

Annual activity report
Independent auditor's report
Financial statements

Bulgarian Air Traffic Services Authority

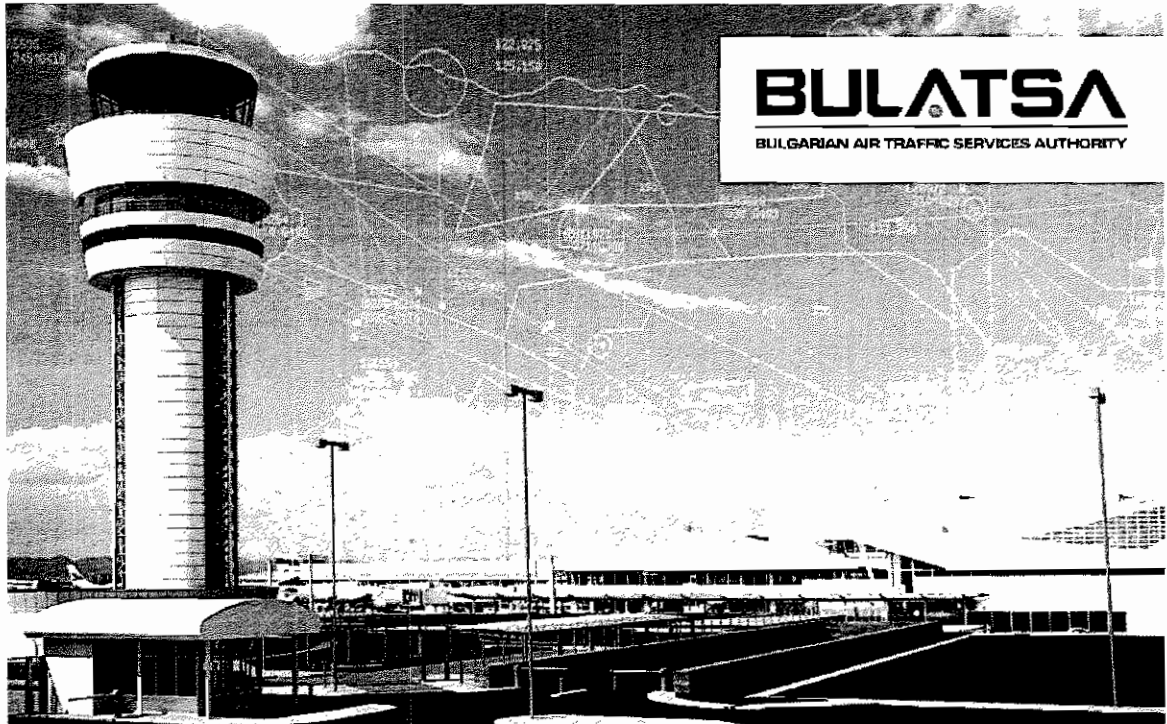
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FOR THE YEAR 2012

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I. MISSION, VISION AND STRATEGIC GOALS OF BULATSA

Mission – Provision of quality air navigation services (ANS) for reliable and efficient management of ANS, while maintaining the highest levels of safety and mitigating the environmental impact.

Vision – Maintaining the status of BULATSA as a competitive enterprise which copes successfully with the challenges of the new realities and is viable in the ANS provision business. Maintaining a leading position in the ANS system of South-Eastern Europe.

Strategic Goals of BULATSA

- Recognition of BULATSA by the European aviation community as a safe and competitive organization, both as a separate entity and in the framework of the DANUBE Functional Airspace Block (DANUBE FAB).
- Enhancement of safety and efficiency indicators.
- Increasing BULATSA's market share in ANS on a regional scale.
- Consolidation of BULATSA's key role in the provision of ANS in South-Eastern Europe.

II. BULATSA FUNCTIONS AND MANAGEMENT

The Bulgarian State Enterprise “Air Traffic Services Authority” (BULATSA) is a legal entity which holds a certificate for the provision of air navigation services and fulfils State functions for the provision of ANS in the controlled civil airspace of the Republic of Bulgaria. BULATSA's main spheres of activity include:

- 1 Air traffic management aimed at achieving safety, efficiency and regularity of flights in the controlled civil airspace;
- 2 Planning, provision, implementation, operation and maintenance of facilities, systems and equipment to ensure the communications, navigation, surveillance, power-supply, lighting, meteorological and aeronautical aspects of the serviced air traffic and its supporting infrastructure;
- 3 Provision of communications, navigation and surveillance services;
- 4 Provision of meteorological services;
- 5 Provision of aeronautical information services;
- 6 Provision of metrological services;
- 7 Provision of information services for aircraft search and rescue operations;
- 8 Management of the air traffic safety system within its assigned powers;
- 9 Fulfilment of the obligations of the Republic of Bulgaria ensuing from international agreements in the ATM area, to which the Republic of Bulgaria is a signatory state;
- 10 Collection of air navigation charges for the provision of air navigation services.

In 2012 the operational management of BULATSA was based on a system of management through objectives, by defining, reporting and supervising the activities accomplished by the separate territorially and/or functionally separated units of the enterprise.

III. KEY EVENTS AND PRIORITIES

III.1. Extension and Upgrade of the SATCAS System

The execution of the updated Plan for the Development of the Automated ATM SATCAS System continued in 2012.

Three work packages were implemented. The first one, Work Package 1, is an upgrade of the SATCAS System to work with the central EUROCONTROL SSR code assignment server (CCAMS Programme), which assigns a unique secondary code to the aircraft's transponder. The second of the implemented work packages, Work Package 4, enables the SATCAS System to operate with the new ICAO 2012-FPL format (FPL 2012) and this new flight plan format allows exchange of additional information to be provided to the ATCOs about the aircraft's technical equipment, such as ADS-B, CPDLC, as well as performance based navigation (RNAV, RNP, etc.). The third of the implemented work packages, Work Package 2, is an upgrade of the SATCAS System enabling the exchange of data with the systems in neighbouring countries by means of the new OLDI FMTP protocol (FMTP-TPC/IP-v4/v6) which is a requirement of Regulation (EC) No. 633/2007. The FMTP will provide improved and extended capabilities for data exchange between civil and between civil and military ATC systems.

Work on the implementation of two more work packages of the planned upgrade started in 2012. Pre-site acceptance test activities were carried out aimed at the implementation in 2013 of a new capability enabling the SATCAS System to operate in Mode S (Mode S Implementation). This will allow the extraction of accurate data related to various parameters of the flight and their visualization at ATCO's working positions, thus improving safety and increasing airspace capacity. Through the other work package alignment of the data in the fall-back system and the operational system will be achieved, i.e. SATCAS LINUX and SATCAS UNIX. This will enable the automatic alignment of all available flight information in the two systems without any human interference. Safety will be improved as a result. A replacement of the fall-back system is planned for 2013. The envisaged new hardware and software will significantly improve the performance of the SATCAS ATM System and extend the system's capacity. New servers and work stations will be added to the remote working positions at Burgas and Varna Airport ATS Centres in order to achieve full redundancy of the system and ensure the necessary prerequisites for BULATSA's Contingency Plan for the Provision of ANS.

III.2. Development of the Initiative for the Establishment of a Functional Airspace Block (FAB) – DANUBE FAB. The European Commission's Single European Sky Initiative.

III.2.1. The DANUBE FAB Project

In 2012 the Project for the establishment of a Functional Airspace Block in the airspace of the Republic of Bulgaria and in the airspace of Romania (DUNUBE FAB) was a key project in the activities of BULATSA. The project activities were carried out in accordance with the time frame stipulated in European legislation and Decision C (2009) 6822 of the European Commission dated 11 September 2009 granting Community financial aid to projects of

common interest, allocating financial support to Phase 1 (Stage 2), Phase 2 and Phase 3 of the DUNUBE FAB Project – 2008-EU-40001-S under the TEN-T programme.

BULATSA experts took an active part in the preparation of the ratification of the Interstate Agreement on the Establishment of the DUNUBE FAB by the Bulgarian parliament, as adopted by the 41st National Assembly on 14 March 2012 which passed a Law on the Ratification of the Agreement on the Establishment of the DUNUBE Functional Airspace Block between the Republic of Bulgaria and Romania, signed in Brussels on 12 December 2011 and promulgated in the Bulgarian State Gazette, Issue 25 of 27 March 2012. The Interstate Agreement came into force on 16 November 2012 following ratification by Romania on 2 November 2012 and an exchange of diplomatic letters.

A Cooperation Agreement between the ANSPs of the DUNUBE FAB, BULATSA and ROMATSA, was signed on 15 November 2012.

A number of key documents were prepared in the course of Project execution, namely a Cost-Benefit Analysis and a Business Case of the DUNUBE FAB, a Report on Real-Time Simulations (RTS) and a Report on the Safety of Simulations prepared by EUROCONTROL, an updated plan for the implementation of proposals for the improvement of airspace design, a DUNUBE FAB Safety Case, DUNUBE FAB Safety Policy, a draft DUNUBE FAB Strategic Programme and Annual Plan, draft terms of reference of the governing bodies of the DUNUBE FAB after FAB establishment, etc.

Some of the above key documents were included into the set of documents to be submitted to the European Commission (EC) before the establishment of a FAB in compliance with Commission Regulation (EU) No. 176/2011. The information submission consisted of an introduction, a main document and 19 annexes. In response to the comments received from the EC and stakeholders, the DUNUBE FAB Project Management Team in collaboration with the National Supervisory Authority, the Ministry of Transport, Information Technology and Communications and the Military Air Force of the Republic of Bulgaria and the respective institutions in Romania prepared and submitted a coordinated reply on behalf of DUNUBE FAB along with a notification to the EC Vice-President and Commissioner for Transport Mr. Siim Kallas regarding the establishment of the DUNUBE FAB within the time limits set by European legislation – by 4 December 2012.

The DANUBE FAB Project was presented at a number of international fora and meetings: a meeting with the FAB Coordinator Mr. Georg Jarzembowski held in March 2012, a meeting with airspace users in April 2012, a meeting with representatives of EASA on 25 June 2012, a meeting with representatives of the European Commission and other stakeholders on 18 July 2012 to discuss the information submission in compliance with Commission Regulation (EU) No. 176/2011, during the deliberations of the 47th meeting of the EC Single Sky Committee in October 2012, etc.

Three DANUBE FAB Steering Committee meetings were held during the reporting period: on 1-2 March 2012, on 28-29 May 2012, and on 14-15 November 2012, and a DANUBE FAB Social Forum meeting hosted by BULATSA was held on 2-4 May 2012 with the participation of trade union and professional organizations representing the employees of both ANSPs.

Public procurement documentation was elaborated jointly with the Romanian ANSP (ROMATSA) to obtain project management services by a consultancy during the

implementation phase of DANUBE FAB after 2012. The public procurement procedure will be organized under Bulgarian law at the beginning of 2013. There is also ongoing work on the establishment of the DANUBE FAB governing bodies.

Activities aimed at the harmonization of aeronautical information services (AIS) were completed successfully and the following documents were signed: “DANUBE FAB AIS Harmonisation”, “Strategic Plan for AIS Activities - Implementation Phase 2013-2017” and “DANUBE FAB CONOPS”.

For the purpose of harmonizing airspace management in the framework of the DANUBE FAB Project, an analysis was prepared of AMS procedures employed by BULATSA and ROMATSA and a plan was drawn up for the update of existing normative documents in accordance with the differences found.

III.2.2. The European Commission’s Single European Sky Initiative

For the purpose of simplifying, clarifying and updating the Single European Sky legislation, the European Commission has launched a process of modifying the SES legal framework carrying out consultations in the period 21.09.2012 – 13.12.2012. The aim of the public consultation was to explore the opinions of stakeholders in order to achieve further simplicity and clarity of SES legislation. In particular, the update should work out solutions as to how to improve air navigation provision and set right as necessary the institutional set-up. BULATSA submitted its position as an independent entity and through the channels of communication of partnering organizations.

III.3. Project for the construction of a new Sofia Airport Control Tower (TWR) with the adjacent infrastructure

The execution of the project for the construction of the new Sofia Airport Control Tower with its adjacent infrastructure continued in 2012. Representatives of BULATSA took an active part in the discussion and coordination of construction work programmes and exercised control on timely works and the quality of the materials. The building works have been completed, including external connections (power supply, communications channels, heating systems). A Permit to Use the Site was issued on 29 November 2012. The operation of the old airport control tower ceased on 7 December 2012 and services to flights are now provided entirely from the new Airport Control Tower.

III.4. Social Dialogue

The main focus of BULATSA’s social policies in 2012 was on the active dialogue with the social partners relating to the negotiations for the conclusion of a new Collective Labour Agreement (CLA) for BULATSA, as well as on all issues related to the improvement of work conditions in the enterprise and the realization of the organisation’s strategic goals which have an impact on human resources.

Each year BULATSA allocates considerable funds to the provision of a wide range of social activities oriented to the good health and recreation of employees and their families.

As an expression of the Employer's social responsibility, in line with the provisions of the Collective Labour Agreement and in fulfillment of the decisions made by the Meeting of Employees' Representatives, additional employee benefits were ensured in 2012, such as additional voluntary pension insurance, life insurance, social benefits, maintenance of social recreational facilities and BULATSA's own housing, prophylactic medical check-ups, etc.

The major projects implemented in the field of social policies in 2012 were directed to measures aimed at mitigating the existing risks in accordance with the risk assessment of working positions, to maintaining the certification awarded to BULATSA's Occupational Health and Safety Management System (OHSMS) in accordance with the requirements of the OHSAS 18001:2007 standard, and to the preparation of a public procurement procedure for the conclusion of a Life Insurance Agreement for the period 2013-2015.

III.5. Identification of Additional Possibilities for Improving the Efficiency of BULATSA's Activities

BULATSA can report a stable trend towards improving the efficiency of ANS provision. The organisation has outlined a set of measures aimed at the identification of additional possibilities for optimisation of ANS costs and for improving the efficiency of operations in the short and long term. In order to implement these measures, the necessary cooperation of the Bulgarian CAA and the Ministry of Transport, Information Technology and Communications is actively being sought.

Over the past few years, BULATSA has been successful in maintaining a relatively constant level of general ANS costs, notwithstanding the increase in prices of goods and services in this country. This, in combination with the intensive traffic growth and the gradual decrease in the number of the personnel has led to an increase in the efficiency of operations.

One of the basic objectives in BULATSA's Business Plan is the achievement of a value lower than €400 for a composite controlled hour and the containment of the en-route unit rate below €40 over the next three years. More information regarding efficiency improvements is to be found in the reports of the EUROCONTROL Performance Review Commission (PRC). The enhancement of efficiency is a continuous process which will continue in the years to come in accordance with the targets set out in the National Performance Plan of the Republic of Bulgaria in compliance with Regulation (EU) No. 691/2010 of 29 July 2010 laying down a performance scheme for air navigation services and network functions.

IV. ACTIVITIES RELATING TO THE PROCESS OF CUSTOMER RELATIONS MANAGEMENT

In the framework of customer relations management BULATSA organised and conducted a number of events in accordance with the approved annual plan.

The traditional consultation meeting dedicated to ANS provision at Burgas and Varna airports during the active tourist season was held on 16 May 2012. Discussed were issues relating to the safety of flights, observance of slots, visual routes for VFR flights, etc.

On 15 June 2012 a meeting was held between representatives of BULATSA and IATA. At the meeting were discussed issues such as the cost base for en route air navigation charges and terminal charges, improvements in the cost base attributable to the implementation of DANUBE FAB, traffic expectations during the first and second reference period of the Performance Scheme, etc. In addition to this bilateral meeting, three other consultation meetings with airlines were held in March, June and November.

On 6 December 2012 the traditional meeting was held addressing the operational situation at Sofia Airport. During the meeting were discussed operational issues related to the autumn/winter season and the specialized activities required such as pre-flight aircraft de-icing, plans for the development of Sofia Airport, airport slots and efficiency monitoring, the provision of AIS and MET services, etc.

