
Air Traffic Services Authority

Financial Statements

For the year ended 31 December 2006

With Independent Auditors' Report Thereon



INDEPENDENT AUDITOR'S REPORT

**To the sole owner of
Air Traffic Service Authority**

Report on the Financial Statements

We have audited the accompanying financial statements of Air Traffic Service Authority (the Company), which comprise the balance sheet as at December 31, 2006, the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS), approved by the EU Commission in the edition as of January 1, 2005 and adopted in Bulgaria with a decree of the Council of Ministers № 207/07.08.2006. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Air Traffic Service Authority as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), approved by the EU Commission in the edition as of January 1, 2005 and adopted in Bulgaria with a decree of the Council of Ministers № 207/07.08.2006.

Gilbert McCaul
Partner

Krassimir Hadjidinev
Registered auditor

Sofia, 28 March 2007

KPMG Bulgaria OOD
37 Fridtjof Nansen Str.
1142 Sofia
Bulgaria

Income Statement

For the year ended 31 December 2006

<i>In thousands of BGN</i>	Notes	2006	2005
Revenue from sale of services	1	144,161	151,653
Other operating income		<u>1,339</u>	<u>518</u>
		145,500	152,171
Cost of materials	2a	(4,819)	(4,778)
Hired services	2b	(19,196)	(21,830)
Depreciation and amortization	8,9	(25,949)	(23,337)
Personnel expenses	3	(79,492)	(82,632)
Impairment losses	4	(110)	(31)
Other operating expenses	5	<u>(5,194)</u>	<u>(6,983)</u>
		(134,760)	(139,591)
Profit from operations		<u><u>10,740</u></u>	<u><u>12,580</u></u>
Net financial income	6	<u>4,855</u>	<u>1,076</u>
Profit before tax		<u><u>15,595</u></u>	<u><u>13,656</u></u>
Income tax	7	<u>238</u>	<u>(889)</u>
Net profit for the year		<u><u>15,833</u></u>	<u><u>12,767</u></u>

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages from 5 to 24.

Date: 14 March 2007

Emanuil Radev
General Director

Krasiyan Tinchev
Chief Accountant

Gilbert McCaul
Partner
 KPMG Bulgaria OOD

Krassimir Hadjidinev
Registered Auditor

Balance Sheet

For the year ended 31 December 2006

<i>In thousands of BGN</i>	Note	2006	2005
Assets			
Property, plant and equipment	8	257,024	266,960
Intangible assets	9	19,287	13,414
Deferred tax assets	10	844	1,142
Total non-current assets		<u>277,155</u>	<u>281,516</u>
Inventories	11	3,780	3,685
Trade and other receivables	12	31,063	34,847
Cash and cash equivalents	14	171,757	160,407
Total current assets		<u>206,600</u>	<u>198,939</u>
Total assets		<u><u>483,755</u></u>	<u><u>480,455</u></u>
Equity			
Registered capital	15	129,758	129,758
Reserves		282,602	267,648
Retained earnings		15,833	14,954
Total capital and reserves		<u>428,193</u>	<u>412,360</u>
Liabilities			
Interest-bearing loans and borrowings	16	-	7,334
Provisions for retirement benefits	18	4,740	6,791
Deferred income from financing		14	14
Deferred tax liabilities	10	2,438	2,974
Total non-current liabilities		<u>7,192</u>	<u>17,113</u>
Interest bearing loans and borrowings	16	7,422	15,343
Provisions for retirement benefits	18	4,076	6,876
Trade and other payables	17	36,872	28,733
Deferred income from financing		-	30
Total current liabilities		<u>48,370</u>	<u>50,982</u>
Total capital and liabilities		<u><u>483,755</u></u>	<u><u>480,455</u></u>

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages from 5 to 24.

Emanuil Radev
General Director

Krasiyan Tinchev
Chief Accountant

Gilbert McCaul
Partner
KPMG Bulgaria OOD

Krassimir Hadjidinev
Registered auditor

Statement of changes in equity

For the year ended 31 December 2006

<i>In thousands of BGN</i>	Registered capital	Special reserves	Reserves	Retained Earnings	Total
Balance at 1 January 2005	129,758	19,697	236,337	14,403	400,195
Profit for the year	-	-	-	12,767	12,767
Allocation of profit for 2004	-	1,262	11,356	(12,618)	-
Allocation of profit for 2004 adjusted with grants presented in the income statement according to IFRS	-	-	(402)	402	-
Assets disposed through reserves	-	-	(602)	-	(602)
Balance at 31 December 2005	129,758	20,959	246,689	14,954	412,360
Balance at 1 January 2006	129,758	20,959	246,689	14,954	412,360
Profit for the year	-	-	-	15,833	15,833
Allocation of profit for 2005	-	2,049	12,905	(14,954)	-
Assets disposed through reserves	-	-	-	-	-
Balance at 31 December 2006	129,758	23,008	259,594	15,833	428,193

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages from 5 to 24.

