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**Air Traffic Services Authority**

**Financial Statements**

**For the year ended 31 December 2007**

**With Independent Auditors' Report Thereon**

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## **INDEPENDENT AUDITOR'S REPORT**

**To the sole owner of  
Air Traffic Service Authority, Sofia, Bulgaria**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Air Traffic Service Authority (the Company), which comprise the balance sheet as of 31 December 2007, the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Management's Responsibility for the Financial Statements**

The Company management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS). This responsibility includes: design, implementation and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selection and application of appropriate accounting policies; making accounting estimates that are reasonable in the particular circumstances.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These 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 selected procedures depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making these 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 particular circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the 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**

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Based on the verification, we certify that the financial statements give a true and fair view of the financial position of Air Traffic Service Authority as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with the Bulgarian Law of Accountancy and International Financial Reporting Standards.

The balance amount of the assets and liabilities of the Balance Sheet of Air Traffic Services Authority as of 31 December 2007 is BGN 488 788 thousand and the financial result is BGN 22 137 thousand representing balance profit.

**Report on other legal and regulatory requirements**

We performed the verification of the annual activity report regarding its compliance with the financial statements for the same period according to the requirements of the Bulgarian Law of Accountancy.

Based on the verification, we certify that the Company annual activity report complies with the Company financial statements as of 31 December 2007 regarding the financial information.

*Sofia, 27 March 2008*

Prof. Dr. Bisser Slavkov  
*Registered auditor*

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## Income Statement

For the year ended 31 December 2007

<i>In thousands of BGN</i>	<b>Notes</b>	<b>2007</b>	<b>2006</b>
Revenue from sale of services	1	160,575	144,161
Other operating income	1	<u>822</u>	<u>1,339</u>
		161,397	145,500
Cost of materials	2	(4,535)	(4,819)
Hired services	3	(17,691)	(19,196)
Depreciation and amortization	9,10	(26,176)	(25,949)
Personnel expenses	4	(88,286)	(79,492)
Impairment losses	5	-	(110)
Other operating expenses	6	<u>(6,993)</u>	<u>(5,226)</u>
		(143,681)	(134,792)
<b>Profit from operations</b>		<u><u>17,716</u></u>	<u><u>10,708</u></u>
Net financial income	7	<u>5,374</u>	<u>4,801</u>
<b>Profit before tax</b>		<u><u>23,090</u></u>	<u><u>15,509</u></u>
Income tax	8	<u>(953)</u>	<u>238</u>
<b>Net profit for the year</b>		<u><u>22,137</u></u>	<u><u>15,747</u></u>

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

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## Balance Sheet

For the year ended 31 December 2007

<i>In thousands of BGN</i>	Note	2007	2006
<b>Assets</b>			
Property, plant and equipment	9	232,462	257,024
Intangible assets	10	19,919	19,287
Deferred tax assets	11	1,210	844
<b>Total non-current assets</b>		<u>253,591</u>	<u>277,155</u>
Inventories	12	3,275	3,780
Trade and other receivables	13	30,117	30,977
Cash and cash equivalents	15	201,805	171,757
<b>Total current assets</b>		<u>235,197</u>	<u>206,514</u>
<b>Total assets</b>		<u><u>488,788</u></u>	<u><u>483,669</u></u>
<b>Equity</b>			
Registered capital	16	129,758	129,758
Reserves		295,849	282,602
Retained earnings		22,051	15,747
<b>Total capital and reserves</b>		<u>447,658</u>	<u>428,107</u>
<b>Liabilities</b>			
Interest-bearing loans and borrowings	17	-	-
Provisions for retirement benefits	19	4,141	4,740
Deferred income from financing		13	14
Deferred tax liabilities	11	2,122	2,438
<b>Total non-current liabilities</b>		<u>9,276</u>	<u>7,192</u>
Interest bearing loans and borrowings	17	-	7,422
Provisions for retirement benefits	19	3,230	4,076
Trade and other payables	18	28,624	36,872
Deferred income from financing		-	-
<b>Total current liabilities</b>		<u>31,854</u>	<u>48,370</u>
<b>Total capital and liabilities</b>		<u><u>488,788</u></u>	<u><u>483,669</u></u>

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

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**Statement of changes in equity**

*For the year ended 31 December 2007*

<i>In thousands of BGN</i>	<b>Registered capital</b>	<b>Special reserves</b>	<b>Reserves</b>	<b>Retained Earnings</b>	<b>Total</b>
Balance at 1 January 2006	129,758	20,959	246,689	14,954	412,360
Profit for the year	-	-	-	15,833	15,833
Adjustment for the profit				(86)	(86)
Allocation of profit for 2005	-	2,049	12,905	(14,954)	-
Assets disposed through reserves	-	-	-	-	-
Balance at 31 December 2006	129,758	23,008	259,594	15,747	428,107
Balance at 1 January 2007	129,758	23,008	259,594	15,747	428,107
Profit for the year				22,137	22,137
Allocation of profit for 2006		1,583	14,250	(15,833)	-
Assets disposed through reserves			(2,586)		(2,586)
Balance at 31 December 2007	129,758	24,591	271,258	22,051	447,658

