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DON'T  
STAPLE**OS AA01**Statement of details of parent law and other  
information for an overseas company

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 to  
an alteration of manner of  
with accounting requirements.

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06/08/2021

#175

COMPANIES HOUSE

**Part 1 Corporate company name**Corporate name of  
overseas company ①

BULGARIA AIR AD

UK establishment  
number

B R 0 1 3 1 5 7

→ 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  
audited.

Legislation ②

BULGARIAN LAW

② This means the relevant rules or  
legislation which regulates the  
preparation 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 ③INTERNATIONAL ACCOUNTING  
STANDARDS/EU

# OS AA01

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

**A3**

## Audited accounts

Audited accounts

Have the accounts been audited in accordance with a set of generally accepted auditing standards?

Please tick the appropriate box.

☐ No. Go to Part 3 'Signature'.

☒ Yes. Please enter the name of the organisation or other body which issued those standards below, and then go to Part 3 'Signature'.

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

Name of organisation or body ●

INTERNATIONAL ACCOUNTING  
STANDARDS / EU

## Part 3

## Signature

I am signing this form on behalf of the overseas company.

Signature

Signature

X



X

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  
**ROOM 3718, TICKET POD 3**

**TERMINAL FOUR**

**HEATHROW AIRPORT**

Post town  
**HOUNSLOW**

County/Region  
**MIDDLESEX**

Postcode  
**TW6 3FB**

Country  
**UK**

DX

Telephone  
**0788 966 4174**



### 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

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Annual Activity Report  
Independent Auditor's Report  
Financial Statements

**BULGARIA AIR AD**

31 December 2020

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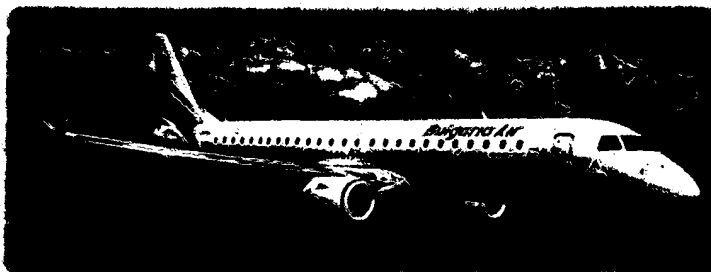
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# Annual activity report of Bulgaria Air AD for the year 2020

## I. General information

Bulgaria Air AD airline is a joint stock company registered in 2000 in the Trade Register under UIC 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. The Company does not have any branches.

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 of 31 December 2020, the Company has a Board of Directors (BoD) consisting of:

- Hristo Todorov Todorov – Member of the Board and CEO;
- Miroslav Slavchev Petkov – Member of the Board;
- Bulgarian Airways Group EAD – Member of the Board, represented by Hristo Todorov Todorov;
- Georgi Ivanov Georgiev – Member of the Board.

In 2020, changes in the composition of the management bodies of Bulgaria Air AD took place. Three of the members of the Board of Directors (Yanko Valkov Georgiev, Mariana Angelova Bajdarova and Yordan Antonov Karamalakov) were deregistered and two new ones were enrolled (Miroslav Slavchev Petkov and Georgi Ivanov Georgiev).

In 2020, the Airline company is represented together by Hristo Todorov Todorov – executive director and by Bistra Tsvetkova Marinkova – procurator.

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 AD 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**

### **Governance**

In compliance with the Articles of Association of Bulgaria Air AD approved by the General Meeting of Shareholders, the main governing bodies of the airline are:

- General Meeting of Shareholders (GMS);
- Board of Directors.

Each of the Air company's governing bodies has the relevant operating rules, which describe in detail the functions, rights and responsibilities of the respective body and its members.

#### **General Meeting of Shareholders**

The General Meeting of Shareholders includes all shareholders entered in the share register. They participate in the general meeting in person or through an authorized representative.