Under "Customer Satisfaction" the official web-page of BULATSA features summaries of the meetings between BULATSA and airspace users and the Annual Report 2012 on customer relations management.

V. INTERNATIONAL ACTIVITY

In 2012 BULATSA continued its activity as an active member and partner of the international organisations in the field of civil aviation: ICAO, EUROCONTROL, CANSO and relevant EC structures. BULATSA's international activity in 2012 was characterized by intensive and active participation of the management team and representatives of the organisation in the sessions of EUROCONTROL's Provisional Council and Permanent Commission, in meetings of CANSO's governing bodies (EC3 and the AGM and CEO Conference), as well as in fora held by the European Commission and ICAO.

The main focus of international activity in 2012 was on the activation and extension of regional cooperation in the field of ANS provision: the signature of a bilateral agreement on operational and technical cooperation with DHMI – the ANSP of the Republic of Turkey, signed in Ankara on 16 May 2012; participation of the BULATSA Director General in the work of the CEAP forum – the Central European ANSPs Platform, held in Budapest in October 2012; participation of the BULATSA Director General in the airport development and expansion summit on Developing the Airport Sector in the Black Sea and Turkey, held in Istanbul in December 2012, etc.

In July 2012 the BULATSA Director General was designated as the voting representative of the DANUBE FAB to the Network Management Board, and in September 2012 was elected as Vice Chair of the European CANSO CEO Committee (EC3) with a two-year term of office.

VI. OPERATIONS

In 2012, a total number of 548,483 flights were controlled, which is an increase of 0.33% over 2011 numbers. Compared to the previous year the overall number of overflights in 2012 increased by 1.14%, reaching 469,251. There were 79,232 arrivals and departures on the territory of Bulgarian airports, which is a decrease of 4.22% over 2011. Such a decrease is

indicative of the effect of the world financial and economic crisis and its influence on the aviation market, especially in Europe. On the whole, the total number of controlled flights follows an upward trend, but in 2012 the rate of growth was slightly slowed down in comparison with previous years. To a certain extent the lower traffic growth rate in 2012 can be attributed to the constraints introduced in Greek airspace in 2011 due to strike activity, as a result of which a record number of aircraft were redirected and overflew Bulgarian airspace. Thus 2011 was marked by an unusual traffic increase. The expectations for 2013 are that the increase in the number of controlled flights will continue.

In 2012 the total number of service units rose to 2,020,149, which is an increase of 0.07% over 2011 numbers and 2.70% over the forecast for 2012 listed in the National Performance Plan.

No ATM delays related to air traffic flow management (ATFM) constraints were registered in the 2012 summer period. This is to be attributed to the good organization and the continuous improvement of working arrangements, which finds an expression in ATS norms and procedures.

In compliance with Commission Regulation (EU) No. 1035/2011 a new insurance policy was taken related to third party liability arising from the actions of BULATSA as a certified ANSP in the controlled civil airspace of the Republic of Bulgaria for the period 2012 – 2013, ARIEL format.

In 2012 BULATSA applied for an extension of the validity of its certification as an ANSP. The Bulgarian CAA conducted inspections on site at BULATSA's Headquarters and at Sofia ACC and the Airport ANS Centres according to the requirements of national and European legislation. No significant non-compliances were registered. As a result BULATSA's certification was renewed and a Certificate No.BG-ANS-001/14.06.2012 was issued.

On 26 February 2012 BULATSA received an invitation from ENAV S.p.A., the ANSP of the Republic of Italy, for joint participation in a SESAR project, which is financed by the European Commission: Air Navigation Service Providers (ANSPs) coordination within the Interim Deployment Steering Group (IDSG). The aim of the project is to assist IDSG in the management of SESAR activities towards the implementation of all technological components of the Programme and in execution of the European ATM Master Plan. A project team was set up in 2012 to work on the preparation of the necessary documents. BULATSA's contribution will start in 2013.

VI.1. Airspace Management

The ASM Manual was updated in 2012 in accordance with the latest editions of ICAO Annexes. The ASM Manual was supplemented with procedures for airport flight information services.

In order to facilitate the implementation of corrections and amendments to operational manuals, an updated edition was prepared of the Instruction for Updating ASM, AIS and MET Equipment Manuals.

An web-based application for filling-in and submitting flight plans and related messages was implemented. Also, operational requirements were prepared to a project for the implementation of integrated centralized briefing.

In view of the importance of civil-military coordination in ASM while ensuring the safety of the airspace in the joint use of the controlled airspace of the Republic of Bulgaria, Letters of Agreement with the military ATS units were drawn up and implemented.

Corrections and amendments were prepared to the LoAs with neighbouring ACCs.

Procedures were drawn up for the collection, analysis, storage and provision of information on ATFM departure slots as well as the collection, analysis, storage and provision of information regarding exemptions granted from ATFM slots upon departure from airports on the territory of the Republic of Bulgaria in compliance with Commission Regulation (EC) No. 255/2010.

The growth of en route traffic in the controlled Bulgarian airspace and the dynamic opening/closure of ATC sectors has necessitated flexible planning and allocation of ATCOs at working positions. In order to facilitate the process of ATCO familiarization with the operational environment prior to starting their shift, a project was launched to set up a system of ATCO e-briefing. Operational requirements, a technical assignment and an implementation plan have been prepared.

A Manual on best practices at Sofia En Route and teaching aids on vectoring and on dealing with speeds in ATS have been published.

VI.2. Airspace Organisation

Airspace organization is a key factor for the quality and efficiency of the provided air traffic services (ATS). In 2012 BULATSA continued to make improvements to ATS in the terminal controlled areas and to contribute actively to the development of ATS on the national and international level.

A project for the re-organisation of flight procedures in the Plovdiv Airport terminal area was completed successfully. This was a joint project with the Bulgarian Military Air Force. Hence agreements for interaction were signed between ATS units in Plovdiv, Krumovo and Graf Ignatievo.

The completion of work on the second updated edition of the Air Navigation Map of the Republic of Bulgaria in a scale of 1:500,000 has contributed significantly to facilitating the conditions for IFR flights.

Publications in the AIP are key to the implementation of changes in airspace organization. 2012 saw continuing efforts to draft timely high-quality publications. To improve the processes of data exchange, the beginning was laid to a project for the design of a unified aeronautical information management system. A study was made of information flows and a preliminary concept was developed.

A number of important steps were taken in 2012 to introduce amendments to existing regulations for the purpose of improving civil-military coordination. BULATSA experts participated in the updating of Ordinance No. 19 on the operation of a unified system of civil-military management of airspace. A draft of Ordinance No. 24 was drawn up regarding the operations of the airspace management cell of the Republic of Bulgaria. Operationally, the allocation of airspace was coordinated in order to make provisions for various exercises of the Military Air Force.

BULATSA participated actively in the coordination of activities relating to airspace organization on the international level: meetings of various ICAO groups and sub-groups (RDGE), EUROCONTROL (RNDSG, RAD Management Group, SEERM, RAISG) and conferences, such as the Middle East ANSP, Airspace Users and Stakeholders Engagement Conference. Coordination meetings with representatives of ANS units from adjacent states were held on a regular basis to discuss operational and strategic issues regarding border interfaces and the airspace design in the region.

In 2012 the analysis of various airspace parameters was enhanced through the application of a range of simulation tools and methods, including real-time simulation. Proposals for new routes are now developed based on real air traffic flow data. A number of studies were conducted related to 2013 traffic levels, complexity and optimal sector configuration, even in the case of significant meteorological phenomena.

BULATSA is working on the introduction of satellite navigation in terminal areas. APV procedures are being developed for Burgas airport through BULATSA's participation in the SHERPA Project (Support ad-Hoc to Eastern Region with Pre-operational Actions on GNSS) funded by the European Commission's 7th Framework Programme through the European GNSS Agency (GSA). Through equipment of EUROCONTROL's EDCN Network (EGNOS Data Collection Network) installed at Burgas airport the fulfillment of ICAO requirements for monitoring and recording of satellite systems signals has been ensured. Participation has been planned in the NASCIO Project (Navigation SESAR Concepts Involving Operations) funded by the European Commission. The Project will ensure the performance of flight checks of the approach procedures described above.

VI.3. Career Development and Licensing of Air Traffic Controllers (ATCOs)

Ensuring timely planning of operational personnel – ATCOs, for the different ACC/ATS Centres in Bulgaria is a pre-requisite for the provision of efficient and safe ANS operations. In October 2012 the three-year plans of ATS units for the period 2013-2015 were endorsed.

External selections among ATCO applicants and internal competitions enabling the applicants to acquire new ATCO qualification grades or instructor permits or shift manager permits are part of the process of improving controllers' qualifications. Activities which started in 2011 continued in 2012 and thus another external selection was conducted recruiting as a result 32 applicants for APP and En Route units.

Maintaining the competence of operational personnel holding ATCO licences is among the main duties both of ATCOs and of BULATSA's management whose responsibility it is to

monitor compliance with the requirements of Commission Regulation (EU) No. 805/2011 laying down detailed rules for air traffic controllers' licences and certain certificates. Those general European requirements necessitated the update of two important documents relating to training and the maintenance of ATCO competence at BULATSA, namely Training Plans at ATS Units and Competence Schemes at ATS Units. The updated documents were endorsed by the Bulgarian CAA and competent BULATSA officials were authorized to carry out checks and examination of ATCOs for a period of three years.

Team Resources Management (TRM) training for all BULATSA controllers was conducted in 2012 in accordance with the tasks listed in the European Harmonization and Implementation Plan.

The achievement and maintenance by ATCOs of English language proficiency levels in compliance with ICAO Annex 1 and Commission Regulation (EU) No. 805/2011 was a priority of the organisation. A series of courses in Aviation English were conducted in an English-speaking country. A new contract for providing courses for the maintenance of ATCO's English language proficiency was concluded in 2012.

VI.4. Aeronautical Information Services (AIS)

In 2012 were prepared the first draft agreements relating to the manner, procedures and conditions for the provision of aeronautical information by authorized officials from aerodromes in Sofia, Varna, Burgas, Plovdiv and Gorna Oryahovitsa to the AIS Department of the ATM Directorate of BULATSA and the subsequent processing, preparation and publication of such information.

For the purpose of the timely updating of the AIP of the Republic of Bulgaria, 21 aeronautical publications were prepared, published and disseminated.

The AIS Department publishes all SID, STAR and IAP procedures for the aerodromes in Sofia, Varna, Burgas, Plovdiv and Gorna Oryahovitsa in the SDO DP-Procedures Module of the European AIS database (EAD).

VI.5. Meteorological Services

In connection with the planned reduction in the direct costs for meteorological services over the period 2012-2015, the following documents were drawn up:

- a draft of a new organizational structure of meteorological service provision;
- an interim report for the first reference period on the pilot project for the restructuring of MET services and the establishment of a Common Prognostic Centre in Sofia;
- the documentation necessary for the establishment and operation of a Common Prognostic Centre in Sofia.

The structural and operational changes introduced were published in the AIP of the Republic of Bulgaria on 18 October 2012.

The final edition of the new Ordinance No. 3 on the Provision of MET Services for Civil Aviation of the Ministry of Transport, Information Technology and Communications was prepared and promulgated in the Bulgarian State Gazette No. 25/07.03.2012.

MET Reports and Special MET Reports were implemented to be used by landing and departing aircraft, being disseminated only in the area of Sofia ACC and Burgas ATS Centre.

The upgrade of the automated weather observing systems (AWOS) at the airport meteorological stations at Varna, Plovdiv and Gorna Oryahovitsa is ongoing.

Updated climatological characteristics of the aerodromes in Sofia, Varna, Burgas, Plovdiv and Gorna Oryahovitsa spanning the period from 1995 to 2011 have been prepared.

Four programmes for professional meteorological training were developed and subsequently approved by the Bulgarian CAA.

For the purpose of improving the provision of MET services by BULATSA, framework agreements were signed with Varna Technical University and with the Institute on Biodiversity and Eco-System Studies with the Bulgarian Academy of Sciences.

VI.6. BULATSA Training Centre

In 2012 the BULATSA Training Centre was certified as a training organization with the Air Navigation Service Provider – BULATSA, thus attaining the status of a training organization on the grounds of Regulation (EC) No. 216/2008 of the European Parliament and of the Council and Commission Regulation (EU) No. 805/2011. Training started to be conducted by the use of new training programmes developed in compliance with CCC, version 3.0, which ensure attainment of training objectives.

The BULATSA Training Centre extended the validity of its certificate as an aviation training centre in accordance with the requirements of Ordinance No. 27 of the Ministry of Transport, Information Technology and Communications for a period of three years.

In fulfillment of its main activity in 2012 the BULATSA Training Centre provided training oriented to the acquisition and maintenance of qualifications to its own aviation personnel and to employees of airport operators.

In response to staffing needs ab-initio courses for ATCOs were conducted for Sofia ACC and the ATS units. Courses were developed and conversion training was conducted for the attainment of an additional qualification class for ATCOs from Sofia ACC and the ATS units in Varna and Burgas, as well as training for the maintenance of the competence of all controllers according to the approved plan.

The BULATSA Training Centre played a vital role in testing activities to achieve the English language proficiency Operational Level 4 or higher for civil aviation.

VII. TECHNICAL PROVISION OF OPERATIONS

VII.1. Development and licensing of the engineering and technical personnel

In accordance with the requirements of Ordinance No. 1 of the Ministry of Transport, Information Technology and Communications, refresher courses and tests of engineering and technical personnel, providing technical support services to the equipment and the ATM Systems, were conducted in 2012 in order to re-confirm the acquired qualification class. The tests were conducted by the computer-based TESLA System developed at BULATSA. As a result the validity of the certificates of engineering and technical personnel was extended with a three-year period.

VII.2. Communications

In 2012 communications with adjacent ACC centres in Romania, Serbia and Turkey were improved and the regional IP network was extended. New high-speed lines were set up for the simultaneous transmission of voice and data, new services were implemented (radar data exchange).

The air navigation telecommunications system of BULATSA was upgraded by installing new IP routers and new power-supply devices, thus enhancing the reliability and accessibility of the network.

The power-supply systems of communications facilities in remote sites were upgraded.

The implementation of an Aeronautical Message Handling System (AMHS) was completed. The Site Acceptance Test was executed successfully and the system commenced operations at Sofia ACC.

The automated office telephone exchange Alcatel 4400 at Sofia ACC was upgraded.

8.33 kHz VHF equipment was delivered to ensure the air-to-ground radio communications in the receiving/transmitting centres at the en route radar stations at Cherni Vrah, Varbitsa and Botev Peak.

VII.3. Navigation and Meteorological Equipment

In 2012 the contract for the procurement and installation of five DMEs for the provision of RNAV coverage with an accuracy of 5 NM for en-route traffic at FL 100/120 was executed. The DMEs KAL and VIT were installed and introduced into operation at the beginning of 2012. At year's end the remaining three DMEs – ROZ, VRB and EMO, were installed and their certification in line with the requirements of Ordinance No. 141 is forthcoming.

A contractor for the upgrade of DVOR PDV at Plovdiv ANS Airport Centre was selected and the upgrade was completed.

Technical maintenance was performed of Sofia RIMS Station which is part of the EGNOS Project. In connection with a procurement procedure of the European Commission, tender proposals were received for the maintenance of Sofia RIMS Station for the period 2014-2021 as a response to enquiries by organizations applying for providers of the EGNOS service.

The draft of the Development Strategy for NAV Aids in the period 2012-2025 was finalized.

The execution of a joint project relating to Research on the Monitoring and Analysis of Electromagnetic Emissions of Air Navigational Frequency Bands between Sofia Technical University, the Laboratory on the Electromagnetic Compatibility of Communication Systems and BULATSA is ongoing.

VII.4. Surveillance

In April 2012 an upgraded version of the ARTAS multi-radar processing system was put into operation.

Yet another priority task that was executed in 2012 was the selection of a contractor for the procurement of an Advanced Surface Movement Guidance and Control System (A-SMGCS).