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

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## Statement of cashflows

For the year ended 31 December 2007

<i>In thousands of BGN</i>	<b>Note</b>	<b>2007</b>	<b>2006</b>
<b>Operating activities</b>			
Net profit before taxation		23,090	15,509
Adjustments for:			
Depreciation and amortization	9,10	26,176	25,949
Impairment losses charged/(reversed)		(307)	110
Provisions for retirement benefits to employees		4,952	1,360
Net interest (income)/expense		(5,390)	(4,598)
Unrealised foreign exchange gains and losses		(49)	(308)
(Profit)/Loss on disposal of fixed assets		1,642	40
<b>Operating profit before working capital changes and provisions</b>		<b>50,114</b>	<b>38,062</b>
(Increase)/decrease in debtors		(5)	1,902
(Increase)/decrease in inventory		632	(69)
Increase/(decrease) in creditors		754	(4,429)
<b>Cash generated from operations</b>		<b>51,495</b>	<b>35,466</b>
Income taxes paid		(217)	(362)
<b>Net cash from operating activities</b>		<b>51,278</b>	<b>35,104</b>
<b>Investing activities</b>			
Interest received		5,079	4,401
Payments to acquire property, plant and equipment		(2,398)	(11,988)
Payments to acquire intangible assets		(16,314)	(559)
<b>Cash flows from investing activities</b>		<b>(13,633)</b>	<b>(8,146)</b>
<b>Financing activities</b>			
Loans repaid		(7,334)	(14,625)
Interest paid		(263)	(983)
<b>Cash flows from financing activities</b>		<b>(7,597)</b>	<b>(15,608)</b>
Net increase/(decrease) in cash and cash equivalents		30,048	11,350
Cash and cash equivalents at beginning of period	15	150,243	138,893
<b>Cash and cash equivalents at end of period</b>	15	<b>180,291</b>	<b>150,243</b>

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

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## **Legal Status**

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

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

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

## **Significant Accounting Policies**

### **(a) Statement of compliance**

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

The Management of the Company has performed an analysis and has not identified material differences in the carrying amount of the assets and liabilities, as well as in amounts presented in the Income Statement as they were reported in the financial statements prepared under IAS effective in 2002, and as they would be reported under IFRS as adopted by the EU Commission as at 1 January 2005 and adopted in Bulgaria with Decree №207/7.08.2006 of the Council of Ministers. A list of the applicable standards is presented in note 26.

IAS 8 “Accounting policies, changes in accounting estimates and errors” requires the Company to disclose the fact that it has not applied new standards and interpretations to published International Financial Reporting Standards that are not yet effective, as well as information about the possible effect from application of the respective standards and interpretations in the period of the first time application. The Company disclosed the effect from application of published International Financial Reporting Standards which were still not in force as to the balance sheet date and which may have impact on the activities of the Company (see note 27).

### **(b) Basis of preparation**

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

### **(c) Changes in accounting policy and corrections of errors**

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

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**(d) Comparative information**

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

**(e) Foreign currency**

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

**(f) Property, plant and equipment**

**(i) Owned assets**

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

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

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

**(ii) Subsequent expenditure**

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

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**(iii) Depreciation**

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

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

**(g) Intangible assets**

**(i) Software and other intangible assets**

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

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

**(ii) Subsequent expenditure**

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

**(iii) Amortization**

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

§	software	5 years
§	rights	7 years

**(h) Trade and other receivables**

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

**(i) Inventories**

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

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

**(j) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and bank deposits.

**(k) Impairment**

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

**(l) Interest-bearing loans and borrowings**

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

**(m) Provision for retirement compensation to employees**

In accordance with the requirements of the Labour Code and Collective Labour Contract on termination of the labour contract of an employee entitled to retirement, the Company is obliged to pay certain compensation based on the gross monthly salary.

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

**(n) Revenue**

**(i) Services rendered**

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

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

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(ii) **Deferred income**

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

(o) **Expenses**

*Operating expenses*

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

*Net financing costs*

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

(p) **Income tax**

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, applicable for the Company.

