

100007 £20

In accordance with  
Regulation 32 of the  
Overseas Companies  
Regulations 2009

**OS AA01**

Statement of details of parent law and other  
information for an overseas company



Companies House

THURSDAY



A16 \*A90N46H\* 12/03/2020 #86  
COMPANIES HOUSE

☒ **What this form is for**  
You may use this form to  
accompany your accounts  
disclosed under parent law.

☒ **What this form is NOT for**  
You cannot use this form  
an alteration of manner of  
with accounting requirements.

## Part 1 Corporate company name

Corporate name of  
overseas company ①

BULGARIA AIR AD

UK establishment  
number

B R 013157

### → Filling in this form

Please complete in typescript or in  
bold black capitals.

All fields are mandatory unless  
specified or indicated by \*

① This is the name of the company in  
its home state.

## Part 2 Statement of details of parent law and other information for an overseas company

**A1**

### Legislation

Please give the legislation under which the accounts have been prepared and,  
if applicable, the legislation under which the accounts have been audited.

Legislation ②

BULGARIAN LAW

② This means the relevant rules or  
legislation which regulates the  
preparation and, if applicable, the  
audit of accounts.

**A2**

### Accounting principles

Accounts

Have the accounts been prepared in accordance with a set of generally accepted  
accounting principles?

Please tick the appropriate box.

☐ No. Go to Section A3.

☒ Yes. Please enter the name of the organisation or other  
body which issued those principles below, and then go to Section A3.

③ Please insert the name of the  
appropriate accounting organisation  
or body.

Name of organisation  
or body ③

INTERNATIONAL ACCOUNTING  
STANDARDS IFRS**A3**

### Accounts

Accounts

Have the accounts been audited? Please tick the appropriate box.

☐ No. Go to Section A5.

☒ Yes. Go to Section A4.

# OS AA01

Statement of details of parent law and other information for an overseas company

**A4**

## Audited accounts

Audited accounts	<p>Have the accounts been audited in accordance with a set of generally accepted auditing standards?</p> <p>Please tick the appropriate box.</p> <p><input type="checkbox"/> No. Go to <b>Part 3 'Signature'</b>.</p> <p><input checked="" type="checkbox"/> Yes. Please enter the name of the organisation or other body which issued those standards below, and then go to <b>Part 3 'Signature'</b>.</p>	<p>① Please insert the name of the appropriate accounting organisation or body.</p>
Name of organisation or body ①	INTERNATIONAL ACCOUNTING STANDARDS / IAS	

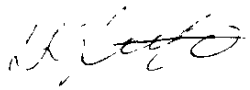
**A5**

## Unaudited accounts

Unaudited accounts	<p>Is the company required to have its accounts audited?</p> <p>Please tick the appropriate box.</p> <p><input type="checkbox"/> No.</p> <p><input type="checkbox"/> Yes.</p>	
--------------------	---	--

## Part 3

## Signature

	I am signing this form on behalf of the overseas company.	
Signature	<p>Signature</p> <p>X  X</p>	
	This form may be signed by: Director, Secretary, Permanent representative.	

OS AA01

Statement of details of parent law and other information for an overseas company



### Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

Contact name	KRISTINA PANAYOTOVA
Company name	BULGARIA AIR AD
Address	
POD 3718, Ticket Pod 3	
TERMINAL 4,	
HEATHROW AIRPORT	
Post town	HOUNSLOW
County/Region	MIDDLESEX
Postcode	TW6 3FB
Country	
DX	
Telephone	078 89664174



### Checklist

We may return forms completed incorrectly or with information missing.

Please make sure you have remembered the following:

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register.
- ☐ You have completed all sections of the form, if appropriate.
- ☐ You have signed the form.



### Important information

Please note that all this information will appear on the public record.



### Where to send

You may return this form to any Companies House address:

#### England and Wales:

The Registrar of Companies, Companies House,  
Crown Way, Cardiff, Wales, CF14 3UZ.  
DX 33050 Cardiff.

#### Scotland:

The Registrar of Companies, Companies House,  
Fourth floor, Edinburgh Quay 2,  
139 Fountainbridge, Edinburgh, Scotland, EH3 9FF.  
DX ED235 Edinburgh 1  
or LP - 4 Edinburgh 2 (Legal Post).

#### Northern Ireland:

The Registrar of Companies, Companies House,  
Second Floor, The Linenhall, 32-38 Linenhall Street,  
Belfast, Northern Ireland, BT2 8BG.  
DX 481 N.R. Belfast 1.



### Further information

For further information, please see the guidance notes on the website at [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk) or email [enquiries@companieshouse.gov.uk](mailto:enquiries@companieshouse.gov.uk)

This form is available in an alternative format. Please visit the forms page on the website at [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk)



Annual Activity Report  
Independent Auditor's Report  
Financial Statements

**BULGARIA AIR AD**

31 December 2018



# Contents

	Page
Annual Activity Report	-
Independent auditor's report	-
Statement of financial position	1
Statement of profit or loss and other comprehensive income	3
Statement of changes in equity	4
Statement of cash flows	6
Notes to the financial statements	7-57

## Annual activity report of Bulgaria Air AD For the year 2018

### I. General information

Air company Bulgaria Air AD is a joint stock company registered in 2000 in the Trade Register under UTC 000633828. Until 14 February 2007 the sole owner of the Company is the Republic of Bulgaria, represented by the Ministry of Transport, Information Technologies and Communications. The Company is registered and domiciled in Sofia, Slatina Municipality, Sofia Airport, 1 Brussels Blvd.

On 14 February 2007 the Company became privatized. Bulgarian Airways Group EAD becomes the owner of the share capital. One of the shares of the Company is owned by the Bulgarian state.

Bulgaria Air AD is the national carrier of the Republic of Bulgaria. The main activities of the Company comprise providing domestic and international aviation services, transport of passengers, freight and airmail under scheduled international flights as well as charter flights and other related activities.

Bulgaria Air AD is an aviation company, its main activities being domestic and international aviation transportation of passengers, freight and airmail, using its own or leased aircraft, aircraft rental services /including wet and dry lease/, aircraft technical support and engineering services, tickets reservations and ticket sales, production-technical activities and intermediary services, personnel training and certification, domestic and foreign trade.

As at 31 December 2018 and as of the date of preparation of these financial statements the Company's Board of Directors consists of the following members:

- Plamen Tsvetkov Atanasov - Chairman of the Board;
- Hristo Todorov Todorov - Member of the Board and CEO;
- Yanko Valkov Georgiev - Member of the Board and CEO;
- Valentin Alexandrov Bozhkov - Member of the Board,
- Bulgarian Airways Group EAD - Member of the Board, represented by Hristo Todorov Todorov
- Mariya Ilieva Vladimirova.

In 2018 there were no changes in the structure and members of the Board of directors of Bulgaria Air AD and it is represented by two executive directors - Hristo Todorov Todorov and Yanko Valkov Georgiev, as well as by its procurator – Bistra Tsvetkova Marinikova.

The share capital of the Company is BGN 120 000 000, comprising 120 000 ordinary shares, entitled to voting rights, with par value of BGN 1 000 per share. All shares are entitled to receive dividends and liquidation share and represent one voting right at the General Meeting of Shareholders. The share capital is fully paid by Bulgarian Airways Group EAD.

Bulgaria Air holds an operating license of a Community air carrier and an Air Operator Certificate issued by the Directorate General "Civil Aviation Administration" supervised by the Ministry of Transport, Information Technology and Communications.

Bulgaria Air JSC is a member of the International Air Transport Association (IATA), which represents, manages and operates the aviation industry in the world. Bulgaria Air holds a certificate for aviation safety - IOSA (IATA Operational Safety Audit), which confirms that the Airline complies with international

safety and quality standards. The safety certificate is part of IOSA program (IATA), which aims to provide and maintain a high standard of safety and quality among airlines. It is given after a thorough audit of the airlines by an international team of specialists in various fields. A total of 424 airlines worldwide have such a certificate. It certifies the successful work of the Company in eight key areas:

- ✓ General level of organization and management
- ✓ Flight operations
- ✓ Maintenance
- ✓ Operational activity
- ✓ Ground handling
- ✓ Freight activity
- ✓ Cabin service and
- ✓ Security level.

## II. Structure, organization, trade network and partners

The structure of the airline is as follows:

- Board of Directors
- Executive Directors and Procurator
- Flights Operations Department
- Maintenance Department
- Ground Handling and Safety and Security Department
- Internal Flights Operations Department
- Commercial Department
- Finance Department
- General Administration and Human Resources Department
- Safety and Quality Management System Department
- Controlling Department
- Legal and Insurance Department

In 2018, the Company operates with a total of 407 staff, divided into categories, as follows:

Staff Category	Number of employees	
	2018	2017
Cabin crew	110	123
Commanders and second pilots	88	80
Licensed technical staff	13	16
Other technical staff	11	11
Ticketing specialists	35	37
Other employees	150	149
<b>Total</b>	<b>407</b>	<b>416</b>

Bulgaria Air AD has highly qualified pilots (commanders and second pilots) who have the necessary experience and skills. The average amount of flying hours for each pilot is over 5,000 flight hours, with some of them reaching over 20,000 flight hours.

The main objective of the airline is to offer its customers the highest quality services on board using new, safe and comfortable aircraft and to continuously improve its product.

**BULGARIA AIR AD**  
Annual Activity Report  
31 December 2018



In 2018 Bulgaria Air AD operates using the following types of aircraft - Airbus A 320, Airbus A 319 and Embraer 190.

The airline conducts regular international flights from Sofia to 22 major cities in Europe and the Middle East, regular domestic flights to Varna and Burgas; charter flights on request to over 100 destinations



The airline services of the Company can be reached through a direct online/ web-based sales channel or through offices in London, Moscow, Sofia, Varna, Burgas and Shumen

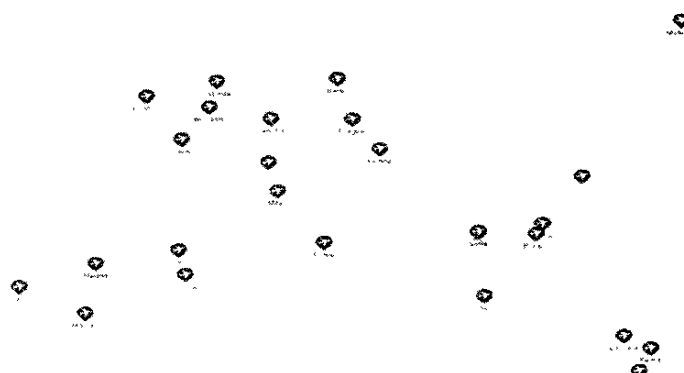
Together with its partners, Bulgaria Air offers its clients the opportunity to travel to over 400 cities in Europe, Asia, Africa and North America. Bulgaria Air strives to be the preferred airline for travel to and from Bulgaria

The partnerships of Bulgaria Air are based on cooperation with other airlines and are related to the signing of commercial contracts. The main contract is the Multilateral Interline Traffic Agreement (MITA), the signing of which means mutual recognition of the tickets between the partners. By ratifying MITA, Bulgaria Air has the opportunity to offer its clients the use of their partners' flights on a reciprocal basis under certain conditions. Such is the cooperation with Lufthansa, Turkish Airlines, LOT, Siberian Airlines. In addition to MITA, Bulgaria Air also has different bilateral interline agreements, e.g. with American Airlines and many other.

Greater opportunities for expanding sales volumes to increase the number of destinations offered at a given point are achieved by signing a special prorated agreement (SPA) between the interline partners. This is one of the major commercial contracts that allows customers to use the flights of two or more airlines on the basis of specially negotiated prices and estimates between partners. This type of contract is usually bilateral, as Bulgaria Air has signed with more than 20 interline partners but also has a multilateral contract with Air France / KLM / Delta, which is preferred by the customers of Bulgaria Air not only for overseas flights, but also for inside of Europe

The most commonly used bilateral SPAs are Virgin Atlantic, American Airlines, Brussels Airlines, Alitalia, Iberia, British Airways, TAP, Austrian Airlines, Finnair, Icelandair, Aeroflot, Croatia Airlines, Qatar.

Another kind of major trading contract is the Codeshare Partnership. In this case, the operating carrier provides an opportunity for its partner, called marketing carrier, to place its flight code on the airline that carries out the shipment. This allows the customers of Bulgaria Air to use more flights to a destination under a





simplified reservation procedure, both on their own flights and on the flights of the partner on the route. The main Codeshare partners are Air France, KLM, Alitalia, Aeroflot, Egean, Czech Airlines, Iberia, Air Serbia, Tarom and also this year's Codeshare contract with Air Italy.

### III. Development of the activity and the position of Bulgaria Air AD

#### 1. Overview of Company's activity

In 2018 there were no changes in the activity of Bulgaria Air AD.

As at 31 December 2018 the Company does not have own aircrafts and operates with the following aircrafts under an operating lease:

- Airbus, Type A 320 – 3 airplanes with the following registration initials: LZ-FBC, LZ-FBD, LZ-FBE,
- Airbus, Type A 319 – 2 airplanes with the following registration initials: LZ-FBB, LZ-FBA;
- Embraer, Type E 190 – 4 airplanes with the following registration initials: LZ-SOI, LZ-VAR, LZ-BUR, LZ-PLO

The main activities of airline Bulgaria Air are aimed at

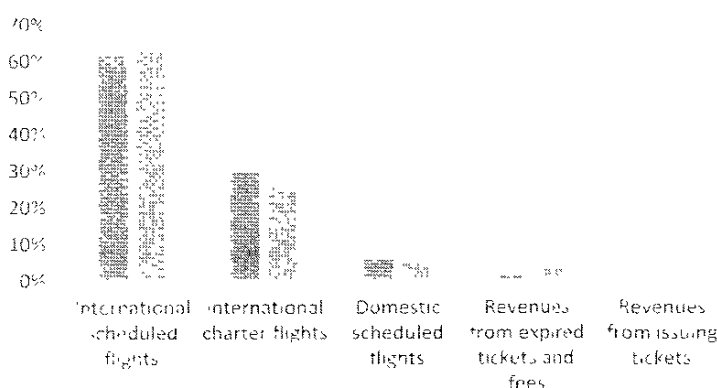
- ✓ Carry out regular international flights to more than 20 destinations in Europe and the Middle East including capitals and other major cities in Russia, Germany, the UK, Switzerland, Spain, Italy, France, Austria, Belgium, Greece, Czech Republic, the Netherlands, Israel, Lebanon and Cyprus;
- ✓ Regular domestic flights from Sofia, Varna and Burgas,
- ✓ Transport of cargo and mail - the airline works with all registered logistic companies on the Bulgarian market and with selected partners on the foreign markets;
- ✓ Transport of tourists on request by tour operators to different destinations in Europe, the Middle East and North Africa. There are also ad-hoc charters - single charter flights for corporate and private customers;
- ✓ Lease of airplanes – mainly "wet" and "dry" aircraft are offered to other airlines in Europe and the Middle East

#### 2. Revenue

The structure of revenues, generated from flights, operated during the year, is as follows:

	2018	2017	Change	Change %
Revenues	BGN'000	BGN'000	BGN'000	%
International scheduled flights	150 358	152 748	(2 390)	(2)%
International charter flights	72 822	63 894	8 928	14%
Domestic scheduled flights	14 197	12 720	1 477	12%
Revenues from tickets and fees with expired validity	3 352	8 485	(5 133)	(60)%
Revenues from issuing tickets	1 483	1 430	53	4%
<b>Total revenues from flights</b>	<b>242 212</b>	<b>239 277</b>	<b>2 935</b>	<b>1%</b>

The structure of flight revenues has been maintained during the analyzed period, with the highest percentage of revenues being attributable to the international scheduled flights – 62%, followed by the revenues, generated from the international charter flights - 30% and from domestic scheduled flights – 6%. During the period a decrease in the relative share of revenues from regular international flights in favour of charter flights revenues is observable



ad 2018 2017

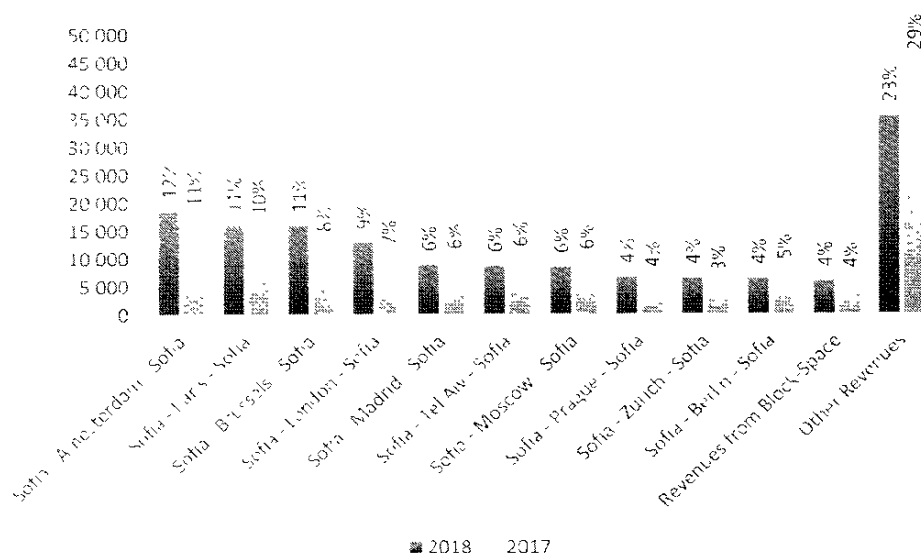
In the comparative period for 2017 in the accompanying financial statements, part of the revenues from the performed flights are from tickets and fees with expired validity BGN 8 485 thousand and Income from ticket issuance fees of BGN 1 430 thousand. In the Statement of Profit or Loss and Other Comprehensive Income for 2017, this revenue was presented within Other Income. The change was made as a result of the coming into effect of IFRS 15 Revenue from Contracts with Customers, the subsequent analyses of the nature of revenues and guidance published by IATA

In 2018 there is an increase in the revenues from performed flights by BGN 2 935 thousand compared to the previous year. Although there has been a negligible reduction in revenue from international regular flights, management's efforts to increase efficiency have led to improved performance indicators. Changes have been made to reduce the number of flights and the capacity offered on certain destinations. As a result, the profitability ratios of passenger kilometre and revenue per available seat kilometre (RASK) in the activity increased by 2% and 0.5%, respectively, compared to the base year.

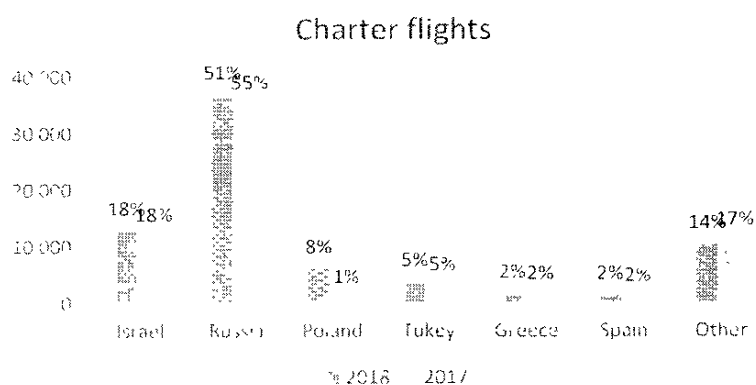
BULGARIA AIR AD  
Annual Activity Report  
31 December 2018



Revenue earned on international scheduled routes is as follows:



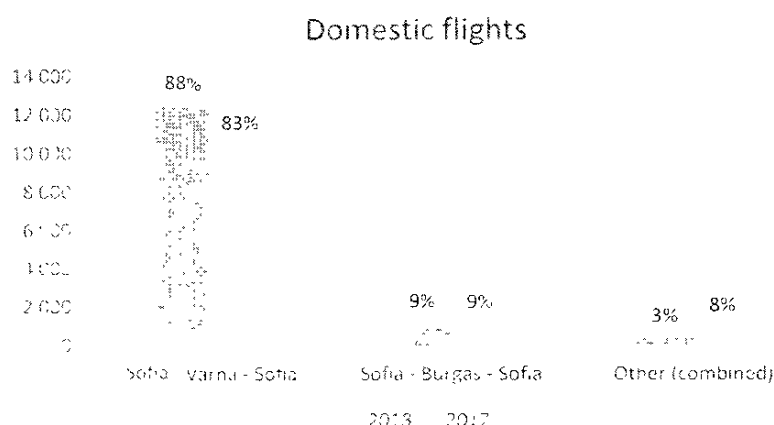
The main lines that generate revenue for the international scheduled flights are to Amsterdam, Paris, Brussels, London, Madrid and Moscow. In 2018 there was an increase or at least a retention of the share of most destinations on regular international flights, with the exception of the line to Berlin.



In 2018 an increase of the revenues from charter flights was achieved by 14% or BGN 8 928 thousand. Over 75% of the flights performed on this activity were mainly carried out with an airplane Airbus A320. Of these, the highest share is revenue from charter flights to Russia, which accounted for 51% of the proceeds of this

activity - BGN 36 867 thousand. A high percentage (18%) of operating revenues are flights to Israel with BGN 12 830 thousand, followed by the charters to Poland with 8% participation and Turkey with 5% participation. Other countries with a lower contribution to revenue are Greece, Morocco, Spain, Egypt and other European countries.

Domestic scheduled flights generate revenue on routes Sofia - Varna, Sofia - Varna - Burgas and Sofia –



Burgas. Company revenues for 2018 from this activity achieved significant increase of BGN 1 477 thousand (12% increase) Revenue per available seat kilometre (RASK) increase with 1.23% in comparison to 2017 Domestic flights revenues are allocated as follows:

A summary of the natural indicators related to the core business of the Airline is as follows:

Indicator	2018	2017	Change
Number of flights, incl.	<b>5 995</b>	<b>6 047</b>	<b>(52)</b>
Scheduled flights	4 841	5 009	(168)
Charter flights	1 154	1 038	116
Number of passengers carried, incl.	<b>1 267 276</b>	<b>1 244 569</b>	<b>22 707</b>
Scheduled flights	954 726	968 155	(13 429)
Charter flights	312 550	276 414	36 136
Block hours, incl.	<b>28 940</b>	<b>30 981</b>	<b>2 041</b>
Scheduled flights	21 125	22 532	1 407
Charter flights	5 657	5 174	483
Leasing	2 158	3 275	1 117
Average load factor for scheduled flights	<b>76%</b>	<b>75%</b>	<b>1%</b>

The decrease in the number of flights carried out in 2018 by 52 flights compared to 2017, offsetting the smaller number of regular flights with a larger charter schedule. Regular flights are in dependent on the market restructuring and the strong presence of low-cost carriers. This impose combining regular flights from different destinations in order to use the fleet capacity and preserve the passenger flow in the respective destinations as well as decreasing the operating loss incurred within the least busiest winter months.