Emanuil Radev
General Director

Krasiyan Tinchev
Chief Accountant

Gilbert McCaul
Partner
 KPMG Bulgaria OOD

Krassimir Hadjidinev
Registered auditor

Statement of cashflows

For the year ended 31 December 2006

<i>In thousands of BGN</i>	Note	2006	2005
Operating activities			
Net profit before taxation		15,595	13,656
Adjustments for:			
Depreciation and amortization	8,9	25,949	23,337
Impairment losses charged/(reversed)		110	31
Provisions for retirement benefits to employees		1,360	8,745
Net interest (income)/expense		(4,652)	(2,799)
Unrealised foreign exchange gains and losses		(308)	1,417
(Profit)/Loss on disposal of fixed assets		40	79
Operating profit before working capital changes and provisions		<u>38,094</u>	<u>44,466</u>
(Increase)/decrease in debtors		1,870	2,624
(Increase)/decrease in inventory		(69)	376
Increase/(decrease) in creditors		<u>(4,429)</u>	<u>(866)</u>
Cash generated from operations		<u>35,466</u>	<u>46,600</u>
Income taxes paid		<u>(362)</u>	<u>(551)</u>
Net cash from operating activities		<u>35,104</u>	<u>46,049</u>
Investing activities			
Interest received		4,401	3,705
Payments to acquire property, plant and equipment		(11,988)	(10,984)
Payments to acquire intangible assets		<u>(559)</u>	<u>(320)</u>
Cash flows from investing activities		<u>(8,146)</u>	<u>(7,599)</u>
Financing activities			
Loans repaid		(14,625)	(14,511)
Interest paid		<u>(983)</u>	<u>(1,804)</u>
Cash flows from financing activities		<u>(15,608)</u>	<u>(16,315)</u>
Net increase/(decrease) in cash and cash equivalents		11,350	22,135
Cash and cash equivalents at beginning of period	14	<u>138,893</u>	<u>116,758</u>
Cash and cash equivalents at end of period	14	<u>150,243</u>	<u>138,893</u>

The Statement of cash flows is prepared under the indirect method and is to be read in conjunction with the notes to and forming part of the financial statements set out on pages from 5 to 24.

Emanuil Radev
General Director

Krasiyan Tinchev
Chief Accountant

Gilbert McCaul
Partner
 KPMG Bulgaria OOD

Krassimir Hadjidinev
Registered auditor

Significant Accounting Policies

Legal Status

Air Traffic Services Authority (ATSA, the “Company”) is a company domiciled in Bulgaria. On 1 January 2001 the Company was registered as a state owned enterprise. Prior to that it operated as an agency of the Ministry of Transport and Communications in Bulgaria. The Company is wholly owned by the State. The Minister of Transport and Communications (MTC) exercises the rights of the sole owner.

The Company performs the activities of providing air navigation services in the civil airspace of the Republic of Bulgaria. Its main activities include: granting of authority for flights over the territory of Bulgaria; air traffic management; providing communication, navigation, surveillance, aeronautical, information and meteorological services.

The activities of the Company are governed by the Civil Aviation Act and Regulations of the Function, Organization and Activity of Air Traffic Services Authority.

(a) Statement of compliance

The accompanying financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) adopted by the EU Commission in the edition as of January 1, 2005. These standards have been adopted in Bulgaria with a decree of the Council of Ministers № 207/07.08.2006 and promulgated in the State Gazette, issue 66/2006 of 15.08.2006.

These are the Company’s first financial statements, prepared in accordance with IFRS adopted in Bulgaria, and IFRS 1 “First time adoption of International Financial Reporting Standards” has been applied.

The Management of the Company has performed an analysis and has not identified material differences in the carrying amount of the assets and liabilities, as well as in amounts presented in the Income Statement as they were reported in the financial statements prepared under IAS effective in 2002, and as they would be reported under IFRS as adopted by the EU Commission as at 1 January 2005 and adopted in Bulgaria with Decree №207/7.08.2006 of the Council of Ministers. A list of the applicable Standards is presented in Note 24.

IAS 8 “Accounting policies, changes in accounting estimates and errors” requires the Company to disclose the fact that it has not applied new standards and interpretations to published International Financial Reporting Standards that are not yet effective, as well as information about the possible effect from application of the respective standards and interpretations in the period of the first time application. The Company has disclosed the effects from application of published IFRS that are not effective as at the balance sheet date but may have an effect on the Company’s activities (see note 24).

(b) Basis of preparation

All amounts are presented in thousands of Bulgarian leva (BGN). The financial statements are prepared on the historic cost basis except for certain classes of financial instruments and other assets and liabilities.

(c) Changes in accounting policy and corrections of errors

The accounting policies have been consistently applied by the company and are consistent with those used in the previous year.

Significant Accounting Policies

(d) Comparative information

When the presentation or classification of items in the financial statements was amended, comparative numbers have also been reclassified, to ensure comparability with the current period.

(e) Foreign currency

Transactions in foreign currencies are translated to BGN at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to BGN at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies are stated at fair value and are translated to BGN at foreign exchange rates ruling at the dates the values were determined.

(f) Property, plant and equipment

(i) Owned assets

Property, plant and equipment (PPE) are measured at their deemed cost less accumulated depreciation and impairment losses (ref. accounting policy (k)).