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

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

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**Notes to the financial statements**

1. Revenues
2. Cost of materials
3. Hired services
4. Personnel expenses
5. Allowances for impairment losses
6. Other operating expenses
7. Net finance income
8. Income tax expense
9. Property, plant and equipment
10. Intangible assets
11. Deferred tax assets and liabilities
12. Inventories
13. Trade and other receivables
14. Impairment
15. Cash and cash equivalents
16. Capital and reserves
17. Interest-bearing loans
18. Trade and other payables
19. Retirement compensation payables
- 19a. Provisions for retirement compensations
20. Presentation of the corrections regarding the comparative information
21. Financial instruments
22. Related parties
23. Contingent assets
24. Contingent liabilities
25. Subsequent events
26. Applicable accounting framework
27. Application of the published IFRS

<b>1. Revenues</b>		
<i>In thousands of BGN</i>	<b>2007</b>	<b>2006</b>
Revenue from air navigation services	160,575	144,161
Other income		
Income from rent, interest and from other services	515	1,339
Impairment of receivables	(694)	-
Collection of receivables written off in previous periods	338	-
Reversed impairment	663	-
	<u>822</u>	<u>1,339</u>
<b>2. Cost of materials</b>		
<i>In thousands of BGN</i>	<b>2007</b>	<b>2006</b>
Spare parts	1,197	1,662
Electric energy	1,721	1,491
Heat energy	476	551
Fuel and oil materials	345	326
Consumables	310	293
Low cost items	298	222
Stationery	92	117
Safeguard apparel and equipment	50	95
Water	46	62
	<u>4,535</u>	<u>4,819</u>
<b>3. Hired services</b>		
<i>In thousands of BGN</i>	<b>2007</b>	<b>2006</b>
Eurocontrol membership and administrative charges	8,585	9,018
Maintenance of equipment	893	754
Communication expenses	1,753	1,966
Insurance expenses	1,472	1,886
Security	731	601
Transport services	58	99
Maintenance of premises	217	511
License fees	2,224	2,668
Consultant services and audit fees	193	274
Flight inspection of the navigation aids	451	559
ATSA Rules for Health Care, Rehabilitation & Recreation Activities	101	100
Subscription for periodicals	51	54
Postal and courier services	50	43
Advertisement	58	33
Other	854	630
	<u>17,691</u>	<u>19,196</u>

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<b>4. Personnel expenses</b>	<b>2007</b>	<b>2006</b>
<i>In thousands of BGN</i>		
Salaries and remuneration	69,442	64,211
Social security contributions	6,464	6,531
Social benefits	7,428	7,415
Provisions for retirement benefits	4,952	1,335
	<u>88,286</u>	<u>79,492</u>

<b>5. Allowances for impairment losses</b>		
<i>In thousands of BGN</i>	<b>2007</b>	<b>2006</b>
Impairment of receivables	-	(833)
Collection of receivables written off in previous periods	-	39
Reversal of impairment	-	1,422
Impairment of accumulated expenses for assets under construction		(154)
	<u>(110)</u>	<u>(31)</u>
<i>(For 2007 – see note 1)</i>		
<b>6. Other operating expenses</b>		
<i>In thousands of BGN</i>	<b>2007</b>	<b>2006</b>
Tax on social benefits	1,405	1,868
Business trips and training costs	1,228	1,129
One off taxes, property taxes, other tax costs	863	1,432
Waste, donation, written-off non-current assets, etc.	1,961	697
Court fees	1,536	100
	<u>6,993</u>	<u>5,226</u>
<b>7. Net finance income</b>		
<i>In thousands of BGN</i>	<b>2007</b>	<b>2006</b>
Interest income	5,790	5,596
Interest expenses	(175)	(675)
Net foreign exchange gain/ (loss)	31	(291)
Other finance (expense)/income (net)	(272)	(411)
	<u>5,374</u>	<u>4,801</u>

Comparative information for 2006 has been recalculated as a result of bigger income from interest (see note 20).

<b>8. Income tax expense</b>		
<i>In thousands of BGN</i>	<b>2007</b>	<b>2006</b>
<i>Current tax expense recognized in the Income Statement</i>		
Profit tax rate for the current year	1,635	-
<i>Change in deferred tax recognised in the Income Statement</i>		
Origination and reversal of temporary tax differences	<u>(682)</u>	<u>(238)</u>
	<u>953</u>	<u>(238)</u>

### *Current profit tax rates*

According to the Corporate Income Tax Act (CITA, art.180), the Company is entitled to a tax allowance in the amount of 60% of the corporate tax on profit provided that it reinvests the corporate tax, that it would otherwise have to pay, for programs for integration and harmonization of the national systems for air traffic management to the relevant standards of other European countries or uses the tax allowance for maintenance of the reserve required by the Civil Aviation Act.

The current tax rate is 10%. The current tax expense represents 40% of the general tax rate for all the companies, as regulated by CITA. There is no change in the current tax rate as compared to 2006.