### 3. Other income

Other income of Bulgaria Air in 2018 amounted to BGN 47 871 thousand (2017 BGN 38 368 thousand).

Excluding one-off revenues, the most significant share (35%) in the structure of other income was income from wet lease of foreign airlines to the amount of BGN 8 706 thousand. Compared to the base year 2017, they marked a decrease of BGN 3 838 thousand at the expense of the increased charter program for the period.

	2018 BGN'000	2017 BGN'000
Lease of airplanes	8 706	12 544
Fines and penalties	5 085	4 353
Revenues from sale of goods and materials	1 318	1 655
Advertisement revenues	679	634
Commission income	672	686
Advisory, technical, telecommunication and transport services	111	196
Other	2 981	3 012
Other rents	922	824
Other income	27 397	14 464
	<b>47 871</b>	<b>38 368</b>

#### 4. Expenses

The operating expenses structure of Bulgaria Air AD is provided below:

Expenses	2018 BGN'000	2017 BGN'000	Change BGN'000	Change %
Hired services expenses	171 475	184 202	(12 727)	(6.91%)
Cost of materials	79 251	66 264	12 987	19.60%
Employee benefits expenses	14 781	14 450	331	2.29%
Depreciation and amortization expenses	5 970	6 021	(51)	(0.85%)
Other expenses	20 211	9 839	10 372	105.42%
Cost of goods sold	793	879	(86)	(9.78%)
<b>Total expenses</b>	<b>292 481</b>	<b>281 655</b>	<b>10 826</b>	<b>3.84%</b>

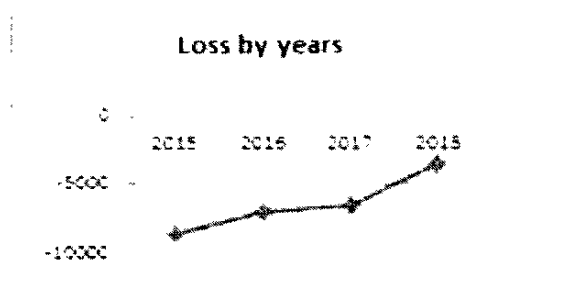
In 2018 operating expenses increased by 3.84% compared to 2017. Changes in the type of expenses are as follows:

- In the cost of external services a large reduction in absolute value of the rental and technical support costs is observed. The decrease in these costs was due to the measures taken by the management to renegotiate the monthly rentals of the Embraer 190 aircraft. On September 2018, an average monthly reduction of over 10% was achieved.
- Cost of materials during the reporting year increased by 19.6%. This is mainly due to an increase in aviation fuel costs by 23% compared to 2017. The main reason for this is the upward fuel price increase in 2018 (by 31.7%) compared to a USD/ BGN exchange rate decrease of 4%. Aviation fuel costs account for the highest share of material costs (90%).
- The increase in other expenses in 2018 is 105% compared to the same in 2017. This is mainly attributable to the recognized costs of expected credit losses of the Company's financial assets as a result of the coming into effect of the new IFRS 9 dated 1st of January 2018. Other types of other expenditures (missions, claims, greenhouse gas supplies and other) show a insignificant change of BGN 789 thousand.

### 5. Financial position of the Company

In 2018 Bulgaria Air AD suffered a loss of BGN 3 510 thousand (2017 - loss of BGN 6 562 thousand) The main factors that continue to adversely affect the activity of the airline during the period considered are:

- The continuing influence of competition and the increasing capacity of Ryan Air, which from the end of 2016 started to compete with almost all routes of Bulgaria Air from Sofia
- During the reporting period, fuel prices grew faster (by 32%) compared to the decrease in USD/ BGN exchange rate (by 4%)



The chart shows that despite the unfavourable conditions in which the airline operates, the tendency to improve the performance over the past few years continues. Compared to the previous 2017, the loss decrease almost by half

### 6. Financial analysis

Main financial indicators for the activity of Bulgaria Air AD are calculated on the basis of the following summarized financial information:

Indicators	2018	2017	Change	
	BGN '000	BGN '000	BGN '000	%
Non-current assets	118 569	122 150	(3 581)	(3%)
Current assets, including	139 510	151 077	(11 567)	(8%)
Inventory, including plane spare parts	5 824	5 743	81	1%
Investments in shares	18 000	18 000	-	-
Short-term receivables	100 575	130 093	(11 518)	(10%)
Cash and cash equivalents	15 111	15 241	(130)	(1%)
<b>Total Assets</b>	<b>258 079</b>	<b>273 227</b>	<b>(15 148)</b>	<b>(6%)</b>
<b>Equity</b>	<b>120 447</b>	<b>127 509</b>	<b>(7 062)</b>	<b>(6%)</b>
<b>Financial result (loss) for the period</b>	<b>(3 510)</b>	<b>(6 562)</b>	<b>3 052</b>	<b>(47%)</b>
Long-term liabilities	9 317	34 105	(24 788)	(73%)
Short-term liabilities	128 315	111 613	16 702	15%
<b>Total Liabilities</b>	<b>137 632</b>	<b>145 718</b>	<b>(8 086)</b>	<b>(6%)</b>

Indicators	2018	2017	Change	
	BGN '000	BGN '000	BGN '000	%
Total revenue	296 115	284 198	11 917	4%
Operating revenue	290 188	277 646	12 542	5%
Total expenses	299 625	290 760	8 865	3%
Operating expenses	292 482	281 655	10 827	4%

Ratios, characterizing the financial position of Bulgaria Air AD have been calculated as follows:

<b>Financial Indicators</b>	<b>2018</b>	<b>2017</b>
<b>Profitability Ratios</b>		
Profitability of sales ratio	(0.012)	(0.024)
<b>Effectiveness ratios</b>		
Cost effectiveness ratio	0.9883	0.9774
Revenue effectiveness ratio	1.0119	1.0231
<b>Liquidity ratios</b>		
Current ratio	1.0872	1.3536
Quick ratio	1.0419	1.3021
Immediate liquidity ratio	0.1178	0.1366
Net Working Capital (BGN '000)	11 195	39 464
<b>Solvency ratios</b>		
Solvency ratio	0.4667	0.4667
Debt ratio	0.5333	0.5333
Load factor for Int. regular flights %	76.02	74.96
Load factor for Dom. flights %	76.67	68.92
Receivables Turnover	21.62	21.39
Days Sales Outstanding	17	17

The above brief analysis shows that as of 31<sup>st</sup> December 2018 the profitability of the Airline is still negative, due to the reported loss

The indicators for general and quick liquidity show that the Company is able to meet its current liabilities.

#### IV. Business related risks. Risk management.

##### **Risk management objectives and policies**

The Company is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

The Company's risk management is coordinated at its headquarters, in close co-operation with the Board of directors and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options

The Company is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks, which result from both its operating and investing activities

##### **Currency risk**

Most of the Company's transactions are carried out in Bulgarian leva (BGN) and EUR. Exposures to currency exchange rates arise from the Company's overseas sales and purchases, which are primarily denominated in US-Dollars and British Pounds.

The Company has short-term trade liabilities, related party liabilities and other liabilities denominated in US-Dollars, British Pounds, Russian Rubles and Swiss Francs which are related to the operating activity

of the Company (landing fees, over-flight fees, lease payments under the operating lease contracts for aircraft, aircraft engines repair works payables, spare parts payables and others).

The Company has short-term trade receivables and other receivables denominated in US-Dollars and British Pounds, which are related to ticket sales from foreign representatives and others. These receivables are classified as loans and receivables.

To reduce currency risk, the Company monitors the cash flows that are not in Bulgarian leva. The Company applies separate risk management procedures for short-term (up to 6 months) cash flows in foreign currency. Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no further hedging activity is undertaken. It is also possible to invest in forward contracts that are short-term, within 1 month.

#### **Interest rate risk**

The interest rate risk is the risk of changes in the amount of the interest-bearing loans of the Company due to changes in the market interest rates.

Company's policy is to minimize interest rate risk on long-term financing.

All loans of the Company have a fixed interest rate due to which the Company is not exposed to significant interest rate risk.

#### **Credit risk**

Credit risk is the risk that counterparty fails to discharge an obligation to the Company. The Company is exposed to this risk from receivables to customers.

The Company continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at reasonable cost, external credit ratings and reports on customers and other counterparties are obtained and used. The Company's policy is to deal only with creditworthy counterparties. In addition, large part of the sales revenue has been received as advance payments thus reducing the credit risk, and the individual clients do not have the opportunity to use the service, before paying their tickets.

At the end of each reporting period an impairment test is performed on all loans granted by the Company as well as all receivables of the Company. As at 31 December 2018 the results from the analysis led to reporting of impairment losses of receivables at the amount of BGN 9 498 thousand (2017: 15 thousand). The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality.

#### **Liquidity risk**

The Company manages its liquidity needs by carefully monitoring its cash-outflows in the day-to-day business activities. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly.

The Company maintains in current bank accounts to meet its liquidity requirements for up to 30-day periods.

Estimating and managing the liquidity risk the Company reports expected cash flows from financial instruments, especially the cash on hand and the trade receivables. The cash on hand and the trade receivables do not exceed significantly the current need from the cash outflow.



### Other price risks

The Company is exposed to other price risk in relation to the supply of aviation fuel, the price of which is determined and influenced by factors outside the control of the Company, whose trend is determined globally. An eventual increase in the price of kerosene would have a negative impact on the profitability of the airline and cash outflows.

As at 31 December 2018, the Company does not hold publicly tradable securities as a result of which it is exposed to the Company.

### V. Information about the members of the Board of Directors

1. In 2018, the remunerations accrued for the Company's Board of Directors members are short-term and are summarized as follows

	2018 BGN'000	2017 BGN'000
Short-term remuneration		
- Wages	(197)	(197)
- social security expenses	(10)	(10)
	<b>(207)</b>	<b>(207)</b>

2. Partnership of the members of the Board of Directors in other companies, ownership of more than 25% of the share-capital of other companies as well as their participation in the management of other companies as procurators, managers or members of the Board

As at 31 December 2018 the members of the Board of Directors (BD) have the following participation in other companies

Members of the Board	Company	Type of participation
Hristo Todorov Todorov	Bulgaria Air Maintenance EAD	Member of the BD and CEO
	Nuance BG AD	Member of the BD and CEO
	Bulgarian Airways Group EAD	Member of the BD
	Airport Services Bulgaria EAD	Member of the BD and CEO
	Swissport Bulgaria AD	Member of the BD and CEO
	Airport Consulting EOOD	Manager
	Airline Hemus Air EAD	Member of BD and CEO
	Tiburland EOOD	Manager and Sole owner
	National Association of children summer camps	Member of BD
Plamen Tzvetkov Atanasov	Bulgarian Airways Group EAD	Member of the BD and CEO
	Airline Hemus Air EAD	Member of BD
	Airport Services Bulgaria EAD	Member of the BD
	Bulgaria Air Maintenance EAD	Chairman of the BD
Mariya Ilieva Vladimirova	Bulgarian Airways Group EAD	Chairman of the BD
	Airline Hemus Air EAD	Member of BD
	Bulgaria Air Maintenance EAD	Member of the BD and CEO
	Oil and Gas Exploration and Production AD	Procurator
	Airport Services Bulgaria EAD	Member of the BD and CEO
	Nuance BG AD	Member of the BD
	Aquamar EOOD	Manager and Sole owner
	Sitnyakovo project estate EOOD	Manager
	Energoproekt Utilities OOD	Manager

Members of the Board	Company	Type of participation
Yanko Vulkov Georgiev	Airline Hemus Air EAD	Member of the BD and CEO
	Elodi OOD	Partner (25% ownership)
	Bulgarian Airlines Association (ABA)	Member of the BD
Valentin Alexandrov Bozhkov	JR Invest AD	Member of the BD

The members of the Board do not own any shares or bonds of the Company, neither any right to acquire such. The members of the Board of Directors or their affiliates do not have contracts concluded during the year with the Company that go beyond its normal activity or materially deviate from the market conditions within the meaning of Art. 240 b in Commercial Act.

#### VI. Strategic goals

The mission of Bulgaria Air AD as a national carrier is related to the provision of high quality air passenger services, cargo and mail services in a large number of destinations around the world that guarantee reliability, comfort and safety.

#### Strategic goals of Bulgaria Air AD are:

- Maintaining an optimal price-quality ratio of the service;
- Achieving an airplane park with a capacity corresponding to the market niche in which the airline operates;
- Increasing the market share in the aviation service in the country and the region;
- Strengthening the key role of the airline in aviation service activities;
- Creation of a strong and competitive national airline able to withstand the competitive pressure of foreign airlines in a fully liberalized market.

In 2018 the management of Bulgaria Air AD continued to implement a program to optimize its activity, aiming to achieve higher efficiency and profitability. The airline owns a modern airplane park. New software products are used that lead to more efficient company management, introducing a new mobile application for ticketing and online check-in. The aviation technology of the Airbus concern that is used by the Airline, allows for greater efficiency and generally improves the service provided. Regarding the Bulgaria Air fleet, the goal is to impose the usage of only two types of airplanes - Airbus and Embraer.

Despite the continued downward trend in low-cost carriers such as Wizz Air, EasyJet and Ryanair, in 2018 a management strategy is in place to expand the business at an accelerated pace and to enter new markets by expanding the network of flights and attracting new customers through new contracts with leading carriers on the market, enabling the airline to offer advantageous offers for direct and transfer flights depending on the specificity of each particular market. In this respect, as early as 2018, Bulgaria Air started its operation on a new regular destination Sofia-Odessa-Sofia.

The efforts of the Company are aimed at continuous improvement of the offered services and products. Works with Amadeus Reservation System, a modern online sales platform through the airline's website, and crew planning and support software for Lufthansa Technik.

The Company's operations are highly dependent on the conditions of the international aviation market, which directly affects the trade load and the frequency of flights.

Under these conditions in 2018, Bulgaria Air AD made efforts to optimize its operations. As a result of the actions taken by the management of the Company, at the date of preparation of this report, the following facts and circumstances are present:

- The airline operates and operates a modern airplane;
- Improved efficiency in business management;
- Significantly improved quality of the offered transport service;
- Optimized costs

The strategic goals of the airline remain focused on:

- ✓ Make the most of the opportunities for discovering new destinations and increasing the market share,
- ✓ Maintenance of a new, modern aircraft fleet,
- ✓ Maintain flexible pricing policy;
- ✓ Maintaining highly qualified staff.

The airline has a tendency to increase the efficiency of its operations in providing its aviation services. The enterprise has identified a set of measures that can lead to additional opportunities to optimize fixed costs and increase revenue in the short term.

## VII. Future development of Bulgaria Air AD

In 2019, the airline will continue to optimize its activities in order to achieve its strategic goals. With the development of the airline's operating environment, the Company focuses on modern channels and means of selling airline tickets, in this regard it is expected: commissioning a new, online, ticket sales channel available through a mobile device that will allow passengers to quickly and conveniently check-in before their flight through the mobile device and which channel will notify airline customers of all upcoming promotions and attractive offers.

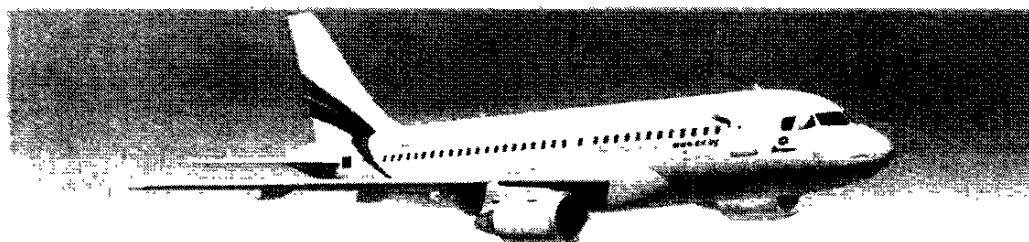
In 2019, the airline continued the process of negotiating a number of new code-share agreements with leading airlines on the European market in order to expand the network of destinations that the airline would offer its customers:

- ✓ Code-share agreement for cooperation with Air Italy. Within the framework of this agreement, flights will be operated jointly on the Sofia-Milano route and from Sofia to Varna and Burgas and joint flights through Milan to Catania, Naples, Olbia, Cagliari, Palermo. Moreover, thanks to this cooperation agreement, Bulgaria Air will sell all the transatlantic routes of Air Italy - New York, Miami, San Francisco, Los Angeles and Toronto.
- ✓ From the beginning of the summer season of 2019, the agreement with Cyprus Airways is expected to be finalized. Within the framework of this agreement, which is already defined, the routes Sofia-Larnaca, the Sofia-Varna and Sofia-Burgas routes, as well as flights from Sofia to Prague and Zurich and Larnaca to Beirut and Tel Aviv.
- ✓ An agreement was signed with Air Baltic, which allows both carriers to sell their flights from Sofia to and from Riga, Tallinn and Vilnius.
- ✓ A "code share" cooperation to Ukraine with Ukrainian airline Windrose is being prepared, jointly operating to and from Kyiv and Odessa.
- ✓ A large-scale "code share" deal with a German carrier on attractive routes such as Male, Cancun, Kuala Lumpur, Calgary, Halifax, Vancouver and Cape Town.
- ✓ Agreement with Adria Airways is expected to be signed, as a result of which a flight from Sofia to Ljubljana will be jointly performed.

BULGARIA AIR AD  
Annual Activity Report  
31 December 2018

**Bulgaria Air**  
www.air.bg

It is envisaged that in 2019 the charter activity will grow by about 25%. For that purpose, one Boeing 733 aircraft will be leased on a wet lease for the whole summer season for charter flights from Europe to Varna and Burgas. New charter contracts for this plane are already negotiated and signed with a number of leading European tour operators such as Tui Group. From the spring of 2019, after signing a one year lease with Air Italy for leasing, two E 190 aircraft will conduct regular flights within Air Itah's airline network in Italy.



Date: 14 March 2019

**Executive Director:**

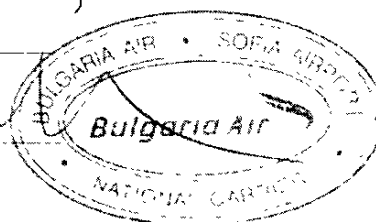
Yanko Georgiev

**Executive Director:**

Hristo Todorov

**Procurement:**

Besira Munkova



Grant Thornton Ltd.  
26, Cherni Vrah Blvd, 1421 Sofia  
4, Paraskeva Nikolau Str, 9000 Varna  
T (+3592) 987 28 79, (+35952) 69 55 44  
F (+3592) 980 48 24, (+35952) 69 55 33  
E [office@bg.gt.com](mailto:office@bg.gt.com)  
W [www.grantthornton.bg](http://www.grantthornton.bg)

## INDEPENDENT AUDITOR'S REPORT

To the shareholders of  
Bulgaria Air AD  
1 Bruksel Boulevard, Sofia

### Report on the Audit of the Financial Statements

#### Opinion

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

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

#### Basis for Opinion

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

#### Information Other than the Financial Statements and Auditor's Report Thereon

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or whether our knowledge obtained in the audit may indicate that there is a material misstatement or otherwise the other information appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

In addition to our responsibilities for reporting under ISAs, described above in section "Information Other than the Financial Statements and Auditor's Report Thereon", regarding annual management report, we have performed the additional procedures contained in the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). The procedures on the existence, form and contents of the other information have been carried out in order to state

whether the other information includes the elements and disclosures in accordance with Chapter Seven of Bulgarian Accountancy Act

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

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

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

**Grant Thornton Ltd.**

**Audit firm**

**Mariy Apostolov**

**Managing partner**

**Registered auditor responsible for the audit**

15 March 2019

Bulgaria, Sofia



## Statement of financial position as at 31 December

	Note	31 December 2018 BGN'000	31 December 2017 BGN'000
<b>Non-current assets</b>			
Aircrafts and spare engines	5	932	1 283
Property, plant and equipment	6	2 096	2 262
Investment property	7	406	471
Intangible assets	8	110 283	114 954
Investments in subsidiaries	9	200	200
Deferred tax assets	11	3 752	2 980
Non-current assets		<b>118 569</b>	<b>122 150</b>
<b>Current assets</b>			
Aircraft spare parts	12	5 500	5 138
Inventories	13	524	605
Financial assets at fair value through other comprehensive income	10	18 000	
Short-term financial assets	10		18 000
Trade receivables	14	11 052	11 359
Related party receivables	33.1	21 099	20 452
Other receivables	15	68 424	80 282
Cash and cash equivalents	16	15 111	15 241
Current assets		<b>139 510</b>	<b>151 077</b>
<b>Total Assets</b>		<b>258 079</b>	<b>273 227</b>

Prepared by:



Bistra Marinikova

Chief accountant and Procurator

Date: 14.03.2019

Audited according to the auditor's report dated 15.03.2019:

Grant Thornton Ltd.