Effective from 2002, the Bulgarian accounting legislation has been changed to harmonise with International Financial Reporting Standards. According to an interpretation from the Bulgarian Ministry of Finance and the Bulgarian Institute of Certified Chartered Accountants companies were provided with the opportunity to perform a one off valuation of fixed assets as at 1 January 2002 or as at 1 January 2003 at fair value and use that fair value as deemed cost at the respective date in order to eliminate the accumulated effects of the statutory revaluations using specific price indexes and the hyperinflation on the carrying value of the fixed assets.

The Company used independent valuers to make a fair valuation of tangible fixed assets at 1 January 2003. The resulting deemed cost under the statutory reporting framework is broadly comparable to the depreciated cost of the property, plant and equipment under IFRS at that date adjusted to reflect the hyper-inflationary effects. The Company therefore adjusted the carrying value of the tangible non-current assets at 1 January 2003 in its IFRS financial statements to bring them to their fair value in the statutory accounts at that date. With effect from 1 January 2003 management of the Company has set a materiality limit of BGN 150 for capitalisation of tangible fixed assets. All assets with a cost below BGN 150 are directly expensed in the Income statement for the period. The effects of any reclassifications or adjustments are disclosed in the notes to the financial statements.

(ii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

Significant Accounting Policies

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment, and major components that are accounted for separately. Land is not depreciated. Depreciation accruals are being made starting from the month subsequent to the respective asset's introduction. The estimated useful lives are as follows:

§	buildings	up to 40 years
§	plant and equipment	7-15 years
§	automobiles	7 years
§	other vehicles	7-10 years
§	fixtures and fittings	15 years
§	computer equipment	5 years
§	other	7 years

(g) Intangible assets

(i) Software and other intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses (refer accounting policy (k)). As at the balance sheet date, no impairment has been charged, as the recoverable amount estimated is higher than the carrying value of the intangible assets.

With effect from 1 January 2003 management of the Company has set a materiality limit of BGN 150 for capitalisation of intangible assets. All assets with a cost below BGN 150 are directly expensed in the Income statement for the period.

(ii) Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(iii) Amortization

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

§	software	5 years
§	rights	7 years

(h) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses (see accounting policy (k)).

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. The net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Significant Accounting Policies

(i) Inventories - continued

Inventories are expensed based on their weighted average cost method. Their cost includes cost of acquisition and cost of bringing them to their present location and condition.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits.

(k) Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there are any indications of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(l) Interest-bearing loans and borrowings

Interest-bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis.

(m) Provision for retirement compensation to employees

In accordance with the requirements of the Labour Code and Collective Labour Contract on termination of the labour contract of an employee entitled to retirement, the Company is obliged to pay certain compensation based on the gross monthly salary. The Company has performed an estimate of the payables for retirement compensations. The calculation of the accrual for retirement benefits in accordance with the Collective Labour Contract encompasses the period from January 2007 to May 2008 inclusively. The accrual for retirement benefits is calculated based on the Labour Code requirements for the period June 2008 – December 2011, inclusively.

In accordance with IAS 19 "Employee benefits", the Company has accrued in these financial statements a liability for retirement benefits to employees based on its best estimate. The estimate of the accrual is disclosed in notes 18 and 18a.

(n) Revenue

(i) Services rendered

Revenue is recognised in the income statement according to the stage of completion of the services rendered at the balance sheet date. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or the associated costs.

Revenue from sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Significant Accounting Policies

(ii) Deferred income

Financing for fixed assets is recognized in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Company will comply with the conditions relating to it. Revenue from financing for fixed assets is recognized in the income statement on a systematic basis over the useful life of the relevant assets.

(o) Expenses

Operating expenses

Expenses associated with the rendering of services are recognized at the completion of the service, and in the same period in which the related revenue is recognized.

Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, foreign exchange gains and losses and other bank charges and fees recognised in the income statement.

(p) Income tax

Income tax for the year comprises current and deferred tax. The income tax is recognised in the Income statement, unless it relates to transactions affecting the equity, in which case the tax is recognised in the Company's equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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Notes to the financial statements

1. Revenues

<i>In thousands of BGN</i>	2006	2005
Revenue from air navigation services	144,161	151,653
Other income (rent, interest and income from other services rendered)	1,339	518
	<u>145,500</u>	<u>152,171</u>

Other income includes legal interest amounting to BGN'000 956 adjudged with decision of High Administrative Court № 6007 dated 6 June 2006, which partially abolishes tax assessment act № 317/13.12.2002, income from services rendered to Eurocontrol amounting to BGN'000 120, re-charged utility bills for water, electricity and other amounting to BGN'00 50.

2a. Cost of materials

<i>In thousands of BGN</i>	2006	2005
Spare parts	1,662	1,616
Electric energy	1,491	1,390
Heat energy	551	493
Fuel and oil materials	326	308
Consumables	293	303
Low cost items	222	415
Stationery	117	135
Safeguard apparel and equipment	95	57
Water	62	61
	<u>4,819</u>	<u>4,778</u>

2b. Hired services

<i>In thousands of BGN</i>	2006	2005
Eurocontrol membership and administrative charges	9,018	9,919
Maintenance of equipment	754	1,613
Communication expenses	1,966	2,144
Insurance expenses	1,886	1,925
Security	601	589
Transport services	99	92
Maintenance of premises	511	776
License fees	2,668	3,150
Consultant services and audit fees	274	173
Soaring	559	410
Other	860	1,039
	<u>19,196</u>	<u>21,830</u>