## **9. Property, plant and equipment**

<i>In thousands of BGN</i>	<b>Lands and buildings</b>	<b>Property, plant and equipment</b>	<b>Vehicles</b>	<b>Fittings and hardware</b>	<b>Tangible assets under construction</b>	<b>Total</b>
<b>Cost</b>						
Balance at 1 January 2007	141,712	168,758	2,011	3,654	11,580	327,715
Additions	-	402	-	79	1,576	2,057
Transfers	307	1,171	-	32	(1,510)	-
Disposed	(2522)	(3,564)	-	(141)	(128)	(6,355)
Balance at 31 December 2007	<u>139,497</u>	<u>166,767</u>	<u>2,011</u>	<u>3,654</u>	<u>11,518</u>	<u>323,417</u>
<b>Depreciation and impairment losses</b>						
Balance at 1 January 2007	11,593	56,848	983	1,113	154	70,691
Depreciation charge for the year	3,445	18,209	242	361	-	22,257
Disposals	(242)	(1,653)	-	(98)	-	(1,993)
Balance at 31 December 2007	<u>11,593</u>	<u>73,404</u>	<u>1,225</u>	<u>1,376</u>	<u>154</u>	<u>90,955</u>
<b>Carrying amount</b>						
At 1 January 2007	<u>130,119</u>	<u>111,910</u>	<u>1,028</u>	<u>2,541</u>	<u>11,426</u>	<u>257,024</u>
At 31 December 2007	<u>124,701</u>	<u>93,363</u>	<u>768</u>	<u>2,248</u>	<u>11,364</u>	<u>232,462</u>

### Tangible assets under construction

The major assets under construction as at 31 December 2007 are as follows:

- Track systems “LOT B2 Sofia Airport” (BGN 10,628 thousand)

### Major assets put into operation during the year

- Equipment for distribution system – Varna ACC (BGN 456,000 thousand)
- Microwave equipment of ATSA sites (BGN 469,000 thousand)
- Reconstruction of visual control room in Plovdiv Tower (BGN 71,000 thousand)
- Reconstruction of electrical switch boards in Gorna Oriahovitsa Tower (BGN 87,000 thousand)

### Property, plant and equipment not in exploitation during 2007

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

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

## 10. Intangible assets

<i>In thousands of BGN</i>	<b>Software</b>	<b>Rights</b>	<b>Intangible assets under construction</b>	<b>Total</b>
<b>Cost</b>				
Balance at 1 January 2007	13,166	11,851	9,538	34,555
Additions	14	-	4,537	4,551
Transfers	910	-	(910)	-
Disposed	(41)	(4,046)	-	(4,087)
Balance at 31 December 2007	<u>14,049</u>	<u>7,805</u>	<u>13,165</u>	<u>35,019</u>
<b>Depreciation and impairment losses</b>				
Balance at 1 January 2007	4,937	10,331	-	15,268
Depreciation charge for the year	2,678	1,241	-	3,919
Disposals	(41)	(4,046)	-	(4,087)
Balance at 31 December 2007	<u>7,574</u>	<u>7,526</u>	<u>-</u>	<u>15,100</u>
<b>Carrying amount</b>				
At 1 January 2007	<u>8,229</u>	<u>1,520</u>	<u>9,538</u>	<u>19,287</u>
At 31 December 2007	<u>6,475</u>	<u>279</u>	<u>13,165</u>	<u>19,919</u>

Rights comprise the right to use parts of a recreation facility “Kopitoto” for a limited period of time. These rights are being amortized according to their respective validity term, as disclosed in Significant Accounting Policies (g). The validity term ends in April 2008.

The intangible assets under construction comprise accumulated expenses related to the development of Air Traffic Control Centre, automated system for air traffic control (SATCAS) (BGN 13,165 thousand). Version 2 of the automated system for air traffic control (SATCAS) is put into operation in February 2008.

## 11. Deferred tax assets and liabilities

<i>In thousands of BGN</i>	<b>31 Dec 2007</b>		<b>31 Dec 2006</b>		<b>2007</b>	<b>2006</b>
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Net</b>	<b>Net</b>
Property, plant and equipment	-	2,122	-	2,438	2,212	2,438
Impairment of property, plant and equipment	(6)	-	(6)	-	(6)	(6)
Provision for unpaid leave	(250)	-	(190)	-	(250)	(190)
Social securities payable on unpaid leave	(62)	-	(53)	-	(62)	(53)
Impairment of receivables	(90)	-	-	-	(90)	(242)
Liabilities for income of persons	(326)	-	(242)	-	(326)	-
Provisions for retirement benefits	(415)	-	(353)	-	(415)	(353)
Provisions for court liabilities	(61)	-	-	-	(61)	-
Deferred tax (assets)/liabilities	<u>(1,210)</u>	<u>2,122</u>	<u>(844)</u>	<u>2,438</u>	<u>912</u>	<u>1,594</u>