The documentation for public procurement procedures was finalized for two major projects in the field of surveillance: the first one is related to the implementation of the latest technology in automatic dependent and independent surveillance – WAM and ADS-B, while the second is about the complete upgrade of the en-route radar stations and the installation of a new en-route radar station at Sofia Airport.

VII.5. Information Technology

In accordance with the BULATSA strategy in the field of information technology (IT), the second stage of upgrading the computer equipment in the whole organization was launched. While putting into operation the new Airport Control Tower at Sofia Airport, all the required activities, such as procurement and installation of computer equipment, moving servers and ensuring operational and administrative network connectivity, were completed successfully.

In 2012 started the implementation of an Information Security Management System, a plan on risk impact was developed and approved, and procedures were prepared for the application of controlling mechanisms in the use of information technology at BULATSA.

The basis was set up for a long-term licensing policy on the maintenance and upgrade of BULATSA's corporate software. Successfully were completed the work on the implementation of equipment allowing VPN internet access on the territory of the whole country and on the provision, with a three-year contract, of fall-back web services in the long term.

VII.6. Power-supply and Lighting Provision

Pursuant to the requirements of Directive 2009/12 of the European Parliament and the Council relating to air navigation charges in terminal areas and the subsequent modifications to the Civil Aviation Act of the Republic of Bulgaria, and following a Decision of the Council of Ministers and the orders of the Ministry of Transport, Information Technology and Communications, the technical maintenance of lighting systems at the aerodromes of Sofia, Varna and Burgas was handed over to the aircraft operators.

All the required actions related to the transfer were performed, e. g. reorganization of power-supply systems at Sofia ACC and Varna/Burgas ANS centres, as well as theoretical and practical training of employees of the aircraft operators on the maintenance, servicing and operation of airport lighting systems.

In order to improve the reliability of power-supply, a UPS System was put into operation at Varna ANS centre.

VIII. SAFETY AND QUALITY MANAGEMENT

Safety is the main priority in all BULATSA activities. It concentrates in itself the product of operational, technical and financial activities and is in close interaction with quality requirements.

Regular analyses were performed in 2012 on the impact of aviation occurrences on the safety of the ATM System. The following documents were finalized: "BULATSA Annual Analysis on the Status of ATM Safety for the year 2011" and "BULATSA Analysis on the Status of ATM Safety during the first half of 2012".

For the purpose of more effective safety management, in 2012 BULATSA started evaluating the contribution of the human factor (ATCOs) to aviation occurrences by employing the newly developed Methodology for the Classification of Controllers' Human Error during ANS Provision in the Investigation of Aviation Occurrences, which enables a more accurate assessment of human factor. Analyses of the human factor as a cause of occurrences in 2009, 2010 and 2011 were conducted. As a result of the summary of the impact and contribution of the human factor, specific recommendations were formulated to the ATM Directorate, the BULATSA Training Centre, the Sofia ACC and the ANS Centres as to how to improve safety in the course of service provision.

Following the implementation of the Plan for the Improvement of Safety Culture, which was developed jointly with EUROCONTROL experts, improved levels of safety culture have been recorded. The ultimate outcome after the analysis of the findings from the enquiry for the assessment of safety culture in BULATSA, held in 2012, shows a positive trend in the shift of the level of safety culture as compared to the results of the previous enquiry. This is indicative of the positive effect of the actions aimed at the improvement of BULATSA safety culture.

In terms of the maturity of BULATSA's Safety Management System (SMS), the objective laid down in BULATSA's Business Plan for 2014, namely attaining 70% maturity by the end of 2014, has already been fulfilled. A 74.24% maturity of SMS was reached in 2012. The study

for the assessment of SMS was performed by EUROCONTROL experts employing the CANSO Standard of Excellence in SMS.

The safety assessments of systems/aids used for the provision of ANS, such as NAV and MET aids, surveillance/radar systems, and voice communication systems, were updated. After an in-depth analysis of the updated safety assessments, a measure for improvement was adopted – the correction and amendment of the assessment of communications services at Sofia ACC. An assessment of the significance of each change to the operational systems was conducted and a safety plan for its implementation was drawn up.

260 ATM-related occurrences were recorded in 2012 as compared to 241 ATM-related occurrences in 2011.

On the basis of the investigations carried out, only three of the occurrences were categorised as class (C) – incident. In comparison, in 2011 there were two occurrences with severity class (A) – serious incident, four incidents with severity class (B) – major incident, and six were classified as incidents with severity class (C) – incident. The target safety levels of BULATSA, as prescribed by DG CAA, are given in Table 1 below.

Incident category	2011	2012	2013	2014	2015
AA (accident)	0	0	0	0	0
A (serious incident) + B (major incident)	≤ 0.90	≤ 0.95	≤ 0.97	≤ 0.79	≤ 0.75
C (incident)	≤ 2	≤ 2	≤ 2	≤ 2	≤ 2
Planned safety levels by BULATSA – incidents per 100,000 flights					
AA (катастрофа)	0	0	0	0	0
A (serious incident) + B (major incident)	≤ 0.86	≤ 0.86	≤ 0.86	≤ 0.79	≤ 0.75
C (incident)	≤ 2	≤ 2	≤ 2	≤ 2	≤ 2
<i>The target safety levels have been determined on the basis of the statistical analysis of empirical data by using Poissan distribution of probability.</i>					

Table 1: 2012 target safety levels of BULATSA per 100,000 flights

On the basis of the above Table, it follows that out of the 563,064 flights controlled, the following safety levels could have been probable: 4.84 occurrences with severity class (A) + (B) and 11.26 with severity class (C). In actual fact there were zero (0) occurrences with severity class (A) + (B) and only three (3) with severity class (C). Consequently, BULATSA has achieved the prescribed target levels for 2012.

On the whole, there were fewer occurrences in 2012 – no occurrences with severity class (A) and (B) and only three with severity class (C), as shown in the Chart below.

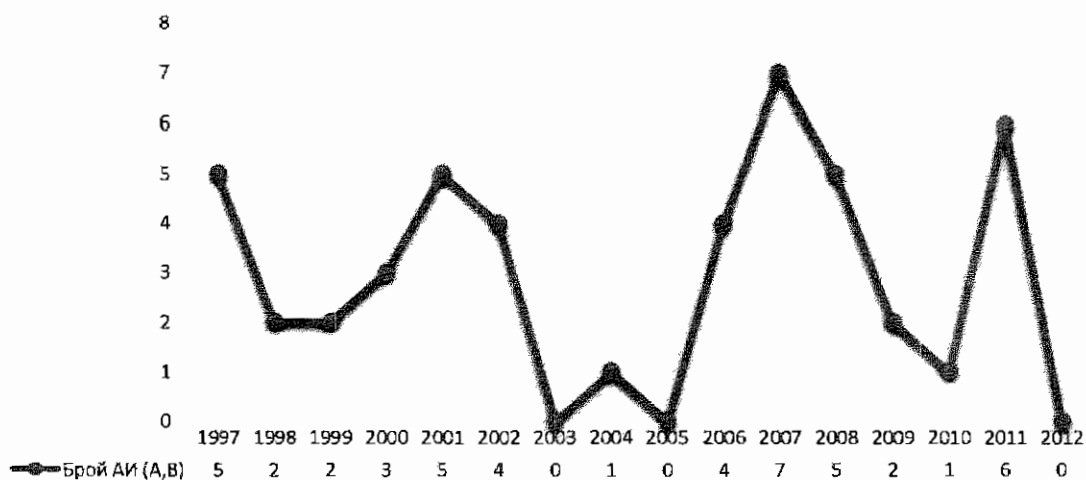


Chart 1: Number of occurrences category (A) and (B) per 100,000 controlled flights

The trend towards a shift in the relative number of occurrences category (A) and (B) per 100,000 controlled aircraft is represented in Chart 2.

БРОЙ И ТЕНДЕНЦИЯ НА АИ (А,В) ЗА 100000 ОБСЛ. ВС

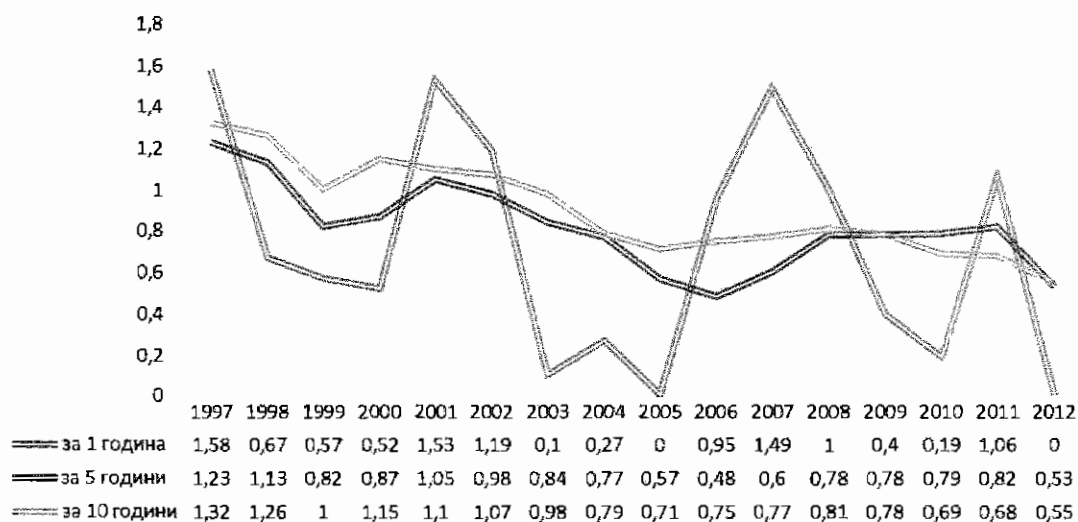


Chart 2: Relative number of occurrences category (A) and (B) per 100,000 controlled aircraft

Over the indicated 15-year period, based on the data in the roll-over diagrams comprising five and ten years each, a stable trend towards improvement of safety is clearly outlined: from 1.32 to 0.55 occurrences (severity class A + B) per 100,000 controlled aircraft (Chart 2, the 10-year data line).

81 regular flight inspections of 48 air navigation and landing facilities were performed in accordance with the flight check annual plan approved by DG CAA.

In addition, flight checks were performed prior to putting into operation 5 new DMEs and 1 upgraded VOR.

In order to maintain its ANSP certificate in compliance with Commission Regulation (EU) No. 1035/2011, the Integrated Quality Management System of BULATSA has been certified as per the requirements of the Standard ISO 9001:2008. The certificate, issued by "SGC Bulgaria", is valid until May 2014 and is under double accreditation – by the Executive Agency "Bulgarian Accreditation Service" and by the United Kingdom Accreditation Service (UKAS). The System has also been certified in accordance with the requirements of the standard BS OHSAS 18001:2007. An Information Security Management System was also implemented as a component of the Integrated Quality Management System of BULATSA, meeting the requirements of Standard ISO 27001:2005 as applicable. Following the approved Environmental Policy, there started the implementation of an Environmental Management System which will comply with the requirements of ISO 14001:2004 and will constitute a part of the integrated QMS.

The collaborative project with the participation of EUROCONTROL on the assessment of the environmental impact of the establishment of the DANUBE FAB has been finalized. The results have been analysed and reported in a document "Implementation Phase - Environmental Impact Assessment Study", which is included in the Project's submission package to the EC.

BULATSA has demonstrated a strong involvement in environmental issues. The organization initiated a meeting dedicated to the establishment of Collaborative Environmental Management (CEM) on aerodromes in the Republic of Bulgaria.

The implemented system of performance indicators for BULATSA processes was further developed and enhanced in order to ensure quantifiable target levels and to relate the processes and their indicators to the key performance indicators (KPIs) of the National Performance Plan in compliance with Regulation (EC) No. 691/2010.

IX. ADMINISTRATIVE AND HUMAN RESOURCES MANAGEMENT

In 2012 continued the work towards the realization of the organisation's priorities: extending the administrative capacity, enhancing performance and the quality of administrative services. The main emphasis was placed on the in-depth conduct of the processes aimed at the normative regulation of activities and the strengthening of the managerial functions of structural units.

Human resources management followed the policy set forth in BULATSA's Business Plan towards a gradual reduction in the number of employees, merger of performed functions by additional training and improvement of work productivity.

The main processes in the Human Resources Management Domain in 2012 were directed to increasing the quality of human resources as the main way to achieving BULATSA's strategic goals and increasing ANS efficiency.

In 2012 continued the implementation of the policy of planning and selection of personnel. In the process of personnel selection the criteria were raised and the testing assessment methods were improved so as to meet the increased requirements imposed by regulations, job descriptions and the licensing of operational and engineering personnel. The personnel selection system has been improved and developed by conducting specialized and English language proficiency tests for the assessment and ranking of candidates, by implementing standard procedures and forms and by increasing the competence of the committee's members.

Human resources management at BULATSA is focused mainly on ensuring a sufficient number of motivated and highly qualified personnel, maintenance of their work motivation and appropriate allocation to the different structural units by taking into account and coordinating employment needs. Running changes in the schedule of positions and job descriptions were carried out, in order to achieve a better alignment of employees and specific activities with the changing economic circumstances.

Execution of the plan for the improvement of employee qualifications continued through the participation of BULATSA employees in specialized training courses at the EUROCONTROL Institute of Air Navigation Services (IANS) in Luxembourg.

Training in IANS specialized courses and the exchange of experience among EUROCONTROL Member States will enable BULATSA to become a constituent part of a safe and efficient European ATM System.

In parallel with the execution of the plan for participation in IANS training courses, other specialized courses were conducted both in the country and abroad, including specialized foreign language training and courses in General English which took place in Bulgaria.

In fulfillment of a strategic objective from BULATSA's Annual Activity Plan for the year 2012 relating to the integration and automation of human resources management through the implementation of an automated HR Management Information System, a consultant was selected to perform an analysis of business processes in the area of human resources management and to make recommendations as to the implementation of such a system and its integration with other management systems employed by BULATSA.

X. FINANCE AND ACCOUNTING

In 2012 the processes in the financial and accounting activity were directed towards meeting the requirements of the national and the European legislation, as well as to the provision of reliable financial and accounting services to BULATSA. In order to ensure the financial stability of BULATSA a reasonable policy of expenditure was pursued in the conditions of the ongoing world financial crisis.

In 2012 BULATSA continued to apply a policy aimed at the establishment of the optimal level of the En-Route unit rate in view of attracting additional traffic to the civil controlled airspace where BULATSA is in charge of service provision.

The rate of collection of terminal navigation charges continued to be very high, approximately 99%.

In connection with changes in the national legislation the accounting software and the software employed in the calculation of salaries were updated.

Financial reports for 2011 on the accounting of expenditures in connection with the execution of the DANUBE FAB Project were submitted to the Ministry of Transport, Information Technology and Communications and to the European Commission.

According to the financial analysis indicators, BULATSA is in a good financial condition. The values of the indicators exemplifying BULATSA's activity have been improved as compared to 2011 values, as follows:

1. Net sales revenue – 161,457 thousand BGN (167,874), out of which 158,897 (166,331) thousand BGN are derived from air navigation charges.
2. Net revenue from sales per employee – 143.52 (141.79) thousand BGN.
3. Profit/ loss from the activity in % - 11.97% (4.80%).
4. General liquidity coefficient – 3.45 (3.37).
5. Financial autonomy coefficient – 4.16 (3.12).
6. Number of serviced units per employee – 1, 796 (1,705).

XI. ASSESSMENT OF THE EFFICIENCY OF THE PROVIDED AIR NAVIGATION SERVICES AND THE SAFETY LEVEL ACHIEVED

XI.1. Cost Efficiency

In 2012 BULATSA continued the trend of improving its cost efficiency established over the past few years, providing services at a lower price while simultaneously improving the quality of service and setting the targeted improvement in the cost base. After expiry of the term of the Industry Partnership Agreement (IPA) signed with IATA for the period 2007-2011, the improvement of the efficiency of ANS provided by BULATSA continued in the context of the implementation of the Single European Sky. Changes to the legislative package of European Regulations lay down as mandatory the preparation of a performance plan and the improvement of ANS in the framework of functional airspace blocks. The Performance Plan of the Republic of Bulgaria for the first reference period (2012-2014) was assessed by the European Commission as “contributing adequately” to the achievement of the EU-wide targets in all four key performance areas, namely Safety, Capacity, Environment and Cost-Efficiency.