Audit Firm

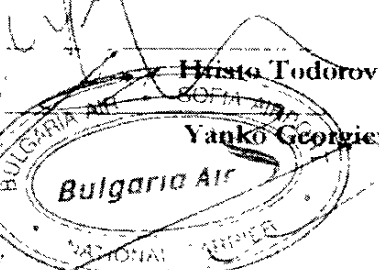


Executive Director:



Hristo Todorov

Executive Director:



Yanko Georgiev

Mariy Apostolov

Registered auditor responsible for the audit  
Managing partner



## Statement of financial position as at 31 December (continued)

	Note	31 December 2018 BGN'000	31 December 2017 BGN'000
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	17.1	120 000	120 000
Reserves	17.2	63 659	63 652
Accumulated loss		(63 212)	(56 143)
<b>Total equity</b>		<b>120 447</b>	<b>127 509</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Trade payables	20	8 114	32 783
Long-term borrowings	18	475	810
Pension employee obligations	19.2	728	512
<b>Non-current liabilities</b>		<b>9 317</b>	<b>34 105</b>
<b>Current liabilities</b>			
Trade payables	20	64 692	57 406
Short-term borrowings	18	11 860	8 621
Short-term related party payables	33.2	28 734	23 782
Pension and other employee obligations	19.2	3 328	3 429
Provisions	21	1 531	840
Other liabilities	22	18 167	17 535
<b>Current liabilities</b>		<b>128 315</b>	<b>111 613</b>
<b>Total liabilities</b>		<b>137 632</b>	<b>145 718</b>
<b>Total equity and liabilities</b>		<b>258 079</b>	<b>273 227</b>

Prepared by:

Elisaveta Mladenkova

Chief accountant and Procurator

Date: 14.03.2019

Audited according to the auditor's report dated 15.03.2019:

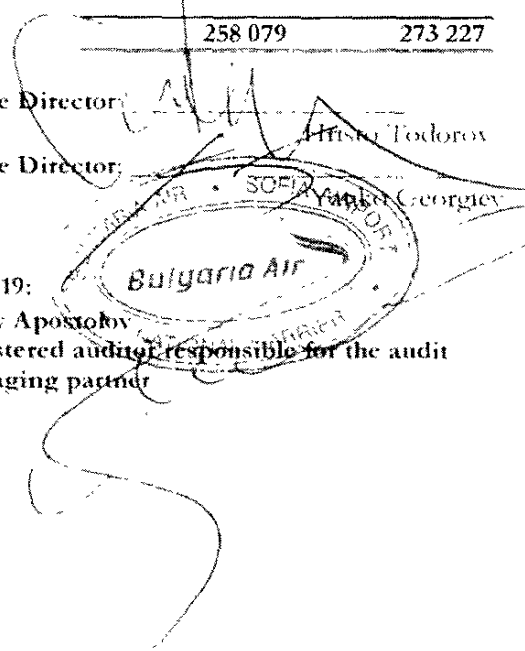
Grant Thornton Ltd.  
Audit Firm



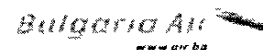
Executive Director:

Executive Director:

Mariy Apostolov  
Registered auditor responsible for the audit  
Managing partner



BULGARIA AIR AD  
Financial Statements  
31 December 2018



# Statement of profit or loss and other comprehensive income for the year ended 31 December

	Note	2018 BGN'000	2017 BGN'000
Traffic revenue	23	242 212	239 277
Other income	24	17 871	38 368
Gain on sale of non-current assets	25	105	1
<b>Revenue from operating activities</b>		<b>290 188</b>	<b>277 646</b>
Hired services expenses	26	171 475	184 202
Cost of materials	27	79 251	66 264
Employee benefits expenses	19, 1	14 781	14 450
Depreciation and amortization of non-financial assets	5, 6, 8	5 970	6 021
Other expenses	28	21 005	10 718
<b>Operating expenses</b>		<b>(292 482)</b>	<b>(281 655)</b>
<b>Operating loss</b>		<b>(2 294)</b>	<b>(4 009)</b>
Finance costs	30	7 143	9 105
Finance income	30	5 154	4 828
<b>Loss before tax</b>		<b>(4 283)</b>	<b>(8 286)</b>
Income tax	31	773	1 124
<b>Loss for the year</b>		<b>(3 510)</b>	<b>(6 562)</b>
<b>Other comprehensive income/(loss)</b>			
<b>Components that are not reclassified to profit or loss:</b>			
Remeasurement of defined benefit obligations		8	55
Income tax relating to components that are not classified to profit or loss	31	1	6
<b>Other comprehensive income/(loss) for the year, net of taxes</b>		<b>7</b>	<b>(49)</b>
<b>Total comprehensive loss for the year</b>		<b>(3 503)</b>	<b>(6 611)</b>

Prepared by:

Bistra Chankova

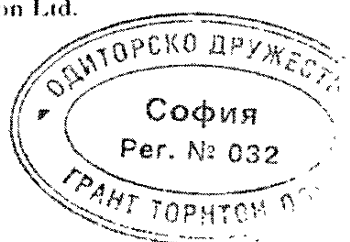
Chief accountant and Procurator

Date: 14.03.2019

Audited according to the auditor's report dated 15.03.2019

Grant Thornton Ltd.

Audit Firm

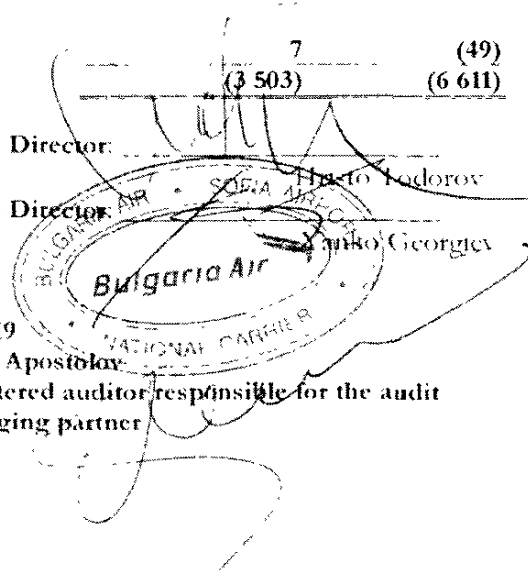


Executive Director:

Executive Director:

Mariy Apostolov

Registered auditor responsible for the audit  
Managing partner



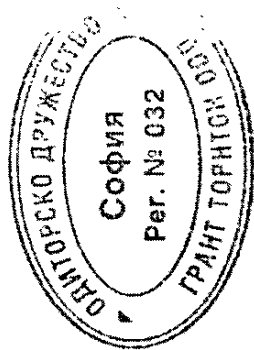
# Statement of changes in equity for the year ended 31 December

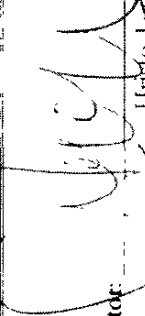
All amounts are presented in BGN'000	Share capital	Common reserves	Other reserves	Reserve for capital increase	Reserve from remeasurements of defined benefit obligation	Accumulated loss	Total equity
Balance 1 January 2017	120 000	317	642	766	562	(49 581)	72 706
Loss for the year	-	-	-	-	-	-	-
Other comprehensive loss	-	-	-	-	(49)	(6 562)	(6 562)
Total comprehensive loss for the year	-	-	-	-	(49)	(6 562)	(6 611)
Additions and contributions from the owners	-	-	-	61 414	-	-	61 414
Transactions with owners	-	-	-	61 414	-	-	61 414
Balance 31 December 2017	120 000	317	642	62 180	513	(56 143)	127 509


Prepared by:   
Bistra Marinova  
Chief accountant and Procurator

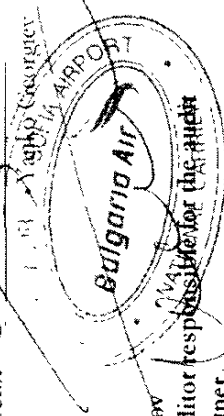
Date: 14.03.2019

Audited according to the auditor's report dated 15.03.2019:  
Grant Thornton Ltd.  
Audit Firm



Executive Director:   
Hristo Lichkov  
Executive Director

  
Mariy Apostolev  
Registered auditor responsible for the audit  
Managing partner



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

All amounts are presented in BGN'000	Share capital	Common reserves	Other reserves	Reserve for capital increase	Reserve from remeasurements of defined benefit obligation	Accumulated loss	Total equity
Balance 1 January 2018	120 000	317	642	62 180	513	(56 143)	127 509
Adjustments from the adoption of IFRS 9 note 3.1	-	-	-	-	-	(3 550)	(3 550)
Balance 1 January 2018 (restated)	120 000	317	642	62 180	513	(59 702)	123 950
Loss for the year	-	-	-	-	-	(3 510)	(3 510)
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	-	7	(3 510)	(3 503)
Balance 31 December 2018	120 000	317	642	62 180	520	(63 212)	120 447

Prepared by:   
Bistra Marmkova  
Chief accountant and Procurator

Executive Director.

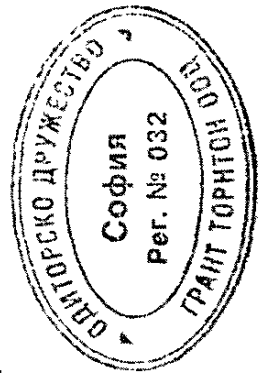
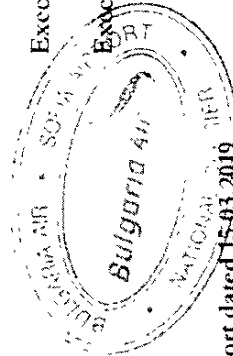
Executive Director.

Date: 14.03.2019

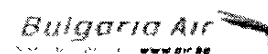
Audited according to the auditor's report dated 15.03.2019

Grant Thornton Ltd.  
Audit Firm

Mariy Apostolov  
Registered auditor responsible for the audit  
Managing partner



BULGARIA AIR AD  
Financial Statements  
31 December 2018



## Statement of cash flows for the year ended 31 December

Note	2018 BGN'000	2017 BGN'000
<b>Operating activities</b>		
Cash receipts from customers	271 087	266 902
Cash paid to suppliers	(200 498)	(199 746)
Cash paid for operating lease instalments	(56 715)	(62 070)
Cash paid to employees and social security institutions	(17 776)	(17 065)
Taxes paid excluding corporate income tax	(1 817)	(1 455)
Other operating cash outflows	(2 502)	(735)
<b>Net cash flows from operating activities</b>	<b>(8 221)</b>	<b>(14 169)</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(2 104)	(63)
Purchase of intangible assets	-	(48)
Loans granted	(475)	-
Interest received from loans granted	-	3
Proceeds from sale of non derivative financial assets	-	1 006
<b>Net cash flows from investigating activities</b>	<b>(2 579)</b>	<b>898</b>
<b>Financing activities</b>		
Proceeds from borrowings	23 567	20 993
Repayment of borrowings	(11 867)	(6 709)
Interest paid	(776)	(581)
Other payments for financing activities	(262)	(304)
<b>Net cash flows from financing activities</b>	<b>10 662</b>	<b>13 399</b>
Net change in cash and cash equivalents	(138)	128
Cash and cash equivalents, beginning of year	15 241	17 330
Exchange gains from cash and cash equivalents	8	(2 217)
<b>Cash and cash equivalents, end of year</b>	<b>15 111</b>	<b>15 241</b>

Prepared by:   
Iveta Varnkova

Chief accountant and Procurator


Date: 14.03.2019

Audited according to the auditor's report dated 15.03.2019:

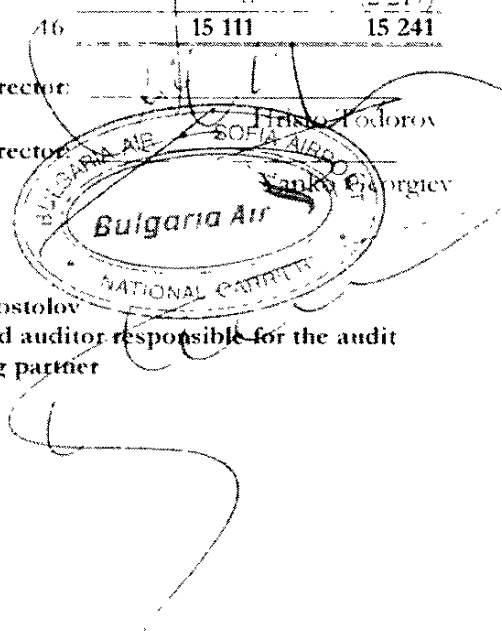
Grant Thornton Ltd.  
Audit Firm



Executive Director: 

Executive Director: 

Mariy Apostolov  
Registered auditor responsible for the audit  
Managing partner



## Notes to the financial statements

### 1 General information

Bulgaria Air AD (Bulgaria Air AD, the Company) is the national carrier of the Republic of Bulgaria. Its core business is to provide aviation services within the country and abroad, carrying passengers, cargo and mail on international scheduled and chartered flights and other related activities.

The Company is registered in 2000 year having an UTC 000633828. The Company is registered and domiciled in Sofia, Slatina municipality, 1 Brussels Blvd.

On 14 February 2007 the Company became privatized. Bulgarian Airways Group EAD becomes the owner of the share capital, one of the shares is owned by the Republic of Bulgaria.

The Company has one-tier management system, consisting of the General Meeting of Shareholders and the Board of Directors. As of 31 December 2016 and as of the date of preparation of these financial statements Bulgaria Air AD is managed and represented by both executive directors: Mr. Hristo Todorov Todorov and Mr. Yanko Valkov Georgiev, as well as the procurator Mrs. Bistra Tsvetkova Marinova, only together.

As of 31 December 2018 the Company's Board of Directors consist of the following members:

- Plamen Tsvetkov Atanasov - chairman of the Board,
- Hristo Todorov Todorov – member of the Board and executive director,
- Yanko Valkov Georgiev - member of the Board and executive director,
- Valentin Alexandrov Bojkov – member of the Board,
- Bulgarian Airways Group EAD – member of the Board,
- Mariya Ilieva Vladimirova – member of the Board.

The ultimate owner of the Company is Invest Capital AD, registered in the Republic of Bulgaria, whose equity instruments are not quoted on the Bulgarian Stock Exchange, Sofia. The Company is included in the consolidated financial statements of Chumimport AD, registered in the Republic of Bulgaria, whose equity instruments are quoted on the Bulgarian Stock Exchange, Sofia.

In regards to its core business activities Bulgaria Air AD is a member of the International Air Transport Association - IATA. IATA is engaged with representative, management and maintenance functions of the world airline industry.

In 2018 Bulgaria Air AD operates with the following types of aircraft:

- 3 Airbus A 320,
- 2 Airbus A 319;
- 4 Embraer 190,

As at 31 December 2018 the Company does not have own airplanes.

As of 31 December 2018 Bulgaria Air AD has 407 employees and the average number of employees for the year is 431.

In 2018 there were no changes in the nature and the volume of the activities of Bulgaria Air AD.

## 2 Basis for the preparation of the financial statements

The financial statements of the Company 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 term “IFRS, as adopted by the EU” has the meaning of paragraph 1, subparagraph 8 of the Additional provisions of Bulgarian Accountancy Act, which is International Accounting Standards (IAS) adopted in accordance with Regulation (EC) 1606/2002 of the European Parliament and of the Council.

The financial statements are presented in Bulgarian leva (BGN), which is also the functional currency of the Company. All amounts are presented in thousand Bulgarian leva (BGN'000) (including comparative information for 2017) unless otherwise stated.

These financial statements are separate financial statements. The Company has used the exemption from consolidation in accordance with IFRS 10 “Consolidated Financial Statements”, paragraph 4. The entity which prepares consolidated financial statements for public use that comply with International Financial Reporting Standards is Chimimport AD. The address where those consolidated financial statements are obtainable is 2 Stefan Karadzha Str., Sofia, Bulgaria.

The Company reported a loss of BGN 3 510 thousand for the period, a negative cash flow from operating activities amounting to BGN 8 221 thousand and accumulated loss as at 31 December 2018 at the amount of BGN 63 212 thousand. However, the Company's management considers that the financial statements are prepared in accordance with the going concern principle. The reason for this is the continued support of the sole owner of the capital, which in 2017 was expressed in the provision of additional cash contributions amounting to BGN 61 414 thousand which led to Company's equity improvement and bringing it into the legally required thresholds. In addition, management has prepared forecasts for the future development of the Company and has taken a number of measures that have led to positive results.

As a result, at the date of the financial statements, the management of Bulgaria Air AD has made an assessment of the Company's ability to continue its business as a going concern based on the available information for the foreseeable future. After a review of the Company's operations, the Board of Directors expects that it has sufficient financial resources to continue its operational activities in the near future and continues to apply the going concern principle to the preparation of the financial statements, the Company will be able to continue its operations and to repay its payables without selling assets and without undergoing substantial changes in its business.

## 3 Changes in accounting policies

### 3.1 New and revised standards that are effective for annual periods beginning on or after 1 January 2018

The Company has adopted the following new interpretations, revisions and amendments to IFRS issued by the International Accounting Standards Board, which are relevant to and effective for the Company's financial statements for the annual period beginning 1 January 2018 and have no significant impact on the Company's results or financial position.

#### **IFRS 9 “Financial instruments” effective from 1 January 2018, adopted by the EU**

IFRS 9 “Financial instruments” replaces IAS 39 “Financial Instruments: Recognition and Measurement”. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an ‘expected credit loss’ model for the impairment of financial assets.

When adopting IFRS 9, the Company has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement, and

impairment are recognised in accumulated loss. The adoption of IFRS 9 has impacted the following areas:

- Classification and measurement of the Company's financial assets

Management holds most financial assets to collect the associated cash flows. The receivables (trade and other receivables and related party receivables) continue to be accounted for at amortized cost. The investment, classified previously as an investment available-for-sale, is now measured at fair value through other comprehensive income.

Measurement category			Effect of application of IFRS 9			Carrying amount 1 January 2018 IFRS 9
Financial assets according to IAS 39	Financial assets according to IFRS 9		Carrying amount 31 December 2017 IAS 39	Reclassification	Expected credit loss/ Remeasurement	
Non-current financial assets						
Current financial assets	Available for sale	FVOCI	18 000	18 000	-	18 000
Related party loans and receivables	Loans and receivables	Amortized cost	20 320	-	-	20 320
Loans and receivables	Loans and receivables	Amortized cost	10 873	-	-	10 873
Other financial receivables	Loans and receivables	Amortized cost	70 575	-	(3 559)	67 016
			119 768	18 000	(3 559)	116 209

- Impairment of financial assets applying the expected credit loss

The expected credit loss model affects the Company's financial assets. For trade receivables and related party receivables the Company applies a simplified model of recognising expected credit loss, as these items do not have a significant financing component. A significant part of the trade receivable are related to the sales of airline tickets, which are usually settled within two week via the LATA international payment system BSP. They represent 62% of total sales. Online sales of airline tickets, which represent 22% of total sales are usually collected within 5 days. The remaining sales are realized through own sales by offices and agents in the country and abroad and their amounts are collected within 15 days after the sale date.

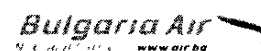
Taking into account the nature and specifics of Company's activity, including the conditions under which the Company's trade receivables are settled as well as based on its historical experience, the Company has analyzed the age structure, collectability and repayment terms of trade receivables. As a result, the expected credit losses were identified for an amount insignificant to the gross amount of receivables. Therefore, they are not recognized in the Company's financial statements as of 1 January 2018 and no effect of applying IFRS 9 was recognized as of the same date.

In respect to the related party receivables, the Company has made estimate, that there is no significant credit risk exposure, referring to the possibility there may be settled with the sole owner's support. As a result of the analysis it was concluded that the expected credit losses of related party receivables are also insignificant and therefore not recognized.

In respect to the approach for other financial receivables, the Company makes individual estimate when forming the methodology for calculating and accounting for the impairment losses, depending on the counterparty, the collateral, the conditions, the methods of disbursement and repayment. For the purpose of determining expected credit losses a discount rate is applied that reflects the timing effect of the



BULGARIA AIR AD  
Financial Statements  
31 December 2018



receivables. As a result of the performed calculations and in observance of the circumstances surrounding the collectability of the amounts, as at 1 January 2018 an effect of application of IFRS 9 at the amount of BGN 3 559 thousand was identified.

The accumulated loss from impairment of receivables as at 31 December 2017 reconcile to the opening balance of the accumulated impairment as at 1 January 2018, as follows

	<b>Impairment of receivables</b>
	<b>TBGN</b>
At 31 December 2017 – calculated under IAS 39	784
Amounts recognised in retained earnings	3 559
<b>As at 1 January 2018 – calculated under IFRS 9</b>	<b>4 343</b>

- Measurement of equity investments at cost less impairment

As of the date of transition to IFRS 9 the Company has made the irrevocable choice to determine its equity investments in a foreign company, which it intends to hold after 1 January 2018 as a financial instrument at fair value through other comprehensive income. Based on an assessment of the investee it was concluded that the cost of the investment as at 31 December 2017 represents its fair value. The assessment is made based on the net assets of the investee, taking into account other indicators, which could affect the credit risk of the instrument – the financial condition of the issuer, the economic environment in which the issuer operates and other

**IFRS “Revenue from Contracts with Customers” effective from 1 January 2018, adopted by the EU**

IFRS 15 “Revenue from Contracts with Customers” and the related Clarifications to IFRS 15 “Revenue from Contracts with Customers” (hereinafter referred to as IFRS 15) replace IAS 18 “Revenue”, IAS 11 “Construction Contracts” and several revenue-related Interpretations. The new Standard has been applied retrospectively without restatement, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings at 1 January 2018. In accordance with the transition guidance, IFRS 15 has only been applied to contracts that are incomplete as at 1 January 2018.

In the analysis of the application of IFRS, the Company has identified the following areas with a possible effect:

- Costs for concluding a contract, relating to commissions
- Loyalty/bonus/discount programs that are part of the Company’s usual business practice
- Disclosure

IFRS 15 does not result in a material change in the manner, amount and timing of Company’s revenue recognition and measurement. The analysis of Traffic revenue and Other income including the estimates of performance obligations allocation showed that ticket issuance charges and income from tickets and taxes with expired validity are related to the flights obligation and therefore should be classified as Traffic revenue. For the purpose of achieving comparability and consistent presentation, which give more relevant information for the effect of transactions and other events or conditions on the Company’s financial position, income from tickets and taxes with expired validity and ticket issuance charges for 2017 are presented in a different way compared to the financial statement for 2017.

In the Statement of profit or loss and other comprehensive income for 2017 this revenue was presented within Other income. In the current financial statements the following amounts are reclassified from Other income to Traffic revenue:

- Income from tickets and taxes with expired validity – BGN 8 485 thousand.
- Ticket issuance charges – BGN 1 430 thousand

The change concerns only the way of which the elements of the Statement of profit or loss and other comprehensive income for 2017 are presented and does not relate to their measurement

#### **Contracts with multiple performance obligations**

The Company has ongoing customer loyalty programs where customers can collect bonus points (award credits), which can be exchanged for free tickets for flights of Bulgaria Air AD, can get free transportation of additional luggage, flight in business class with a ticket for economy class, vouchers for the business lounge at the airport and other incentives for loyal customers. Those contracts comprise of variety of performance obligations and under IFRS 15 the Company must evaluate the separability of the promised goods or services based on the following criteria:

- the customer benefits from the item either on its own or together with other readily available resources, and
- it is 'separately identifiable' (i.e. the Company does not provide a significant service integrating, modifying or customising it)

While this represents significant new guidance, the implementation of this new guidance did not have a significant impact on the timing or amount of revenue recognised by the Company in any year.

Following the analysis and calculations made, the Company has concluded that these areas has no effect on the initial application of IFRS 15

#### **IFRIC 22 “Foreign Currency Transactions and Advance Consideration” effective from 1 January 2018, adopted by the EU**

The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt

The following new standards, amendments and interpretations to IFRS issued by the International Accounting Standards Board, which are relevant to and effective for the Company's financial statements for the annual period beginning 1 January 2018 but do not have a significant impact on the Company's financial results or position:

- IFRS 2 “Share Based Payments” (amended) effective from 1 January 2018, adopted by the EU
- IFRS 4 “Insurance contracts” (amended) effective from 1 January 2018, adopted by the EU
- IAS 40 “Investment property” (amended) - Transfers of Investment Property effective from 1 January 2018, adopted by the EU
- Annual Improvements to IFRSs 2014-2016 effective from 1 January 2018, adopted by the EU.