### *Movement in temporary differences during the year*

<i>In thousands of BGN</i>	<b>Balance as at 1 January 2007</b>	<b>Recognised in the income statement</b>	<b>Balance as at 31 December 2007</b>
Property, plant and equipment	2,438	(316)	2,122
Impairment of property, plant and equipment	(6)	-	(6)
Provision for unpaid leave	(190)	(60)	(250)
Social securities payable on unpaid leave	(53)	(9)	(62)
Impairment of receivables	(242)	152	(90)
Liabilities for income of persons	-	(326)	(326)
Provisions for retirement benefits	(353)	(62)	(415)
Provisions for court liabilities	-	(61)	(61)
Deferred tax (assets)/liabilities	<u>1,594</u>	<u>(682)</u>	<u>912</u>

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

## 12. Inventories

<i>In thousands of BGN</i>	<b>2007</b>	<b>2006</b>
Materials and spare parts	3,242	3,746
Goods	<u>33</u>	<u>34</u>
	<u><u>3,275</u></u>	<u><u>3,780</u></u>

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

**13. Trade and other receivables***In thousands of BGN*

	<b>2007</b>	<b>2006</b>
Trade receivables	25,815	28,324
Impairment	(2,785)	(6,053)
Receivables from litigation and claims	13,845	13,736
Impairment on receivables from litigation and claims	(13,778)	(13,750)
Contracted advances to suppliers	866	1,335
Deferred expenses	2,365	2,631
Corporate tax receivable	42	1,460
Interests on deposits, guarantees and other	4,187	3,734
Impairment	(440)	(440)
	<u>30,117</u>	<u>30,977</u>

99,30% (BGN 25,815 thousand) of trade receivables are the receivables from charges for air navigation services, including BGN 24,764 thousand en-route charges and BGN 869 thousand terminal charges; the principal part of these receivables are within the period of payment.

The adjudicated receivables from Balkan Airlines represent 99,5% from all the court and adjudicated receivables and amount to BGN 13,750 thousand, which is fully impaired.

**14. Impairment***In thousands of BGN*

	<b>2007</b>	<b>2006</b>
Balance at 1 January 2007	20,397	35,767
Accrued	722	1,571
Reversed	(633)	(1,422)
Written off	(3,297)	(15,517)
Net foreign exchange gain/(loss)	(2)	(2)
Balance at 31 December 2007	<u>17,157</u>	<u>20,397</u>

The impairment refers to receivables for air navigation services (BGN 2,782 thousand) and impairment on receivables from litigation and claims (BGN 13,778 thousand).

**15. Cash and cash equivalents***In thousands of BGN*

	<b>2007</b>	<b>2006</b>
Petty cash	45	31
Cash in banks	78,228	61,849
Deposits	123,532	109,877
	<u>201,805</u>	<u>171,757</u>
Letters of credit	-	362
Total cash and cash equivalents	<u>201,805</u>	<u>171,757</u>
<i>Deposits with the Bulgarian National Bank</i>	(21,514)	(21,514)
<b>Cash and cash equivalents in the statement of cash flow</b>	<u>180,291</u>	<u>150,243</u>

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

The fixed term 12 month deposits are denominated in euro. Interest charge varies from 4,00% to 5,10%.

## 16. Capital and reserves

### *Registered capital*

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

### *Specific reserves*

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

The specific reserves also include a statutory reserve amounting to 10% of the net profits for the years 2001, 2002, 2003, 2004, 2005 and 2006 in compliance with Regulation No 140 dated 4 December 2001 of the Ministry of Transport and Communications and the Ministry of Finance of Bulgaria for cash reserve maintenance and utilization. The total amount of reserves accumulated as 10% of the net profit for the period 2001-2006 is BGN 7,929 thousand. The total amount of specific reserves is BGN 24,591 thousand.

### *Other reserves*

On the basis of Decisions of the Council of Ministers of Bulgaria Company’s non-current assets amounting at BGN 2,586 thousand are placed for management at disposal of branches of the system of the Ministry of Transport.

## 17. Interest-bearing loans

The Company signed loan agreements with the Bulgarian government, represented by the Ministry of Transport and Communications and the Ministry of Finance (borrowers), and the European Investment Bank (lender), stating the Company as the end beneficiary. The lender and the beneficiary together have undertaken a project for development of the Bulgarian Air Traffic Service system. During 2007 the loan was paid off.