3. Personnel expenses

<i>In thousands of BGN</i>	2006	2005
Salaries and remuneration	64,211	59,057
Social security contributions	6,531	7,746
Social benefits	7,415	7,290
Provisions for retirement benefits	1,335	8,539
	<u>79,492</u>	<u>82,632</u>

Notes to the financial statements

4. Allowances for impairment losses

<i>In thousands of BGN</i>	2006	2005
Impairment of receivables	(1,417)	(833)
Collection of receivables written off in previous periods	39	234
Reversal of impairment	1,422	568
Impairment of accumulated expenses for assets under construction	(154)	-
	<u>(110)</u>	<u>(31)</u>

5. Other operating expenses

<i>In thousands of BGN</i>	2006	2005
Tax on social benefits	1,868	2,177
Business trips and training costs	1,129	1,551
One off taxes, property taxes, other tax costs	1,432	1,626
Other expenses (waste, gifts, court fees)	765	1,629
	<u>5,194</u>	<u>6,983</u>

6. Net finance income

<i>In thousands of BGN</i>	2006	2005
Interest income	5,650	4,308
Interest expenses	(675)	(1,509)
Net foreign exchange gain/ (loss)	291	(1,387)
Other finance (expense)/income (net)	(411)	(336)
	<u>4,855</u>	<u>1,076</u>

7. Income tax expense

<i>In thousands of BGN</i>	2006	2005
<i>Current tax expense recognized in the Income Statement</i>		
Corporate tax – continuing operation	-	515
	<u>-</u>	<u>515</u>
<i>Change in deferred tax recognised in the Income Statement</i>		
Origination and reversal of temporary tax differences	(238)	374
	<u>(238)</u>	<u>374</u>
	<u>(238)</u>	<u>889</u>

Notes to the financial statements

7a. Reconciliation of effective tax rate
In thousands of BGN

	2006		2005	
	%	BGN'000	%	BGN'000
Profit before tax		15,595		13,656
Corporate tax, based on the legal tax rate	15%	2,339	15%	2,048
Unrecognized tax losses	0%	(58)	0%	(39)
Origination and reversal of temporary tax differences	(15)%	(2,281)	(5%)	(722)
Tax allowance	-	-	(6%)	(772)
Change in unrecognized temporary tax differences	4%	561	3%	374
Effects from change of the tax rates	(5%)	(799)	-	-
Total tax expenses	(1%)	(238)	7%	889

7b. Current tax rates

According to the Corporate Income Tax Act (CITA, art.61b), the Company is entitled to a tax allowance in the amount of 60% of the corporate tax on profit provided that it reinvests the corporate tax, that it would otherwise have to pay, for programs for integration and harmonization of the national systems for air traffic management to the relevant standards of other European countries or uses the tax allowance for maintenance of the reserve required by the Civil Aviation Act.

The current tax rate is 15%. The current tax expense for 2006 represents 40% of the general profit tax rate for 2006, as regulated by CITA. There is no change in the current tax rate as compared to 2005.

8. Property, plant and equipment

<i>In thousands of BGN</i>	Lands and buildings	Property, plant and equipment	Vehicles	Fittings and hardware	Tangible assets under construction	Total
Cost						
Balance at 1 January 2006	130,278	160,724	2,013	2,621	20,330	315,966
Additions	71	2,264	-	58	9,532	11,925
Transfers	11,398	5,884	-	975	(18,257)	-
Disposed	(35)	(114)	(2)	-	(25)	(176)
Balance at 31 December 2006	141,712	168,758	2,011	3,654	11,580	327,715
Depreciation and impairment losses						
Balance at 1 January 2006	8,412	39,008	737	849	-	49,006
Depreciation charge for the year	3,184	17,946	248	264	-	21,642
Impairment losses	-	-	-	-	154	154
Disposals	(3)	(106)	(2)	-	-	(111)
Balance at 31 December 2006	11,593	56,848	983	1,113	154	70,691
Carrying amount						
At 1 January 2006	121,866	121,716	1,276	1,772	20,330	266,960
At 31 December 2006	130,119	111,910	1,028	2,541	11,426	257,024

Notes to the financial statements

8. Property, plant and equipment - continued

Allowances for impairment losses

- The company fully impaired accumulated expenses for assets under construction amounting to BGN'000 154.

Tangible assets under construction

The major assets under construction as at 31 December 2006 are as follows:

- Track systems "LOT B2 Sofia Airport" (BGN'000 10,628)
- Radar message converting and distributing equipment for ATSA located in Varna (BGN'000 406)

Major assets put into operation during the year

- Training and rehabilitation centre "St Konstantin and St Elena" (BGN'000 13,749)
- Consolidation of Iskur river banks (BGN'000 2,779)
- Automated Weather Observation systems (BGN'000 766)

Property, plant and equipment not in exploitation as at balance sheet date

There are assets which are not in operation as at 31 December 2006. The carrying amount of these assets amounts to BGN'000 273.

The Company keeps in its fixed assets ledger buildings not yet in use with cost of BGN'000 1,255. The company does not depreciate these buildings.

The company intends to start operating the assets in the forthcoming financial period.