In terms of cost-efficiency BULATSA plans and monitors the “EUR/composite controlled hour” indicator, which is improving continuously. This indicator is lower than average European values by approximately 15% and its level is about EUR 365. According to planning, this value will be reduced smoothly over the next several years.

All the above has been accompanied by improved productivity through reducing the numbers of the personnel and improving ATCO productivity over the past ten years. In terms of ATCO productivity and productivity in general Sofia ACC ranks among the leading ACCs in Europe boasting rates of productivity which are commensurate with Central European states.

XI.2. Capacity

The indicator “average en-route delay” (Table 2) provides an estimate of the capacity of airspace.

En-route delays at Sofia ACC in 2012 ¹				
Month	Total number of en-route flights	Change in the number of en-route flights in comparison with 2011 (%)	Aggregate en-route delay (minutes)	Average delay per flight (minutes)
January	28625	-3.2	0	0
February	26877	5	0	0
March	31726	3.2	0	0
April	37870	1.9	0	0
May	46683	1.5	0	0
June	56182	5.1	0	0
July	63711	2.1	0	0
August	62253	1.7	0	0
September	55959	-2.8	0	0
October	47725	-6.2	0	0
November	32582	-2	0	0
December	30012	0.9	0	0
2012 total	520205	0.6	0	0

Table 2: Average en-route delay per flight at Sofia ACC in 2012

XI.3. Quality of Air Navigation Services

On the basis of the general delay indicators provided by EUROCONTROL, the indicators of the quality of ANS – predictability and reliability of the services – are described in Table 3.

Indicators of the quality of ANS provided by BULATSA in 2012	
Predictability of the service (% of flights with less than 15 minutes delay)	100%
Reliability of the service (% of flights with less than 60 minutes delay)	100%

Table 3: Indicators of the quality of ANS provided by BULATSA in 2012

¹ As per DNM ATFCM Monthly Summary per ACC, EUROCONTROL Jan-Dec 2012

XII. PERFORMANCE INDICATORS

XII.1. Execution of the National Performance Plan of the Republic of Bulgaria for the first reference period 2012-2014

The National Performance Plan (NPP) comprises the first reference period (2012-2014) of the Performance Scheme. The first reporting of the achievement of performance targets against performance indicators contained in the NPP will be made by mid 2013. A certain portion of the data will be provided by EUROCONTROL, in accordance with the timeframe endorsed by the European Commission.

The BULATSA performance indicators listed in the National Performance Plan comply with the requirements of the currently acting regulations. Regulation (EU) No. 691/2010 laying down a performance scheme for air navigation services and network functions, defines four performance areas: Safety, Capacity, Environment and Cost-Efficiency.

European Union-wide key performance indicators and key performance targets in the areas of Capacity and Cost-Efficiency have been set for the first reference period 2012-2014 (RP1) of the Performance Scheme and they will have to contribute to the achievement of the EU-wide targets.

For the second reference period the targets will be extended to include the two other remaining areas.

In the National Performance Plan of the Republic of Bulgaria BULATSA has undertaken a commitment to achieve certain performance targets in the areas of Capacity and Cost-Efficiency and thus contribute to the indicators declared at national level, which constitute a part of the EU-wide performance indicators.

XII.1.1. Safety

No safety targets have been set up in the National Performance Plan for the first reference period (2012-2014).

The maturity of the Safety Management System (SMS) of BULATSA is defined on an annual basis by means of a self-assessment for the preceding three years. BULATSA has set itself the goal to achieve by the end of 2014 a maturity of 80% as measured against the EUROCONTROL indicators.

BULATSA has in place a programme for the improvement of Safety Culture. In 2012 the Safety Culture was assessed internally by the use of questionnaires.

XII.1.2. Capacity

The measures planned in BULATSA's Business Plan ensured the achievement of the system's optimal capacity.

By the use of certain en-route delay levels the aim for the period 2012-2014 is to reach the values set up by EUROCONTROL through the so called airspace capacity planning mechanism.

Capacity Targets (en-route ATFM delay in minutes per flight) in NPP 2012-2014	2012	2013	2014
Reference values from the capacity planning process of EUROCONTROL	0.11	0.14	0.12
National Performance Plan (June 2011)	0.11	0.14	0.12
National Performance Plan as updated in December 2011 and approved by EC in July 2012	0.11	0.13	0.11

Table 4: Capacity Targets (en-route ATFM delay in minutes per flight) in the National Performance Plan 2012-2014

XII.1.3. Environment

No environmental targets have been set up in the National Performance Plan for the first reference period (2012-2014).

BULATSA exercises a consistent policy aimed at achieving and maintaining the efficiency of horizontal en-route flights and minimizing the margin between actual and optimal trajectory, as well as effectively utilizing the civil-military airspace structures. The planned implementation of route network version 7 is key for the environment.

As a part of the DANUBE FAB project there is ongoing work on establishing an Environmental Management System (EMS) which will be certified in accordance with the requirements of ISO:14001. It will enable the identification and monitoring of certain aspects of BULATSA's activity which are related to the environment. A systematic approach will be implemented for the setting up of environmental targets.

XII.1.4. Cost Efficiency

The main component of the expenditures listed in the National Performance Plan (NPP) are the costs of BULATSA for the provision of ANS. Following the discussions held with the Performance Review Unit, the first draft of the NPP was improved. As a result the determined unit rate (DUR) for the first reference period was reduced by (-4.5%) over 2009 prices and by (-3.6%) over 2011 prices, the EU-wide targets adopted by the EC being (-3.2%) and (-3.5%) respectively.

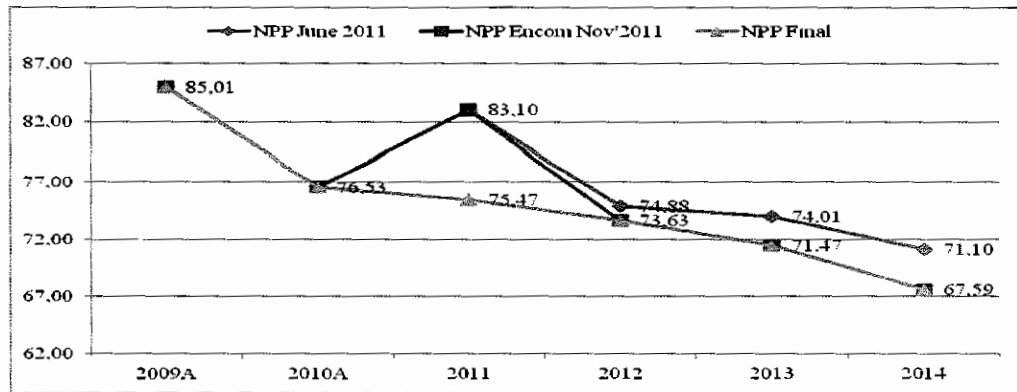


Chart 3: DUR (national currency) based on 2009 prices

The improvement of cost efficiency in terminal areas is very important for BULATSA as well. This can be achieved by the gate-to-gate approach which will enable a balancing between demand and supply of the services and a better utilization of resources.

XII.2. Alert Thresholds for Performance Indicators

During the first reference period the alert thresholds will be controlled by DG CAA. In its attempts to optimize performance indicators and in compliance with Regulation (EU) No. 691/2010, BULATSA will be monitoring certain thresholds for performance indicators, beyond which corrective mechanisms in the organisation's policy will be activated. The measures set up for the attainment of capacity are actually corrective plans which will be prepared and applied. The risk sharing mechanism shall be applied to cost-efficiency, in accordance with Article 11a of Regulation (EU) No. 1191/2010.

XIII. INVESTMENTS

The investments in BULATSA's Business Plan are aimed at maintaining the continuity in the organisation's activity, ensuring safety levels and optimal capacity for the provision of ANS, and improving the efficiency of the ATM, CNS, AIS and MET systems used in service provision, the major investments being as follows:

- Replacement of the primary and secondary radars (for Mode S operation) in en-route radars sites;
- Upgrade of the automated SATCAS ATM System by adding new functionalities and/or modifying the algorithm of existing ones to achieve compliance with EU regulations or in order to use surveillance information from new sensors;
- Replacement of the primary and secondary radars (for Mode S operation) at Sofia Airport radar site;
- Implementation of an Advanced Surface Movement Guidance and Control System (A-SMGCS) at Sofia Airport;
- Implementation of an Automatic Dependent Surveillance Broadcast (ADS-B) System;
- Implementation of a Wide Area Multilateration (WAM) System for Sofia Approach;

- Deployment of back-up surface navigation infrastructure (DME-DME) for the purposes of RNAV/PBN;
- Upgrade of the existing en-route and terminal surface navigation infrastructure (VOR-DME);
- Upgrade of precision approach and landing NAV aids;
- Implementation of certain components of satellite navigation (GNSS);
- Upgrade of AWOS;
- Delivery of VHF radio equipment for the implementation of 8,33 kHz channel spacing for air-ground communications;
- Delivery of UHF equipment for air-ground communications;
- Delivery and installation of equipment for the extension of the microwave network;
- Implementation of CPDLC;
- Upgrade of weather radars;
- Procurement of a new voice communication system at Sofia ACC;
- Delivery of a new Voice and Radar Data Recording and Replay System;
- Reconstruction of the power-supply systems of Sofia, Varna, Burgas and Plovdiv Airports.

XIV. RISKS TO THE ACTIVITIES OF BULATSA

XIV.1. Currency risk

BULATSA is exposed to currency risks arising from purchases, sales and acquired loan funds, denominated in foreign currency. The Bulgarian lev (BGN) is fixed to the Euro in the ratio of 1:1,95583. The currency risk for BULATSA stems basically from possible transactions in US dollars. The management team controls the currency risk by fixing the prices for purchases, sales and loans in levs or euros.

XIV.2. Interest risk

The enterprise does not use interest loans.

Appendices:

1. *National unit rates of the EUROCONTROL Member States – 2012.*
2. *Serviced units of the EUROCONTROL Member States – 2012.*
3. *Modifications to the national unit rate of Bulgaria for the period 2004-2012.*

Date:

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Diyan DINEV
Director General



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INDEPENDENT AUDITOR'S REPORT

To the Managing Board of
Bulgarian Air Traffic Services Authority
1 Brussels Blvd.1540 Sofia

Report on the Financial Statements

We have audited the accompanying financial statements of **Bulgarian Air Traffic Services Authority**, which comprise the statement of financial position as of 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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, as adopted by 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.

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 **Bulgarian Air Traffic Services Authority** as of 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by EU and Bulgarian legislation.

Report on Other Legal and Regulatory Requirements – Management's report for the year ended 31 December 2012

We have reviewed the management's report for the year ended 31 December 2012 of **Bulgarian Air Traffic Services Authority**, which is not part of the financial statements. The historical financial information in the management's report complies in its main aspects with the financial information, presented in the financial statements for the year ended 31 December 2012, prepared in accordance with International Financial Reporting Standards, as adopted by EU and Bulgarian legislation. The preparation of the management's report is responsibility of the management.

Mariy Apostolov
Registered Auditor
Managing partner


Grant Thornton Ltd.
Auditing Company



15 March 2013
Bulgaria, Sofia

Bulgarian Air Traffic Services Authority
 Financial statements
 31 December 2012

Statement of financial position as at 31 December

Assets	Note	2012 BGN'000	2011 BGN'000
Non-current assets			
Property, plant and equipment	5	168,505	178,006
Intangible assets	6	14,491	16,774
Deferred tax assets	7	2,527	3,690
Non-current assets		185,523	198,470
Current assets			
Inventories	8	2,509	2,366
Trade receivables	9	25,274	27,958
Related party receivables	27	543	530
Tax receivables	10	3,222	84
Other receivables	11	5,578	5,800
Cash and cash equivalents	12	142,711	141,491
Current assets		179,837	178,229
Total assets		365,360	376,699

Director of Finance and Chief
 Accountant _____
 Vencislav Markov

Director General _____
 Diyan Dinev

Prepared by: _____
 Evgenia Vankova
 Head of Accounting Department

Date: 08 March 2013

Audited according to the auditor's report dated 15 March 2013



The accompanying notes on pages from 7 to 43 form an integral part of the financial statements.

Bulgarian Air Traffic Services Authority
 Financial statements
 31 December 2012

Statement of financial position as at 31 December (continued)

Equity and liabilities	Note	2012 BGN'000	2011 BGN'000
Equity			
Registered capital	13.1	129,758	129,758
Legal reserves	13.2	38,588	37,713
Other reserves	13.2	108,657	108,970
Profit for the year		17,533	8,752
Total equity		294,536	285,193
Liabilities			
Non-current liabilities			
Pension and other employee obligations	14.2	10,053	12,579
Provisions	15	9,543	26,835
Financing		8	170
Non-current liabilities		19,604	39,584
Current liabilities			
Pension and other employee obligations	14.2	14,693	20,761
Provisions	15	22,344	19,111
Trade payables	16	7,762	5,020
Short-term related party payables	27	2,816	2,865
Tax liabilities	17	820	1,291
Other liabilities	18	2,785	2,874
Current liabilities		51,220	51,922
Total liabilities		70,824	91,506
Total equity and liabilities		365,360	376,699

Director of Finance and Chief
 Accountant _____
 Vencislav Markov

Director General _____
 Diyan Dinev

Prepared by: _____
 Evgenia Vankova
 Head of Accounting Department

Date: 08 March 2013

Audited according to the auditor's report dated 15 March 2013

The accompanying notes on pages from 7 to 43 form an integral part of the financial statements.

Bulgarian Air Traffic Services Authority
 Financial statements
 31 December 2012

Statement of comprehensive income

	Note	2012 BGN'000	2011 BGN'000
Revenue from services rendered	19	158,897	166,331
Other revenue	20	2,560	1,543
Cost of materials	21	(4,102)	(4,146)
Hired-services expenses	22	(17,199)	(17,158)
Employee benefits expenses	14.1	(101,389)	(102,732)
Depreciation and amortization of non-financial assets	6, 5	(23,041)	(23,580)
Other expenses	23	3,598	(12,197)
Operating profit		19,324	8,061
Finance income	24	3,049	2,963
Finance costs	24	(2,855)	(1,291)
Profit before tax		19,518	9,733
Income tax expense	25	(1,985)	(981)
Profit for the year		17,533	8,752
Total comprehensive income for the year		17,533	8,752

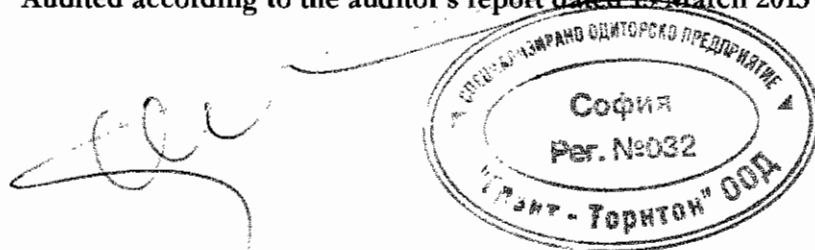
Director of Finance and Chief
 Accountant _____
 Vencislav Markov

Director General _____
 Diyan Dinev

Prepared by: _____
 Evgenia Vankova
 Head of Accounting Department

Date: 08 March 2013

Audited according to the auditor's report dated 15 March 2013



The accompanying notes on pages from 7 to 43 form an integral part of the financial statements.