General Meeting of Shareholders:

- amends and supplements the Articles of Association of the Company;
- increases the equity;
- reduces the equity;
- takes decision on share repurchase, as well as on invalidation of shares in cases provided by law;
- transforms and terminates the Company;
- takes decision on the issuance of bonds, respectively their conversion into shares;
- appoints and dismisses registered auditors for performance of independent financial audit of the annual financial statements of the Company;
- approves for publication the audited annual financial statements;
- elects and releases from liability the members of the Board of Directors;
- resolves other issues provided in its competence by law or by the adopted Articles of Association of Bulgaria Air AD.

#### **Board of Directors**

The Board of Directors (Board of Directors) is a permanent collective body for governance and representation of the Air company.

Board of Directors:

- organizes the implementation of the decisions of the General Assembly;
- determines the organizational structure of the Company and the organizational structure of the staff of the Company;

- adopts rules for the organization and activity of certain structural units of the Company;
- approves the operational plans and the budget;
- prepares an annual accounting report and an activity report;
- takes decisions for significant organizational and structural changes;
- takes decisions for long-term cooperation of essential importance for the Company and termination of such cooperation;
- takes decisions on all other issues in respect of which the General Assembly does not have an exclusive competence.

In performing their tasks, the members of the Board of Directors are guided by the legislation, the regulatory framework applicable to the Company, as well as by the good practices for integrity and competence.

The activities of the airline are carried out in close interaction and cooperation between all structural units in the airline.

The structure of the airline consists of the following main directorates and directions:

- Flights Operations Directorate
- Maintenance Directorate
- Ground Services Directorate
- Aviation Security Department
- Administrative Department
- Domestic Flights Services Directorate
- Commercial Directorate
- Finance Directorate
- General Administration and Human Resources Directorate
- Safety and Quality Management System Department
- Controlling Division
- Data Protection Division
- Catering Department
- Trainings Directorate
- Legal and Insurance Department

The number of staff of the Company at the end of 2020 is 253 employees, divided into categories, as follows:

Staff category	Number of employees	
	31.12.2020	31.12.2019
Cabin crew	49	127
Commanders and second pilots	43	85
Licensed technical staff	13	17
Other technical staff	5	3
Ticketing specialists	30	33
Other employees	113	141
<b>Total</b>	<b>253</b>	<b>406</b>



Bulgaria Air AD has highly qualified pilots (commanders and second pilots) who have the necessary experience and skills.

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. In 2020, Bulgaria Air AD operates using the following types of aircrafts - Airbus A 320, Airbus A 319 and Embraer 190.



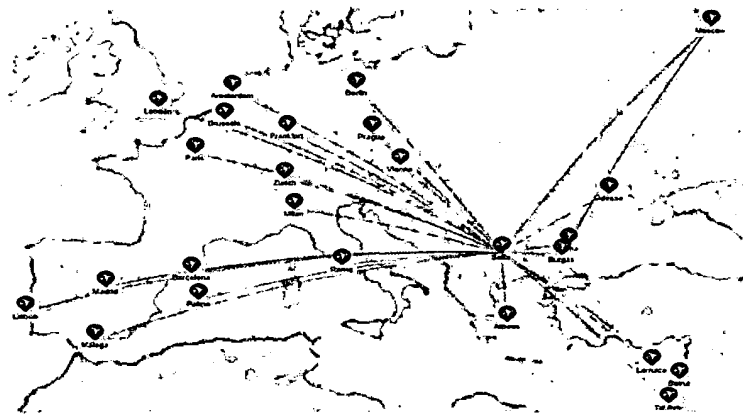
The airline conducts regular international flights from Sofia to 22 major cities in Europe and the Middle East; regular domestic flights to Varna and Burgas; charter flights on request of the clients.

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.

Greater opportunities for expanding sales volumes to increase the number of destinations offered at a given point are achieved by signing a special prorate 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 contracts are 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, AL Italia, Iberia, British Airways, TAP, Austrian Airlines, Finnair, Icelandair, Aeroflot, Croatia Airlines, Qatar, Air Baltic.