9. Intangible assets

<i>In thousands of BGN</i>	Software	Rights	Intangible assets under construction	Total
Cost				
Balance at 1 January 2006	13,325	11,851	223	25,399
Additions	493	-	9,687	10,180
Transfers	372	-	(372)	-
Disposed	(1,024)	-	-	(1,024)
Balance at 31 December 2006	<u>13,166</u>	<u>11,851</u>	<u>9,538</u>	<u>34,555</u>
Depreciation and impairment losses				
Balance at 1 January 2006	3,097	8,888	-	11,985
Depreciation charge for the year	2,864	1,443	-	4,307
Disposals	(1,024)	-	-	(1,024)
Balance at 31 December 2006	<u>4,937</u>	<u>10,331</u>	<u>-</u>	<u>15,268</u>
Carrying amount				
At 1 January 2006	<u>10,228</u>	<u>2,963</u>	<u>223</u>	<u>13,414</u>
At 31 December 2006	<u>8,229</u>	<u>1,520</u>	<u>9,538</u>	<u>19,287</u>

Rights comprise the right to use parts of a recreation facility "Kopitoto" for a limited period of time. These rights are being amortized according to their respective validity term, as disclosed in accounting policies (g).

The intangible assets under construction comprise accumulated expenses related to the development of Air traffic services centre, Phase 3, versions V1 and V2 for the automated system for air traffic control – SATCAS (BGN'000 9,538).

Notes to the financial statements

10. Deferred tax assets and liabilities

<i>In thousands of BGN</i>	31 Dec 2006		31 Dec 2005		2006	2005
	Assets	Liabilities	Assets	Liabilities	Net	Net
Property, plant and equipment	-	2,438	-	2,974	2,438	2,974
Impairment of property, plant and equipment	(6)	-	-	-	(6)	-
Provision for unpaid leave	(190)	-	(251)	-	(190)	(251)
Social securities payable	(53)	-	(71)	-	(53)	(71)
Impairment of receivables	(242)	-	-	-	(242)	-
Provisions for retirement benefits	(353)	-	(820)	-	(353)	(820)
Deferred tax (assets)/liabilities	(844)	2,438	(1,142)	2,974	1,594	1,832

Movement in temporary differences during the year

<i>In thousands of BGN</i>	Balance as at 1 January 2006	Recognised in the income statement	Balance as at 31 December 2006
Property, plant and equipment	2,974	(536)	2,438
Impairment of property, plant and equipment	-	(6)	(6)
Provision for unpaid leave	(251)	61	(190)
Social securities payable	(71)	18	(53)
Impairment of receivables	-	(242)	(242)
Provisions for retirement benefits	(820)	467	(353)
Deferred tax (assets)/liabilities	1,832	(238)	1,594

Deferred tax for 2006 is calculated based on the effective tax rate, applied by the Company, equal to 4% (40% from statutory tax rate set for all companies for 2007, i.e. 10%), (2005: effective tax rate 6%).

11. Inventories

<i>In thousands of BGN</i>	2006	2005
Materials and spare parts	3,746	3,654
Goods	34	31
	<u>3,780</u>	<u>3,685</u>

A physical stock take was carried out as at year end. No shortages have been identified.

Notes to the financial statements

12. Trade and other receivables

<i>In thousands of BGN</i>	2006	2005
Trade receivables	28,324	42,786
Impairment	(6,053)	(21,577)
Receivables from litigation and claims	13,768	13,836
Impairment on receivables from litigation and claims	(13,750)	(13,750)
Contracted advances to suppliers	1,335	4,995
Court receivables on tax assessment act	-	2,493
Deferred expenses	2,631	2,403
Corporate tax receivable	1,460	1,098
Interests on deposits, guarantees and other	3,788	3,003
Impairment	(440)	(440)
	31,063	34,847

99.8% of trade receivables are the receivables from fees for air navigation services. The largest receivables from litigation and claims are as follows: from Balkan Airlines at the amount of BGN 13,750 thousand, which is fully impaired. The High Administrative Court with decision issued on 6 June 2006 ruled out partial abolishment of tax assessment act of principal of BGN'000 2,461 and due interest amounting to BGN'000 242. Enacted by the court and due by ATSA remain principal of BGN'000 317 and interest of BGN'000 31. The company has received interest in the amount of BGN'000 956 for the period from the payment of the amounts to the tax authorities until the moment of the refund of the amounts.

13. Impairment

<i>In thousands of BGN</i>	2006	2005
Balance at 1 January 2006	35,767	38,921
Accrued	1,571	833
Reversed	(1,422)	(568)
Written off	(15,517)	(5,347)
Net foreign exchange gain/(loss)	(2)	1,928
Balance at 31 December 2006	20,397	35,767

14. Cash and cash equivalents

<i>In thousands of BGN</i>	2006	2005
Petty cash	31	28
Cash in banks	61,849	41,825
Deposits	109,877	118,192
	171,757	160,045
Letters of credit	-	362
Total cash and cash equivalents	171,757	160,407
<i>Deposits with the Bulgarian National Bank</i>	(21,514)	(21,514)
Cash and cash equivalents in the statement of cash flow	150,243	138,893

Notes to the financial statements

14. Cash and cash equivalents - continued

Deposits include BGN 21,514 thousand, which is the BGN equivalent of Euro 11 million and represents a term deposit with the Bulgarian National Bank (BNB) in compliance with the Regulation № 140 of the Ministry of Transport and Communications and the Ministry of Finance dated 4 December 2001 for regulation of maintenance and utilization of ATSA cash reserve. The deposit is not included in “Cash in cash equivalents “ for the purposes of preparation of the Statement of cash flow.