Statement of changes in equity for the year ended 31 December

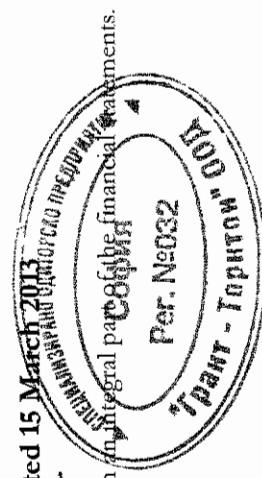
All amounts are presented in BGN '000	Registered capital	Legal reserves	Other reserves	Profit for the year	Total equity
Balance at 1 January 2012	129,758	37,713	108,970	8,752	285,193
Assets accounted for reserves increase	-	(1,193)	-	-	(1,193)
Dividends	-	-	(7,002)	(7,002)	(7,002)
Transactions with owners	-	(1,193)	(7,002)	(7,002)	(8,195)
Profit for the year	-	-	-	17,533	17,533
Total comprehensive income for the year	-	-	-	17,533	17,533
Transfer of retained earnings for 2011	-	875	875	(4,750)	-
Tax effect on assets granted without consideration	-	-	5	-	5
Balance at 31 December 2012	129,758	38,588	108,657	17,533	294,536

Director of Finance and Chief Accountant
 Vencislav Markov

Prepared by:
 Evgenia Vankova
 Head of Accounting Department

Director General
 Diyan Dinev

Date: 08 March 2013
 Audited according to the auditor's report dated 15 March 2013



The accompanying notes on pages from 7 to 43 form an integral part of the financial statements.

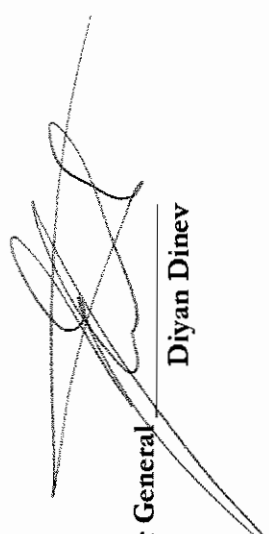
Statement of changes in equity for the year ended 31 December(continued)

All amounts are presented in BGN '000	Registered capital	Legal reserves	Other reserves	Retained earnings	Total equity
Balance at 1 January 2011	129,758	37,249	107,765	4,641	279,413
Assets acquired without consideration	-	-	741	-	741
Dividends	-	-	-	(3,713)	(3,713)
Transactions with owners	-	-	741	(3,713)	(2,972)
Profit for the year	-	-	-	8,752	8,752
Total comprehensive income for the year	-	-	-	8,752	8,752
Transfer of retained earnings for 2010	-	464	464	(928)	-
Balance at 31 December 2011	129,758	37,713	108,970	8,752	285,193

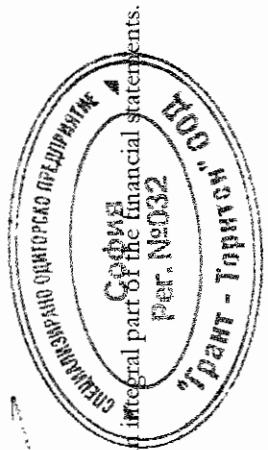
Director of Finance and Chief Accountant
 Vencislav Markov

Prepared by: 
 Evgenia Vankova
 Head of Accounting Department




 Director General
 Diyan Dinev

Date: 08 March 2012
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The accompanying notes on pages from 7 to 43 form an integral part of the financial statements.

Statement of cash flows for the year ended 31 December

	Note	2012 BGN'000	2011 BGN'000
Operating activities			
Cash receipts from customers		164,079	168,156
Cash paid to suppliers		(34,934)	(27,188)
Cash paid to employees and social security institutions		(104,486)	(100,828)
Income taxes paid		(2,153)	(1,213)
Received financing		429	1,316
Other cash outflows		(3,224)	(4,510)
Net cash flow from operating activities		19,711	35,733
Investing activities			
Purchase of property, plant and equipment		(13,421)	(7,456)
Proceeds from disposals of property, plant and equipment	20	1,744	-
Acquisition of intangible assets		(2,874)	(2,164)
Interest received		3,064	2,680
Net cash flow from investing activities		(11,487)	(6,940)
Financing activities			
Dividends paid	13.3	(7,002)	(3,713)
Net cash flow from financing activities		(7,002)	(3,713)
Net change in cash and cash equivalents			
Cash and cash equivalents, beginning of year		141,491	116,411
Exchange losses on cash and cash equivalents		(2)	-
Cash and cash equivalents, end of year, including	12	142,711	141,491
Cash reserve at Bulgarian National Bank		21,514	21,514

Director of Finance and Chief Accountant

 Vencislav Markov



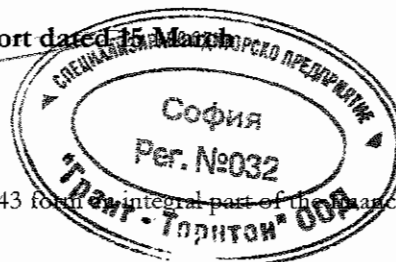
Director General

Diyan Dinev

Prepared by: _____
 Evgenia Vankova
 Head of Accounting Department

Date: 08 March 2012

Audited according to the auditor's report dated 15 March 2012



Notes to the financial statements

1. Nature of operations

The Bulgarian Air Traffic Services Authority (BULATSA, the "Entity") is an Entity operating in the Republic of Bulgaria. On 1 January 2001 the Entity was registered as a state owned enterprise. Prior to this registration, it operated as directorate under the Ministry of Transport, Information Technology and Communications in Bulgaria. At present the Minister of Transport, Information Technology and Communications (MTITC) is the sole owner of the Entity.

The Entity performs functions for the provision of air navigation in the controlled civil airspace of the Republic of Bulgaria. BULATSA's main spheres of activity include:

1. Air traffic management aimed at achieving safety, efficiency and regularity of flights in the controlled civil airspace of the Republic of Bulgaria;
2. Planning, provision, implementation, operation and maintenance of facilities, systems and equipment to ensure the communications, navigation, surveillance, power-supply, lighting, meteorological and aeronautical aspects of the serviced air traffic and its supporting infrastructure;
3. Provision of communications, navigation and surveillance services;
4. Provision of meteorological services;
5. Provision of aeronautical information services;
6. Provision of metrological services;
7. Provision of information services for aircraft search and rescue operations;
8. Management of the air traffic safety system within its assigned powers;
9. Fulfillment of the obligations of the Republic of Bulgaria ensuing from international agreements in the ATM area, to which the Republic of Bulgaria is a signatory state;

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

The governing bodies of the Entity are as follows:

1. The Minister of Transport, Information Technology and Communications;
2. Management Board;
3. Director General.

At the date of the financial statements, as well as at the date of preparation of the financial statements, the members of the Management Board are as follows:

1. Veselina Karamileva – Chairperson of the Management Board
2. Diyan Dinev – Director General and member of the Management Board
3. Geo Georgiev – member of the Management Board

As of 31.12.2012 the entity has 1 125 employees.

2. Basis for the preparation of the financial statements

The financial statements of the Entity have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and approved by the European Union (EU).

The financial statements are presented in Bulgarian leva (BGN), which is also the functional currency of the Entity. All amounts are presented in thousand Bulgarian leva (BGN'000) (including comparative information for 2011) unless otherwise stated.

The financial statements are prepared under the going concern principle.

3. Changes in accounting policy

3.1. Overall considerations

IFRS 7 “Financial Instruments: Disclosures” – Derecognition, effective from 1 July 2011, adopted by the EU on 23 November 2011 is obligatory for application for the periods beginning on or after 01 January 2012. The amendments will promote transparency in the reporting of transfer transactions and improve users’ understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position, particularly those involving securitisation of financial asset.

The change in IFRS 7 has no significant effect on the Company’s activities and financial statements disclosure from the first-time adoption of the amendments to IFRS 7.

3.2. Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

The following new standards, amendments and interpretations to existing standards have been issued, but are not effective for the financial year beginning 1 January 2012 and have not been early adopted:

IAS 1 “Financial Statement Presentation” – Other Comprehensive Income, effective from 1 July 2012, adopted by the EU on 05 June 2012

The Company presents separate items of other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled such as revaluation gains on property, plant and equipment are presented separately from items that may be recycled in the future, such as deferred gains and losses on cash flow hedges. Since the Company has chosen to present other comprehensive income items before tax, it is required to show the amount of tax related to the two groups separately.

The title used by IAS 1 for the statement of comprehensive income has changed to ‘statement of profit or loss and other comprehensive income’.

IAS 19 “Employee Benefits” effective from 1 January 2013, adopted by the EU on 05 June 2012

These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. ‘Actuarial gains and losses’ are renamed ‘remeasurements’ and will be recognised immediately in ‘other comprehensive income’. Remeasurements recognised in other comprehensive income will not be recycled through profit or loss in subsequent periods. The amendments should be applied retrospectively in accordance with IAS 8 ‘Accounting policies, changes in accounting estimates and errors’. For the presentation of comparative information in 2013, the company expects actuarial gains and losses amounting to approximately BGN 1,161 thousand for 2012 to be reclassified in the profit or loss in other comprehensive income.

The Company management does not expect these new standards, amendments and interpretations to existing standards to have a material effect on the financial statements in the next period:

- ✓ IFRS 1 “First-time Adoption of International Financial Reporting Standards” (amended) – Fixed dates and Hyperinflation, effective from 1 January 2013, adopted by the EU on 11 December 2012

- ✓ IFRS 1 “First-time Adoption of International Financial Reporting Standards” (amended) – Government Loans, effective from 1 January 2013, not yet adopted by the EU
- ✓ IFRS 7 “Financial Instruments: Disclosures” – Offsetting Financial Assets and Financial Liabilities, effective from 1 January 2013, adopted by the EU on 13 December 2012
- ✓ IFRS 9 “Financial Instruments” effective from 1 January 2015, not yet adopted by the EU
- ✓ IFRS 10 “Consolidated Financial Statements” effective from 1 January 2014, adopted by the EU on 11 December 2012
- ✓ IFRS 11 “Joint Arrangements” effective from 1 January 2014, adopted by the EU on 11 December 2012
- ✓ IFRS 12 “Disclosure of Interests in Other Entities” effective from 1 January 2014, adopted by the EU on 11 December 2012
- ✓ IFRS 10, 11, 12 – Transition Guidance, effective from 1 January 2013, not yet adopted by the EU
- ✓ IFRS 13 “Fair Value Measurement” effective from 1 January 2013, adopted by the EU on 11 December 2012
- ✓ IAS 12 “Income Taxes” – Deferred Tax, effective from 1 January 2013, adopted by the EU on 11 December 2012
- ✓ IAS 27 “Separate Financial Statements” (Revised) effective from 1 January 2013, adopted by the EU on 11 December 2012
- ✓ IAS 28 “Investments in Associates and Joint Ventures” (Revised) effective from 1 January 2013, adopted by the EU on 11 December 2012
- ✓ IAS 32 “Financial Instruments: Presentation” (amended) effective from 1 January 2014, adopted by the EU on 13 December 2012
- ✓ IFRIC 20 “Stripping costs in the production phase of a surface mine” effective from 1 January 2013, adopted by the EU on 11 December 2012
- ✓ Annual Improvements to IFRSs 2011 effective from 1 January 2013, not yet adopted by the EU

4. Accounting policy

4.1. Overall considerations

The significant accounting policies that have been used in the preparation of these financial statements are summarized below.

The financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used for the preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

4.2. Presentation of financial statements

The financial statements are presented in accordance with IAS 1 "Presentation of Financial Statements". The Entity has elected to present the statement of comprehensive income as a single statement

The entity presents comparative information in the financial statements for the prior year as there are no adjustments to the presentation of the elements of financial statements and the corresponding comparative data.

In 2012, the Company decided to present the statement of cash flows using the direct method under IAS 7 Statement of Cash Flows. In this case, relating to the classification of the elements of financial statements, relevant comparative figures were also reclassified to ensure comparability between reporting periods.

4.3. Foreign currency translation

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions (spot exchange rate as published by the Bulgarian National Bank). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognized in profit or loss.

4.4. Revenue

Revenue comprises revenue from the rendering of services. Revenue from major services is shown in note 19.

- Revenue is measured by reference to the fair value of consideration received or receivable by the Entity for goods supplied and services provided, excluding VAT.
- Revenue is recognized, provided all of the following conditions are satisfied:
 - the amount of the revenue can be measured reliably;
 - it is probable that the economic benefits associated with the transaction will flow to the Entity;
 - the costs incurred or to be incurred can be measured reliably; and
 - when the criteria for each of the Entity's different activities has been met. These activity-specific recognition criteria are based on the goods or solutions provided to the customer and the contract conditions in each case, and are described below.

Deferred income

Financing for fixed assets and current activity are initially recognized in the statement of financial position as deferred income when there are sufficient grounds to believe that they will be received and that the Entity will meet the related conditions. Income from financing for fixed assets is recognized evenly for the term of the useful life of the respective assets.

Income from financing of current activity is recognized during the period to the amount of the accounted expenses, for which they are intended

4.4.1. Rendering of services

Services rendered by the Entity comprise the provision of air navigation services presented in Note 1.

Revenue from the rendering of services is recognized when the services are provided by reference to the stage of completion of the contract at the reporting date. In the cases when there is significant uncertainty as to whether the remuneration due or any other expenses have been received, no revenue is recognized.

Revenue comprises only the gross cash flows from economic benefits, received by and due to the Entity.

Amounts, collected from third parties, such as value added taxes, do not comply with the requirements (to/for) revenue and as such, they are excluded from the revenue and recognized as balances instead.

4.4.2. Interest income

Interest income is recognized on a current basis using the effective interest method.

4.5. Operating expense

Operating expenses are recognized in profit or loss upon utilization of the service or at the date of their origin.

4.6. Interest expense

Interest expenses are reported on an accrual basis using the effective interest method and are recognized as an expense for the period of origin, in the statement of comprehensive income as "Finance expenses"

4.7. Intangible assets

Intangible assets include specialized and standard software. The cost comprises its purchase price, including any import duties and non-refundable purchase taxes, and any directly attributable expenditure on preparing the asset for its intended use, whereby capitalized costs are amortized on a straight line basis over their estimated useful lives, as these assets are considered finite. After initial recognition, an intangible asset is carried at its cost less any accumulated amortization and any accumulated impairment losses. Impairment losses are recognized in the Statement of comprehensive income for the respective period.

Subsequent expenditure on an intangible asset after its purchase or its completion is expensed as incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured reliably and attributed to the asset. If these conditions are met, the subsequent expenditure is added to the carrying amount of the intangible asset.

Residual values and useful lives are reviewed at each reporting date.

Amortization is calculated using the straight-line method over the estimated useful life of individual assets as follows:

- Software 5 years
- Rights for use according to the term of usage

Amortization charges have been included within 'Depreciation and amortization of non-financial assets' in the Statement of comprehensive income.

The gain or loss arising from the disposal of an intangible asset is determined as the difference between the proceeds and the carrying amount of the asset, and is recognized in profit or loss within "Other revenue" in the Statement of comprehensive income.

The recognition threshold adopted by the Entity for the intangible assets amounts to BGN 150.

4.8. Property, plant and equipment

Property, plant and equipment are initially measured at cost, which comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use.

After initial recognition, property, plant and equipment are carried at their cost less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Impairment losses are recognized in the Statement of comprehensive income for the respective period.

Subsequent expenditure relating to an item of property, plant and equipment is added to the carrying amount of the asset when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance. All other subsequent expenditure is recognized as incurred.

The residual value and the useful life of property, plant and equipment are determined as of the reporting date.

Depreciation is calculated using the straight-line method over the estimated useful life of individual assets as follows:

- Buildings up to 40 years
- Plants and machines from 7 to 15 years
- Vehicles from 7 to 10 years
- Fixtures and fittings from 10 to 15 years
- Computers from 3 to 5 years
- Others from 7 to 10 years

Depreciation charges have been included within 'Depreciation and amortization of non-financial assets'.

Gains or losses arising from the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss within "Other revenue".

The recognition threshold adopted by the Entity for property, plant and equipment amounts to BGN 150.

4.9. Impairment testing of intangible assets and property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Entity's latest approved budget, adjusted as necessary to exclude the effects of future reorganizations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management.