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

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued, but are not effective or adopted by the EU for the financial year beginning on 1 January 2018 and have not been adopted early by the Company. Information on those expected to be relevant to the Company's financial statements is provided below

- **IFRS 16 “Leases” effective from 1 January 2019, adopted by the EU**

This standard replaces the current guidance in IAS 17 “Leases” and is a far-reaching change in accounting by lessees in particular.

Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a ‘right-of-use-asset’ for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

For lessors, the accounting stays almost the same.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In order to determine the impact, the Company is in the process of:

- performing a full review of all agreements to assess whether any additional contracts will now become a lease under IFRS 16’s new definition;
- deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated). The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are one-off choices.
- assessing their current disclosures for finance leases and operating leases as these are likely to form the basis of the amounts to be capitalised and become right-of-use assets. The Company estimates that approximately BGN 133 thousand are short-term contracts payments which will be recognised on a straight-line basis as an expense in profit or loss.
- determining which optional accounting simplifications apply to their lease portfolio and if they are going to use these exemptions;
- assessing the additional disclosures that will be required.

As at the reporting date, the Company has non-cancellable operating lease commitments of BGN 163 170 thousand.

The expected effects of applying the standard can be presented as follows:

<b>Right-of-use assets</b>	<b>01.01.2019 BGN ‘000</b>
Right-of-use assets, recognized as:	
- Property, plant and equipment	2 135
- Aircrafts	140 071
	<b>142 206</b>
<b>Lease liabilities</b>	
Aging analysis of lease liabilities	
- Up to 1 year	39 134
- 1 to 5 years	111 757
- More than 5 years	12 279
Total amount of undiscounted lease liabilities	<b>163 170</b>
Discount	<b>(20 964)</b>
Total amount of present value of lease liabilities	<b>142 206</b>
Current portion	39 134
Non-current portion	103 072
Total amount of present value of lease liabilities	<b>142 206</b>

The following new standards, amendments and interpretations to existing standards, which have also been issued, but are not yet effective, are not expected to have a material impact on the Company’s financial statements.

A list of the changes in the standards is provided below

- IFRS 9 “Financial Instruments” (amended) – Prepayment features with negative compensation, effective from 1 January 2019, adopted by the EU
- IFRS 14 “Regulatory deferral accounts” effective from 1 January 2016, not yet adopted by the EU
- IFRS 17 “Insurance Contracts” effective from 1 January 2021, not yet adopted by the EU
- IAS 19 “Employee benefits” (amended) – Plan amendment, curtailment or settlement - effective from 1 January 2019, not yet adopted by the EU
- IAS 28 “Investments in associates and joint ventures” (amended) – Long-term interests in associates and joint ventures effective from 1 January 2019, not yet adopted by the EU
- IFRIC 23 “Uncertainty over income tax treatments” effective from 1 January 2019, not yet adopted by the EU
- Annual Improvements to IFRSs 2015-2017 effective from 1 January 2019, not yet adopted by the EU

### 3.3 Effect of change in accounting policy

As disclosed in note 3.1, IFRS 9 and IFRS 15 are applied without restatement of comparative information. Reclassifications and adjustments arising from these changes in the Company’s accounting policy are not reflected in the statement of financial position as at 31 December 2017 and are recognized in the statement of financial position as at 1 January 2018. The following table presents the adjustments recognized for each individual item as a result of the initial application of IFRS 9

#### Statement of financial position

	31 December 2017 BGN ‘000	IFRS 9 BGN ‘000	1 January 2018 BGN ‘000 Restated
<b>Non-current assets</b>	122 150	-	122 150
<b>Current assets</b>			
Aircraft spare parts	5 138	-	5 138
Inventories	605	-	605
Short-term financial assets	18 000	-	18 000
Related party receivables	20 452	-	20 452
Trade receivables	11 359	-	11 359
Other receivables	80 282	(3 559)	76 723
Cash and cash equivalents	15 241	-	15 241
<b>Current assets</b>	<b>151 077</b>	<b>(3 559)</b>	<b>147 518</b>
<b>Total assets</b>	<b>273 227</b>	<b>(3 559)</b>	<b>269 668</b>
<b>Equity</b>			
Share capital	120 000	-	120 000
Reserves	63 652	-	63 652
Accumulated loss	(56 143)	(3 559)	(59 702)
<b>Total equity</b>	<b>127 509</b>	<b>(3 559)</b>	<b>123 950</b>
<b>Liabilities</b>			
Non-current liabilities	34 105	-	34 105
Current liabilities	111 613	-	111 613
<b>Total liabilities</b>	<b>145 718</b>	<b>-</b>	<b>145 718</b>
<b>Total equity and liabilities</b>	<b>273 227</b>	<b>(3 559)</b>	<b>269 668</b>

BULGARIA AIR AD  
Financial Statements  
31 December 2018



The initial application of IFRS 15 neither does result in adjustments in the financial result for 2017, nor in the elements of the statement of financial position as at 31 December 2017

The total effect as at 1 January 2018 over Company's accumulated loss is presented as follows:

	<b>Accumulated loss</b>
	<b>BGN '000</b>
<b>Closing balance as at 31 December 2017 - IAS 39</b>	<b>(56 143)</b>
<b>Adjustments from the application of IFRS 9</b>	
Increase of impairment losses	(3 559)
<b>Opening balance as at 1 January 2018 – IFRS 9</b>	<b>(59 702)</b>

#### 4 Summary of 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 Company has elected to present the statement of profit or loss and other comprehensive income as a single statement.

One comparative period is presented by the Company in the Financial Statement because in 2018 there are no cases where the Company:

- (i) applies an accounting policy retrospectively,
- (ii) makes a retrospective restatement of items in its financial statements or
- (iii) reclassifies financial statements' positions

##### 4.3 Investments in subsidiaries

Subsidiaries are firms under the control of the Company. The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In the financial statements of the Company investment in subsidiaries is accounted at cost of the investment.

The Company recognizes a dividend from a subsidiary in profit or loss in its separate financial statements when its right to receive the dividend is established.

#### 4.4 Investments in joint ventures

Joint venture is a contractual agreement in which the parties which have joint control over the enterprise have the rights on the assets and the payables in respect of the company's liabilities. The Company recognizes its shares in a joint venture by the cost method and in relation to it recognizes:

- Its assets, including its share in all assets held jointly;
- Its liabilities, including its share in all liabilities held jointly;
- Its revenue from the sale of its share of the finished goods of the jointly controlled operations;
- Its share of revenues from the sale of finished goods of the jointly controlled operations;
- Its costs, including its share in all costs incurred jointly.

#### 4.5 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.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

#### 4.6 Revenue

The Company analysed its main contracts by type of revenue – traffic revenue and other revenue. The main effects of the application of the new standard are related to the disclosure of information, required by IFRS 15. Changes in the manner, amount and timing of recognition of revenue are not identified.

##### Accounting policy, applicable until 31 December 2017

Revenue arises both from rendering of services, sale of goods and other. Revenue generated from the core services is presented in note 23.

Revenue is measured by reference to the fair value of consideration received or receivable by the Company for goods supplied and services provided, excluding VAT, rebates and trade discounts.

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 Company;
- the costs incurred or to be incurred can be measured reliably; and
- when the criteria for each of the Company's different activities have been met. These activity-specific recognition criteria are based on the goods or services provided to the customer and the contract conditions in each case, and are described below.

##### Rendering of services

Services rendered by the Company include transport of passengers, cargo, baggage and mail by own and leased aircraft, leasing of aircraft, technical aircraft maintenance and engineering, ticket sale and reservations of tickets, technical and intermediary production activities, preparation and qualification of personnel, domestic and foreign trade.

Revenue generated from operating leases of investment properties of the Company is recognized on a straight-line basis over the period of the lease.

Revenue generated from ticket sale is recognized when the passengers have actually been transported.

When the ticket sale includes loyalty customers' incentives, the consideration received from the customer is allocated between the components of the arrangement using fair values. Revenue of such sales is recognized when the client exchanges the incentives for services provided by the Company.

#### Sale of goods

Sale of goods comprises the sale of perfumery, cosmetics, jewellery and other goods (duty – free exchange trading goods) on the board of airplanes and in retail store. Revenue is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods supplied. Significant risks and rewards are generally considered to be transferred to the buyer when the customer has taken undisputed delivery of the goods.

Accounting policy, applicable until 31 January 2018.

#### Recognition and measurement of customer contracts revenue

To determine whether to recognise revenue, the Company follows a 5-step process

1. Identifying the contract with a customer;
2. Identifying the performance obligations,
3. Determining the transaction price;
4. Allocating the transaction price to
5. Recognising revenue when/as performance obligation(s) are satisfied.

Revenue from contracts with customers is recognized when the control of the goods and /or services promised in the contract are transferred to the client in an amount, which reflects the remuneration the Company expects to be entitled to in exchange for those goods or services.

The control is transferred to the client when (or as) the performance obligation is fulfilled, under the contract by transferring the promised product or service to the client. An asset (good or service) is transferred when (or as) the client has control over this asset.

Any promise to transfer good and/or services which are separately identifiable (on their own and in the context of the contract) is reported as a performance obligation.

The Company recognises revenue for every separate performance obligation at the level of an individual contract with a client by analysing the type, term and conditions for each particular contract. For contracts with similar characteristics, revenues are recognised on a portfolio basis only if their grouping in a portfolio would not have a significantly different effect on the financial statements.

Usually Company's contracts with clients consist of one performance obligation.

When a transaction is partly within the scope of IFRS 15 and is partly within the scope of other standards the Company applies the separation and/or initial measurement requirements set out in those standards, if the other standards specify how to separate and/or initially measure one or more parts of the contract. The Company excludes the cost of the portion (or portions) of the contract that was initially measured in accordance with the other standards from the transaction price and applies the requirements of IFRS 15 to allocate the remaining cost of the transaction price.

If the other standards do not specify how to separate and/or initially measure one or more portions of the contract, the Company applies IFRS 15 for the separation and/or initial measurement of the portion (or portions) of the contract.

#### Measurement

Revenue is measured based on the transaction price specified for each contract.

When determining the transaction price the Company takes into account the conditions of the contract

and its usual business practices

The *transaction price* is the amount of the consideration, which the Company expects to be entitled to in exchange for the transfer of the promised goods or services, except for the amounts collected on behalf of third parties (e.g. value added tax). The fee promised in the contract with the client may include fixed amounts, variable amounts or both

When (or as) the performance obligation is fulfilled the Company recognises as revenue the transaction cost (which excludes estimates of variable consideration containing limitations) that is attributable to the performance obligation

The Company examines whether there are other promises in the contract that are separate performance obligations for which part of the transaction price must be allocated

When determining the transaction price, account is taken of the impact of variable consideration, the existence of significant components of funding, non-cash consideration and the remuneration due to the client

**Performance obligation and main types of revenue under contracts with clients recognition approach**

**Traffic revenue**

The main activity of the Company is related to the provision of aviation services both on the territory of the country and abroad

Traffic revenue include the provision of international and domestic scheduled flights, international charter flights and other flight-related services. The Company transfers the control over the services over time and therefore fulfils the performance obligation and recognises revenue over time. Traffic revenue is recognized after the actual flight

The cost of the flight services may be defined as fixed consideration. The airline ticket price includes the price of transport of both the passenger and the different amount of luggage depending on the applicable tariff, on-board food, insurance, airport charges and fuel charges. Allocation of the transaction price to the performance obligations is made based on unit prices.

The Company measures its progress towards a full settlement of the performance obligation, fulfilled over time by a flight confirmation and used luggage by the clients.

In the cases where clients have purchase tickets, but the usage options and/or the validity of the tickets are expired and they have not been used by the client, the Company recognises income from tickets with expired validity. The portion of the consideration, which related to airport charges, which the Company usually collects from clients as an agent is also recognises as income from tickets with expired validity they are non-refundable and cannot be used.

#### ***Revenue from ticket sale when customer loyalty incentives are used***

The Company has ongoing customer loyalty programs where customers can collect bonus points (award credits), which can be exchanged for free tickets for flights of Bulgaria Air AD.

In the cases where the client can take advantage independently of the goods or services, regardless of the use of the transport service, it is considered as a separate performance obligation, if it gives a substantial right

Rights such as free extra luggage, business class transportation when purchased economy class tickets, airport business vouchers, Sixt rent-a-car discounts and other similar loyalty rewards are not considered as separate performance obligations



In the cases where customer loyalty programs and the award credits grant significant rights and are considered as a separate performance obligation, the airline recognizes them as a separately identifiable performance obligation related to the sale in which the incentives are given. The fair value of the received remuneration or receivable in respect of the initial sale is distributed among the bonus points (award credits) and other components of the sale. The remuneration allocated to the bonus points is measured by reference to their fair value, i.e. amount for which the award credits could be sold separately. The company by itself provides the incentives for loyal customers and recognizes the remunerations allocated to the incentives as revenue when these incentives in the form of bonus points are redeemed and the Company implements its obligation of delivery. The amount of the recognized revenue is based on the number of award credits that are exchanged for prizes in proportion to the total number that is expected to be exchanged.

In analysing the customers loyalty program the Company has concluded that significant portion of the award credits cannot be considered as a separate performance obligation or are related to non-aviation supplies from other partners where the airline acts as an agent. Therefore the revenue from award credits is reported as part of the revenue for sale of the ticket and in the cases where they entitle them to trade with trade partners – as a commission fee.

#### Other income in the scope of IFRS 15

The Company also reports other income, which is in the scope of IFRS 15 but is not classified as revenue, other than the traffic revenue. They are mainly related to the sale of goods and other services.

Revenue from the sale of goods is recognised when the company transfers to the buyer the significant benefits and risks of ownership of the provided goods. It is considered that significant risks and benefits are transferred to the buyer when the client has accepted the goods without objection.

Revenue from other services is recognised in the reporting period in which the services are provided. The Company transfers the control of the services over time and therefore this fulfils the performance obligation and recognise revenue over time. If at the end of the reporting period the service is not fully provided, the revenue is recognised based on the actual service, provided by the end of the reporting period as a proportional part of the total services to be provided, because the client receives and consumes the benefits simultaneously. This is determined based on the actual time spent or reported time for work, compared to the total expected time of service.

The following table provides information on the applied by the Company accounting policy for recognising revenue and the timing of fulfilling the performance obligation for the execution of contracts with clients under IFRS 15 and IAS 18.

Type of good/service	Nature and timing for fulfilling of the performance obligation, incl. significant payment conditions	Recognition of income under IFRS 15 (effective from 1 January 2018)
Carrying out flights and other flight services	Deliveries of air freight service are carried out throughout the year. The client receives and consumes the benefits at the same time, the Company transfers control over the service when the flight is actually made. Airline ticket sales do not have a financing component, since sales are paid in a period of 7 to 15 days via the BSP system of the IATA international organization, which is compliance with market practice. A receivable is recognized when assets are	Revenue from flights is recognized over time.

Type of good/service	Nature and timing for fulfilling of the performance obligation, incl. significant payment conditions	Recognition of income under IFRS 15 (effective from 1 January 2018)
	delivered, as this is the moment when the right to remuneration becomes unconditional and only the expiration of time before the payment is due is required	
Revenues from ticket issuance charges	The charge is payable at the time of ticket sales. The charge for issuing a ticket is an integral part of the remuneration for the flight made	Revenue is recognized after the flight has been made (over time)
Revenue from ticket sale with expired validity	The expiration of the period of validity for each airplane ticket is a condition for revenue recognition	At the moment when the period of validity of the tickets has expired and there are no other options to exercise the rights of the issued tickets by the customer, the Company recognizes the revenue from tickets and expired fees
Revenues from fines and penalties	The fine and / or penalty shall be considered as a distinct service. A right to additional remuneration for the Company in case of non-performance of the client's obligations arises	Revenue is recognized when the condition of non-performance of the obligation or the customer's refusal to use the service
Sale of goods	Delivery occurs when the goods have been shipped to the customer, the risks of potential losses are transferred and they have accepted the goods	Revenue from sales of goods is recognized when the control of the assets sold is transferred
Provision of services other than air transport	<p>If at the end of the reporting period the service in the contract is not fully realized, revenue is recognized on the basis of the actual service provided by the end of the reporting period as a proportion of the total services to be provided as the client receives and consumes the benefits simultaneously. This is determined on the basis of actual time spent or reported time for work, relative to the total expected time of service</p> <p>The client pays the services provided on the basis of the clauses stipulated in the specific contract</p>	Revenue from provision of services is recognized in the accounting period in which the services are rendered. The company transfers the control over the services over time satisfying the performance obligation, and recognizes revenue over time. If the services provided by the company exceed the payment, a contract asset is recognized. If payments exceed the services provided, a contract liability is recognized

### ***Principal vs agent***

When third party is involved in providing goods or services to a customer, the Company shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the entity is a principal) or to arrange for the other party to provide those goods or services (i.e. the entity is an agent).

An entity is a principal if the entity controls a promised good or service before the entity transfers the good or service to a customer. However, an entity is not necessarily acting as a principal if the entity obtains legal title of a product only momentarily before legal title is transferred to a customer.

An entity is an agent if the entity's performance obligation is to arrange for the provision of goods or services by another party. When an entity that is an agent satisfies a performance obligation, the entity recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange

for arranging for the other party to provide its goods or services. An entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party

Bulgaria Air has signed interline agreements with over 30 airlines. Under these agreements, Bulgaria Air acts as an agent in the ticket issuance for the sectors on which interline partners operate.

### Trade receivables and contract assets

A receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. If an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a contract asset for the actual performed consideration. Contract assets are reclassified as trade receivables when the right for consideration becomes unconditional.

### Contract liabilities

As contract liability, the Company presents the payments received by the client and/ or an unconditional right to receive a payment before fulfilling its contractual performance obligations. Contract liabilities are recognized as income when (or as) it has been settled.

Contract liabilities include the liabilities on sold tickets for which at the date of the financial statement the service has not yet been performed, i.e. the transportation has not occurred.

Assets and liabilities arising from a single contract are presented net in the statement of financial position even if they are the result of different contractual performance obligations.

After initial recognition, trade receivables and contract assets are reviewed for impairment in accordance with IFRS 9 Financial Instruments.

### Other income which are not in the scope of IFRS 15

The following table provides background information and related policies for recognition of other income outside the scope of IFRS 15:

Other income	Recognition approach
Rental income including airplanes and premises	Rental income from operating leases is recognized as income on a straight-line basis over the lease term, except when the management of the Company considers that another systematic basis reflects better the timing model under which usage the benefit leased asset is reduced.
Income from sale of property, plant and equipment and intangible assets	Gains or losses arising on the disposal of a property, plant, equipment or intangible asset as a result of a sale are included in profit or loss when the asset is derecognised. The asset is derecognised at the time the control is transferred to the underlying asset.
Income from insurance claims	Revenue is recognized when the company's right to receive payment is recognized as a form of compensation.
Income from writing off liabilities	Income from written off liabilities is recognized after the expiration period of the liability obligation has ended, liquidation of the counterparty, the creditor waives his rights or other.

#### Interest and dividend income

Interest income is accounted for using the effective interest method.

Dividend income is recognized when the right to receive payment is incurred.

#### 4.7 Operating expenses

Operating expenses are recognized in profit or loss when using the services or on the date of their occurrence. The Company recognizes two types of costs related to the execution of the service delivery contracts with clients: contract costs and contract performance costs. When costs are not eligible for deferral under IFRS 15, they are recognized as current at the time they are incurred, for instance, they are not expected to be recovered, or the deferral period is up to one year.

The following operating costs are always reflected as current expense when they occur:

- General and administration costs (unless charged to the client),
- Expenses for waste of materials;
- Expenses related to the performance of the obligation,
- Costs for which an entity cannot determine whether it is related to a satisfied or unsatisfied performance obligation.

Warranty costs are recognized and deducted from the related provisions when recognizing the related revenue.

Regarding the costs associated with non-adjustments and / or other compensation payable to customers, the airline has retained its current reporting approach as a current expense. IFRS 15 does not provide explicit guidance for reporting this type of benefit. The Company considers that there is no provision for a separate good or service against which this benefit will be reduced.

#### 4.8 Interest expenses and borrowing costs

Interest expenses are reported on an accrual basis using the effective interest method.

Borrowing costs primarily comprise interest on the Company's borrowings. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in 'Finance costs'.

#### 4.9 Aircrafts, engines and property, plant and equipment

An item of aircrafts, engines and property, plant and equipment is initially recognized at cost, which comprises its purchase price and any directly attributable costs to preparing the asset for its intended use.

Subsequent to initial recognition aircrafts, engines and other property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses. Impairment losses are recognized in the statement of profit or loss and other comprehensive income in the respective period.

Subsequent expenditure relating to an item of aircrafts, engines and other property, plant and equipment is added to the carrying amount of the asset when it is probable that future economic benefits will flow to the entity, which are in excess of the originally assessed effectiveness of the existing asset. All other subsequent expenditure is recognized as an expense in the period in which it is incurred.

Estimates about the residual value and the useful life of all items of aircrafts, engines and other property, plant and equipment are assessed by the management at each reporting date.

Subsequently, aircrafts, engines and other property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses. Impairment losses are recognized in the respective period in the statement of profit or loss and other comprehensive income.

Depreciation of an item of aircrafts, engines and other property, plant and equipment is calculated using the straight-line method over the estimated useful life of individual assets as follows

- aircrafts 20 years
- engines 12 years
- buildings and roads 25 years
- machines 3 years
- motor vehicles 4 years
- office equipment 7 years
- computers 2 years
- others 7 years
- improvements of leased assets for the term of the contract

Gain or losses arising on the disposal of tangible assets are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in the statement of profit or loss and other comprehensive income within "Gain/Loss from sale of non-current assets"

The recognition threshold, adopted by the Company for aircraft, engines and other property, plant and equipment amounts to BGN 700

#### 4.10 Intangible assets

Intangible assets include right of ownership, software, licenses, certificates and expenditure on intangibles' acquisition. They are accounted for using the cost model. 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.

Subsequently, an intangible asset is measured at its cost less any accumulated amortization and any accumulated impairment losses. Impairment losses are recognized as an expense in the statement of profit or loss and other comprehensive income for the respective period.