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, AL Italia, Aeroflot,

Egean, Iberia, Air Serbia, Tarom, Cyprus Airways, as well as the recently signed Codeshare Partnership with Qatar.

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

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

As at 31 December 2020 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-SOF, LZ-VAR, LZ-BUR, LZ-PLO.

The main activities of airline Bulgaria Air are aimed at:

- ✓ Carrying out of 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;
- ✓ Carrying out of 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.

#### Customer loyalty programme FlyMore

Bulgaria Air has a developed active customer loyalty programme FlyMore which is gaining more popularity and customers. The programme gives opportunity to clients to gain points for different services and privileges:

- ✓ bonus tickets for regular Bulgaria Air flights;
- ✓ a right to an additional 23kg. luggage to the free norm for the corresponding class (with the exclusion of interline flights carried out by partner airlines) with a golden membership;
- ✓ attractive discounts when renting a car from Sixt;
- ✓ business class upgrade to an economy ticket if available;
- ✓ vouchers for the business lounge at the airport with a golden membership with free drinks and food included;
- ✓ birthday discount voucher.

The FlyMore programme offers **three levels** of memberships: **Basic Level, Silver Standard Card and Gold Privilege Card.**

Bulgaria Air and Central Cooperative Bank created a special contactless co-branded Visa card aimed at those who frequently travel abroad. The co-branded cards are two types and provide different discounts and privileges when buying airplane tickets or products during a flight.

In addition, we are a partner to Central Cooperative Bank clients who have a Visa Platinum card. For these card holders we offer special discounts and privileges when using our services.

## Effects of Covid-19 on the Company's operations

The Company's operations in 2020 are determined entirely by the spread of the Coronavirus pandemic (Covid-19) worldwide, which caused serious disruption and negative consequences for the industry, business and economic activity in general. The pressure on the aviation business is huge and in early 2020 the coronavirus paralyzed air transport. Hundreds of thousands of planes landed worldwide. National and international restrictions and entry requirements were imposed. Airports were closed due to pan-European measures to limit the spread of the coronavirus.

Bulgaria Air, as a national carrier, is one of the few airlines in Europe which did not cease operations in 2020, despite the ever-changing requirements and restrictions on travel worldwide. Due to the drastic reduction in passenger traffic, it was necessary to cancel some flights and reduce flight frequencies. Flights (to Frankfurt and Berlin) were merged in order to maintain the supply of the service and at the same time reduce costs. This inevitably reflects on the activities of all directorates, departments and divisions of the Company.

In this regard, the operation and maintenance of flights during a pandemic has proved to be a serious challenge. The task of the **Flights Operations Directorate** was to optimize the available resources and to continue the operation of Bulgaria Air during this period, albeit in a reduced volume of flights. Also, to ensure the activity of the pilot staff without interruption and without violating flights safety.

In order to create a safe working environment during the flights during the coronavirus pandemic, it was necessary for the **Domestic Flights Services Directorate** to determine the appropriate procedures in accordance with the established European aviation standards and regulations – provision of disinfection kits, suspension of food and beverage services, disinfection of the passenger cabin before and after the flight.

The coronavirus pandemic broke out in 2020 and the drastic reduction in global flights, also leading to bankruptcies of airport operators, as well as increasing ground handling prices as a result of additional restrictions and measures to limit the spread of COVID 19 to passengers and reduce air traffic. This necessitated the **Ground Services Directorate** to urgently announce tenders for other ground operators and renegotiate new prices with some of the ground operators.

The negative impact of the worldwide spread of coronavirus (Covid-19) on the activities of the **Technical Directorate** was expressed in difficult work with suppliers of materials, consumables, spare parts, etc., necessary for the maintenance of aircrafts from the fleet of "Bulgaria Air" which are in airworthiness. The planned five basic aircraft services (four eight-year checks for Embraer and one 12-year check for Airbus) were not completed on time. Logistical difficulties caused by periodic border closures to limit the spread of Covid-19 also delayed unplanned repairs to 5 engines (three on Airbus and two on Embraer). The overhaul of 4 APU's (three Embraer APU and one Airbus APU), which were repaired in the USA, was also delayed due to difficulties in their transportation, which took longer than usual.