<i>In thousands of BGN</i>	<b>2007</b>	<b>2006</b>
Long-term interest-bearing loans	-	-
Short-term interest-bearing loans	-	7,422
	<u>-</u>	<u>7,422</u>

**18. Trade and other payables**

<i>In thousands of BGN</i>	<b>2007</b>	<b>2006</b>
Trade payables	8,478	20,819
Payables to employees	13,345	10,845
Payables to the budget	2,232	1,958
Social security payable	2,119	2,116
Guarantees	194	141
Other (insurances, salary deductions, other)	671	993
From litigation and claims	1,585	-
	<u>28,624</u>	<u>36,872</u>

Trade payables balances include payables to: “Allenia Marconi Systems” (Selex S.I.) (BGN 4,060 thousand) related to the construction of the automated system for air navigation services; “Sofia Airport” (BGN 748 thousand) related to the “Reconstruction, development and extension of Sofia Airport – Lot B2” project; EUROCONTROL (BGN 2,137 thousand) for membership fees. All due liabilities are settled in compliance with contracted terms and conditions.

**19. Liabilities for retirement compensations**

<i>In thousands of BGN</i>	<b>2007</b>	<b>2006</b>
Opening balances for the period	8,816	13,667
Paid compensations during the period	(3,622)	(6,533)
Additional accrual of liabilities for retirement compensations	5,177	1,682
Closing balances for the period	<u>10,371</u>	<u>8,816</u>

**19a. Provisions for retirement compensations**

<i>In thousands of BGN</i>	%	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Total</b>
Provision before discounting		2,985	689	627	864	-	5,165
Additional accrual before discounting		245	2,601	2,129	93	790	5,858
Total liabilities before discounting		<b>3,230</b>	<b>3,290</b>	<b>2,756</b>	<b>957</b>	<b>790</b>	<b>11,023</b>
Discount	4.75%	-	(149)	(245)	(124)	(134)	(652)
Present value		<b>3,230</b>	<b>3,141</b>	<b>2,511</b>	<b>833</b>	<b>656</b>	<b>10,371</b>

In accordance with the requirements of the Labour Code and Collective Labour Contract on termination of the labour contract of an employee entitled to retirement, the Company is obliged to pay certain compensation based on the gross monthly salary.

The provision for retirement benefits in accordance with the Collective Labour Contract covers the time period from January 2008 to December 2010 inclusive. For the time period from January 2011 to December 2012 inclusive the provision for retirement benefits is calculated in accordance with the Labour Code.

## 20. Presentation of the corrections regarding the comparative information

1. The legal case No 3024/2001 against Executive Agency "Hail Control" has been terminated by government decree dated 2006. The Company had estimated interest for this legal case which was terminated on a later stage. The non-accounted expenses during 2006 amounting at BGN 32 thousand are recalculated in the comparative information for the previous period.

2. During 2006 bigger interest on deposits was reported amounting at BGN 54,000 on the basis of the preliminary estimation.

Corrections are reported during 2007 for previous period and are shown in the table below.

<i>Extract from the Income statements</i> <i>In thousands of BGN</i>	<b>2006 before correction</b>	<b>Correction</b>	<b>2006 after correction</b>
Other expenses	(5,194)	(32)	(5,226)
Profit from operations	10,760	(32)	10,708
Net financial income	4,855	(54)	4,801
Profit before tax	15,595	(86)	15,509
Net profit for the year	15,833	(86)	15,747

  

<i>Extract from the Balance Sheet</i> <i>In thousands of BGN</i>	<b>2006 before correction</b>	<b>Correction</b>	<b>2006 after correction</b>
<b>Assets</b>			
Trade and other receivables	31,063	(86)	30,977
Total current assets	206,600	(86)	206,514
Total assets	483,755	(86)	483,669
<b>Capital and liabilities</b>			
Retained earnings (loss)	15,833	(86)	15,747
Capital and reserves	428,193	(86)	428,107
Total capital and liabilities	483,755	(86)	483,669

## 21. Financial instruments

### *Foreign currency risk*

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

### *Interest rate risk*

The Company uses interest-bearing loans and borrowings that are being repaid during 2007 based on fixed interest rates and therefore the interest rate risk is assessed as low.

### *Effective interest rates and pricing analysis*

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

<i>In thousands of BGN</i>	<b>Note</b>	<b>Effective interest rate</b>	<b>Total</b>	<b>Up to 6 months</b>	<b>6-12 months</b>	<b>1-3 years</b>
Cash in cash-box	15		45	-	-	-
Current accounts	15	0,49%	78,228	-	-	-
Deposits	15	4,22%	123,532	3,912	119,620	-

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***Credit risk***

The Company has a credit exposure as disclosed in note 13. The major part of its trade receivables arises from route charges, billed and collected by EUROCONTROL, which are regulated for the current period by the Multilateral Agreement for Route Charges.