Impairment losses for cash-generating units reduce the carrying amount of the assets allocated to that cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

4.10. Financial instruments

Financial assets and financial liabilities are recognized when the Entity becomes a party to contracts, containing financial instruments.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

All financial assets are recognized on their transaction date.

Financial assets and financial liabilities are subsequently measured as described below.

4.10.1. Financial assets

Financial assets are assigned to the different categories, depending on the purpose for which the investments were acquired. The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within 'Finance costs', 'Finance income' or 'Other financial items', except for impairment of trade receivables which is presented within 'Other expenses'.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortized cost using the effective interest method, less provision for impairment. Any change in their value is recognized in profit or loss. The Entity's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments. Discounting is omitted where the effect of discounting is immaterial.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Impairment of trade receivables is presented within 'Other expenses'.

4.10.2. Financial liabilities

The Entity's financial liabilities include trade and other payables.

Financial liabilities are recognized when the Entity becomes a party to contractual agreements for payment of cash amounts or another financial asset to another Entity or contractual liability for exchange of financial instruments with another Entity under unfavorable terms. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within 'Finance costs' or 'Finance income'.

Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognized in profit or loss.

Trade payables are recognized initially at their nominal value and subsequently measured at amortized cost less settlement payments.

4.11. Inventories

Inventories include materials and goods. Cost of inventories includes all expenses directly attributable to the purchase or manufacturing process, recycling and other direct expenses connected to their delivery as well as suitable portions of related production overheads, based on normal operating capacity. Financing costs are not included in the cost of the inventories. At the end of every accounting period, inventories are carried at the lower of cost and net realizable value. The amount of impairment of inventories to their net realizable value is recognized as an expense for the period of impairment.

Net realizable value is the estimated selling price of the inventories less any applicable selling expenses. In case inventories have already been impaired to their net realizable value and in the following period the impairment conditions are no longer present, then the new net realizable value is adopted. The reversal amount can only be up to the carrying amount of the inventories prior to their impairment. The reversal of the impairment is accounted for as decrease in inventory expenses for the period in which the reversal takes place.

The Entity determines the cost of inventories by using the weighted average cost.

When inventories are sold, the carrying amount of those inventories is expensed in the period in which the related revenue is recognized.

4.12. Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of an asset or liability unless the related transaction affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Entity and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. For management's assessment of the probability of future taxable income to utilize against deferred tax assets, see note 4.17.

Deferred tax assets and liabilities are offset only when the Entity has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively

4.13. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current bank accounts, demand deposits that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

4.14. Equity, reserves and dividend payments

Equity

In accordance with art. 53 of the Civil Aviation Act, BULATSA is established as a state entity in compliance with art. 62, par. 3 of the Commercial Act.

The registered capital of the Entity is 100 percent state ownership of the Ministry of Transport, Information Technology and Communications.

Legal reserves

Legal reserves include the following:

- reserve conceded from corporate income tax regulated by the Corporate Income Tax Act as in force until 31 December 2009, in certain conditions, when the Entity forms a specific reserve equal to the conceded tax amounting to 60 % of the liability for corporate income tax.
- legal reserves equal to 10 % of the net profit for the periods in accordance with Regulation 140 dated 04 December 2001, issued by the Ministry of Transport, Information Technology and Communications and the Ministry of Finance for maintenance of cash reserve of the Entity.

Other reserves

Other reserves include reserves formed at the acquisition of non-current assets – owned by the state, provided for management by the Ministry of Transport, Information Technology and Communications, as well as retained earnings from prior periods. Retained earnings include the current financial result for the period. The Entity distributes the profit for the prior period as reserves and a dividend to the state represented by the Ministry of Transport, Information Technology and Communications

All transactions with the owners of the Entity are recorded separately within the Statement of changes in equity.

4.15. Post-employment benefits and short-term employee benefits

The Entity reports short-term payables relating to unutilized paid leaves, which shall be compensated in case it is expected the leaves to occur within 12 months after the end of the accounting period during which the employees have performed the work related to those leaves. The short-term payables to personnel include salaries and related social security payments.

In accordance with the requirements laid down in the Labor Code and the Collective Labor Agreement, in case of retirement, after the employee has gained the legal right of retirement pension due to years of service and age, the Entity is obliged to pay him/her compensation at the amount of up to six gross salaries and additional compensation in accordance with the Collective Labor Agreement. The Entity has reported a liability by law for the payment of retirement compensation in accordance with IAS 19 “Employee Benefits”. The amount is based on forecasts made for the next five years, discounted with the long-term income percentage of risk free securities.

The Entity provides post employment benefits through defined benefit plans as well as defined contribution plans.

A defined contribution plan is a pension plan under which the Entity pays fixed contributions into independent entities. The Entity has no legal or constructive obligations to pay further contributions after the payment of the fixed contributions. The Entity pays fixed contributions in regard to defined contribution plans.

Plans that do not meet the definition of a defined contribution plan are defined benefit plans. The defined benefit plan defines the amount of pension benefit that an employee will receive on retirement by reference to length of service and final salary.

The liability recognized in the statement of financial position for defined benefit plans is the present value of the defined benefit obligation (DBO) at the reporting date.

The Management estimates the DBO annually with the assistance of independent actuaries. The estimate of its post-retirement benefit obligations is based on standard rates of inflation and mortality. It also takes into account the Entity's specific anticipation of future salary increases.

Discount factors are determined close to each year-end by reference to risk-free treasury securities that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses are recognized as an expense.

Interest expenses related to pension obligations are included in the Statement of comprehensive income within 'Finance costs'. All other post employment benefit expenses are included within 'Employee benefits expense'.

Short-term employee benefits, including holiday entitlement, are current liabilities included in 'Pension and other employee obligations', measured at the undiscounted amount that the Entity expects to pay.

4.16. Provisions, contingent liabilities and contingent assets

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Entity and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts. Provisions are not recognized for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Entity can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized.

The contingent liabilities have to be measured subsequently at higher cost between the above comparative provision and the initially recognized cost, less the accumulated depreciation and amortization.

Possible inflows of economic benefits to the Entity that do not yet meet the recognition criteria of an asset are considered contingent assets.

4.17. Significant management judgment in applying accounting policies

The significant judgements of the Management in applying the accounting policies of the Entity that have the most significant effect on the financial statements are described below. Significant estimation uncertainties are described in note 4.18

Deferred tax assets

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Entity's latest approved budget forecast, which is adjusted for significant

non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by the Management based on the specific facts and circumstances.

4.18. Estimation uncertainty

When preparing the financial statements management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses.

The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

Information about significant judgements, estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses are discussed below

4.18.1. Impairment of receivables

The accounting estimate for losses from doubtful and uncollectable receivables is made at the end of each reporting period. The receivables, which have been past due between 3 months and 6 months are classified as doubtful, and those which have been past due over 6 months - as uncollectible ones. The management of the Entity adopted that the doubtful receivables are impaired up to 50% from their carrying value, and the uncollectable receivables are fully impaired.

4.18.2. Useful lives of depreciable assets

The Management reviews the useful lives of depreciable assets at each reporting date.

At 31 December 2012 the Management assesses that the useful lives represent the expected utility of the assets to the Entity. The carrying amounts are analyzed in notes 5 and 6. Actual results, however, may vary due to technical obsolescence, particularly relating to software and IT equipment.

4.18.3. Inventories

Inventories are measured at the lower of cost and net realizable value. In estimating net realizable values, management takes into account the most reliable evidence available at the times the estimates are made

4.18.4. Defined benefit obligations

The Management estimates the defined benefit obligations annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimate of its defined benefit liability is based on actuaries assumptions, described in Note 14.2.

4.18.5. Provisions

Provisions for constructive obligations due to users of en-route air-navigation services (aircraft operators)

Services provided by BULATSA are related to the provision of air navigation services (ANS) in the airspace of the Republic of Bulgaria. These services are divided into en-route air navigation services and terminal area navigation services. The en-route unit rate is calculated according to the Multilateral Agreement relating to Route Charges. In addition to the above and in compliance with the Principles for Establishing the Cost-Base for En-route Charges and the Calculation of the Unit Rates (the Principles of EUROCONTROL) and Regulation (EU) No. 1794/2006, until the end of year 2011 BULATSA applied a regime of full cost recovery of en-route charges. Under the full cost recovery regime the unit rate for en-route ANS is based on the planned expenditures and the estimated number of serviced units. Thus deviations are possible – “over-recovery” or “under-recovery”, between the estimated amounts and those recorded following the annual closure of accounts. As a result the Principles of EUROCONTROL provide for the application of an adjustment mechanism as follows:

- In case of over-recovery in a certain reporting period, the surplus is reimbursed to the users after two years through an adjustment (reduction) in the unit rate during that period;
- In case of under-recovery in a certain reporting period, the amount of the shortage is compensated after two years through an adjustment (increase) in the unit rate during that period.

The above mentioned effects resulting from this method are expected to have an impact until the end of 2014.

As of year 2012, in application of Regulation 691/2010 and Regulation 1191/2010 of the European Commission in respect of en-route air navigation charges a switch from the method of full cost recovery was introduced. The latter was replaced by a method of determined costs and a risk sharing mechanism in terms of pre-determined costs and the level of service units for each calendar year of the reference period, as well as the total amount of actual and determined costs for the entire reference period.

In the full cost recovery method with respect to en-route air navigation services, the unit rate is a finite derivative value, while under the application of the new determined cost method the unit rate is a target value. The initial reference period in which this mechanism operates is 2012 - 2014, while subsequent reference periods will comprise five years each starting from 2015 onwards. A risk sharing mechanism is introduced in terms of revenues and costs for the provision of air navigation services, imposing a number of conditions with regard to costs incurred and reimbursed.

Provisions for legal obligations

The Entity is currently defending certain lawsuits where the actual outcome may vary from the amount recognized in the financial statements. None of those provisions will be discussed here in further detail so as not to seriously prejudice the Entity's position in the related disputes.

5. Property, plant and equipment

Entity's property, plant and equipment include land, buildings, machines, plant, equipment, vehicles and expenditures for fixed assets acquisition. The carrying amount can be analyzed as follows:

	Land and buildings	Machines and plants	Vehicles	Equipment	Expenditures for fixed assets acquisition	Total
	BGN'000.	BGN'000.	BGN'000.	BGN'000.	BGN'000.	BGN'000.
Gross carrying amount						
Balance at 1 January 2012	142,015	189,400	3,119	3,941	5,297	343,772
Additions	-	1,651	593	150	13,922	16,316
Transfers	7,502	7,716	-	202	(15,420)	-
Disposals	(2,370)	(25,406)	(10)	(104)	(76)	(27,966)
Balance at 31 December 2012	147,147	173,361	3,702	4,189	3,723	332,122
Depreciation and impairment						
Balance at 1 January 2012	(28,630)	(132,405)	(2,202)	(2,453)	(76)	(165,766)
Disposals	435	17,805	10	91	76	18,417
Depreciation	(3,461)	(12,290)	(250)	(267)	-	(16,268)
Balance at 31 December 2012	(31,656)	(126,890)	(2,442)	(2,629)	-	(163,617)
Carrying amount at 31 December 2012	115,491	46,471	1,260	1,560	3,723	168,505

	Land and buildings	Machines and plants	Vehicles	Equipment	Expenditures for fixed assets acquisition	Total
	BGN'000.	BGN'000.	BGN'000.	BGN'000.	BGN'000.	BGN'000.
Gross carrying amount						
Balance at 1 January 2011	141,321	188,322	3,212	3,978	1,609	338,442
Additions	745	563	-	43	4,457	5,808
Transfers	(28)	791	-	6	(769)	-
Disposals	(23)	(276)	(93)	(86)	-	(478)
Balance at 31 December 2011	142,015	189,400	3,119	3,941	5,297	343,772
Depreciation and impairment						
Balance at 1 January 2011	(25,181)	(119,902)	(2,044)	(2,224)	(76)	(149,427)
Disposals	9	268	92	69	-	438
Depreciation	(3458)	(12,771)	(250)	(298)	-	(16,777)
Balance at 31 December 2011	(28,630)	(132,405)	(2,202)	(2,453)	(76)	(165,766)
Carrying amount at 31 December 2011	113,385	56,995	917	1,488	5,221	178,006

All depreciation charges are included within 'Depreciation and amortization of non-financial assets'.

The Entity has a contractual commitment to acquire assets, the deliveries under which are initially recognized as "Expenditures for fixed assets acquisition". As at 31.12.2012 their amount is BGN 3,723 thousand and are presented as follows:

- Modernisation of DVOR airport Plovdiv (BGN 744 thousand)
- Supply and installation of AFTN (BGN 1,301 thousand)
- Delivery of DME (BGN 914 thousand)

The accumulated expenditures for fixed assets acquisition are transferred into the respective group of assets, when the Entity acquires the rights for use of the asset and it is put into operation. The respective amounts are presented within the "Transfers" line.

Essential part of the newly acquired assets in 2012 in the total amount of BGN 16,316 thousand (2011: BGN 5,808 thousand) relate to the construction of an airport control tower at Sofia Airport (BGN 13 094 thousand) and acquired facilities, equipment, computers and servers for basic systems for air navigation services (BGN 1 835 thousand).

Essential part of the disposals during the period having a carrying value totalling BGN 9,549 thousand (2011: BGN 40 thousand) represent assets withdrawn by the Entity's sole owner namely the MTITC as result of a change of the Civil Aviation Act - para § 37,art. 1 of the Transitional and Final Provisions (carrying amount at BGN 8 988 thousand).

The carrying amount of the assets, which is their fair value in the amount of BGN 8,988 thousand refers to facilities and systems of visual air navigation facilities / Lighting / were delivered free of charge to the MTITC based on Decisions issued by the Ministry Council No. 662 and No. 663 dated 06.08.2012.

Depending on how the assets have been financed/acquired by the Entity, the carrying amount of disposals written off on behalf of the current year's financial result amounted to BGN 7 812 thousand, and those disposed on behalf of other reserves amounted to BGN 1 193 thousand.

The Entity has no property, plant and / or equipment pledged as security for liabilities.

6. Intangible assets

Intangible assets include specialized and standard software. Carrying amounts for the presented reporting periods can be analyzed as follows:

	Software BGN'000.	Expenditures for software acquisition BGN'000.	Total BGN'000.
Gross carrying amount			
Balance at 1 January 2012	45,515	1,530	47,045
Additions, bought	36	4,454	4,490
Transfers	221	(221)	-
Disposals	(98)	-	(98)
Balance at 31 December 2012	45,674	5,763	51,437
Amortization			
Balance at 1 January 2012	(30,271)	-	(30,271)
Amortization	(6,773)	-	(6,773)
Disposals	98	-	98
Balance at 31 December 2012	(36,946)	-	(36,946)
Carrying amount at 31 December 2012	8,728	5,763	14,491

	Software BGN'000.	Expenditures for software acquisition BGN'000.	Total BGN'000.
Gross carrying amount			
Balance at 1 January 2011	44,874	109	44,983
Additions, bought	871	1,551	2,422
Transfers	130	(130)	-
Disposals	(360)	-	(360)
Balance at 31 December 2011	45,515	1,530	47,045
Amortization			
Balance at 1 January 2011	(23,828)	-	(23,828)
Amortization	(6,803)	-	(6,803)
Disposals	360	-	360
Balance at 31 December 2011	(30,271)	-	(30,271)
Carrying amount at 31 December 2011	15,244	1,530	16,774

The Entity's specialized software includes licenses for use of programme products (software) for airspace management and the provision of air navigation services.

The standard software of the Entity represents licenses for use of programme products (software), which the Entity uses for its operating and financial activity.

Intangible assets acquired during the year are specialized software for meteorological radar RAINBOW 5 (BGN 196 thousand) and software for administrative and operational systems (BGN 61 thousand)

In 2012 significant acquisition costs for intangible assets were made in the amount of BGN 4,033 thousand in relation to an upgrade of the SATCAS system and BGN 198 thousand for the modernization of equipment for flight inspection activities.

All amortization charges are included in the statement of comprehensive income within "Depreciation and amortization of non-financial assets".

The company has not pledged intangible assets as security for liabilities.