Subsequent expenditure after initial recognition of the intangible assets is recognized in the statement of profit or loss and other comprehensive income when 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 two 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 2 years
- licenses 7 years
- right of ownership for the term of the use

Amortization has been included within 'Depreciation and amortization of non-financial assets' in the statement of profit or loss and other comprehensive income.

The gain or loss arising on 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 the statement of profit or loss and other comprehensive income within "Gain/Loss on sale of non-current assets".

The recognition threshold adopted by the Company for the intangible assets amounts to BGN 700.

#### 4.11 Investment property

The investment property of the Company includes buildings held to generate rental income and/or for capital appreciation.

The investment property is initially measured at cost, which comprises the purchase price and any directly attributable expenses, e. g. legal fees, property transfer taxes and other transaction costs

Revaluation of the investment property is carried out on an annual basis and is included in the statement of financial position at its market value. Market values are determined by independent appraisers with professional qualification and solid experience depending on the nature and location of the investment property, based on evidence of market conditions.

Any gain or loss arising from changes in fair value or from the sale of an investment property is recognized immediately in profit or loss within "Changes in fair value of investment property".

Subsequent expenditure relating to investment property, which is already recognized in the Company's financial statements, is added to the carrying amount of the investment property when it is probable that this expenditure will enable the existing investment property to generate future economic benefits in excess of its originally assessed value. All other subsequent expenditure is recognized as incurred.

The investment property is derecognized upon its sale or permanent withdrawal from use in case that no future economic benefits are expected from its disposal. Gains or losses arising from the disposal of investment properties are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss and other comprehensive income

Rental income and operating expenses from investment property are reported within 'Other income' and 'Other expenses' respectively, and are recognized as described in note 4.6

#### 4.12 Operating lease

##### *The Company as a Lessee*

Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

##### *The Company as a Lessor*

In cases when the Company is the lessor, assets subject to operating lease agreements are presented in the statement of financial position and are depreciated and amortized in accordance with the depreciation and amortization policy of the Company for similar assets and with the requirements of IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets". Income from operating lease contracts is recognized on a straight-line basis in the statement of comprehensive income for the reporting period.

#### 4.13 Tests of impairment of non-financial assets

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 assets and cash-generating units are tested for impairment at least once a year. All other 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 Company'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.

#### 4.14 Financial instruments under IFRS 9, effective since 1 January 2018

##### 4.14.1 Recognition and derecognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

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

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

##### 4.14.2 Classification and initial measurement of financial assets

Financial assets are initially measured at fair value, adjusted for transaction costs, except for financial assets at fair value through profit or loss and trade receivables that do not contain a significant financial component. The initial measurement of financial assets at fair value through profit or loss is not adjusted with transaction costs that are reported as current expenses. The initial measurement of trade receivables that do not contain a significant financial component represents the transaction price in accordance with IFRS 15.

Depending on the method of subsequent measurement, financial assets are classified into the following categories:

- Debt instruments at amortised cost,
- Financial assets at fair value through profit or loss (FVTPL),
- Financial assets at fair value through other comprehensive income (FVOCI) with or without reclassification in profit or loss, depending on whether they are debt or equity instruments.

The classification is determined by both:

- the entity's business model for managing the financial asset;
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised 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 in the statement of profit or loss/ statement of profit or loss and other comprehensive income

#### 4.14.3 Subsequent measurement of financial assets

##### **Financial assets at amortised cost**

Financial assets are measured at amortised cost if the assets meet the following conditions and are not designated as FVTPL:

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows,
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

This category includes non-derivative financial assets like loans and receivables with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company classifies in this category cash and cash equivalents, trade and other receivables, related party receivables

##### • **Trade receivables**

Trade receivables are amounts due from customers for goods or services sold in the ordinary course of business. Typically, they are due to be settled within a short timeframe and are therefore classified as current. Trade receivables are initially recognized at amortized cost unless they contain significant financial components. The Company holds trade receivables for the purpose of collecting the contractual cash flows and therefore measures them at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

Receivables from related parties arising outside the ordinary course of business of the Company are measured at amortized cost using the effective interest method. Depending on the arrangements, they can be classified as short-term and/or long-term.

##### **Financial assets at fair value through other comprehensive income (FVOCI)**

The Company accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is “hold to collect” the associated cash flows and sell; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets at FVOCI include

- Equity securities that are not held for trading and which at initial recognition the company irrevocably has chosen to recognize in this category. These are strategic investments and the company considers this classification to be more relevant
- Debt securities where the contractual cash flows are solely payments of principal and interest and the purpose of the company's business model is achieved both by collecting contractual cash flows and by selling the financial assets.

On disposal of equity instruments of this category, any amount recognized in the revaluation reserve is reclassified to retained earnings.



On disposal of debt instruments of this category, any amount recognized in the revaluation reserve is reclassified to profit or loss for the period

#### 4.14.4 Impairment of financial assets

IFRS 9's new impairment requirements use more forward-looking information to recognise expected credit losses – the “expected credit loss” (ECL) model. This replaces IAS 39's “incurred loss model”.

Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost/ FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

#### Trade and other receivables, related party receivables

The Company makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix. Other receivables and related party receivables comprise of few in number of clients and therefore an individual approach is applied.

The Company prepares an analysis of the expected shortfall in the contracted cash flows, taking into account the possibility of default on related party receivables. The Company's judgment is based both on historical information and on long-term expectations. Receivables are tested on an individual basis and are divided into two groups:

- Receivables from shareholders,
- Receivables from other related parties

For shareholders' receivables (with agreed maturity and interest rate), the expected credit losses are calculated by discounting the claims over the term of the contract with an effective interest rate based on the agreed interest rate and further adjusted to reflect future expectations. The following factors shall be taken into account when determining the value of the adjustments:

- Expectations and probability of early collection of the claim;
- The owners guarantee and finance the Company in case of shortage of funds in the course of its operations,
- The probability of default of the agreed cash flows is minimal

For receivables for which no interest is agreed, the effective interest rate is applied for similarly timed and featured financial instruments.

Expected credit losses on receivables from other related parties are calculated by discounting the effective interest rate based on the agreed interest rate and additional adjustments. For receivables for which no interest is agreed, the effective interest rate is applied for similarly timed and featured financial instruments. Factors to be taken into account in determining the effective interest rate are:

- expectations for early collection of the claim,
- the effective receipts on the specific receivable;
- the probability of default of the agreed cash flows,
- the existence of historical experience with the particular connected person,
- the type of company 's connectivity,
- collateral

#### **Financial assets at fair value through other comprehensive income**

The Company recognises 12-month expected credit losses for financial assets at FVOCI.

The Company considers other indicators such as adverse changes in business, economic or financial conditions that could affect the borrower's ability to meet its debt obligation or unexpected changes in the borrower's operating results.

Should any of these indicators imply a significant increase in the instrument's credit risk, the Company recognises for this instrument or class of instruments the lifetime ECL.

#### **4.14.5 Classification and measurement of financial liabilities**

The Company's financial liabilities include borrowings, trade and other financial liabilities

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

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.

#### **4.15 Financial instruments under IAS 39, effective until 31 December 2017**

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument

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.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value

All financial assets are recognized on their transaction date.

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

#### **4.15.1 Financial assets**

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition.

- loans and receivables,
- financial assets at fair value through profit or loss,
- held-to-maturity investments,

- available-for-sale 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 are recognized in profit or loss as incurred, disregarding the method of measurement of the carrying amount of the respective financial asset and are presented in the statement of profit or loss and other comprehensive income within 'Finance costs' and/or 'Finance income', except for impairment of trade receivables which is presented within 'Other expenses'.

#### **Loans and receivables**

Loans and receivables, that have initially occurred in the Company, are non-derivative financial assets with fixed payments that are not quoted in an active market. After initial recognition these are measured at amortized cost using the effective interest method, less impairment. Any change in their value is recognized in profit or loss for the respective period. The Company'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 as of the date of the financial statements or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually significant are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available feature of shared credit risk characteristics. The percentage of the write down is then based on recent historical counterparty default rates for each identified group. Impairment of trade receivables are presented in the statement of profit or loss and other comprehensive income within 'Other expenses'.

#### **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. Financial assets within this category are subsequently measured at fair value, unless there is no market value at active markets present and hence their fair value cannot be measured reliably. Those without quoted market prices are measured at amortized cost using the effective interest method or at cost in cases when they do not have fixed date of payment. Changes in fair value are recognized in other comprehensive income and reported within the available-for-sale reserve within equity, net of income taxes, except for impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognized in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income. Interest calculated using the effective interest method and dividends are recognized in profit or loss within 'Finance income'. Reversals of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

#### **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon

initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments. Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of derivative financial instruments are determined by reference to active market transactions or using a valuation technique where no active market exists.

#### 4.15.2 Financial liabilities

The Company's financial liabilities include bank loans, trade loans, trade payables, related party payables, and other payables.

Financial liabilities are recognized when the Company becomes a party to the contractual agreements for payment of cash amounts or another financial asset to another company or contractual liability for exchange of financial instruments with another company under unfavourable 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.

Bank loans are raised for funding of the Company's operations. They are recognized in the statement of financial position of the Company, net of any costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the statement of profit or loss and other comprehensive income on an accrual basis using the effective interest method and are added to the carrying amount of the financial liability to the extent that they are not settled in the period in which they arise.

Trade loans are taken in relation to the investment activity of the Company. They are recognized in the statement of financial position of the Company, net of any costs. They are recognized at amortized cost.

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

#### 4.16 Inventories

Inventories include spare parts, raw 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. Financing costs are not included in the cost of the inventories. At the end of the reporting period, inventories are carried at the lower of cost and net realizable value. The amount of each impairment of inventories up 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 Company determines the cost of inventories by using the weighted average cost.

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

#### 4.17 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 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 4.22.

Deferred tax assets and liabilities are offset only when the Company 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.

#### 4.18 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current bank accounts, demand deposits together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Restricted cash of the Company are deposits under contracts for operating lease of aircraft which are assumed to be released when definite circumstances and conditions are met according to the agreements signed.

#### 4.19 Equity

Share capital represents the nominal value of shares that have been issued.

Common reserves are formed using part of retained earnings in accordance with the effective legislation.

Other reserves comprise amounts, formed under requirements of the effective legislation, as well as amounts, representing additional capital contributions made by the majority owner and reserves from revaluation of liabilities under defined benefit plans.

The accumulated loss includes the current period result from the statement of profit or loss and other comprehensive income and the retained profits and uncovered losses from prior periods.

All transactions with owners of the Company are recorded separately within equity.



The Company provides post-employment benefits through defined benefit plans as well as various defined contribution plans.

The defined benefit plan sponsored by the Company defines the amount of pension benefit that an employee will receive on retirement by reference to length of service and final salary. The legal obligation for any benefits remains with the Company.

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, medical cost trends and mortality. It also takes into account the Company's specific anticipation of future salary increases. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Interest expense related to pension obligations is included in 'Finance costs' in profit or loss. Service cost on the defined benefit liability is included in 'Employee benefits expense'.

The Company 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 reporting period during which the employees have performed the work related to those leaves. The short term payables to personnel include wages, salaries and related social security payments. Short-term employee benefits, including holiday entitlement, are current liabilities included in 'pension and other employee obligations', measured at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Company 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, granted product warranties, legal disputes or onerous contracts. Restructuring provisions are recognized only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it. Provisions are not recognized for future operating losses.

Any reimbursement that the Company 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 Company does not recognize contingent assets in the financial statements as if a contingent asset is recognized this may result in the recognition of income that may never be realized.

#### 4.22 Significant management judgment in applying accounting policies

The following are significant management judgments in applying the accounting policies of the Company that have the most significant effect on the financial statements. Critical estimation uncertainties are described in note 4.22.

##### 4.22.1 Revenue from ticket sale with expired validity

The company mainly provides transportation services of passengers in the period the tickets have been issued for. Revenue from passengers' transportation is recognized when the transportation is actually performed. There are cases when the clients do not use their tickets and therefore the validity of the ticket expires and it is no longer available for use. In this case the Company writes-off the existing obligation for transportation service as other income. The amount of other income includes the airport fees and taxes related to the expired air ticket. Revenue recognition of tickets and airport fees with expired validity is based on statistical information extracted from the databases maintained by the Company. The management believes that the expiration of the validity of each ticket, when not being used, gives reason for recognition of revenue. This understanding is based on the basic principle for the recognition of revenue, precisely that it is based on actual services rendered.

##### 4.22.2 Revenue from ticket sale in cases when the flight has been interrupted and /or rerouted

As a member of the International Air Transport Association – IATA, the Company should follow the rules for air transportation set forth by IATA. According to IATA resolutions 735d and 735e, in cases of involuntary rerouting and/or flight interruptions, the airline company is obliged to issue a document called FIM (*Flight Interruption Manifest*). The FIM is valid for a certain flight of the agent airline company that is different from the airline company that has initially issued the original flight ticket.

According to chapter A2, p. 2.6.1 of RAM (Revenue Accounting Manual), when there is a FIM issued, the accepting side (the agent airline company) charges the issuer of the FIM with the applicable full one-way tariff for the respective pair of cities where the transportation has occurred. A FIM can include number of tickets and the obligation should be recognized using the tariff valid for the travel class of each passenger, applicable for the flight date. After receiving the invoice, the receiving airline company (that has performed the flight) has the right within 6 months to make a re-debit based on the prorated value in accordance with chapter A2, p. 2.6.2 and chapter A10, p. 4.1. of RAM. Upon receiving the re-debit invoice, the open balance can be closed. After the 6 month period for objections /re-debit/ has expired, the amounts that have not been disputed, are recognized as income.

The revenue recognition is based on past experience and the Management considers that 95% of the value of all issued and undisputed FIMs gives basis for the recognition of revenue based on actual services performed.

For the current 2018 year as well as for the prior periods, approximately 5% of the value of all issued FIMs has been recognized as revenue and the rest has been presented within Other liabilities.

##### 4.22.3 Revenue from ticket sale when customer loyalty incentives are used

The Company has ongoing customer loyalty programs where customers can collect bonus points (award credits), which can be exchanged for free tickets for flights of Bulgaria Air AD.

In cases where the customer can take advantage of the goods or service independently, regardless of the use of the shipment service, it is considered as a separate enforcement obligation if it gives a substantial right

Rights such as free transportation of additional luggage, flight in business class with a ticket for economy class, vouchers for the business lounge at the airport, competitive discounts when renting vehicles from Sixt and other incentives for loyal customers, are not considered separate performance obligations.

In cases where loyalty programs and loyalty credits grant substantial rights and are considered as a separate performance obligation, the airline recognizes them as a separately identifiable performance obligation in relation to the sale in which the incentives are given. The fair value of the consideration received or receivable in respect of the initial sale is divided between the bonus points (loyalty credits) and the other components of the sale. Remuneration allocated to bonus points is assessed by reference to their fair value, i.e. the amount by which the prize money may be sold separately. The Company only provides the incentives for loyal customers and recognizes the reward allocated to the incentives as revenue when these incentives in the form of bonus points are replaced and the Company fulfils its obligation to deliver them. The amount of recognized revenue is based on the number of loyalty credits that have been replaced for rewards in proportion to the total number expected to be redeemed.

The recognition of loyalty credits is based on an estimate of the management's probability that they will be used within their lifetime. Therefore, the amount of reported bonuses and discounts and related earnings may differ from actual results. On the other hand, the loyalty program is not an essential element of the Company's financial statements

#### 4.22.4 Allowances for trading greenhouse gas emissions

According to the requirements of the Directive 2003/87 / EC of the European Parliament and of the Council regulating the scheme for trading greenhouse gas emissions under the Community, aviation activities are included in a single European trading scheme for greenhouse gases (EU ETS). For periods after January 1, 2012 air-companies participate in this mechanism to reduce the harmful environmental impact

Companies have been granted part of their quotas for emission of greenhouse gases. By 30 April of next year, air carriers must provide the number of allowances for greenhouse gas emissions used in the current year to the EU ETS register.

Due to the absence of an accounting standard or interpretation under IFRS that specifically address the accounting for transactions relating to the emission of greenhouse gases (CO<sub>2</sub> emissions), the Company's management has developed accounting policies considered most relevant and reliable for the purposes of the users of financial information. The Company adopted the "net liability approach" in regard to the accounting treatment of the greenhouse gas emission rights. According to this approach, the Company does not recognize an asset or revenue for the emissions granted by the Executive Environment Agency

The allowances for greenhouse gas emissions (CO<sub>2</sub> emissions), granted by state, are not recognized in the balance sheet, but are recorded off-balance. When annual greenhouse gas emissions exceed the available allowances, the obligation for the excess is measured at the fair value of greenhouse gas emission allowances by the end of the reporting period and a provision obligation is recognized

Provision is recognized only if the actual quantity of greenhouse gas emissions exceed the quantity of emissions granted. The provision is accounted for other operating expense in the Statement of profit and loss and other comprehensive income. Greenhouse gas emission rights acquired and exceeding the emissions granted should be recognized as an asset at cost.

Total quantity of quotas is verified by a report issued by an independent accredited body.



#### 4.22.5 Deferred tax assets

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company'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 management based on the specific facts and circumstances.

#### 4.22.6 Recognition of joint venture revenue and expenses

The management has analysed the Company's participation in Consortium Bulgaria Air – Posoka and in Consortium Bulgaria Air and Posoka DZZD. The participations are classified as "joint venture" according to IFRS 11 "Joint Arrangements". In connection with its participation in the joint venture the Company has recognized revenues from sale of air tickets in the amount of BGN 510 thousand from Consortium Bulgaria Air – Posoka DZZD and BGN 117 thousand from Consortium Bulgaria Air and Posoka DZZD.

#### 4.23 Estimation uncertainty

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

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

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

##### 4.23.1 Impairment of non-financial assets

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount factor in order to calculate the present value of those cash flows (see note 4.13). In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Company's assets within the next financial year.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

##### 4.23.2 Calculation of expected credit losses

Credit losses are the difference between all contractual cash flows payable to the Company and all cash flows that the Company expects to receive.

Expected credit losses are a probability-weighted estimate of credit losses that require the Company's judgment. Expected credit losses are discounted at the original effective interest rate (or the effective interest rate corrected in respect of the loan for purchased or initially created financial assets with credit impairment).

#### 4.23.3 Useful lives of depreciable assets

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

At 31 December 2018 management assesses that the useful lives represent the expected utility of the assets to the Company. The carrying amounts are analysed in notes 5,6,7 and 8. Actual results, however, may vary due to technical obsolescence, particularly relating to aircraft and engines, software and IT equipment

#### 4.23.4 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. The Company's core business is subject to technology changes which may cause selling prices of spare parts for aircrafts to change rapidly. Moreover, future realization of the carrying amounts of inventory assets – spare parts for aircraft, BGN 5 300 thousand (2017: BGN 5 138 thousand) is affected by use and type of the aircraft park

#### 4.23.5 Defined benefit obligation

Management estimates the defined benefit obligation annually with the assistance of independent actuary. However, the actual outcome may vary due to estimation uncertainties. The estimate of its defined benefit obligation of BGN 922 thousand (2017: BGN 843 thousand) is based on standard rates of inflation, medical cost trends and mortality. It also takes into account the Company's specific anticipation of future salary increases. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Estimation uncertainties exist particularly with regard to both medical cost trends and expected rate of return, which may vary significantly in future appraisals of the Company's defined benefit obligations.

#### 4.23.6 Fair value measurement

Management uses valuation techniques in measuring the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see note 38).

#### 4.23.7 Provisions

##### **Provision on allowances for trading greenhouse gas emissions (CO<sub>2</sub>)**

The Company recognizes provision for greenhouse gas emissions when the actual quantity of greenhouse gas emissions exceeds the quantity of emissions granted. The provision amount is based on the price quotes of the resellers as at the end of the reporting period. Further details are provided in note 21

##### **Legal provisions**

As at the end of the reporting period, the Company is currently defending certain lawsuits where the actual outcome may vary from the amount recognized in the financial statements. None of the provisions will be discussed here in further detail so as not to seriously prejudice the Company's position in the related disputes

#### 4.23.8 Other liabilities

The amount recognized as a deferred revenue from services amounting to BGN 214 thousand (2016: BGN 1 270 thousand) has been estimated by management after overall review of the rent airplanes and chartered flights services that have been rendered and detailed consideration of all contractual agreements for charter services. However, the actual outcome may vary due to unexpected changes in the pattern of services provided.

Other company's liabilities include the obligation to render transportation services to passengers, cargo and mail, for which the contractual term or period the ticket was issued for, have not occurred yet. Based on past experience, the Company's management believes that not all sold tickets will be flown and therefore part of the cost of obligations for the implementation of the services will be reported as revenue from scheduled flights, while others - as other revenues. Detailed description of the significant estimates of the Company is presented in note 4.22.

Estimates and assumptions have been made in regards to the accruals of the Company's trade payables related to the supply of fuel and all other services received in relation to landing and ground handling for December of each calendar year. It takes time to receive invoices for all deliveries, which leads to estimated accruals for these expenses. As of 31 December 2018 the deliveries of fuel as well as landing fees, flying and attendance services that have not been invoiced amount to BGN 1 thousand (2017: BGN 1 thousand).

BULGARIA AIR AD  
Financial Statements  
31 December 2018



5 Aircrafts and spare engines

The carrying amount of aircrafts and spare engines, presented in the statement of financial position at 31 December 2018 is calculated as follows.

	Improvements for aircrafts BGN'000	Spare engines BGN'000	Equipment for aircrafts BGN'000	Total BGN'000
<b>Gross carrying amount</b>				
Balance at 1 January 2018	73	2 848	633	3 554
Balance at 31 December 2018	73	2 848	633	3 554
<b>Depreciation</b>				
Balance at 1 January 2018	(56)	(1 582)	(633)	(2 271)
Depreciation	(7)	(344)	-	(351)
Balance at 31 December 2018	(63)	(1 926)	(633)	(2 622)
<b>Carrying amount at 31 December 2018</b>	<b>10</b>	<b>922</b>	<b>-</b>	<b>932</b>
	Improvements for aircrafts BGN'000	Spare engines BGN'000	Equipment for aircrafts BGN'000	Total BGN'000
<b>Gross carrying amount</b>				
Balance at 1 January 2017	73	2 848	633	3 554
Additions	-	-	-	-
Disposals	-	-	-	-
Balance at 31 December 2017	73	2 848	633	3 554
<b>Depreciation</b>				
Balance at 1 January 2017	(50)	(1 220)	(630)	(1 900)
Depreciation	(6)	(362)	(3)	(371)
Disposals	-	-	-	-
Balance at 31 December 2017	(56)	(1 582)	(633)	(2 271)
<b>Carrying amount at 31 December 2017</b>	<b>17</b>	<b>1 266</b>	<b>-</b>	<b>1 283</b>

All depreciation charges are included within 'Depreciation and amortization of non-financial assets' in the Statement of profit or loss and other comprehensive income.