## 22. Related parties

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

<b>Title</b>	<b>Description of the transaction</b>	<b>Purchases in 2006</b>	<b>Outstanding liabilities as at 31 December 2006</b>
General Directorate "Civil Aviation Administration" Sofia Airport	Fees for certification of air-navigation equipment	2,685	-
	Re-charge of utility services – electricity, water, rent	215	11
"Communications Regulation Commission" "Aviodetachment 28" Sofia Airport	License fees	153	-
	Flight inspection of navigation aids	559	44
	Contract for construction of Lot B2	6,237	759
"Transport Construction and rehabilitation"	Contract for construction of rehabilitation and training centre "St. Constantine and Elena"	2,457	3
Bulgargaz AD	Supply of natural gas	152	-
Varna Airport	Re-charge of utility services – water, electricity	230	-
Burgas Airport	Re-charge of utility services – water, electricity	220	-
		12,908	817

<b>Title</b>	<b>Description of the transaction</b>	<b>Sales in 2006</b>	<b>Outstanding receivables as at 31 December 2006</b>
"Bulgarian Air" airlines	Charges for air navigation services	1,192	526

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

<b>Title</b>	<b>Description of the transaction</b>	<b>Purchases in 2007</b>	<b>Outstanding liabilities as at 31 December 2007</b>
General Directorate "Civil Aviation Administration" Sofia Airport	Fees for certification of air-navigation equipment	2,225	-
	Re-charge of utility services – electricity, water, rent	249	34
Communications Regulation Commission	License fees	160	-
Aviodetachment 28 Sofia Airport	Flight inspection of navigation aids	451	88
	Contract for construction of Lot B2	1	-
"Transport Construction and rehabilitation"	Contract for construction of rehabilitation and training centre "St. Constantine and Elena"	7	3

Bulgargaz AD	Supply of natural gas	150	1
Research & Design Centre at University of Architecture, Civil Engineering & Geodesy	Terrain regulation for a new runway	11	-
		<u>3,254</u>	<u>126</u>

In the course of execution of the management bodies' duties, the Company has accrued the following remunerations:

<i>In thousands of BGN</i>	<b>2007</b>	<b>2006</b>
Managing Board	243	193
Control Board	118	108
CEO	56	150
	<u>417</u>	<u>451</u>

### **23. Contingent assets**

The Company reports bank guarantees and collaterals issued in favour of ATSA amounting to BGN 9,539 thousand, the most significant part being bank guarantees issued by "Allenia Marconi Systems" (Selex S.I.) amounting to BGN 6,004 thousand.

**24. Contingent liabilities**

A new lawsuit was filed by “Plams 2001” OOD against ATSA, claiming expenses related to a property right over the hotel complex ”Kopitoto”. The lawsuit filed is at first instance court. The price of the claim is BGN 146 thousand.

**25. Subsequent events**

After the balance sheet date there are no events that could have significant effect on the Financial Statements for 2007.

The average unit rate for air navigation services for overflying has been changed from EUR 48.44 in 2007 to EUR 46.26 in 2007.

**26. Applicable accounting framework**

**Description of the applicable accounting framework**

The Company has prepared its annual financial statements for 2007 in accordance with the International Financial Reporting Standards (IRFS) in the edition as of 1 January 2005, adopted in Bulgaria with a Decree No207/7.08.2006 of the Council of Ministers and promulgated in the State Gazette, issue 66/2006. A list of the International Accounting Standards, adopted in Bulgaria, is shown below.

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

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

IAS 29	Financial reporting in hyperinflationary economies
IAS 30	Disclosures in financial statements of banks and similar financial institutions
IAS 31	Interest in joint ventures
IAS 32	Financial Instruments – disclosure and presentation
IAS 33	Earnings per share
IAS 34	Interim financial reporting
IAS 35	Discontinued activities
IAS 36	Impairment of assets
IAS 37	Provisions, contingent liabilities and contingent assets
IAS 38	Intangible assets
IAS 39	Financial instruments: recognition and measurement
IAS 40	Investment property
IAS 41	Agriculture
IFRIC 1	Changes in existing decommissioning, restoration and similar liabilities
IFRIC 2	Members' shares in co-operative entities and similar instruments
IFRIC 4	Determining whether an arrangement contains a lease
	Rights to Interests arising from Decommissioning, Restoration and
IFRIC 5	Environmental Rehabilitation Funds
SIC 7	Introduction of the Euro
SIC 10	Government assistance - no specific relation to operating activities
SIC 12	Consolidation – special purpose entities
SIC 13	Jointly controlled entities - non-monetary contributions by ventures
SIC 15	Operating leases - incentives
SIC 21	Income taxes - recovery of revalued non-depreciable assets
SIC 25	Income taxes - changes in the tax status of an enterprise or its shareholders
SIC 27	Evaluating the substance of transactions in the legal form of a lease
SIC 29	Disclosure – service concession arrangements
SIC 31	Revenue - barter transactions involving advertising services
SIC 32	Intangible assets - website costs