The fixed term 12 month deposits are denominated in euro. Interest charge varies from 4,75% to 5,10%.

15. Capital and reserves

Registered capital

The Company’s registered capital amounts to BGN 129,758 thousand and is 100% owned by the State.

Special reserves

The special reserves include a tax allowance on profits under the CITA provided that the Company complies with certain conditions. The Company forms a specific reserve equivalent to this allowance amounting to 60% of the corporate income tax payable. The total amount of the reserve accumulated from tax allowances for the period 2001-2005 is BGN 16,662 thousand.

The special reserves also include a statutory reserve amounting to 10% of the net profits for the years 2001, 2002, 2003, 2004 and 2005 in compliance with Regulation No 140 dated 4 December 2001 of the Ministry of Transport and Communications and the Ministry of Finance of Bulgaria for cash reserve maintenance and utilization. The total amount of reserves accumulated as 10% of the net profit for the period 2001-2005 is BGN 6,346 thousand. The total amount of special reserves is BGN 23,008 thousand.

16. Interest-bearing loans

This note provides information about the contractual terms of the Company’s interest-bearing loans and borrowings. For more information about the Company’s exposure to interest rate and currency risk, refer to note 19 Financial instruments.

The Company signed loan agreements with the Bulgarian government, represented by the Ministry of Transport and Communications and the Ministry of Finance (borrowers), and the European Investment Bank (lender), stating the Company as the end beneficiary. The lender and the beneficiary together undertake a project for development of the Bulgarian Air Traffic Service system.

<i>In thousands of BGN</i>	2006	2005
Long-term interest-bearing loans	-	7,334
Short-term interest-bearing loans	7,422	15,343
	<u>7,422</u>	<u>22,677</u>

Notes to the financial statements

16. Interest-bearing loans - continued

Terms and repayment schedules

	up to 1 year	1-2 years	2-3 years	Total
<i>In thousands of BGN</i>				
EUR – fixed rate 4.17%	2,470	-	-	2,470
EUR – fixed rate 4.82%	2,474	-	-	2,474
EUR – fixed rate 5.33%	2,478	-	-	2,478
	7,422	-	-	7,422

The current interest-bearing loans and borrowings from European Investment Bank amount to BGN 7,422 thousand and include BGN 7,334 thousand principal and BGN 88 thousand interest as at 31 December 2006.

17. Trade and other payables

<i>In thousands of BGN</i>	2006	2005
Trade payables	20,819	14,776
Payables to employees	10,845	9,622
Payables to the budget	1,958	1,870
Social security payable	2,116	1,912
Guarantees	141	66
Other (insurances, salary deductions, other)	993	487
	36,872	28,733

Trade payables balances include: payables to “Allenia Marconi Systems” (Selex S.I) (BGN’000 16,241) related to the construction of the automated system for air navigation; “Sofia Airport” (BGN’000 849) related to the “Reconstruction, development and extension of Sofia Airport – Lot B2” project. All due liabilities are settled in compliance with contracted terms and conditions.

18. Liabilities for retirement compensations

<i>In thousands of BGN</i>	2006	2005
Opening balances for the period	13,667	7,941
Paid compensations during the period	(6,533)	(3,019)
Additional accrual of liabilities for retirement compensations	1,682	8,745
Closing balances for the period	8,816	13,667

Notes to the financial statements

18a. Provisions for retirement compensations

<i>In thousands of BGN</i>	%	2007	2008	2009	2010	2011	Общо
Provision before discounting		3,834	2,198	732	591	-	7,355
Additional accrual before discounting		242	787	(43)	36	864	1,886
Total liabilities before discounting		4,076	2,985	689	627	864	9,241
Discount	4.75%	-	(135)	(61)	(82)	(147)	(425)
Present value		4,076	2,850	628	545	717	8,816

The discount rate used for the calculation equals the average yield of midterm treasury notes.

19. Financial instruments

Foreign currency risk

ATSA incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than BGN. The Bulgarian Lev is fixed to the EUR at the rate of 1:1.95583. The currency risk for the Company is incurred mainly by transactions in USD. The Company manages foreign currency risk by fixing its prices of sales and purchases and of loans in EUR.

Interest rate risk

The company uses interest-bearing loans and borrowings that are being repaid based on fixed interest rates and therefore the interest rate risk is assessed as low.

Effective interest rates and pricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective rates at the balance sheet date and the repricing dates:

<i>В хиляди лева</i>	Note	Effective interest rate	Total	Up to 6 months	6-12 months	1-3 years
Cash in banks	14	0,6%	61,880	61,880	-	-
Deposits	14	4,77%	109,877	-	109,792	85
Interest-bearing loans and borrowings	16	4,49%	7,422	3,755	3,667	-

Credit risk

The Company has a credit exposure as disclosed in note 12 "Trade and other receivables". The major part of its trade receivables arises from route charges, billed and collected by Eurocontrol, which are regulated for the current period by the Multilateral Agreement for Route Charges.