The crisis caused by the coronavirus pandemic also reflected on the human resources management in Bulgaria Air. These unusual and difficult conditions have created the need to implement an adequate strategy and adequate operational measures to work with people. In this regard, the task of the **Personnel Department** was focused entirely on the optimization of all internal processes, rules and procedures. There was a limited reduction of replaceable staff, while retaining key employees. Reduced working hours (4 hours) were established for a period of 3 months. In order to maintain the employment of employees and support the business, Bulgaria Air took advantage of the financial incentives provided by the state, as since the middle of 2020 the company receives funds under Council of Ministers Decree No 151 and Council of Ministers Decision No 429.

The imposed and constantly changing requirements and restrictive measures, in connection with the restriction of the spread of Covid-19, for entry into the countries to which Bulgaria Air operates flights, change dynamically, a few days before each flight, which makes planning extremely difficult, forecasting and implementation of the flight program. In this regard, the task of the **Commercial Directorate** turned out to be difficult. In the charter program, the statistics are sufficiently indicative of the negative effect that the coronavirus pandemic has on passenger flights. Bulgaria Air started 2020 with a strong charter program for the summer season with flights to Moscow, Israel, Poland, Turkey and other countries in Europe. Following the global spread of the coronavirus pandemic in March and the measures introduced to limit the spread of the infection in various countries, the contracts with tour operators were cancelled and only 8% of the planned charter programme was implemented. The imposed and constantly changing requirements and restrictive measures, in connection with the restriction of the spread of Covid-19, for entering the countries to which the Company operates flights have an extremely large and negative impact on the passenger traffic, but Bulgaria Air as a responsible national carrier seeks to fulfil its obligation to provide transportation to each passenger and to meet the needs of its customers and had to unify part of its routes (Zurich-Prague, Frankfurt-Berlin, Vienna-Brussels). In this dynamic situation, the cancellation of flights is inevitable, but in these cases, each passenger who prefers to postpone his trip, "Bulgaria Air" offers a number of options. In case of a cancelled flight, everyone has the right to leave their ticket with open travel dates, and can change their destination or even transfer their ticket to another, completely free of charge. In addition, we provide as a bonus and a choice of one of the additional services that the airline offers as passenger rights under Regulation 261/2004 remain in force for each passenger.

Despite the difficult conditions created as a result of all the measures taken, passengers' confidence in safe and secure flight has increased, as disinfection of the passenger cabin was introduced before and after the flight, Hepa air filters that destroy 99% of all viruses and bacteria and introduced innovative machine Honeywell UV Cabin System II, a disinfection system with UV rays, providing a completely sterile salon. The management of Bulgaria Air, with the joint efforts of the employees, managed to restore almost all international destinations, except for those that were forcibly cancelled due to bans imposed by the respective countries (Moscow and Tel Aviv).

The negative impact of the Covid-19 pandemic in 2020 is unconditionally reflected in the summary information on the **natural indicators** related to the main activity of the airline, presented in the following table:

Indicator	2020	2019	Change
<b>Flights</b>	<b>3 133</b>	<b>6 376</b>	<b>(3 243)</b>
Regular lines	3 019	5 020	(2 001)
Charter activity	114	1 356	(1 242)
<b>Passengers carried</b>	<b>512 859</b>	<b>1 448 711</b>	<b>(935 852)</b>
Regular lines	499 207	1 059 991	(560 784)
Charter activity	13 652	388 720	(375 068)
<b>Block hours</b>	<b>14 515</b>	<b>34 360</b>	<b>(19 845)</b>
Regular lines	12 525	21 395	(8 870)
Charter activity	749	6 546	(5 797)
External leasing	1 241	6 419	(5 178)
<b>Loading /Regular lines/</b>	<b>61%</b>	<b>76%</b>	<b>(15%)</b>

From the above-mentioned operational indicators it can be seen that during the period under review, the number of flights carried out was almost twice less (by 3 243) than in the previous year of 2019, as for the regular flights the decrease is by 40 %, and for the charter activity is with a drastic 92%.

