied in line with IFRS 9.

- **IFRS 14 Regulatory Deferral Accounts, effective from January 1, 2016 not yet endorsed by the EU.**

IFRS 14 permits entities which are first-time adopter of the IFRS to continue to recognize amounts related to rate regulation in accordance with their previous GAAP when they apply IFRS. To enhance the comparability of reporting with companies that already apply IFRS and do not recognize such amounts, the standard requires the effect of regulated prices to be presented separately.

- **IFRIC 22 Foreign Currency Transactions and Advance Consideration, effective from January 1, 2018 not yet endorsed by the EU.**

The interpretation clarifies the accounting for receipt of advance consideration or payments respectively of non-monetary assets or non-monetary liability before the company recognises the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

New standards, amendments and clarifications which have not been endorsed, presented below have no (significant) effect on the financial statement of the company.

As at the approval date of this financial statement new standards, amendments and clarifications 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 January 1, 2017 and have not been applied by the Company at an earlier date. They are not expected to have effect on the company's financial statements. The amendments relate to the following standards:

- МСФО 2 „Share-based Payment" (amended) in force on 1 January 2018, not yet endorsed by the EU.
- IFRS 4 Insurance Contracts (amended) effective from January 1, 2018, not yet endorsed by the EU.
- IFRS 9 Financial Instruments (amended) – hedge reporting, effective from January 1, 2018, endorsed by the EU.
- IFRS 9 „Financial Instruments" (amended) – Prepayments with negative compensation, effective as of 1 January 2019, not yet endorsed by the EU.
- IFRS 16 „Leases" effective as of 1 January 2019, not yet endorsed by the EU.
- IFRS 17 „Insurance Contracts" effective as of 1 January 2021, not yet endorsed by the EU.
- МСС 40 "Investment Property" (amended) – Transfer of investment property, effective as of 1 January 2018, not yet endorsed by the EU.
- International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 23 "Income tax reporting uncertainty", effective as of 1 January 2019, not yet endorsed by the EU.
- Annual IFRS amendments by improvements 2014 - 2016.