**27. List of published International Financial Reporting Standards that are not effective in Bulgaria as at Balance Sheet date but might be related to company`s activities**

- IFRS 7 – Financial Instruments: Disclosure and Amendment to IAS 1: Presentation of financial statements: Disclosures related to the equity require detailed disclosure of the significance of financial instruments for an entity`s financial position as well as qualitative and quantitative disclosures about the nature and the rate of influence of the risks. The new IFRS 7 and the amended IAS 1 will be valid for the period beginning on 1 January 2007 and will require additional disclosure related to the financial instruments and the equity of the Company;
- IFRS 8 – Operational segments (effective from 01.01.2009); The Company does not expect the amendment to have an effect on the financial statements;
  - Amendment to IAS 21 – Effects of changes in foreign exchange rates – net investment in a foreign operation (effective from 1 January 2006) – the Company does not expect the interpretation to have an effect on the financial statements;
  - Amendment to IAS 39 – Financial instruments: recognition and measurement of cash flow hedging and fair value option (effective from 1 January 2006). The Company does not expect the amendment to have an effect on its financial statements;

- Amendment to IAS 39 – Financial instruments and IFRS 4 Insurance contracts (effective from 1 January 2006). The Company considers issued financial guarantees as contingent liabilities until a guarantee payment opportunity appears and recognizes a provision in case the requirements of IAS 37 are met;
- Interpretation 6 – Liabilities arising from participating in a specific market – waste electrical and electronic equipment (effective from 1 December 2005). The Company does not expect the interpretation to have an effect on the financial statements taking in account the activities performed by the Company;
- Interpretation 7 – Applying the restatement approach under IAS 29 Financial reporting in hyperinflationary economies. The application of the requirements of the interpretation becomes mandatory for the Company's financial statements for 2007. The Company does not expect the interpretation to have an effect on its financial statements;
- Interpretation 8 – Scope of IFRS 2. The application of the requirements of the interpretation becomes mandatory for the Company's financial statements for 2007. The Company does not expect the interpretation to have an effect on its financial statements;
- Interpretation 9 – Reassessment of embedded derivatives. The application of the requirements of the interpretation becomes mandatory for the Company's financial statements for 2007. The Company does not expect the interpretation to have an effect on its financial statements;
- Interpretation 10 - Amendment to IAS 34 Interim financial reporting and IAS 39 Impairment of assets – prohibits the reversal of an impairment loss recognized in a previous interim periods in respect of goodwill, an investment in an equity instrument or a financial asset carried at purchasing cost. The application of the requirements of the interpretation becomes mandatory for the Company's financial statements for 2007 and will be applied in respect of goodwill, investments in equity instruments or financial assets carried at purchasing cost prospectively from the date that the Company first applied the measurement criteria of IAS 36 and IAS 39 respectively. The Company does not expect the interpretation to have an effect on its financial statements;
- Interpretation 11- Amendment to IFRS 2 – Group and treasury share transactions (for annual periods beginning on or after 1 March 2007). The Interpretation requires that the share-based payment agreement where an entity receives goods or services as a consideration for own equity instruments to be accounted as a share-based transaction for payment, arranged through shares regardless of the way the necessary capital instruments have been obtained. The Interpretation gives guidelines if the share-based payment agreement where the providers of goods or services to an entity have been given capital instruments of the parent Company have to be accounted as arranged through pecuniary funds or arranged through shares in the financial statements of the Company. The Company considers that IFRIC 11 is not applicable for the operations of the Company as the Company has not concluded share-based payment agreements.
- Interpretation 12 – Service Concession arrangements

(effective from 1 January 2009). This Interpretation gives guidance to private companies on some disclosure and questions in connection with assessments that appear in the accounting of the public-to-private service concession arrangements. The Company considers that IFRIC 12 is not applicable for the operations of the Company as the Company has not concluded service concession agreements.

- Interpretation 13 – Programmes for clients’ loyalty (effective from 01.01.2008);
- Interpretation 14 (effective from 01.01.2008) – referring to IAS 19 Employee benefits – Restrictions of the assets included in plans with defined installments, minimum capital requirements and their interaction;
- Amendment to IAS 23 Borrowing costs (effective from 01.01.2009);
- Amendment to IAS 1 Presentation of financial statements (effective from 01.01.2009)
- Amendment to IAS 27 Consolidated and separate financial statements (effective from 01.07.2009)
- Amendment to IFRS 2 Share based payment: Conditions for granting rights and cancelation (effective from 01.01.2009)

Most of the Standards and Interpretations referred above are not applicable for the activities of the Company therefore they will have no influence on its financial statements for 2007.