Directly depending on the number of flights is the decrease in the number of transported passengers - by 64.59% compared to the previous year. Due to the contraction of the aviation business worldwide as a result of the spread of COVID 19, it was extremely difficult to lease free capacity from the fleet to other airlines.

## 2. Revenue

An indicative result of the reduced activity of the airline due to the spread of the coronavirus pandemic in 2020 are the achieved revenue levels. During the reporting period, the generated revenues from flights were 60% less than in the previous 2019.

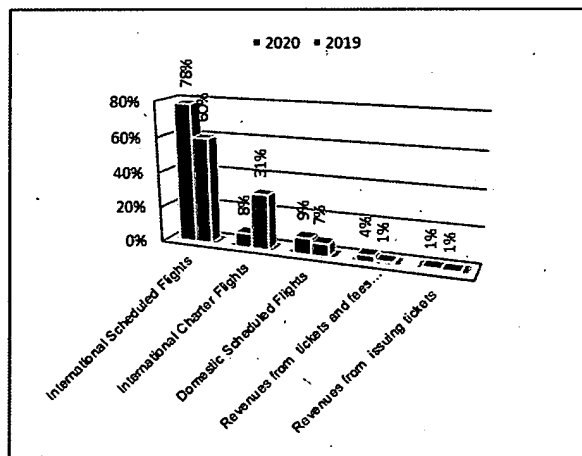
The structure of revenues, generated from flights, operated during the year, is as follows:

Revenue from flights carried out	Financial statements 2020 BGN 000	Financial statements 2019 BGN 000	Change BGN 000	Change %
International scheduled flights	83 385	159 385	(76 000)	(48%)
International charter flights	8 361	82 525	(74 164)	(90%)
Domestic scheduled flights	9 751	19 233	(9 482)	(49%)
Revenues from tickets and fees with expired validity	3 914	3 698	216	6%
Revenues from issuing tickets	1 183	1 844	(661)	(36%)
<b>Total revenues from flights</b>	<b>106 594</b>	<b>266 685</b>	<b>(160 091)</b>	<b>(60%)</b>

The structure of flight revenues from flights carried out during the analysed period, the highest percentage of revenues is attributable to the international scheduled flights – 78%, followed by the revenues, generated from the domestic scheduled flights – 9% and from charter flights – 7.8% (compared to 31% in 2019). Compared to the previous year, the revenues from regular international and domestic flights decreased by almost half for each of the activities (by BGN 85,482 thousand in total),

and the revenues from the charter activity decreased by BGN 74,164 thousand (i.e. by 90 %). Revenues from expired tickets and fees increased by 6% compared to the previous reporting period; which is an indicator of the increased number of passengers who did not show up for the respective flight due to the restrictions that are introduced at the local level. Ticket issuance fees decreased by 36% compared to the previous year as a result of the reduced passenger flow in 2020. The relative share of this item in revenue generation remains unchanged compared to the previous year.

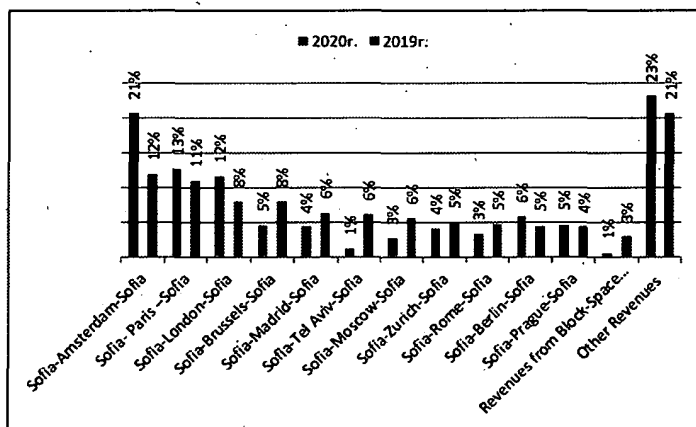
The main routes that generate revenue for the international scheduled flights are to Amsterdam, Paris, Brussels, London, Berlin, Prague.