Notes to the financial statements

20. Related parties

Tables below give information about most significant related party transactions in compliance with IAS 24 "Related parties". Related parties to ATSA are all other state-owned companies under IAS 24.

Title	Description of the transaction	Purchases in 2006	Outstanding liabilities as at 31 December 2006
General Directorate "Civil Aviation Administration" Sofia Airport	Fees for certification of air-navigation equipment	2,685	-
"Communications Regulation Commission" "Air squad 28"	Re-charge of utility services – water, electricity; License fees	215	11
Sofia Airport	Soaring	153	-
"Transport Construction and rehabilitation"	Contract for construction of Lot B2	559	44
Electricity Distribution Company - Sofia	Contract for construction of rehabilitation and training centre "St. Constantine and Elena"	6,237	759
Bulgargaz AD	Supply of electricity	2,457	3
Varna Airport	Supply of natural gas	621	9
Burgas Airport	Re-charge of utility services – water, electricity;	152	-
	Re-charge of utility services – water, electricity;	230	-
		220	-
		13,529	826

Title	Description of the transaction	Sales in 2006	Outstanding receivables as at 31 December 2006
"Bulgarian Air" airlines	Overflying fees	1,192	526

Outstanding receivables amount to BGN'000 526 are disclosed at cost as at 31 December 2006. Impairment allowance amounting to BGN'000 84 is accrued.

Title	Description of the transaction	Purchases in 2005	Outstanding liabilities as at 31 December 2005
General Directorate "Civil Aviation Administration" Sofia Airport	Fees for certification of air-navigation equipment	3,131	-
Communications Regulation Commission	Re-charge of utility services – water, electricity;	235	28
Air squad 28	License fees	179	-
Sofia Airport	Soaring	406	28
"Transport Construction and rehabilitation"	Contract for construction of Lot B2	3,365	549
	Contract for construction of rehabilitation and training centre "St. Constantine and Elena"	2,918	111

Notes to the financial statements

20. Related parties - continued

Title	Description of the transaction	Purchases and donations in 2005	Outstanding liabilities as at 31 December 2005
Electricity Distribution Company - Sofia	Supply of electricity	599	22
Bulgargaz AD	Supply of natural gas	129	2
Varna Airport	Re-charge of utility services – water, electricity;	241	19
Burgas Airport	Re-charge of utility services – water, electricity;	209	12
Technical University Sofia	Assets granted	6	-
Military Medical Academy	Assets granted	4	-
National Transport Hospital “Tsar Boris III”	Assets granted	63	-
Headquarters of the Bulgarian Air Force	Assets granted	529	-
		12,014	771

Title	Description of the transaction	Sales in 2005	Outstanding receivables as at 31 December 2005
“Bulgarian Air” airlines	Overflying fees	740	53

Outstanding receivables amount to BGN’000 53 are disclosed at cost as at 31 December 2005. No impairment allowance was accrued.

In the course of execution of the management body’s duties, the Company has accrued the following remunerations:

<i>In thousands of BGN</i>	2006	2005
Managing Board	193	154
Supervisory board	108	88
CEO	150	73
	451	315

In relation to personnel changes in Managing Board, the company paid out compensations to the General Director amounting to BGN’000 40, included on the line “CEO” in the table above.

21. Contingent assets

The company reports bank guarantees and collaterals issued in favour of ATSA amounting to BGN’ 000 21,440, the most significant part being bank guarantees issued by “Alenia Marconi Systems” (Selex S.I) amounting to BGN’000 20,304.

Notes to the financial statements

22. Contingent liabilities

A lawsuit was filed by “Plams 2001” OOD against ATSA, claiming expenses related to a property right over the hotel complex ”Kopitoto”. The lawsuit filed is closed at first instance court. ATSA is adjudged to pay BGN’000 599 for incurred heating and electricity costs and BGN’000 444 for tourist services received. ATSA is currently appealing the decision.

23. Subsequent events

The global unit rate for air navigation services has been changed from EUR 48.85 in 2006 to EUR 48.44 in 2007. The amount of the average fee for air navigation services in the terminal area for aircrafts weighing more than 10 tones has been changed from EUR 505.9 in 2006 to EUR 758.85 in 2007; for aircrafts weighing less than 10 tones the average fee has been changed from EUR 145.30 in 2006 to EUR 217,95 in 2007.