The Company has no aircrafts and engines pledged as security for its borrowings as of 31 December 2018.

As of 31 December 2018, there were no material contractual commitments, related to acquisition of items of aircrafts and engines, which are expected to be repaid during the next reporting period.



6 Property, plant and equipment

The Company's property, plant and equipment comprise buildings, machines and equipment, IT equipment, vehicles, office furniture and equipment, acquisition expenditures and improvement of leased assets. The carrying amount can be analysed as follows:

	Buildings BGN'000	Machines, equipment, IT equipment BGN'000	Vehicles BGN'000	Office equipment BGN'000	Expenditures on acquisition BGN'000	Improvements on leased assets BGN'000	Total BGN'000
<b>Gross carrying amount</b>							
Balance at 1 January 2018	280	1 857	661	684	28	5 316	8 826
Additions	-	51	-	48	-	1 567	1 666
Disposals	-	(24)	-	(3)	-	-	(27)
Reclassification	-	-	-	-	-	424	424
Balance at 31 December 2018	<b>280</b>	<b>1 884</b>	<b>661</b>	<b>729</b>	<b>28</b>	<b>7 307</b>	<b>10 889</b>
<b>Depreciation</b>							
Balance at 1 January 2018	(83)	(1 744)	(651)	(652)	-	(3 434)	(6 564)
Depreciation	(11)	(85)	(6)	(27)	-	(1 227)	(1 356)
Disposals	-	24	-	3	-	-	27
Balance at 31 December 2018	<b>(94)</b>	<b>(1 805)</b>	<b>(657)</b>	<b>(676)</b>	<b>-</b>	<b>(4 661)</b>	<b>(7 893)</b>
<b>Carrying amount at 31 December 2018</b>	<b>186</b>	<b>79</b>	<b>4</b>	<b>53</b>	<b>28</b>	<b>2 646</b>	<b>2 996</b>

BULGARIA AIR AD  
Financial Statements  
31 December 2018



The carrying value for the comparative period can be analyzed as follows

	Buildings BGN'000	Machines, equipment, IT equipment BGN'000	Vehicles BGN'000	Office equipment BGN'000	Expenditures on acquisition BGN'000	Improvements on leased assets BGN'000	Total BGN'000
<b>Gross carrying amount</b>							
Balance at 1 January 2017	280	1 810	661	682	29	4 614	8 076
Additions	-	-	-	-	63	702	765
Disposals	-	(9)	-	(6)	-	-	(15)
Reclassification	-	56	-	8	(64)	-	-
Balance at 31 December 2017	280	1 857	661	684	28	5 316	8 826
<b>Depreciation</b>							
Balance at 1 January 2017	(72)	(1 642)	(637)	(617)	-	(2 231)	(5 199)
Depreciation	(11)	(109)	(14)	(41)	-	(1 203)	(1 378)
Disposals	-	7	-	6	-	-	13
Balance at 31 December 2017	(83)	(1 744)	(651)	(652)	-	(3 434)	(6 564)
<b>Carrying amount at 31 December 2017</b>	197	113	10	32	28	1 882	2 262

The Company does not have material contractual commitment for purchasing property, plant and equipment which has to be paid out in 2019.

As at 31 December 2018, the Company has not pledged as security for its borrowings any property, plant or equipment items.

All depreciation charges are included in the statement of profit or loss and other comprehensive income within line "Depreciation and amortization of non-financial assets".

BULGARIA AIR AD  
Financial Statements  
31 December 2018

7 Investment property

Investment property of the Company includes service buildings, which are located in the area of Sofia airport and are owned for investment purposes only. The fair value of investment properties at the end of each reporting period is a reasonable approximation of their fair value. This assessment of the management is based on the appraisal by licensed appraisers and subsequent market research and consultations both with an internal expert and an external independent appraiser. Information on determining the fair value of investment property is presented in Note 38.2.

The carrying value of the investment properties is presented in the statement of financial position as follows:

	<b>Investment property BGN'000</b>
<b>Carrying amount as at 1 January 2017</b>	<b>471</b>
<b>Carrying amount as at 31 December 2017</b>	<b>471</b>
Written off investment property in respect of the sale	(65)
<b>Carrying amount as at 31 December 2018</b>	<b>406</b>

The revenue from rental investment property amount to BGN 201 thousand (2017: BGN 201 thousand), included within 'Rental income' in 'Other income' in the Statement of profit or loss and other comprehensive income. The direct operating expenses amount to BGN 3 thousand (2017: BGN 3 thousand) are related to garbage fees accounted on behalf of the lessee. No contingent rents have been recognized.

The Company has not pledged as security for its borrowings investment property.

8 Intangible assets

Intangible assets of the Company include acquired software licenses, licenses and certificates, right of ownership and expenditures on acquisition of intangible assets. The carrying amounts for the reporting periods can be analysed as follows:

	<b>Software BGN'000</b>	<b>Licenses BGN'000</b>	<b>Right of ownership BGN'000</b>	<b>Expenditures on acquisition BGN'000</b>	<b>Total BGN'000</b>
<b>Gross carrying amount</b>					
Balance at 1 January 2018	3 122	1 335	127 121	424	132 002
Additions, separately acquired	-	-	-	17	17
Disposals	(1)	-	-	-	(1)
Reclassified to property, plant and equipment	-	-	-	(424)	(424)
Internal transfer of assets	11	6	-	(17)	-
Balance at 31 December 2018	<b>3 132</b>	<b>1 341</b>	<b>127 121</b>	<b>-</b>	<b>131 594</b>
<b>Amortization</b>					
Balance at 1 January 2018	(3 075)	(1 329)	(12 644)	-	(17 048)
Amortization	(26)	(2)	(4 235)	-	(4 263)
Balance at 31 December 2018	<b>(3 101)</b>	<b>(1 331)</b>	<b>(16 879)</b>	<b>-</b>	<b>(21 311)</b>
<b>Carrying amount at 31 December 2018</b>	<b>31</b>	<b>10</b>	<b>110 242</b>	<b>-</b>	<b>110 283</b>

BULGARIA AIR AD  
Financial Statements  
31 December 2018

	Software	Licenses	Right of ownership	Expenditures on acquisition	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
<b>Gross carrying amount</b>					
Balance at 1 January 2017	3 074	1 335	127 121	-	131 530
Additions, separately acquired	-	-	-	472	472
Disposals	-	-	-	-	-
Reclassified to property, plant and equipment	48	-	-	(48)	-
Balance at 31 December 2017	<b>3 122</b>	<b>1 335</b>	<b>127 121</b>	<b>424</b>	<b>132 002</b>
<b>Amortization</b>					
Balance at 1 January 2017	(3 044)	(1 327)	(8 405)	-	(12 776)
Amortization	(31)	(2)	(4 239)	-	(4 272)
Amortization of disposals	-	-	-	-	-
Balance at 31 December 2017	<b>(3 075)</b>	<b>(1 329)</b>	<b>(12 644)</b>	<b>-</b>	<b>(17 048)</b>
<b>Carrying amount at 31 December 2017</b>	<b>47</b>	<b>6</b>	<b>114 477</b>	<b>424</b>	<b>114 954</b>

All amortization charges are included in the Statement of profit or loss and other comprehensive income within "Depreciation and amortization of non-financial assets".

No intangible assets have been pledged as security for liabilities.

Company's rights originated as part of the consolidation of Group's aviation business segment. During the annual impairment test, the Company defined value in use based on the future cashflows for each cash-generating unit. These calculations are based on significant management's judgements on various estimates, assumptions and future events. Actual results may vary and therefore adjustments may arise in Company's assets during the future reporting periods.

Significant software products are related to Flight planning and management system (Netline), Aircraft load management system (Amadeus Altea Inventory), Revenue management system (Amadeus Revenue Management), Reservation system (Amadeus Reservation).

#### 9 Investments in subsidiaries

The Company has an investment in a subsidiary Bulgaria Air Technique FOOD, which is incorporated in Republic of Bulgaria. The main activity of Bulgaria Air Technique FOOD is maintenance and repair of aircrafts

Name of the subsidiary	2018 BGN'000	share %	2017 BGN'000	share %
Bulgaria Air Technique FOOD	200	100	200	100
	<b>200</b>		<b>200</b>	

The subsidiaries are recognized in the Company's financial statements at cost

During 2018 and 2017 the Company received no dividends from its subsidiary



BULGARIA AIR AD  
Financial Statements  
31 December 2018

The Company has not incurred any contingent liabilities or other commitments relating to its investment in subsidiary.

**10 Financial assets at fair value through other comprehensive income**

Amounts recognized in the financial statement are attributable to the following categories of financial assets.

	<b>2018</b> <b>BGN'000</b>	<b>2017</b> <b>BGN'000</b>
Long-term financial assets measured at fair value through other comprehensive income	18 000	-
Short-term financial assets available for sale	-	18 000

In 2016, the Company acquires the shares of a foreign legal entity but without the voting rights in order to exercise control over the management of the company's business. Bulgaria Air AD has no rights on the return from the investment and it is classified as a financial asset available for sale in accordance with IAS 39. Acquired shares are denominated in BGN and are not traded on a public stock exchange. In connection with the transition to IFRS 9, the Company, with the assistance of an external expert, has assessed the fair value of its equity interest in the foreign legal entity. The results show that the fair value is a very close approximation of the carrying amount of the investment at 31 December 2017, which is its acquisition cost.

**11 Deferred tax assets**

Deferred taxes arising from temporary differences can be summarized as follows

<b>Deferred tax assets</b>	<b>1 January</b> <b>2018</b>	<b>Recognized</b> <b>in profit and</b> <b>loss</b>	<b>Recognized</b> <b>in other</b> <b>comprehensive</b> <b>income</b>	<b>31</b> <b>December</b> <b>2018</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
<b>Non-current assets</b>				
Non-current tangible and intangible assets	(324)	63	-	(261)
<b>Current assets</b>				
Trade receivables	(41)	4	-	(37)
<b>Non-current liabilities</b>				
Trade payables	(53)	(20)	-	(73)
Pension employee obligations				
<b>Current liabilities</b>	(111)	(68)	-	(179)
Trade payables	(31)	11	1	(19)
Pension employee obligations	(128)	5	-	(123)
Other employee obligations	(2 292)	(768)	-	(3 060)
Tax loss	(324)	63	-	(261)
	<b>(2 980)</b>	<b>(773)</b>	<b>1</b>	<b>(3 752)</b>
Recognized as				
<b>Deferred tax assets</b>	<b>(2 980)</b>			<b>(3 752)</b>

BULGARIA AIR AD  
Financial Statements  
31 December 2018

Deferred taxes for the period ending 31 December 2017 are presented as follows:

Deferred tax liabilities /(assets)	1 January 2017	Recognized in profit and loss	Recognized in other comprehensive income	31 December 2017
	BGN'000	BGN'000	BGN'000	BGN'000
<b>Non-current assets</b>				
Non-current tangible and intangible assets	(400)	76	-	(324)
<b>Current assets</b>				
Trade receivables	(62)	21	-	(41)
<b>Non-current liabilities</b>				
Trade payables	(483)	483	-	-
Pension employee obligations	(54)	1	-	(53)
<b>Current liabilities</b>				
Trade payables	(116)	5	-	(111)
Pension employee obligations	(22)	(3)	(6)	(31)
Other employee obligations	(113)	(15)	-	(128)
Tax losses	-	(2 292)	-	(2 292)
	<b>(1 250)</b>	<b>(1 724)</b>	<b>(6)</b>	<b>(2 980)</b>
Recognized as				
<b>Deferred tax assets</b>	<b>(1 250)</b>			<b>(2 980)</b>

All deferred taxes are recorded using the liability method using current tax rate of 10%, that rate is expected to be applicable at the time of the reversal of deferred taxes. Note 31 provides additional information concerning the tax expense of the Company.

## 12 Aircraft spare parts

The spare parts for airplanes worth BGN 5 300 thousand (2017: BGN 5 138 thousand) include units, blocks, signalling devices, collectors, cylinders, compensators, sensors, contactors and the like. After annual review of the inventories' net realizable value, including aircraft spare parts, and based on the external and internal sources of information, the Company's management considers that there are no facts and circumstances, which indicate that the inventories' cost exceed their net realizable value. This judgment is based on the analysis of fluctuations in selling prices of inventories having a similar purpose. None of the aircraft spare parts are pledged as securities for liabilities.

## 13 Inventories

	2018 BGN'000	2017 BGN'000
Goods	289	337
Catering utensils	89	90
Catering other	56	59
Airplane fuel	46	42
Fuel and lubricant materials	14	21
Other	30	56
	<b>524</b>	<b>605</b>

BULGARIA AIR AD  
Financial Statements  
31 December 2018

As at 31 December 2018 the Company did not identify indications for impairment of the inventories from external or internal sources of information. Therefore, no impairment loss of inventories is reported. When determining net sales price of the inventories, management uses the most reliable information available as at the estimation.

As at 31 December 2018 goods amounting to BGN 286 thousand (2017: BGN 330 thousand) are pledged as collateral according to a loan granted by Texim bank AD.

#### 14 Trade receivables

	2017 BGN'000	2016 BGN'000
Trade receivables, gross	11 418	11 768
Impairment	(366)	(409)
Trade receivables, net	<b>11 052</b>	<b>11 359</b>

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

All trade receivables of the Company have been reviewed for events of default and for all trade receivables a simplified approach has been applied to determine the expected credit losses at the end of the period. There are no indications of recognition of impairment.

The movement in the allowance for impairment losses can be reconciled as follows:

	2018 BGN'000	2017 BGN'000
Balance at 1 January	409	620
Impairment loss	-	9
Amounts written-off (uncollectible)	(43)	(220)
<b>Balance at 31 December</b>	<b>366</b>	<b>409</b>

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

	2018 BGN'000	2017 BGN'000
<b>Financial assets:</b>	<b>9 528</b>	<b>10 408</b>
Receivables from sales of airplane tickets by representative offices and BSP agents abroad	3 951	3 942
Direct sales of airplane tickets in the country and abroad	1 479	1 646
Charter flights receivables	558	393
Receivables on operating lease of airplanes	291	-
Sales of cargo and mail	162	231
Other trade receivables	3 087	4 196
<b>Non-financial assets:</b>	<b>1 524</b>	<b>951</b>
Advances for purchasing of spare parts	1 231	465
Advances for landing and maintenance of airplanes	238	285
Advances for airplane fuel	55	201
	<b>11 052</b>	<b>11 359</b>

BULGARIA AIR AD  
Financial Statements  
31 December 2018

Trade receivables are due within 60 days and do not contain effective interest rate. All trade receivables are subject to credit risk, although, for significant part of them the risk is not high.

As a member of the International Air Transport Association (IATA), the Company operates a system of payments between agents and airlines - Billing and Settlement Plan (BSP). This is a centralized system designed to ensure the flow of information and resources between agents and tour operators and airlines. The system is maintained by IATA.

Receivables from sales of airplane tickets by travel agents and collected from IATA through BSP occur in connection with ticket sales by the agents and representatives on the territory of the respective country. Payment term has not been come as at the date of financial statements. Company's management does not identify specific credit risk as trade receivables consist of large number of individual customers.

15 Other receivables

	2018 BGN'000	2017 BGN'000
<b>Financial Assets:</b>	<b>58 338</b>	<b>70 575</b>
Awarded and court receivables	59 648	59 648
Guarantees	2 440	2 538
Loans granted	485	-
Other	9 197	8 764
Impairment	(13 432)	(375)
<b>Non-financial Assets:</b>	<b>10 086</b>	<b>9 707</b>
Prepaid expenses	10 080	9 701
Excise duty recovery	3	3
Other	3	3
	<b>68 424</b>	<b>80 282</b>

The Company's other financial receivables are reviewed for events of default and a simplified approach is used to determine the expected credit losses at the end of the period. Some receivables were impaired on an individual basis and the corresponding impairment of BGN 9 498 thousand (2017: BGN 0) was recognized in the profit or loss and other comprehensive income under "Other expenses". Impaired receivables are from counterparties with which the Company has outstanding lawsuits.

The movement in the allowance for impairment losses can be reconciled as follows

	2018 BGN'000	2017 BGN'000
Balance at 1 January	375	369
Initial effect from IFRS 9	3 559	-
Impairment loss	9 498	6
<b>Balance at 31 December</b>	<b>13 432</b>	<b>375</b>

Prepaid expenses, amounting to BGN 10 080 thousand (2017: BGN 9 701 thousand), mainly represent insurances for aircrafts and instalments for maintenance and repairment of aircrafts (maintenance reserve).

BULGARIA AIR AD  
Financial Statements  
31 December 2018

Other receivables at the amount of BGN 9 197 thousand (2017: BGN 8 764 thousand) represent receivables on re-invoiced expenses, staff receivables due to shortages and catering deficiencies and other

#### 16 Cash and cash equivalents

Cash and cash equivalents include the following components:

	2018 BGN'000	2017 BGN'000
Cash at banks	825	661
Cash in hand	86	87
Restricted cash	14 200	14 493
	<b>15 111</b>	<b>15 241</b>

Substantial portion of restricted cash in the amount of BGN 12 248 thousand (2017: BGN 12 619 thousand) denominated in US dollars, representing guarantee on operating leases of aircraft that expire in subsequent reporting periods. The rest of restricted cash held as collateral for issued letter of credit and bank guarantees.

Analysis of the cash and cash equivalents, excluding restricted cash, by currency type is presented as follows:

	2018 BGN'000	2017 BGN'000
Cash at in hand and in bank accounts		
- Euro	425	300
- US dollars	101	40
- Lebanon dinar	150	149
- Bulgarian leva	158	79
- Russian rubble	29	43
- British pound	25	93
- Other	23	44
Cash at in hand and in bank accounts.	<b>911</b>	<b>748</b>
- US dollars	13 965	14 248
- Euro	235	245
Restricted cash.	<b>14 200</b>	<b>14 493</b>
<b>Total Cash and cash equivalents</b>	<b>15 111</b>	<b>15 241</b>

The total value of the blocked cash that is used to secure trade obligations or liabilities under received bank loans amounts to EUR 92 thousand and USD 1 074 thousand.

The Company has assessed the expected credit losses on cash and cash equivalents

The estimated value is less than 0.1% of the gross amount of cash deposited with financial institutions, which is why it is determined to be insignificant and has not been accounted for in the financial statements of the Company.

BULGARIA AIR AD  
Financial Statements  
31 December 2018

17 Equity

17.1 Share capital

Share capital of the Company amounts to BGN 120 000 thousand and consists of 120 000 shares with par value of BGN 1 000 each. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of the Company. The capital is fully paid by the shareholder Bulgarian Airways Group EAD. During both reporting periods no shares have been issued or revoked.

17.2 Reserves

Company's reserves are as follows

	Common reserves	Other reserves	Reserves for capital increase	Reserve from remeasurem ents of defined benefit obligations	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
<b>Balance as at 1 January 2017</b>	<b>317</b>	<b>642</b>	<b>766</b>	<b>562</b>	<b>2 287</b>
Remeasurement of defined benefit obligations	-	-	-	(55)	(55)
Tax income	-	-	-	6	6
Other comprehensive loss for the period after taxes	-	-	-	(49)	(49)
Additional capital contributions	-	-	61 414	-	61 414
<b>Balance as at 31 December 2017</b>	<b>317</b>	<b>642</b>	<b>62 180</b>	<b>513</b>	<b>63 652</b>
	Common reserves	Other reserves	Reserves for capital increase	Reserve from remeasurem ents of defined benefit obligations	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
<b>Balance as at 1 January 2018</b>	<b>317</b>	<b>642</b>	<b>62 180</b>	<b>513</b>	<b>63 652</b>
Remeasurement of defined benefit obligations	-	-	-	8	8
Tax expense	-	-	-	(1)	(1)
Other comprehensive income for the period after taxes	-	-	-	7	7
Additional capital contributions	-	-	-	-	-
<b>Balance as at 31 December 2018</b>	<b>317</b>	<b>642</b>	<b>62 180</b>	<b>520</b>	<b>63 659</b>

BULGARIA AIR AD  
Financial Statements  
31 December 2018

Common reserves amounting to BGN 317 thousand, and other reserves, amounting to BGN 642 thousand, are formed using parts of retained earnings in accordance with the Commercial Act acting.

The reserves for capital increase at the amount of BGN 62 180 thousand (2017 BGN 62 180 thousand) represent contributions for capital increase made by the major shareholder.

#### 18 Borrowings

Borrowings include the following financial liabilities, measured at amortized cost.

	Short-term		Long-term	
	2018	2017	2018	2017
	BGN'000	BGN'000	BGN'000	BGN'000
Bank loans	11 454	7 690	475	810
Trade loans	406	931	-	-
<b>Total carrying amounts</b>	<b>11 860</b>	<b>8 621</b>	<b>475</b>	<b>810</b>

Company's borrowings can be analysed as follows:

##### Bank loans

As at 31 December 2018 the Company has active contracts on bank loans as follows:

- Contract for bank loan for provision of working capital with maturity date 1<sup>st</sup> of February, 2021. The principal on the loan as at 31.12.2018 amounts to BGN 810 thousand, BGN 475 thousand of which represents long-term part and BGN 335 BGN thousand short-term. The annual interest rate represents the Bank's basis interest rate plus a spread of 1.7% and it is due to the utilized portion of the loan. The loan is secured by a special pledge contract of third party receivables' under rent contract for "Hanger with Lightweight Construction (HILC)" and connecting corridor, located in Sofia, Slatina, Sofia Airport.
- Contract for bank overdraft concluded on 1st of August, 2018 for working capital with a repayment term 20th of August, 2021. The principal outstanding on the loan as at 31st of December, 2018 is BGN 1,800 thousand. The annual interest rate is equal to the Basis Interest Rate of the Bank plus a spread of 1.7%. The loan is secured by pledge of receivables on current accounts with the creditor bank and special pledge on goods intended for duty-free foreign exchange trading on aircraft and/or in specialized stores with carrying amount as at 31st December 2018 of 286 thousand BGN.
- 3 contracts for bank loans for working capital with a maturity date of 31<sup>st</sup> May of 2019, 31<sup>st</sup> October of 2022 and 31<sup>st</sup> January of 2021. The annual interest rate on loans is 3% + 3M Euribor, but not less than 4%. The principal outstanding on bank loans as at 31 December 2018 amounted to BGN 9 319 thousand. The loans were secured by pledging of receivables under public procurement contracts for the provision of flight tickets, BSP inflows receivables, receivables under contracts of third parties, as well as contract for guarantee signed with Chumimport AD. One of the loans cosignor is Bulgarian Airways Group EAD.