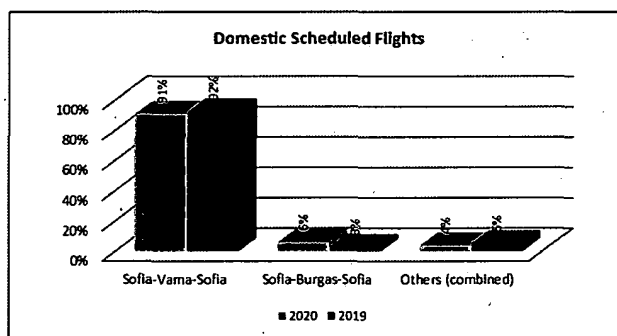
In 2020, as a result of the introduced restrictive measures and restrictions by individual countries in order to limit the spread of Covid-19 in the formation of revenues on regular international routes, there is a change in the share of most destinations. The distribution of the contribution to the revenues of the individual lines in 2020 unequivocally shows the emerging trend:

- decrease in business travels, such as the destination Sofia – Brussels (decrease of the relative share by 3 points);
- ban for tourist trips to destinations in Madrid, Tel Aviv, Rome, Moscow. The decrease in these destinations is generally by 12 points;
- carrying out of trips only for Bulgarians permanently working abroad, ethnic trafficking, people visiting relatives and traveling as a matter of urgency. Such are the destinations to Amsterdam (increase in the relative share by 9 points), Berlin (increase by 1 point).

The Coronavirus pandemic in 2020, with various restrictions and recommendations for citizens to enter individual countries, necessitated a sharp reduction in the flight program and a drastic reduction in passenger traffic, which is reflected in the use of the capacity of the services offered. As a result, there is a decrease of 6.7% in the value of a key indicator for regular international flights – revenue per available seat kilometre.



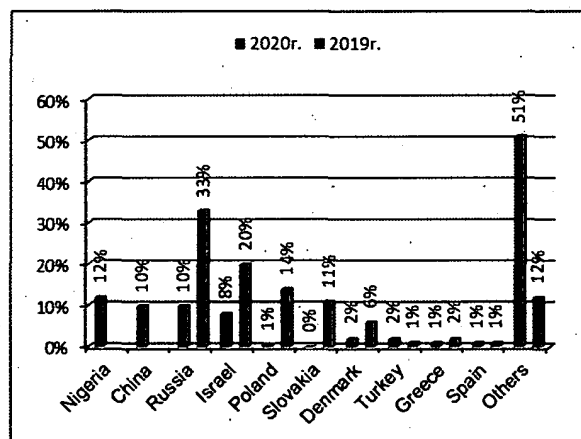
Domestic scheduled flights generate revenue from the routes Sofia-Varna, Sofia-Varna-Burgas and Sofia-Burgas, as in 2020 they marked a sharp decrease by 49% compared to the previous year. The direct flights to Varna traditionally have the largest relative share (91%). The decrease of revenues in this destination is 50%. Significantly lower revenues for the current year were generated on the combined lines Sofia-Varna-Burgas – by 64%. The indicator revenue per available seat kilometre (RASK) in the activity marked a sharp decrease by 13% compared to the levels achieved in 2019.



Charter statistics are particularly indicative of the impact of the coronavirus pandemic on the activities of the passenger aviation market. Already in the spring of 2020, after the introduction of bans and restrictions on tourist travel in individual countries, tour operators cancelled most of the contracts. As the global pandemic continued, summer charter chains were also cancelled. Thus, in practice, during the reporting period Bulgaria Air has fulfilled only 8% of the planned charter programme.