The most significant intangible assets within the Entity's specialized software as at 31.12.2012 are as follows:

Name	Explanation	Carrying value BGN '000	Remaining useful life
SW SATCAS- V2- UNIX	Application software	475	0 years
SW SATCAS LINUX	for the Automated	2,975	3 years
SW SATCAS LINUX Varna Tower	Air Traffic Control	1,389	3 years
	System		
SW SATCAS LINUX Burgas Tower		1,389	3 years
SW SATCAS LINUX Simulator		1,110	3 years
SW SATCAS- V2- UNIX - TDS		71	0 years
SW SATCAS LINUX TDS		448	3 years
SW AWOS AVIMET	Application software for meteorological observation	138	3 years
ARTAS COST	Application software for processing multi- radar information	78	4 years

As at the date of the financial statements the Entity has a contractual agreement for the delivery of intangible assets related to the modernization of the SATCAS system. The amount of BGN 2,118 thousand will be paid in 2013.

7. Deferred tax assets and liabilities

Deferred taxes arising from temporary tax differences can be summarized as follows:

Deferred tax (assets)/liabilities	1 January 2012	Recognized in profit and loss	Recognized in equity	31 December 2012
	BGN'000	BGN'000	BGN'000	BGN'000
Non-current assets				
Property, plant and equipment	4,474	(993)	(5)	3,476
Current assets				
Trade and other receivables	(328)	(49)	-	(377)
Non-current liabilities				
Pension and other employee obligations	(1,258)	253	-	(1,005)
Provisions for constructive obligations	(2,684)	1,730	-	(954)
Current liabilities				
Pension and other employee obligations	(1,823)	544	-	(1,279)
Legal obligation provisions	(160)	6	-	(154)
Provisions for constructive obligations	(1,911)	(323)	-	(2,234)
	(3,690)	1,168	(5)	(2,527)
Recognized as:				
Deferred tax assets	(8,164)			(6,003)
Deferred tax liabilities	4,474			3,476
Net deferred tax assets	(3,690)	1,168	(5)	(2,527)

All deferred tax assets have been recognized in the statement of financial position.

The deferred tax liabilities for the comparative reporting period can be presented as follows:

Deferred tax (assets)/liabilities	1 January 2011	Recognized in profit and loss	31 December 2011
	BGN'000.	BGN'000.	BGN'000.
Non-current assets			
Property, plant and equipment	4,867	(393)	4,474
Current assets			
Trade and other receivables	(282)	(46)	(328)
Non-current liabilities			
Pension and other employee obligations	(1,402)	144	(1,258)
Provisions for constructive obligations	(3,920)	1,236	(2,684)
Current liabilities			
Pension and other employee obligations	(1,900)	77	(1,823)
Legal obligation provisions	(154)	(6)	(160)
Provisions for constructive obligations	-	(1,911)	(1,911)
	<u>(2,791)</u>	<u>(899)</u>	<u>(3,690)</u>
Recognized as:			
Deferred tax assets	<u>(7,658)</u>		<u>(8,164)</u>
Deferred tax liabilities	<u>4,867</u>		<u>4,474</u>
Net deferred tax assets	<u>(2,791)</u>		<u>(3,690)</u>

8. Inventories

Inventories recognized in the statement of financial position can be analyzed as follows:

	2012	2011
	BGN'000	BGN'000
Materials and consumables	2,433	2,297
Goods	76	69
Inventories	<u>2,509</u>	<u>2,366</u>

In 2012 inventories amounting to BGN 1,542 thousand were recognized as an expense in profit or loss (2011: BGN 1,706 thousand). This amount includes impairment due to the write-off of inventories in the amount of BGN 17 thousand (2011: BGN 53). Re-valued inventories have no carrying value as at the date of the financial statements.

The main part of the inventories consists of spare parts.

None of the inventories are pledged as securities for liabilities.

9. Trade receivables

	2012 BGN'000	2011 BGN'000
Trade receivables, gross	29,649	31,841
Allowance for credit losses	(4,375)	(3,883)
Trade receivables	25,274	27,958

All trade receivables are short term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

All trade receivables of the Entity have been tested for impairment losses. According to the Entity's accounting policy, an estimation of credit losses for doubtful and uncollectible receivables is performed at the end of each reporting period. The receivables, which have been past due between 3 months and 6 months are classified as doubtful, and those which have been past due over 6 months - as uncollectible. The Management of the Entity has adopted that doubtful receivables shall be impaired to 50% of their carrying amount, and uncollectible receivables are totally impaired. Based on ageing analysis performed, trade receivables with past due over 3 months, have been impaired and the respective impairment, amounting to BGN 878 thousand (2011: BGN 1,162 thousand) is recognized in the Statement of comprehensive income within "Other expenses".

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

	2012 BGN'000.	2011 BGN'000.
Balance at 1 January	3,883	3,432
Amounts written-off (uncollectible)	(267)	(460)
Impairment loss	878	1,162
Impairment loss reversed	(119)	(251)
Balance at 31 December	4,375	3,883

There are no unimpaired past due trade receivables.

The most significant trade receivables as at 31 December are presented below:

	2012	2011
	BGN'000	BGN'000
Receivables from EUROCONTROL for en-route air navigation services (ANS)	25,303	26,133
Impairment	(3,659)	(3,327)
Receivables for ANS charges in the terminal area	2,029	1,225
Impairment	(347)	(186)
Advances for assets acquisition	1,722	3,853
Other trade receivables	595	630
Impairment	(369)	(370)
	25,274	27,958

The most significant receivables are due from EUROCONTROL, which amount to TBGN 25,303 (2011: TBGN 26,133). EUROCONTROL is the European organization for the safety of air navigation, to which Bulgaria is a member state since 1998. The Organization performs its activities in cooperation with the national civil and military authorities. The Organization coordinates the relations between BULATSA and its customers for the provision of en-route ANS.

The receivables for advances have occurred in relation to contracts for the construction of an advanced surface movement guidance and control system (A-SMGCS) at Sofia Airport and for the upgrade of the SATCAS air traffic management system.

10. Tax receivables

	2012	2011
	BGN'000	BGN'000
VAT for reimbursement	1,971	84
Corporate income tax receivables	1,251	-
	3,222	84

11. Other receivables

	2012	2011
	BGN'000	BGN'000
Court and awarded receivables	13,845	13,855
Impairment	(13,778)	(13,791)
Prepaid expenses	3,048	3,354
Interest receivables	2,121	2,285
Receivables under the project Danube Fab, funded by the European Commission	310	-
Guarantees, deposits and others	95	159
Impairment	(63)	(65)
Accountable persons receivables	-	3
	5,578	5,800

The changes in the impairment of other receivables can be summarized as follows:

	2012 BGN'000	2011 BGN'000
Balance at 1 January	13,856	13,856
Write-off impairment	(15)	-
Balance at 31 December	13,841	13,856

12. Cash and cash equivalents

Cash and cash equivalents include the following components:

	2012 BGN'000	2011 BGN'000
Cash at bank and in hand:		
- EUR	67,251	71,528
- BGN	6,969	1,463
- GBP	8	5
- USD	7	11
- CHF	6	7
Short-term deposits	46,956	46,963
Cash reserve at BNB (deposit)	21,514	21,514
Cash and cash equivalents	142,711	141,491
Cash reserve at BNB	21,514	21,514

Deposits include BGN 21,514 thousand, which equals EUR 11 million. The deposit in the Bulgarian National Bank was made in accordance with Ordinance 140 dated 4 December 2001 issued by the Ministry of Transport, Information Technology and Communications and the Ministry of Finance for the establishment of the regime, order and conditions for maintenance and expense of the cash reserve of BULATSA.

Deposits in commercial banks are denominated in EUR within 12 months. The deposits' annual interest rates vary between 5.10% and 5.80%.

The Entity has no restricted cash and cash equivalents.

13. Equity

13.1. Registered capital

The registered capital of the Entity amounts to BGN 129,758 thousand and is 100% state-owned by the Ministry of Transport, Information Technology and Communications. It represents the amount of the capital of BULATSA as of the date of its transformation in compliance with art. 62 of the Commercial Act.

13.2. Reserves

All amounts are in BGN '000

	Legal reserves	Other reserves	Total
Balance at 1 January 2011	37,249	107,765	145,014
Distribution of profit for year 2010	464	464	928
Grant acquired assets	-	745	745
Grant acquired assets written off for the period	-	(4)	(4)
Balance at 31 December 2011	37,713	108,970	146,683
Distribution of profit for year 2011	875	875	1,750
Grant acquired assets written off for the period	-	(1,193)	(1,193)
Tax effect of disposals	-	5	5
Balance at 31 December 2012	38,588	108,657	147,245

Legal reserves

Legal reserves are formed by conceded income tax, under specific conditions regulated by art.180 of the Corporate Income Tax Act (annulled). The Entity has formed a specific reserve equal to the conceded corporate tax until the end of 2009 amounting to 60% of the liability for corporate income tax. The total amount of the reserves, accumulated from conceded corporate tax amounted to BGN 22,583 thousand for the period 2001 – 2009. The amendments of CITA effective from 01.01.2010 canceled the provision for the retention of 60% of the corporate tax of BULATSA.

The legal reserves also include reserves, equal to 10% of the net income for the period 2001 - 2011 in accordance with Ordinance 140 dated 04 December 2001, issued by the Ministry of Transport, Information Technology and Communications and the Ministry of Finance for the maintenance of the cash reserve of the Entity. The total amount of the reserves accumulated by 10% of the net income comes up to a total of BGN 16,005 thousand for the period 2001 – 2011.

The increase in the legal reserves in 2012 amounting to BGN 875 thousand is a deduction from the net income for 2011 pursuant to Ordinance 140 of 12/04/2001 for the maintenance of the cash reserve.

The total amount of the legal reserves at 31 December 2012 is BGN 38,588 thousand.

Other reserves

The Entity's other reserves represent the acquisition of non-current-state owned assets disposed to the Entity by the sole owner of the capital as well as accumulated profits after all allocations from previous periods.

Increase in other reserves in 2012, represents the distribution of the remaining of the profit for 2011 at BGN 875 thousand. The decrease in 'other reserves' in the amount of (BGN 1 193 thousand) comprises assets granted to the Entity which have been disposed in accordance with

Decisions issued by the Ministry Council No. 622 and No. 623 dated 06.08.2012 equal to BGN1 176 thousand and related tax effects amounting to (BGN 5 thousand)

13.3. Dividends

In compliance with Decree No. 367 dated 29.12.2011 on the implementation of the State Budget of the Republic of Bulgaria for 2012, BULATSA made a deduction of 80% of the net profit for 2011 paid as a dividend to the State. The value of the dividend paid in 2012 amounted to BGN 7,002 thousand (2011: BGN 3 713 thousand).

14. Employee remuneration

14.1. Employee benefits expenses

Expenses recognized for employee benefits include:

	2012 BGN'000	2011 BGN'000
Salaries and remuneration	(84,651)	(84,424)
Social security costs	(6,046)	(6,237)
Other social expenses	(8,647)	(8,977)
Retirement provisions	(1,733)	(2,619)
Retirement compensations in compliance with the Labor Code and the Collective Labor Agreement	(312)	(475)
Employee benefits expense	(101,389)	(102,732)

14.2. Pension and other employee obligations

The liabilities for pension and other employee obligations recognized in the statement of financial position consist of the following amounts:

	2012 BGN'000	2011 BGN'000
Non-current:		
Retirement compensations in compliance with the Labor Code and the Collective Labor Agreement	10,053	12,579
Non-current pension and other employee obligations	10,053	12,579
Current:		
Retirement compensations in compliance with the Labor Code and the Collective Labor Agreement	3,954	4,647
Payables to social security institutions	1,499	1,846
Other short-term employee obligations	9,240	14,268
Current pension and other employee obligations	14,693	20,761

The current portion of these liabilities represents the Entity's obligations to its current and former employees that are expected to be settled during 2013. Other short-term employee obligations arise mainly due to accrued holiday entitlement at the reporting date and the current remuneration payables.

In accordance with the requirements of the Labour Code and the Collective Labour Agreement when terminating employment after the employee has become entitled to retirement pension, the Entity is obliged to pay him/her compensation based on his/her gross monthly salary. The provision for compensating the retiring employees of the Entity is in accordance with the parameters set out in the Labour Code and the Collective Labour Agreement and is calculated for the period from January 2013 till December 2017 (inclusive).

The Entity accrued legal obligations to pay benefits to employees upon retirement in accordance with the requirements of IAS 19 'Employee Benefits' on the basis of estimated payments for the next five years, discounted to the present with long-term interest rate of risk-free securities.

The changes in the retirement compensations in compliance with the Labor Code and the Collective Labor Agreement are summarized as follows:

	2012	2011
	BGN'000	BGN'000
Present value of defined benefit obligation at 1 January	17,226	19,108
Current service costs for the period	469	584
Interest costs	818	908
Past service cost	103	1,514
Benefits paid	(5,770)	(5,409)
Actuarial losses	1,161	521
Defined benefit obligations at 31 December	14,007	17,226

These assumptions were developed by the Management under consideration of expert advice provided by independent actuaries.

The defined benefit obligations have been calculated using the credit method of estimated units: the credit method of estimated units presents a liability that will arise in a future moment and is based on several assumptions. That is why this method is sensitive towards assumptions for the values of the main parameters that define the setting of the liability and the amount of the compensation due. The main assumptions that define the size of the compensation are based on the following parameters:

- demographic parameters – they reflect the possibility that people working under a labour contract stay at work until they reach retirement age and a compensation liability arises; the people may drop out before they reach retirement age for numerous purposes – illness, death and other.
- financial parameters – the expected annual wages growth, the discount percentage used for the calculation of the liability is 4.75 % annually for the whole term.

Interest costs have been included in the Statement of comprehensive income within 'Finance costs' (see note 24). All other expenses summarized above were included within 'Employee benefits expense'. When assessing the liability, the Entity recognizes the actuarial gain or loss as income or expense in accordance to IAS 19 Employee benefits.

15. Provisions

The carrying amounts of the provisions can be summarized as follows:

	Provision for constructive obligation to users of en-route ANS BGN '000	
Carrying amount at 1 January 2011		39,198
Additional provisions		6,748
Carrying amount 31 December 2011		45,946
Additional provisions		5,623
Recovered provision		(19,682)
Carrying amount 31 December 2012		31,887
	2012	2011
	BGN'000	BGN'000
Non-current		
Carrying amount	9,543	26,835
Current		
Carrying amount	22,344	19,111
	31,887	45,946

The charge for en-route air-navigation services (ANS) is recognized based on the expenses forecast and the forecast for the level of serviced units. Until the end of 2011 charges for en-route ANS were determined implementing the full cost recovery regime. Under this regime and the effect of the adjusting mechanism, the charges for en-route ANS are refunded for expenses that were actually incurred. As a result, variations between the estimated cost and the actual expenses occurred when the financial year ended. These variations are treated as "over-recovery of the costs" or "under-recovery of the costs" for activities related to providing en-route ANS. In case of over-recovery of expenses for a certain period i.e. an overestimation of revenues, after two years expenses are to be paid with these funds, adjusting the amount of the incoming cash flow (income) in the year "N + 2". Otherwise, if there is "under-recovery of the costs" for the year "N", the amount of the incoming cash flow (income) after two years is increased with the incomplete recovery of year "N".

Since 2012 in compliance with Regulation (EC) 691/2010 and Regulation (EC) 1191/2010 relating to charges for en-route ANS, the full cost recovery regime has been changed. The latter has been replaced by a determined cost regime and a risk sharing mechanism is applicable in relation to budgeted expenditures and the level of units serviced during each year of the reference period, as well as the total amount of actual and determined costs for the entire reference period.

According to the full cost recovery regime in relation to en-route air navigation services the unit rate is the final derivative value, while with the new mode of determined costs, the unit rate is the target value.

The initial reference period in which this mechanism is in force is 2012 - 2014, while the next reference periods will comprise five years each starting from 2015 onwards.