##### Trade loans

As of December 31, 2018, the Company has outstanding liabilities at the amount of BGN 407 thousand under a commercial loan contract. The loan principal was repaid in 2016.

#### 18.1 Recouitation of payables, arising from financial activity

Changes in the Company's liabilities arising from a financial activity may be classified as follows:

BULGARIA AIR AD  
Financial Statements  
31 December 2018

	Long-term loans BGN'000	Short-term loans BGN'000	Short-term loans from related parties BGN'000	Total BGN'000
<b>1 January 2018</b>	<b>810</b>	<b>8 621</b>	<b>6 535</b>	<b>15 966</b>
Cash flows				
Principal payments		(5 912)	(5 955)	(11 867)
Interest payments	(32)	(488)	(256)	(776)
Receipts	-	15 710	7 857	23 567
	<b>(32)</b>	<b>9 310</b>	<b>1 646</b>	<b>10 924</b>
Non-monetary changes				
Interest accrued	32	470	319	821
Reclassification	(335)	335	6 179	6 179
Offsetting of receivables and payables	-	(6 876)		(6 876)
	<b>(303)</b>	<b>(6 071)</b>	<b>6 498</b>	<b>124</b>
<b>31 December 2018</b>	<b>475</b>	<b>11 860</b>	<b>14 679</b>	<b>27 014</b>

	Long-term loans BGN'000	Short-term loans BGN'000	Short-term loans from related parties BGN'000	Total BGN'000
<b>1 January 2017</b>	<b>1 145</b>	<b>4 361</b>	<b>21 685</b>	<b>27 191</b>
Cash flows				
Principal payments	-	(5 202)	(1 507)	(6 709)
Interest payments	-	(270)	(311)	(581)
Receipts	-	10 050	10 943	20 993
	-	<b>4 578</b>	<b>9 125</b>	<b>13 703</b>
Non-monetary changes				
Interest accrued	-	234	299	533
Reclassification	(335)	400	(22 590)	(22 525)
Offsetting of receivables and payables		(952)	(1 984)	(2 936)
	<b>(335)</b>	<b>(318)</b>	<b>(24 275)</b>	<b>(24 928)</b>
<b>31 December 2017</b>	<b>810</b>	<b>8 621</b>	<b>6 535</b>	<b>15 966</b>

## 19 Employee remuneration

### 19.1 Employee benefits expense

Expenses recognized for employee benefits include

	2018 BGN'000	2017 BGN'000
Wages, salaries	(12 392)	(11 995)
Social security costs	(2 130)	(2 029)
Compensations in compliance with Labour Code	(243)	(275)
Pension provisions	(71)	(17)
Unused compensated leaves	55	(134)
	<b>(14 781)</b>	<b>(14 450)</b>

### 19.2 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



BULGARIA AIR AD  
Financial Statements  
31 December 2018

	2018 BGN'000	2017 BGN'000
<b>Long – term</b>		
Pension provisions	728	512
Long-term pensions	<u>728</u>	<u>512</u>
<b>Short-term</b>		
Wages	1 413	1 094
Unused compensated leaves	1 078	1 133
Social security expenses	643	871
Short-term pension provisions	194	331
Short-term pension and other employee obligations	<u>3 328</u>	<u>3 429</u>

The current portion of these liabilities represents the Company's obligations to its current and former employees that are expected to be settled during 2018.

In accordance with the requirements of the Labour Code when terminating employment after the employee has become entitled to retirement pension, the Company is obliged to pay him a compensation amounting to up six gross wages.

The Company has accrued pension provisions for its employees based on the requirements set forth by IAS 19 Employee benefits and Labour Code acting in Bulgaria. The provision is estimated by internal actuary and it considers factors such as pension age for the appropriate category employees, wages and salary payment for the appropriate category employees as at 31 December 2018, expected number of years to pension age and other.

The movement in the pension provisions set forth by the Labour Code, can be reconciled as follows:

	2018 BGN'000	2017 BGN'000
Provision for retirement at the beginning of the period	843	755
Increase in pension provisions due to retirement age occurrence	95	146
Discount	16	15
Compensation paid to personnel	(32)	(73)
	<u>922</u>	<u>843</u>

Pension retirement provisions are accrued on the assumption that personnel is to retire within the Company. Depending on the maturity period of the pension retirement provisions, they are disclosed as short-term (within 1 year) and long-term portion (over 1 year).

Defined benefit obligations of the Company can be reconciled with the amounts presented in the statement of financial position for each of the reporting periods as follows:

	2018 BGN'000	2017 BGN'000
Defined benefit obligations at 1 January	843	755
Current service cost	103	90
Interest cost	16	15
Actuarial (gains)/losses	(8)	56

BULGARIA AIR AD  
Financial Statements  
31 December 2018

	2018 BGN'000	2017 BGN'000
Benefits paid	(32)	(73)
<b>Defined benefit obligations at 31 December</b>	<b>922</b>	<b>843</b>

The following actuarial assumptions were used when pension obligation was calculated:

	2018	2017
Discount rate	2.00%	2.00%
Expected rate of salary increases	1.00%	1.00%
Retirement age for men (years)	64	64
Retirement age for women (years)	61	61
Average expected remaining years to personnel retirement	25	25

These assumptions were developed by management under consideration of expert advice provided by independent actuarial appraiser. These assumptions have led to the amounts determined as the Company's defined benefit obligations for the reporting periods under review and should be regarded as management's best estimate. However, the actual outcome may vary.

The total amount of the expenses under defined benefits plans of the Company, which is recognized in the profit or loss, can be summarized as follows:

	2018 BGN'000	2017 BGN'000
Current service cost	103	90
Interest cost	16	15
<b>Total expenses, recognized in the profit or loss</b>	<b>119</b>	<b>105</b>

Current service cost is included in 'Employee benefits expenses'. The interest cost is included in the Statement of profit or loss and other comprehensive income within 'Financial costs' (see Note 30).

The total amount of the expenses under defined benefits plans of the Company, recognized in the other comprehensive income, can be summarized as follows:

	2018 BGN'000	2017 BGN'000
Actuarial (gains)/loss due to changes in demographic assumptions	(8)	55
<b>Total expenses, recognized in other comprehensive income</b>	<b>(8)</b>	<b>55</b>

Based on the Company's past experience the payments under the defined benefits plans for 2019 are expected to be BGN 194 thousand.

The weighted average duration of the obligation of payments of defined benefits as at 31 December 2018 is 5 years (2017: 5 years)

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate, the salary growth rate and the average life expectancy. The calculation of the net defined benefit liability is sensitive to these assumptions. The following table summarizes the sensitivity analysis

BULGARIA AIR AD  
Financial Statements  
31 December 2018

and the effects of changes in these actuarial assumptions on the defined benefit liability at 31 December 2018

Changes in the significant actuarial assumptions	Increase by	Decrease by
<b>Discount rate</b>	<b>0.25%</b>	<b>0.25%</b>
Increase / (decrease) in the defined benefit liability (BGN '000)	(13)	12
<b>Salary growth rate</b>	<b>1%</b>	<b>1%</b>
Increase / (decrease) in the defined benefit liability (BGN '000)	56	(51)
<b>Average life expectancies</b>	<b>1 year</b>	<b>1 year</b>
Increase / (decrease) in the defined benefit liability (BGN '000)	5	(4)
<b>Turnover (%) of employees</b>	<b>1%</b>	<b>1 %</b>
Increase / (decrease) in the defined benefit liability (BGN '000)	(50)	46

The sensitivity analysis is based on a change of a single assumption. It could differ from the actual change in the defined benefit obligations due to the fact that changes in assumptions are often interrelated.

20 Trade payables

	2018 BGN'000	2017 BGN'000
<b>Long - term</b>		
Trade payables	8 114	32 783
Total long -term trade payables	<b>8 114</b>	<b>32 783</b>
<b>Short – term</b>		
Trade and other payables	64 189	55 880
Advances received	503	1 526
Total short -term trade payables	<b>64 692</b>	<b>57 406</b>
<b>Total trade payables</b>	<b>72 806</b>	<b>90 189</b>

Long-term trade payables amounting to BGN 8 114 thousand (2017: BGN 32 783 thousand) are related to an agreement for rescheduling the trade payables for airport charges as well as payables related to landing and service. As at the date of the financial statements, part of these payables have been settled.

BULGARIA AIR AD  
Financial Statements  
31 December 2018

Most significant short-term trade payables as to 31 December are as follows:

	2018 BGN'000	2017 BGN'000
Payables related to landing and maintenance of aircrafts	34 707	27 706
Operating lease of airplanes payables	7 067	7 637
Airplane fuel payables	5 652	4 660
Other services payables	6 274	5 616
Air navigation services liabilities	5 455	5 093
Spare parts supplies	1 687	1 656
Catering, supplies and services	778	819
Advances paid by customers for tickets sale	503	1 526
Other trade payables	2 569	2 693
	<b>64 692</b>	<b>57 406</b>

The fair values for short-term trade and other payables are not presented, since those payables are current, and their carrying value presented in the Statement of financial position, is considered a reasonable approximation of the fair value

## 21 Provisions

To meet the requirements set forth by the Directive 2008/101/EC of the European Parliament and of the Council, the Company as an aviation operator, is required to allocate allowances to reduce the environmental impact of aviation activities.

The Company's obligation to purchase greenhouse gas emission allowances within the Community in the Single European Greenhouse Gas Emissions Trading Scheme (ETS) amounts to BGN 1 534 thousand as at 31 December 2018.

To meet its obligations for 2018 until 30 April 2019, the Company must obtain additional 40 091 number of allowances for carbon emissions amounting to BGN 1 534 thousand. This amount is calculated based on stock indices trading with similar quotas as of the reporting date. This assessment of the management is supported by Annual report for greenhouse gas emissions and ton-kilometres data for 2018, verified by an accredited expert.

The carrying amount of the provision for the issue of quotas for greenhouse gases can be presented as follows:

	2018 BGN'000	2017 BGN'000
<b>Short-term</b>		
Carrying amount as at 1 January	840	566
Accrued provisions	1 534	840
Amounts utilized	(840)	(566)
<b>Carrying amount as at 31 December</b>	<b>1 534</b>	<b>840</b>

BULGARIA AIR AD  
Financial Statements  
31 December 2018

22 Other liabilities

	2018 BGN'000	2017 BGN'000
Tickets sold	15 834	14 920
Guarantees from tickets sales agents and other similar	1 806	1 950
Deferred income	460	392
Tax liabilities other than income tax liabilities	45	214
Other	22	59
	<b>18 167</b>	<b>17 535</b>

Payables regarding tickets sold, amounting to BGN 15 834 thousand (2017 BGN 14 920 thousand), represent passenger tickets sold for which the performance of the service has yet not occurred as at the reporting date of the financial statements. Under the new IFRS 15, these amounts are treated as a contract liability.

Deferred income at the amount of BGN 45 thousand (2017 BGN 214 thousand), is related to the prepaid amounts according to operating lease agreements for aircraft and prepaid charter flights.

23 Traffic revenue

Traffic revenue as well as the accompanying activities that are recognized over time are as follows

	2018 BGN'000	2017 BGN'000
International scheduled flights	150 358	152 748
International charter flights	72 822	63 894
Domestic scheduled flights	14 197	12 720
Income from tickets and taxes with expired validity	3 352	8 485
Ticket issuance charges	1 483	1 430
	<b>242 212</b>	<b>239 277</b>

Traffic revenue includes the provision of international and domestic scheduled flights, international charter flights and other flight-related services. The company transfers control over the services over time and therefore satisfies the obligation to execute and recognizes revenue over time. Traffic revenue is recognized after the actual flight has occurred.

The traffic costs may be defined as a fixed remuneration. The airplane ticket includes:

- the price of the transportation - both the passenger and different luggage depending on the applicable fare, on-board food, insurance
- airport taxes,
- fuel charge.

Allocation of the transaction price to the performance obligations is made on the basis of unit sales prices. The Company measures its progress towards a full settlement of the performance obligation, satisfied over time by confirming the occurrence of the flight.

BULGARIA AIR AD  
Financial Statements  
31 December 2018

Revenue from international scheduled flights of the airline is generated on the following lines:

<b>Route</b>	<b>2018 BGN '000</b>	<b>2017 BGN '000</b>
Sofia – Amsterdam – Sofia	18 555	17 122
Sofia – Paris – Sofia	15 976	15 550
Sofia – Brussels – Sofia	15 928	12 511
Sofia – London – Sofia	12 919	10 018
Sofia – Madrid – Sofia	8 912	9 336
Other international flights	78 068	88 211
	<b>150 358</b>	<b>152 748</b>

The charter flights take place mainly between June - September. In 2018, charter flights to Israel and Russia accounted for 69% of the activity revenue, with the share of charter flights to Russia being 51% or BGN 36 867 thousand and 18% for Israel or 12 830 thousand followed by the charters to Poland with 8% participation and Turkey with 5% participation, respectively. Other countries with a lower contribution to revenue are Greece, Morocco, Spain, Egypt and other European countries.

<b>Charter destination</b>	<b>2018 BGN '000</b>	<b>2017 BGN '000</b>
Israel	12 830	11 730
Russia	36 867	35 116
Poland	6 082	795
Turkey	3 760	3 011
Greece	1 649	1 383
Spain	1 359	1 015
Other	10 275	10 844
	<b>72 822</b>	<b>63 894</b>

Domestic scheduled flights generate revenues on the Sofia-Varna-Sofia, Sofia-Varna-Burgas and Sofia-Burgas-Sofia lines

<b>Route</b>	<b>2018 BGN '000</b>	<b>2017 BGN '000</b>
Sofia – Varna - Sofia	12 515	10 507
Sofia – Burgas - Sofia	1 082	1 550
Sofia – Varna – Burgas – Sofia	600	663
	<b>14 197</b>	<b>12 720</b>

BULGARIA AIR AD  
Financial Statements  
31 December 2018

As of 31<sup>st</sup> December 2018 the Company has reported balances on the contracts with customers as follows:

	2018 BGN '000	2017 BGN '000
<b>Receivables from contracts with customers</b>		
Trade receivables (Note 14)	11 052	11 359
Related parties receivables (Note 33.1)	1 280	634
<b>Contract liabilities</b>		
Performance obligations in respect of non-scheduled tickets for scheduled flights (Note 22 Other liabilities)	(15 834)	(14 920)
Implementation obligations in relation to prepaid charging for charter flights	(27)	(192)
Performance obligations in relation to prepaid remuneration for other services	(18)	(22)
Payment Obligation (Note 20 Trade payables)	(503)	(1 526)

#### 24 Other income

As other revenue, the airline classifies all revenue other than traffic revenue. They arise either under contracts with customers, including lease contracts for aircraft and other assets, and under contracts and transactions that are outside the scope of IFRS 15 and IAS 17.

	2018 BGN'000	2017 BGN'000
<b>Revenue from contracts with customers in accordance with IFRS 15</b>		
Fines and penalties	5 085	4 353
Revenue from sale of goods	1 176	1 351
Revenue from sale of materials	142	304
Commissions	672	686
Revenue from advertising	679	634
Consultancy, technical, telecommunication and transport services	111	196
Other	2 981	3 012
<b>Rental income under IAS 17</b>	-	-
Aircraft leases	8 706	12 544
Other rent	922	824
<b>Other income outside the scope of IFRS 15 and IAS 17</b>		
Revenue from court cases	22 985	-
Reversed maintenance reserve	3 262	2 625
Written-off liabilities to suppliers	1 101	8 508
Insurance claims	49	75
Income from cessions	-	3 256
	<b>47 871</b>	<b>38 368</b>

BULGARIA AIR AD  
Financial Statements  
31 December 2018

Revenue recognized under contracts with clients in accordance with IFRS 15 in respect of the recognition date is as follows

	2018 BGN'000	2017 BGN'000
<b>Revenue recognized over time</b>		
Fines and penalties	5 085	4 353
Revenue from advertising	679	634
Commissions	672	686
Consultancy, technical, telecommunication and transport services	111	196
Other	2 981	3 012
<b>Revenue recognized at a point in time</b>		-
Revenue from sale of goods	1 176	1 351
Revenue from sale of materials	142	304
	<b>10 846</b>	<b>10 536</b>

Revenue from fines and penalties amounting to BGN 5 085 thousand (2017: BGN 4 353 thousand) is related to defaults on the contractual terms on behalf of the Company's customers. They include cancellation flight fees, fees for failing to comply with deadlines, prorate for baggage of carrying passengers, additional compensations related to defaults of operating lease contracts for rental of aircrafts and etc

Revenue from aircraft rent at the amount of BGN 8 706 thousand (2017: BGN 12 544 thousand) is related to lease agreements (sub-leasing) with two other airlines abroad. Aircrafts are wet leased (with crew)

25 Gain on sale of non-current assets

	2018 BGN'000	2017 BGN'000
Proceeds from sale of non-current assets	170	2
Carrying amount of non-current assets sold	(65)	(1)
<b>Loss from sale of non-current assets</b>	<b>105</b>	<b>1</b>

26 Hired service expenses

	2018 BGN'000	2017 BGN'000
Operating lease and maintenance expenses	(61 563)	(69 693)
Landing and maintenance charges – local and international	(47 182)	(48 073)
Overflight fees – local and international	(20 771)	(22 481)
Reservation system	(10 105)	(10 324)
Maintenance, repair and technical services expenses	(8 694)	(7 688)
Block seat expenses	(4 298)	(4 366)
Commission expense	(3 782)	(4 344)
Lease of premises and other leases	(2 934)	(4 763)
Catering	(2 665)	(2 869)
Insurances	(1 245)	(1 387)



BULGARIA AIR AD  
Financial Statements  
31 December 2018

	<b>2018</b>	<b>2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Advertising expenses	(1 130)	(1 301)
Lease of engines and spare parts	(976)	(628)
Consultancy, audit and legal services	(262)	(158)
Other	(5 868)	(6 127)
	<b>(171 475)</b>	<b>(184 202)</b>

Other hired services expenses, amounting to BGN 5 868 thousand (2017: BGN 6 127 thousand) are related to subscriptions, taxes and fees, transport services, training, crew accommodation expenses, printing and other services

27 Cost of materials

	<b>2018</b>	<b>2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Aircraft fuel	(71 338)	(58 179)
Aircraft spare parts	(4 932)	(5 366)
Others	(2 981)	(2 719)
	<b>(79 251)</b>	<b>(66 264)</b>

Other cost of materials at the amount of BGN 2 981 thousand (2017: BGN 2 719 thousand) includes expenses for electricity, uniforms, office materials, utensils, consumable materials, anti-ice, technical documentation and others

28 Other expenses

	<b>2018</b>	<b>2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
Impairment of trade and other receivables	(9 498)	(9)
Business trips	(5 319)	(5 346)
Returns, irregularity and fines	(2 645)	(3 033)
Accruals on provision for greenhouse gas emissions allowances	(1 825)	(872)
Cost of goods sold	(793)	(879)
Re-debits	(274)	(200)
Bonuses	(257)	(104)
Tax expenses	(5)	(18)
Other	(389)	(257)
	<b>(21 005)</b>	<b>(10 718)</b>

BULGARIA AIR AD  
Financial Statements  
31 December 2018

29 Lease

29.1 Operating leases as lessee

The Company is a lessee according to operating lease agreements of aircrafts. The future minimum operating lease payments can be summarized as follows:

	<b>Within 1 year BGN'000</b>	<b>2 to 5 years BGN'000</b>	<b>Up to 5 years BGN'000</b>	<b>Total BGN'000</b>
As at 31 December 2018	38 593	109 898	12 279	160 770
As at 31 December 2017	40 436	134 564	7 176	182 176

Lease payments related to aircraft and recognized as an expense for the period amounting to BGN 41 851 thousand (2016: BGN 48 744 thousand) are included as Operating lease and maintenance expenses within Hired service expenses (Note 26). This amount includes minimum lease payments. Sub-leasing revenue is expected to be realized as Bulgaria Air AD enters into contracts for the lease of the other airline's leased aircraft.

Information on revenue earned from sub-leasing in 2018 is presented in Note 29.2.

As at the date of the preparation of the current financial statements, Bulgaria Air AD is a lessee under operating lease agreements for 5 aircrafts, type Airbus and 4 aircrafts, type Embraer.

The Company's operating lease agreements do not contain any contingent rent clauses. None of the operating lease agreements contains renewal or purchase options or escalation clauses or any restrictions regarding dividends, further leasing or additional debt.

New annexes for prolonging the lease terms and for decrease of lease payments to existing lease agreements for 2 aircrafts, type Airbus A-320 have been concluded in 2017.

In 2018, additional agreements were concluded for 4 Embraer airplanes for reduction in the lease payment and for 2 Airbus A-319 aircraft for extending the lease term and reducing the lease payments.

The Company is a lessee according to operating lease agreements of premises. The future minimum operating lease payments can be summarized as follows:

	<b>Within 1 year BGN'000</b>	<b>2 to 5 years BGN'000</b>	<b>Total BGN'000</b>
As at 31 December 2018	667	1 950	2 617
As at 31 December 2017	580	2 594	3 174

Lease payments related to premises and recognized as an expense for the period amounted to BGN 714 thousand (2017: BGN 1 732 thousand) are included as Lease of premises and other leases within Hired service expenses (Note 26). This amount includes minimum lease payments.

Sub-leasing receipts are received by third parties under the sub-lease agreements of part of the leased premises. Information on revenue earned from sub-leasing in 2018 is presented in Note 29.2.

The Company's operating lease agreements do not contain any contingent rent clauses. None of the operating lease agreements contains renewal or purchase options or escalation clauses or any restrictions regarding dividends, further leasing or additional debt.

BULGARIA AIR AD  
Financial Statements  
31 December 2018

29.2 Operating leases as lessor

In 2018 as a lessee Bulgaria Air AD rent aircrafts to other airlines under the terms of operating lease. Revenue recognized from leasing of aircrafts in 2018 amounts to BGN 8 706 thousand (2016: BGN 12 544 thousand).

As at the date of preparation of these financial statements, Bulgaria Air is a lessor under short-term contracts for operating lease of aircrafts

The Company has concluded sub-lease agreements for premises that are hired by it. In its capacity of landlord, the Company has realized rental income amounting to BGN 852 thousand (2017: BGN 798 thousand), presented as Other rents within Other income (Note 24). The Company leases investment property under operating leases. Detailed information is provided in note 7.