24. Applicable accounting framework

Description of the applicable accounting framework

The Company has prepared its annual financial statements for 2006 in accordance with the International Financial Reporting Standards (IRFS) in the edition as of 1 January 2005, which have been adopted in Bulgaria with a decree №207/7.08.2006 of the Council of Ministers and promulgated in the State Gazette, issue 66/2006. A list of International Accounting Standards, applicable in Bulgaria is given below:

List of International Accounting Standards applicable in Bulgaria, used as a basis for preparation of the financial statements for 2006

IFRS 1	First time adoption of International Financial Reporting Standards
IFRS 2	Share based payment
IFRS 3	Business combinations
IFRS 4	Insurance contracts
IFRS 5	Non-current assets held for sale and discontinued operations
IFRS 6	Exploration for and evaluation of mineral resources
IAS 1	Presentation of financial statements
IAS 2	Inventories
IAS 7	Cash flow statement
IAS 8	Accounting policies, changes in accounting estimates and errors
IAS 10	Events after the Balance Sheet date
IAS 11	Construction contracts
IAS 12	Income taxes
IAS14	Segment Reporting
IAS16	Property, Plant and Equipment
IAS17	Leases
IAS 18	Revenue
IAS 19	Employee benefits
IAS 20	Accounting for government grants and disclosure of government assistance
IAS 21	The effects of changes in foreign exchange rates
IAS 23	Borrowing costs
IAS 24	Related party disclosures
IAS 26	Accounting and reporting by retirement benefit plans
IAS 27	Consolidated and separate financial statements
IAS 28	Investments in associates

Notes to the financial statements
24. Applicable accounting framework - continued

IAS 29	Financial reporting in hyperinflationary economies
IAS 30	Disclosures in financial statements of banks and similar financial institutions
IAS 31	Interest in joint ventures
IAS 32	Financial Instruments – disclosure and presentation
IAS 33	Earnings per share
IAS 34	Interim financial reporting
IAS 36	Impairment of assets
IAS 37	Provisions, contingent liabilities and contingent assets
IAS 38	Intangible assets
IAS 39	Financial instruments: recognition and measurement
IAS 40	Investment property
IAS 41	Agriculture
IFRIC 1	Changes in existing decommissioning, restoration and similar liabilities
IFRIC 2	Members' shares in co-operative entities and similar instruments
IFRIC 4	Determining whether an arrangement contains a lease
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
SIC 7	Introduction of the Euro
SIC 10	Government assistance - no specific relation to operating activities
SIC 12	Consolidation – special purpose entities
SIC 13	Jointly controlled entities - non-monetary contributions by ventures
SIC 15	Operating leases - incentives
SIC 21	Income taxes - recovery of revalued non-depreciable assets
SIC 25	Income taxes - changes in the tax status of an enterprise or its shareholders
SIC 27	Evaluating the substance of transactions in the legal form of a lease
SIC 29	Disclosure – service concession arrangements
SIC 31	Revenue - barter transactions involving advertising services
SIC 32	Intangible assets - website costs

24a List of published International Financial Reporting Standards that are not effective in Bulgaria as at the balance sheet date but might related to company's activities

- IFRS 7 “Financial Instruments: Disclosures” and amendment to IAS 1 “Presentation of Financial Statements”: require detailed disclosure of the significance of financial instruments for an entity’s financial position, as well as qualitative and quantitative information about exposure to risk. The new IFRS 7 and the amended IAS 1 will be valid for the period beginning on 1 January 2007 and will require additional disclosures related to financial instruments and equity.
- Amendment to IAS 21 “The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation” (effective from 1 January 2006) – the Company does not expect the interpretation to have a material effect on the financial statements;
- Amendment to IAS 39 “Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions” (effective from 1 January 2006) - the Company does not expect the interpretation to have an effect on the financial statements.
- Amendment to IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 4 “Insurance Contracts – Financial Guarantee Contracts” (effective from 1 January 2006) – the Company considers issued financial guarantees as contingent liabilities until a guarantee payments opportunity appears and recognizes a provision in case the requirements of IAS 37 regarding fair value are met.

Notes to the financial statements

24a List of published International Financial Reporting Standards that are not effective in Bulgaria as at the balance sheet date but might related to company's activities - continued

- IFRIC 6 “Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment” (effective from 1 December 2005) – The Company does not expect the interpretation to have an effect on the financial statements;
- IFRIC 7 “Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies” – will become mandatory for the Company's financial statements for 2007. The Company does not expect the interpretation to have an effect on the financial statements;
- IFRIC 8 Scope of IFRS 2 - will become mandatory for the Company's financial statements for 2007. The Company does not expect the interpretation to have an effect on the financial statements;
- IFRIC 9 “Reassessment of Embedded Derivatives”) - will become mandatory for the Company's financial statements for 2007. The Company does not expect the interpretation to have an effect on the financial statements;
- IFRIC 10 “Interim Financial Reporting and Impairment” (addresses the interaction between IAS 34 “Interim Financial Reporting” and IAS 39 “Impairment of Assets”) - prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Company's financial statements for 2007, and will apply to goodwill, investment in equity instruments, and financial assets carried at cost prospectively from the date that the Company first applied the measurement criteria of IAS 36 and IAS 39 respectively. The Company does not expect the interpretation to have an effect on the financial statements.
- IFRIC Interpretation 11 “IFRS 2 - Group and Treasury Share Transactions” (for annual periods beginning on or after 1 March 2007). The interpretation requires that share-based payment transactions in which an entity receives services as consideration for its own equity instruments be accounted for as equity-settled. This applies regardless of whether the entity chooses or is required to buy those equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement. The Company does endorse this interpretation as irrelevant to its activity since it does not conclude equity-settled contracts.
- IFRIC Interpretation 12 “Service Concession Arrangements” (effective since 1 January 2008). This Interpretation gives guidance on the accounting by operators for public-to-private service concession arrangements. The Company does not expect the interpretation to have an effect on the financial statements.