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## INDEPENDENT AUDITOR'S REPORT

To the sole owner of  
**Buulgartransgaz EAD**  
 1343, Sofia, 66 Pancho Vladigerov bld.

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of **Buulgartransgaz EAD** (the Company), which comprise the statement of financial position as at 31 December 2018 and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU and Bulgarian legislation.

#### Basis for Opinion

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

#### Key Audit Matters

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

#### Fair value evaluation of Property, plant and equipment

Note 13 Property, plant and equipment, Note 30 Fair value estimation and Note 33 Significant accounting policies to the financial statements

Key audit matter	How this matter was addressed during the audit
The Company applies the revaluation model for subsequent evaluation for the asset class Property, plant and equipment. 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 estimated based on market evidences presented in a report, prepared by an independent certified appraiser. The revaluation of property, plant and equipment is carried out every three years.	During our audit, our audit procedures included, but were not limited to: <ul style="list-style-type: none"> <li>- An overview of the Company's accounting policy regarding the subsequent evaluation of property, plant and equipment as well as overall assessment for IFRS compliance;</li> <li>- An overview of the estimated useful life of the non-current assets and analysis of the relevance of its estimation;</li> <li>- Based on our knowledge and experience of the energy sector, we evaluated of the methodology applied as</li> </ul>

<p>As at the date of the financial statement the fair value of property, plant and equipment amount to BGN 2 099 679 thousand, which represents 76% of the value of the Company's assets. In 2018 the revaluation reserve of the Company, which as at 31 December 2018 amounts to BGN 1 116 684 thousand, has increased with BGN 365 253 thousand as a result of the revaluation carried out during the period.</p> <p>The revaluation of property, plant and equipment at fair value is a complex process of calculation of estimates, when using multiple assumptions and applying specific methods and models.</p> <p>Due to the specific nature of the plant and equipment, as well as the lack of similar market comparables, the appraiser has used the depreciated replacement cost, which is part of the cost approach. The valuation is influenced by assumptions such as recoverable amount, physical, functional and economic conditions of the plant and equipment themselves as well as their residual useful life.</p> <p>Therefore, those valuations are influenced by inherent uncertainty resulted from various forecasts and assumptions with a certain degree of subjectivity. Due to the specifics of the valuation process, type of the assets as well as significant application of level 3 fair value hierarchy, as well materiality of the asset group, we have identified that issue as a key audit matter.</p>	<p>well as key assumptions used by the appraiser while determining the market value of the assets;</p> <ul style="list-style-type: none"> <li>- Testing of selected inputs, on which the valuation of property, plant and equipment is based on, according to the appropriate supporting documentation to assess their accuracy, reliability and completeness;</li> <li>- A research of the economic conditions affecting the environment in which the Company operates, as well as business plans and strategies, which may affect the risks of material misstatements, in relation to the usage of available assets;</li> <li>- Evaluation of the professional qualification, competence and experience of the external certified appraiser for the purposes of his valuation of Company's non-financial assets;</li> <li>- On a sample basis, performing impairment tests based on our knowledge of the Company's nature and activities including specific features of its assets taking into account external and internal impairment indicators;</li> <li>- Meetings and discussions with the independent appraiser, who carried out the valuation. We obtained understanding on the overall approach used by the valuer and its relevance in the context of the Company's business process, the sources of information and the key factors, which influenced the opinion and the valuation of the appraiser;</li> <li>- Reconciliation of the results as per the valuation report with the accounting registers and financial statement items affecting the valuation;</li> <li>- Assessment of the adequacy of the disclosures in the financial statement.</li> </ul>
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#### **Information Other than the Financial Statements and Auditor's Report Thereon**

Management is responsible for the other information. The other information comprises the annual management report, prepared in accordance with Bulgarian Accountancy Act, but does not include the financial statements and our auditor's report thereon.

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

We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

### **Report on Other Legal and Regulatory Requirements**

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

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

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

- (a) the information in the management report is consistent with the financial statements for the same reporting period;
- (b) the management report is prepared in accordance with the applicable legal requirements;
- (c) as a result of the acquired knowledge and understanding of the activities of the Company and the environment in which it operates, we have found no cases of material misrepresentation in the management report;
- (d) the non-financial declaration is prepared and made available in accordance with the requirements of Bulgarian Accountancy Act.

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

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

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

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

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

- Grant Thornton OOD was appointed as statutory auditor of the financial statements of Bulgartransgaz EAD for the year ended on 31 December 2018 by the general meeting of Supervisory Board, held on 17.05.2018, for a period of one year.
- The audit of the financial statements of the Company for the year ended on 31 December 2018 has been made for fourth consecutive year.
- In support of our audit opinion, we have provided a description of the most significant assessed risks of material misstatement, a summary of the auditor's response and where relevant, key observations arising with respect to those risks in the section „Key audit matters“ of this report.
- We confirm that our audit opinion is consistent with the additional report to the audit committee, which was provided in accordance with Article 60 of Bulgarian Independent Financial Audit Act.
- We declare that prohibited non-audit services referred to in Article 64 of Bulgarian Independent Financial Audit Act were not provided.
- We confirm that we remained independent of the Company in conducting the audit.
- For the period for which we were engaged as statutory auditors, we have not provided any other services to the Company in addition to the statutory audit not being disclosed either in Company's annual activity or the financial statements.

Mariy Apostolev  
Managing partner  
Registered auditor responsible for the audit

Grant Thornton Ltd.  
Audit firm

29 March 2019  
Bulgaria, Sofia, 26, Cherni Vrah Blvd.