A risk sharing mechanism is introduced in relation to revenues and costs for the provision of air navigation services, imposing a number of conditions in relation to incurred and reimbursed costs.

In accordance with the principles of EUROCONTROL and the adjustment mechanism, and the application of Regulation (EC) 1794/2006 as amended by Regulation (EC) No. 1191/2010 of the European Commission of 16 December 2010 applicable from 1 January 2012, and Regulation (EC) 691/2010 of 29 July 2010, the Management of the Entity has determined that as of the date of the financial statements, there is a constructive obligation amounting to BGN 32,178 thousand with a present value of BGN 31,887 thousand.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. In assessing the provision, the management of the Entity has taken into account all the factors which have an effect on the estimated liability.

As a result, the nominal value of additional provision of a constructive obligation to airspace users for 2012 is estimated at BGN 3,637 thousand (2011: BGN 6,875 thousand). Due to the long-term character of the provision, the amount is discounted by a discount rate used in the yield on risk-free securities. The discount factor has been chosen considering that the Entity is not financed with borrowed funds and the Management is of the opinion that such a rule approximates the applicable cost of capital for the Entity to the maximum extent. The discounted amount of the estimated liability is included within "Other expenses" in the statement of comprehensive income amounting to BGN 3,600 thousand (2011: BGN 6,464 thousand). Interest costs are within "Finance costs" in the statement of comprehensive income (see note 24).

On the basis of the current mechanism for full cost recovery, the accumulated obligation as at 31.12.2010 is to be reimbursed to the aircraft operators by calculating the "en-route" unit rate for 2012. In consequence, the provision reimbursed during the accounting period amounts to BGN 19,682 thousand and is reported on behalf of provision expenses for the period.

16. Trade payables

Trade payables recognized in the statement of financial position include the following most significant positions:

	2012 BGN'000	2011 BGN'000
Current:		
Developing system for air traffic management SATCAS	2,351	1,071
EUROCONTROL membership	1,724	2,121
Construction of an airport control tower	1,483	-
Construction of navigational facilities	581	-
Consultancy services	221	234

Building system for the exchange of aeronautical communications	140	335
Other	1,262	1,259
	<u>7,762</u>	<u>5,020</u>

All payables are being paid in accordance with the contract requirements.

17. Tax liabilities

The tax liabilities include:

	2012 BGN'000	2011 BGN'000
Personal income tax	685	1,097
Taxes on expenses according to CITA	135	110
Corporate income tax	-	84
	<u>820</u>	<u>1,291</u>

18. Other liabilities

The Other liabilities of the Entity have a short-term nature and can be summarized as follows:

	2012 BGN'000	2011 BGN'000
Court liabilities	1,536	1,607
Warranties	212	190
Employee remuneration deductions	376	354
Insurance balances	571	581
Others	90	142
	<u>2,785</u>	<u>2,874</u>

19. Revenue from services rendered

The Entity's sales revenue can be analysed as follows:

	2012 BGN'000	2011 BGN'000
En-route charges	143,190	155,417
ANS charges in the terminal area	15,707	10,914
	<u>158,897</u>	<u>166,331</u>

20. Other income

The Entity's other income includes:

	2012 BGN'000	2011 BGN'000
Gain on non-current assets sales	1,221	-
Financing	900	1,071

Consultancy and technical services	63	172
Rent from departmental housing	60	66
Aviation English training and testing	73	20
Defaults on contracts	53	42
Others	190	172
	<u>2,560</u>	<u>1,543</u>

During the reporting period the Company sold properties (apartments) to its staff and realized a gain amounting to BGN 1,221 thousand. The carrying value of properties sold amounted to BGN 523 thousand and their selling price - to BGN 1,744 thousand.

The financing revenue is related to the DANUBE FAB project, co-financed by the European Commission, according to a Decision for financial aid for projects of common interest – “DANUBE FAB Project” – 2008 – EU – 40001 – S in the sphere of Trans-European Network Transportation (TEN-T). For 2012, the amount of revenue for financing is estimated to BGN 900 thousand (2011: BGN 1 071 thousand).

The consultancy and technical activities of the Entity consist of the provision for technical data and development. The revenues for those services in 2012 are in the amount of BGN 63 thousand (2011: BGN 172 thousand).

Income from rent of departmental housing in the amount of BGN 60 thousand (2011: BGN 66 thousand) is associated with providing Entity-owned apartments to the employees.

21. Cost of materials

Costs of materials include:

	2012 BGN'000	2011 BGN'000
Electricity	(1,944)	(1,887)
Heating	(671)	(613)
Spare parts	(402)	(625)
Other materials	(298)	(176)
Consumables	(282)	(321)
Fuel and lubricants	(226)	(217)
Water	(144)	(183)
Office materials	(73)	(87)
Uniforms and protection clothes	(62)	(37)
	<u>(4,102)</u>	<u>(4,146)</u>

22. Hired services expenses

Hired services expenses include:

	2012 BGN'000	2011 BGN'000
EUROCONTROL membership and administrative	(7,725)	(7,773)

	2012	2011
	BGN'000	BGN'000
charges		
License fees	(1,452)	(1,740)
Insurance expenses	(1,373)	(1,392)
Consulting services and audits	(963)	(844)
Supervision navigation services (NSA) to perform the functions of art. 16c of Civil Air Act	(901)	-
Equipment maintenance	(772)	(1,131)
Calibration flights	(675)	(734)
Complex maintenance of Training, Rehabilitation & Recreation facilities	(641)	(693)
Security	(594)	(300)
Communication expenses	(593)	(739)
Improvement of qualification	(504)	(381)
Servicing of buildings and surrounding areas	(345)	(401)
Rent	(124)	(116)
Maintenance of buildings	(40)	(439)
Advertisement	(37)	(67)
Postal and courier services	(29)	(38)
Transport	(33)	(50)
Subscriptions for periodical editions	(36)	(54)
Finance audit	(21)	(32)
Other expenses (brevets, taxes, measurements and others)	(341)	(234)
	<u>(17,199)</u>	<u>(17,158)</u>

Future minimal expenses for the next period of 1 year on rental contracts are in the amount of BGN 116 thousand. Payments, recognized as a rent expense for the period are in the amount of BGN 124 thousand (2011: BGN 116 thousand). That includes minimal leasing expenses. There have been no sub-leasing or provisional payments or revenues. There are no expectations of sub-leasing revenue realization, as all assets used on rental contracts are being used solely by the Entity.

Rental expenses are primarily related to the rent of premises, plant and towers, by a contract with "NURTS Bulgaria" AD.

23. Other expenses

The Entity's other expenses include:

	2012	2011
	BGN'000	BGN'000
Carrying amount of assets written off	(7,833)	-
Provision for constructive obligations to air carriers	(3,600)	(6,527)
Reversal of provision for constructive obligations to airlines	19,682	-
Taxes	(2,156)	(2,465)
Business trips inland and abroad	(1,479)	(2,012)

Impairment of receivables	(878)	(1,162)
Reversal of impairment	119	252
Donations	(159)	(183)
Others	(98)	(100)
	3,598	(12,197)

The carrying amount of assets written off at BGN 7 833 thousand relates to facilities and systems of visual air navigation facilities /Lighting /. For information on the reason for the removal refer to Note 5.

Detailed description of the costs and recoveries for the provision of constructive obligations is presented in Note 15.

24. Finance costs and finance income

Finance costs for the presented reporting periods can be analyzed as follows:

	2012	2011
	BGN'000	BGN'000
Interest expenses for constructive obligations to air carriers	(2,023)	(284)
Interest expenses on retirement compensations	(818)	(908)
Other financial costs (bank charges)	(54)	(43)
Gain/ (loss) on foreign exchange differences	40	(56)
Finance costs	(2,855)	(1,291)

Finance income may be analyzed as follows for the presented reporting periods:

	2012	2011
	BGN'000	BGN'000
Interest income on deposits	2,638	2,766
Interest income on current bank accounts	263	81
Interest income on late payments from customers	148	116
Financial income	3,049	2,963

25. Income tax expense

The relationship between the expected tax expense based on the applicable tax rate of 10 % (2011: 10 %) and the reported tax expense actually in profit or loss can be reconciled as follows:

	2012	2011
	BGN'000	BGN'000
Profit before tax	19,518	9,733
Tax rate	10%	10%
Expected tax expense	(1,952)	(973)
Adjustments for tax-exempt income:	5,742	3,530
Adjustments for non-deductible expenses	(4,607)	(4,437)
Expected tax expense	(817)	(1,880)

Deferred tax income:	(1,168)	899
Origination of temporary differences	1,407	2,067
Reversal of temporary differences	(2,575)	(1,168)
Income Tax expense	(1,985)	(981)
Deferred tax expense recognized directly in equity	5	-

Note 7 provides information on the deferred tax assets and liabilities.

26. Related party transactions

The Entity's related parties include transactions with Entities that are more than 50% owned by the Ministry of Transport, Information Technology and Communications and with key management personnel.

26.1. Transactions with other related parties under common control

	2012	2011
	BGN'000	BGN'000
Purchases of services		
- Sofia Airport AD	93	-
Directorate General "Civil Aviation Administration" – air worthiness certification charges	1,086	1,631
Plovdiv Airport AD	562	-

26.2. Transactions with key management personnel

Key management personnel remuneration is short-term in its nature and for 2012 it amounts to BGN 212 thousand, which includes expenses for salaries, social security costs and compensations according to the Labor Code.

27. Related party balances at year end

	2012	2011
	BGN'000	BGN'000
Current		
Receivables from:		
Sofia Airport AD	543	530
Total receivables from related parties	543	530
Current		
Payables to:		
Sofia Airport AD	2,803	2,838
Plovdiv Airport AD	13	-
Directorate General "Civil Aviation Administration"	-	27
Total payables to related parties	2,816	2,865

The receivables/payables to Sofia Airport are related to the project "Reconstruction, development and expansion of Sofia Airport – "LOT B2" – new runway system and all related

activities”, under which BULATSA is financing the work done for the meteorological, lighting and navigation equipment at the new runway.

28. Non-cash transactions

During the presented reporting periods, the Entity entered into the following non-cash investing and financing activities which are reflected as a part of the corrections in the statement of cash flows in the amount of BGN 15 thousand (2011: BGN 283 thousand), relating to accruals of interest on financial assets.

29. Contingent assets and contingent liabilities

Contingent assets of the Company representing bank guarantees for the performance of contracts and advance payments amounting to BGN 5,353 thousand, of which agreement with SELEX ES amounts to BGN 1,653 thousand, "Glavbolgarstroy" EAD - BGN 1,852 thousand and HITT Traffic - BGN 1,135 thousand

In connection with its construction obligations arising from the membership of Bulgaria in the European Union and the international organization EUROCONTROL and the principles and agreements applicable to all Member States, the management of BULATSA found that obligations arise to the airlines as a result of excess reimbursements in previous periods and based on actual data for 2012 (traffic risk sharing). In connection with the application of the risk-sharing mechanism, there is a probability that the amount of the constructive obligation will change. Obligating event will occur or will not occur after the end of the first reference period.

Various legal claims were brought from and against the Entity during the year. Unless recognized as a provision, the Management considers these claims to be insignificant and the probability that they will require settlement at the Entity's expense to be remote. This evaluation is supported by information provided by the Legal Department within the Legal, Procurement and Property Management Directorate of the Entity.

30. Categories of financial assets and liabilities

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

Financial assets	Note	2012	2011
		BGN'000	BGN'000
Loans and receivables:			
Trade and other receivables	9,11	26,132	26,393
Cash and cash equivalents	12	142,711	141,491
		168,843	167,884
Financial liabilities	Note	2011	2011
		BGN'000	BGN'000
Current liabilities:			
Trade and other payables	15,18	13,363	10,759
		13,363	10,759

31. Financial instrument risk

Risk management objectives and policies

The main types of financial risks that the Entity could be exposed to are market risk, credit risk and liquidity risk.

The Entity's risk management is coordinated by its management bodies. The priority of the risk management is to secure the Entity's financial stability.

31.1. Market risk analysis

The Entity's activities are carried out under a Currency Board, which fixes the EUR:BGN exchange rate at 1.95583 BGN to 1 EUR and does not change according to any market conditions or interest rates changes.

Most of the Entity's transactions are carried out in Bulgarian leva (BGN) and Euro (EUR). Insignificant exposures to currency exchange rates arise from the Entity's transactions and available funds, denominated in US-Dollars and British Pounds. The Entity does not hold any investments or loans denominated in foreign currencies.

Foreign currency denominated financial assets and liabilities, translated into Bulgarian leva at the closing rate are as follows:

	Short-term exposure	
	USD '000	GBP '000
31 December 2012		
Financial assets	399	8
Financial liabilities	(2,480)	-
Total exposure	(2,081)	8
31 December 2011		
Financial assets	11	5
Financial liabilities	(2,526)	(8)
Total exposure	(2,515)	(3)

31.1.1. Interest rate risk

The Entity is not exposed to interest rate risk because it has no loans and does not use borrowed funds to finance its activities.

31.1.2. Other price risk

The charges for air navigation services are collected under conditions and prices set in the Multilateral Agreement for Route Charges dated 12 February 1981, the EUROCONTROL International Convention relating to Co-operation for Safety in Air Navigation dated 13 December 1960 with its subsequent amendments and consolidated with the Protocol dated 27 June 1997 and other related documents issued by EUROCONTROL, Regulation 1794/2006 and

Regulation 1191/2010 of the European Parliament and Council and the Ordinance stipulating the charges payable for the use of public airports and for air navigation services in the Republic of Bulgaria. The price of the service (the unit rate) is cost based and by the end of 2011 is determined on an annual basis, aiming full cost recovery. A risk sharing mechanism is applicable during 2012. The Entity has a direct influence on the determined unit rate through the amount of the cost base established.

31.2. Credit risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the Entity. The Entity is exposed to this risk for its trade receivables and cash deposits. The Entity's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized at the reporting date, as summarized below:

	2012	2011
	BGN'000	BGN'000
Classes of financial assets – carrying amounts:		
Cash and cash equivalents	142,711	141,491
Trade and other receivables	26,132	26,393
Carrying amount	168,843	167,884

The Entity continuously monitors defaults of customers and other counterparties and incorporates this information into its credit risk controls. The Management takes actions to reduce the credit risk through settled rules and procedures for collection of due and unpaid charges for the air navigation services provided. The collection rate for air navigation services is up to 99%.

None of the Entity's financial assets are secured by collateral or other credit enhancements.

As at the reporting date there are no unimpaired trade receivables that are past due.

The credit risk for cash and cash equivalents, is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Part of the Entity's cash is deposited in the Bulgarian National Bank under the conditions of a Decree issued by the Minister of Transport and Communications and the Minister of Finance

31.3. Liquidity risk

When assessing and managing the liquidity risk, the Entity monitors the expected cash flows from finance instruments such as cash available and trade receivables. The available cash and trade receivables are enough to cover the Entity's cash outflow.

The Civil Aviation Act provides that no enforcement proceedings and no bankruptcy procedures should be held against the Entity.

To guarantee the solvency of the Entity, a cash reserve amounting to EUR 11 million has been established under the regulations of Ordinance No. 140 of the Ministry of Transport, Information Technology and Communications and the Ministry of Finance dated 4 December 2001 for regulation of the regime, order and conditions of maintenance of the cash reserve of BULATSA.

The cash reserve amounting to EUR 11 million is presented by foreign currency deposit in the Bulgarian National Bank, made under the general deposit conditions of the Bank and denominated in EUR

32. Capital management policies and procedures of BULATSA

The Entity's main capital management objective is to ensure the Entity's ability to continue as a going concern.

The Entity's policy is to use its own funds for financing or to use grants for specific projects.

33. Post-reporting date events

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization of these financial statements by the Management Board for 2012.

The average basic unit rate for en-route air navigation services has been established at EUR 36.49 for 2013 (2012: EUR 36.56)

34. Authorization of the financial statements

The financial statements for the year ended 31 December 2012 (including comparatives) were approved by the Director General on 08 March 2013.

The Entity's audited financial statements have been presented to the Management Board for approval.