30 Finance cost and finance income

Finance costs for the presented reporting period can be analysed as follows

	2018 BGN'000	2017 BGN'000
Interest expenses for financial liabilities carried at amortized cost		
- borrowings	(821)	(534)
- interest on late payments to suppliers	(774)	(1 573)
<b>Total interest expenses for financial liabilities carried at amortized cost</b>	<b>(1 595)</b>	<b>(2 107)</b>
Interest on tax liabilities and legal claims	(9)	(573)
Interest expenses on defined benefit obligations	(17)	(15)
<b>Total interest expenses</b>	<b>(1 621)</b>	<b>(2 695)</b>
<b>Other finance costs</b>		
- bank fees and commissions	(283)	(311)
- currency exchange rate losses	(5 239)	(6 085)
- expense from transactions with financial assets measured at fair value through profit or loss	-	(14)
<b>Finance costs</b>	<b>(7 143)</b>	<b>(9 105)</b>

Finance income for the presented reporting period can be analysed as follows

	2018 BGN'000	2017 BGN'000
Interest income on financial assets carried at amortized cost including:		
- loans granted	10	-
<b>Total interest income on financial assets carried at amortized cost</b>	<b>10</b>	<b>-</b>
Currency exchange rate gains	5 143	4 816
Income from operations with investments	-	11
Other finance income	1	1
<b>Finance income</b>	<b>5 154</b>	<b>4 828</b>

BULGARIA AIR AD  
Financial Statements  
31 December 2018

31 Income tax expense/income

The relationship between the expected tax expense based on the applicable tax rate in Bulgaria of 10 % (2017: 10 %) and the reported tax expense actually in the statement of profit or loss and other comprehensive income can be reconciled as follows.

	2018 BGN'000	2017 BGN'000
Loss for the year before tax	(4 283)	(8 286)
Tax rate	10%	10%
<b>Expected tax expense</b>	-	-
Tax effect of adjustments for tax-exempt income	1 271	1 419
Tax effect of adjustments for non-deductible expenses	(922)	(851)
<b>Current tax income</b>	-	-
Deferred tax income		
Origination and reversal of temporary differences	773	1 724
<b>Income tax</b>	<b>773</b>	<b>1 724</b>
<b>Deferred tax (expense)/income recognized directly in other comprehensive income</b>	<b>(1)</b>	<b>6</b>

Note 11 provides information on the deferred tax assets and liabilities.

32 Related party transactions

Owner of 99,999% of capital of the Company is Bulgarian Airways Group EAD. Sole owner of the capital of Bulgarian Airways Group EAD is Chimimport AD. The Airline is part of the Chimimport group and it is a related party to the companies controlled by Chimimport AD.

None of the related party transactions incorporate special terms and conditions. Provided and received guarantees are presented in note 35.

32.1 Transactions with owners

Transactions with owners are related to the major owner Bulgarian Airways Group EAD.

	2018 BGN'000	2017 BGN'000
Administrative-management services received	417	480
Reclassification of trade and other payables to debt	2 617	-
Amounts received under a temporary financial contribution	2 021	-

Transactions, related to services rendered by Bulgarian Airways Group EAD are related to the owners' remunerations for their participation in the Board of Directors, as well as for management fee (holding fee).

Bulgaria Air entered into a three party agreements subjecting the substitution of mutual liabilities and then Company's trade payables were transformed into loan obligation due to Bulgarian Airways Group EAD.

BULGARIA AIR AD  
Financial Statements  
31 December 2018

32.2 Transactions with subsidiaries

	2018 BGN'000	2017 BGN'000
Interest expenses on borrowings	6	6

32.3 Transactions with other related parties

	2018 BGN'000	2017 BGN'000
Sales of goods and services	1 392	1 080
Purchase of goods and services	23 217	22 089
Interest, taxes and commission expenses	574	288
Loans received	7 857	10 960
Loans repaid	5 955	3 525

32.4 Transactions with key management personnel

Key management personnel remuneration includes the following expenses.

	2018 BGN'000	2017 BGN'000
Short-term employee benefits:		
- Wages	(197)	(197)
- social security costs	(10)	(10)
	<u>(207)</u>	<u>(207)</u>

33 Related party balances at year end

33.1 Related party receivables

	2018 BGN'000	2017 BGN'000
Receivables from owners	1	1
Receivables from other related parties	21 098	20 451
<b>Short-term related party receivables</b>	<b>21 099</b>	<b>20 452</b>

The main part of the receivables from other related parties in the amount of BGN 19 818 thousand (2017: BGN 19 818 thousand) are related to a receivables ceded to Bulgaria Air, which are expected to be settled by the end of 2019. The other part of the receivables in the amount of BGN 1 280 thousand (2017: BGN 633 thousand) are related to sales from the main activity – airline tickets, leases and other.

33.2 Related party payables

	2018 BGN'000	2017 BGN'000
<b>Current payables</b>		
Owners	4 958	-
Subsidiaries	279	274
Other related parties	23 497	23 508
<b>Total current payables to related parties</b>	<b>28 734</b>	<b>23 782</b>

BULGARIA AIR AD  
Financial Statements  
31 December 2018

Liabilities to the major owner are mainly due in respect of tripartite contracts signed in 2018 for the substitution of liabilities where Bulgaria Air AD trade payables at a total amount of BGN 2 617 thousand to other related parties under common control trade liabilities are transformed as a loan liability to Bulgarian Airways Group EAD. The remaining part equal to BGN 320 thousand is due in connection with ordinary commercial transactions

The payables to other related parties amounting to BGN 23 497 thousand are related to:

- airport and handling service payables, technical and linear services, catering and other services, related to the main activities amounting to BGN 13 736 thousand,
- received bank loans in the form of overdrafts for working capital needs amounting to BGN 6 306 thousand as at 31 December 2018 (2017: BGN 6 486 thousand), which are repayable in 2019. The loans are concluded at market interest rates. The loans are secured by two contracts for collateral from other related parties, as well as a pledge on all bank accounts of the Airline in the Bank – related party,
- a commercial loan from a related party - a commercial company whose size, together with the accrued and outstanding interest, amounts to BGN 1 890 thousand as at 31 December 2018. The loan is short-term with a repayment term in 2019. The loan is not secured,
- payable in respect of a tripartite contract signed on 3 December 2018 for the replacement of Bulgaria Air AD trade payables at a total amount of BGN 1 565 thousand to other related parties under common control.

### 34 Non-monetary transactions

During 2018 and 2017 the Company has entered into the following non-cash investing activities for which the use of cash and cash-equivalents is not required.

- Transformation of trade payables into commercial loans amounting to BGN 6 179 thousand in 2018,
- Increase of the Company's reserves by transforming liabilities to the majority owner and concluding a contract for a subordinated term debt amounting to BGN 61 414 thousand in 2017,
- Repayment of liabilities on bank loans by offsetting receivables from a related party with which a joint activity is carried out. The offsetting in 2017 amounts to BGN 1 984 thousand;
- Sale of an aircraft amounting to BGN 2 400 thousand, as the transaction balances are settled by offsetting them in 2017

### 35 Contingent assets and contingent liabilities

As of the date of the preparation of these financial statements, the Company has a legal dispute in connection with an issued Acts for the establishment of a public state receivables for airport charges. The Company has appealed against the acts so issued.

During the year other different legal claims were brought against the Company which has no significant effect on the financial statements of the Company.

The management of the Company has determined that these claims are insubstantial and the possibility of them incurring expenses upon settlement is remote. The assessment of the management is supported by the opinion of the legal advisors of the Company.

None of the above mentioned claims is set out here in detail in order to prevent a serious impact on the position of the Company in the resolution of disputes.

BULGARIA AIR AD  
Financial Statements  
31 December 2018

Bank guarantees are issued from two commercial banks in favour of the Company at the amount of BGN 400 thousand, EUR 92 thousand as well as letters of credit amounting to USD 999 thousand. The bank guarantees are issued to secure Company's trade payables.

A guarantee contract in favour of Bulgaria Air AD is signed by Chimimport AD and Bulgarian airways E AD as guarantors for the receivables from CCB AD in amount of BGN 3 000 thousand under a credit agreement overdraft with delivery of an authorized limit up to BGN 6 000 thousand.

In favour of Bulgaria Air AD there is a corporate guarantee agreement signed by Chimimport AD for the amount of BGN 6 55 million to secure a commercial bank claim under a credit agreement as of 1<sup>st</sup> October 2018

### 36 Categories of financial assets and liabilities

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

	2018 BGN'000	2017 BGN'000
<b>Debt instruments measured at amortised cost</b>		
Trade and other receivables	90 168	-
Cash and cash equivalents	15 111	-
<b>Financial assets measured at fair value through other comprehensive income</b>		
Equity instruments	18 000	-
	<b>123 279</b>	<b>-</b>
<b>Financial assets (until 31 December 2017)</b>		
<b>Financial assets</b>		
Financial assets available for sale	-	18 000
<b>Loans and receivables, incl.</b>		
Trade and other receivables	-	101 768
Cash and cash equivalents	-	15 241
	<b>-</b>	<b>135 009</b>
<b>Financial liabilities measured at amortized cost</b>		
<b>Long-term liabilities</b>		
Trade and other liabilities	8 114	32 783
Borrowings	475	810
	<b>8 589</b>	<b>33 593</b>
<b>Short-term liabilities</b>		
Trade and other liabilities	94 751	81 671
Borrowings	11 860	8 621
	<b>106 611</b>	<b>90 292</b>

See note 4.14 and note 4.15 about information related to the accounting policy for each category financial instruments. Methods which are used for assessment of fair value of financial assets and liabilities

BULGARIA AIR AD  
Financial Statements  
31 December 2018

measured at fair value are presented in note 38 I. Description of the risk management objectives and policies of the Company related to the financial instruments is presented in note 37.

### 37 Financial instrument risks

#### Risk management objectives and policies

The Company is exposed to various risks in relation to financial instruments, represented by categories assets and liabilities are summarized in Note 36. The main types of risks are market risk, credit risk and liquidity risk.

The Company's risk management is coordinated at its headquarters, in close co-operation with the Board of directors, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to risks of financial markets. The Company is not engaged in the trading of financial assets for speculative purposes nor does it issue options.

The Company is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks, which result from both its operating and investing activities

#### 37.1 Market risk analysis

##### 37.1.1 Foreign currency risk

Exposures to currency exchange rates arise from the Company's overseas sales and purchases, which are primarily denominated in US-Dollars and British Pounds.

The Company has short-term trade payables, payables to related parties and other liabilities in USD and GBP, which are connected to the airline's operations (landing fees, en-route charges, payments under operating leases for leased aircraft repair obligations engines and spare parts, etc.) These obligations are carried at amortized cost

The Company has short-term trade receivables and other receivables in USD and in GBP, which are related to the airline's operations (ticket sales from offices abroad and others). Those receivables are classified as loans and receivables

To mitigate the Company's exposure to foreign currency risk, non-BGN cash flows are monitored. The Company applies separate procedures for monitoring the risk management for short-term (up to 6 months) cash flows in foreign currency. Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no further hedging activity is undertaken. Investments in forward contracts which are short-term (up to 1 month) are possible

Foreign currency denominated financial assets and liabilities, translated into BGN as at the date of the financial statement are as follows:

	Short-term exposure	
	USD BGN'000	GBP BGN'000
<b>31 December 2018</b>		
Financial assets	19 329	1 210
Financial liabilities	(16 233)	(351)
<b>Total exposure</b>	<b>3 096</b>	<b>859</b>
<b>31 December 2017</b>		
Financial assets	6 376	1 366
Financial liabilities	(17 600)	(385)
<b>Total exposure</b>	<b>(11 224)</b>	<b>981</b>



BULGARIA AIR AD  
Financial Statements  
31 December 2018

Presented in the tables below show the sensitivity of annual net financial result after tax and equity possible change in exchange rates of the Bulgarian lev against the following currencies

- USD (+/- 5.0 %) (2017: +/- 5 %)
- GBP (+/- 1.8 %) (2017: +/- 2.1 %)

All other parameters are considered to be constant. These percentages have been determined based on averaged exchange rates for the previous 12 months.

If the BGN had appreciated against the USD by 5.0 % (2017: 4.5 %) and GBP by 1.8 % (2017: 2.1 %), respectively, then this would have had the following impact:

	<b>Effect over the net financial result for the year</b>		
	<b>USD</b>	<b>GBP</b>	<b>Total</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
31 December 2018	155	15	170
31 December 2017	(505)	21	(484)

If the BGN had depreciated against the USD by 5.0 % (2017: 4.5 %) and GBP by 1.8 % (2017: 2.1 %), respectively, then this would have had the following impact:

	<b>Effect over the net financial result for the year</b>		
	<b>USD</b>	<b>GBP</b>	<b>Total</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
31 December 2018	(155)	(15)	(170)
31 December 2017	505	(21)	484

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Higher sensitivity of the net financial result after tax from currency rate in 2018 compared to 2017 is due to the significant volatility of the GBP in 2018.

### 37.1.2 Interest rate risk

As at 31 December 2018, the Company is exposed to the risk of changing market interest rates on its variable-rate bank loans. All other financial assets and liabilities of the Company have fixed interest rates.

As at 31 December 2018, the Company received loans from two commercial banks, which have a floating interest rate. The interest rate on some of the loans includes a variable component based on 3M EURIBOR and a fixed spread. The interest rate on other loans includes a variable component that is determined based on a basis interest rate (BIR), plus a fixed spread for risk. The table below shows the sensitivity of the annual net financial result after taxes and equity to the likely change in interest rate on floating rate loans based on 3M EURIBOR of +/- 0.53% on one of the loans and the sensitivity to the basis interest rate of the Bank, which is formed as a sum of BIRs set by the BNB and 12M EURIBOR totalling +/- 1.95%. These changes are considered to be possible based on observations of current market conditions. All other parameters are accepted as constant.

BULGARIA AIR AD  
Financial Statements  
31 December 2018

	<b>Net financial result of the Company</b>	
	<b>Increase in interest rates</b>	<b>Decrease in interest rates</b>
	<b>BGN '000</b>	<b>BGN '000</b>
<b>31 December 2018</b>		
Debt in BGN (3M EURIBOR 0.53 %) (44)	(44)	44
Debt in BGN (BIR plus 12M EURIBOR 1.95 %) (46)	(46)	46
	<b>Equity</b>	
	<b>Increase in interest rates</b>	<b>Decrease in interest rates</b>
	<b>BGN '000</b>	<b>BGN '000</b>
<b>31 December 2018</b>		
Debt in BGN (3M EURIBOR 0.53 %) (44)	(44)	44
Debt in BGN (BIR plus 12M EURIBOR 1.95 %) (46)	(46)	46

### 37.1.3 Other price risk

The Company is also exposed to other price risks in connection with the supply of aviation fuel whose price is determined and influenced by global factors that the airline is unable to influence. An eventual increase in the price of kerosene would have a negative impact on the profitability of the airline and the outflow of cash only on scheduled flights, as the charter contracts provided for a price correction if the aviation fuel deviation exceeds 3-5%.

### 37.2 Credit risk

The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized at the reporting date, as summarized below:

	<b>2018</b>	<b>2017</b>
	<b>BGN'000</b>	<b>BGN'000</b>
<b>Classes of financial assets – carrying amounts</b>		
<b>Debt instruments measured at amortised cost</b>		
Related parties receivables	21 071	-
Trade receivables	10 759	-
Other receivables	58 338	-
Cash and cash equivalents	15 111	-
<b>Financial assets measured at fair value through other comprehensive income</b>		
Equity instruments	18 000	-
	<b>123 279</b>	<b>-</b>
<b>Classes of financial assets – carrying amounts</b>		
<b>Financial assets available for sale</b>		
Equity investments	-	18 000
<b>Loans and receivables</b>		
Related parties receivables	-	20 320
Trade receivables	-	10 873
Other receivables	-	70 575
Cash and cash equivalents	-	15 241
	<b>-</b>	<b>135 009</b>

BULGARIA AIR AD  
Financial Statements  
31 December 2018

The Company continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Company's policy is to deal only with creditworthy counterparties. In addition, a significant proportion of sales revenues are received in advance in order to reduce credit risk.

The Company's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review, are of good credit quality, including those that are past due.

In respect to trade and related party receivables, the Company is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristic. Trade receivables consist of a large number of clients in various industries and geographical areas. Based on historical performance, the management considers the credit quality of trade receivables that are not overdue, are good.

Significant credit risk has been identified in regard to some of the other receivables of the Company, representing legal claims of third parties. The Company has taken legal and other actions regarding the collection of the receivables and believes that the receivables are likely to be realized.

Credit risk in respect of cash and cash equivalents is considered negligible, since the counterparties are reputable banks.

As at 31 December 2018 and 31 December 2017 financial assets available as collateral for bank loans are pledge of receivables under aircraft operating lease agreements (wet lease) and contracts for sale of tickets.

An impairment loss is not recognized in regard to the investment in shares, measured at fair value through other comprehensive income.

The carrying amounts, written above, represent the maximum level of credit risk in regard to these financial assets.

### 37.3 Liquidity risk

The Company manages its liquidity needs by monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash inflows and outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly.

As at 31 December Company's liabilities have contractual maturities which are summarized below:

#### 31 December 2018

	Short-term Within 1 year BGN'000	Long-term 1 to 5 years BGN'000
Trade and bank loans	11 860	475
Trade payables	64 189	8 114
Related parties liabilities	28 734	-
Other liabilities	1 828	-
	<b>106 611</b>	<b>8 589</b>

BULGARIA AIR AD  
Financial Statements  
31 December 2018

**31 December 2017**

	<b>Short-term Within 1 year BGN'000</b>	<b>Long-term 1 to 5 years BGN'000</b>
Trade and bank loans	8 621	810
Trade payables	55 880	32 783
Related parties liabilities	23 782	-
Other liabilities	2 009	-
	<b>90 292</b>	<b>33 593</b>

The amounts, reported in this analysis of the contractual maturities are the undiscounted cash flows on the contracts, which may differ from the carrying values of the liabilities at the reporting date

**38 Fair value measurement**

**38.1 Fair value measurement of financial instruments**

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at the end of the presented reporting periods:

<b>Financial assets</b>	<b>31 December 2017</b>		<b>31 December 2016</b>	
	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
<b>Financial assets available for sale:</b>				
Shares	18 000	18 000	18 000	18 000
<b>Financial assets at fair value through profit or loss:</b>				
Publicly traded shares	-	-	1 020	1 020
<b>Loans and receivables</b>				
Trade and other receivables	101 771	101 771	84 513	84 513
Cash and cash equivalents	15 241	15 241	17 330	17 330
	<b>135 012</b>	<b>135 012</b>	<b>120 863</b>	<b>120 863</b>
<b>Financial liabilities</b>				
	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>
	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>	<b>BGN'000</b>
<b>Financial liabilities measured at amortized cost:</b>				
Borrowings	9 431	9 431	5 506	5 506
Trade and other payables	114 454	114 454	156 461	156 461
	<b>123 885</b>	<b>123 885</b>	<b>161 967</b>	<b>161 967</b>

The Company reports one type of financial assets measured at fair value through other comprehensive income that represent investments in equity instruments of a foreign company. For the purpose of fair value disclosure, financial assets are grouped in three levels in accordance with the fair value hierarchy based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities,

BULGARIA AIR AD  
Financial Statements  
31 December 2018

- Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and
- Level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement

The investment in equity instruments is classified in level 3. During the reporting period there were no transfer between 1 and 2

**31 December 2018**

Level 3  
BGN'000

**Financial assets**

Shares that are not traded on a stock exchange

18 000

**Total**

**18 000**

There have been no transfers between levels 1 and 2 in the reporting periods.

**Measurement of fair value**

The valuation methods and techniques used in the determination of fair value have not changed compared to the previous reporting period.

For instruments that are not traded on the stock exchange, the fair value measurement is based on incoming information about the particular Company. This information is not based on observed market data and is adjusted for specific factors. The valuation is based on the net assets of the Company in which it is invested, taking into account other indicators that could have an impact on the instrument's credit risk - the financial condition of the issuer, the economic environment in which the issuer operates, and others.

No gain or loss associated with this investment is recognized for the period.

**38.2 Fair value measurement of non-financial instruments**

Non-financial assets of the Company measured at fair value are classified as investment property classified in Level 3 of the fair value hierarchy in which inputs for the asset is not based on observable market data. The fair value of the investment property as at 31 December approximate BGN 406 thousand

Fair value of the Company's property assets is estimated on appraisals performed by independent, professionally-qualified property valuers and subsequent confirmation. Fair value is based on the income approach. When assessing the buildings specific factors such as size, location, current use, the uniqueness of the structure and the absence of analogue, are taken into account.

Significant unobservable data is related to the adjustment for the Company's specific assets. The extent and direction of this adjustment depends on the number and characteristics of observed market transactions with similar properties that were used for the purposes of the valuation. Although these data are subjective assessment, management considers that the final assessment would not be significantly affected by other possible assumptions.

Although these data are subjective, the management believes that the final assessment would not be significantly influenced by other possible assumptions.

BULGARIA AIR AD  
Financial Statements  
31 December 2018

Information for reconciliation between the beginning and ending balances of non-financial assets to Level 3 is presented in Note 7 to the financial statements

### 39 Capital management policies and procedures

The Company's capital management objectives are

- to ensure the Company's ability to continue as a going concern, and
- to provide an adequate return to the shareholder by pricing its services commensurately with the level of risk.

The Company monitors capital on the basis of the correlation between adjusted capital and net debt

The Company determines the adjusted capital based on the carrying amount of equity and subordinated debt in the financial statement. The Company does not account for cash flow hedges recognized in equity

Subordinated debt includes unsecured loans or loans that have a subsequent mortgage or pledge of Company's property

Net debt is calculated as general debt less the carrying amount of cash and cash equivalents

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may return capital to shareholders, issue new shares, or sell assets to reduce debt

The amount of the correlation for the presented accounting periods is summarized as follows:

	2018 BGN'000	2017 BGN'000
Equity	120 447	127 509
+Subordinated debt	8 779	1 205
<b>Adjusted capital</b>	<b>129 226</b>	<b>128 714</b>
Debt	128 853	144 513
-Cash and cash equivalents	(15 111)	(15 241)
<b>Net debt</b>	<b>113 742</b>	<b>129 272</b>
<b>Adjusted capital to net debt</b>	<b>1,14</b>	<b>1,00</b>

### 40 Post-reporting date events

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of approval by the Board of Directors.

### 41 Authorization for issuance of the financial statements

Financial statements as at 31 December 2018 (including comparative information) are authorized for issuance by the Board of Directors on 14 March 2019