The decrease of the revenues under the Charter activity in 2020 in comparison with the reached levels of 2019 is by 90%, which as an absolute value are over BGN 74 million.

In structural terms, the revenues from charter activities differ greatly compared to the previous year, which is clearly expressed in the tables. The leading position in the formation of revenues during the reporting year are flights to



Nigeria and China, with a 22% contribution. The traditional destinations to Russia, Israel, Poland and Slovakia, which in 2019 accumulated 53% of revenues, during the reporting period have a contribution of only 19%. Other countries with a lower share of revenues in 2020 are Kuwait (by 5%), the Czech Republic and Great Britain (by 4% each), Egypt, Germany and Côte d'Ivoire (by 2% each), etc.

### 3. Other income

Other income of Bulgaria Air in 2020 amount to BGN 55 022 thousand (2019: BGN 58 658 thousand).

The most significant share (62%) in the structure of other revenues are the reimbursed amounts for prepaid expenses for repair and maintenance of aircraft (maintenance reserve):

	2020 BGN '000	2019 BGN '000
Aircrafts rental	5 657	26 107
Consulting services	3 000	2 220
Fines and penalties	2 457	3 699
Revenues from gratuitous financing from the state	1 601	-
Revenues from sales of goods and materials	427	908
Advertising income	564	650
Commission income	464	979
Consulting, technical, telecommunication and transport services	88	123
Reimbursed amounts on prepaid expenses for repair and maintenance of aircraft (maintenance reserve)	34 283	9 566
Other rents	1 197	1 200
Other income	5 284	13 206
	<b>55 022</b>	<b>58 658</b>

### 4. Expenses

The operating expenses structure of Bulgaria Air AD is as follows:

Expenses by economic elements	2020 BGN'000	2019 BGN'000	Change BGN'000	Change %
Hired services expenses	68 592	159 612	(91 020)	(57)
Cost of materials	28 895	83 875	(54 980)	(66)
Employee expenses	11 282	17 325	(6 043)	(35)
Depreciation costs of non-financial assets	59 660	41 933	17 727	42
Impairment of financial assets	2 148	363	1 785	491
Other expenses	8 311	13 037	(4 726)	(36)
<b>Total expenses</b>	<b>178 888</b>	<b>316 145</b>	<b>(137 257)</b>	<b>(43)</b>

In general, in 2020 there is a decrease in the operating costs by 43% compared to the previous 2019, which is a direct result of the reduced flight programme of the Company. Changes by type of expenditure are as follows:

In the structure of hired services expenses, landing, service and overflight fees in the country and abroad represent almost 44%, while at the same time there is a decrease of over 60% compared to the level reached in 2019;

- Costs of materials during the reporting year decreased by 66%. The costs of aviation fuel represent the highest share in the cost of materials (76%). During the period under review they have decreased by 71% compared to 2019, with the largest impact (77%) on the decrease in value being the lower amount of fuel consumed, followed by the impact of the lower price of kerosene;
- In other expenses the most significant decrease (by 59%) is marked by the expenses for business trips, as a consequence of fewer flights carried out;
- Employee expenses during the reporting period have decreased by 35%, which is a result of reducing the number of staff.

## 5. Financial position of the Company

In 2020, Bulgaria Air AD suffered a loss of BGN 18 730 thousand (2019 – loss of BGN 1 629 thousand).

The main factor influencing the Company's negative outcome for 2020 is the spread of the coronavirus epidemic (Covid-19), which escalated into a pandemic declared by the World Health Organization and caused unprecedented restrictions on travel bans in various countries. This had an extremely negative impact on passenger traffic in the aviation business. The International Air Transport Association (IATA) reported a total 70% drop in air traffic in Europe in 2020.

## 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	2020	2019	Change	
	BGN'000	BGN'000	BGN'000	%
Non-current assets	448 857	256 875	191 982	75%
Current assets, including	80 515	97 332	(16 817)	(17%)
Inventory, including plane spare parts	6 203	6 404	(201)	(3%)
Short-term receivables	57 913	74 963	(17 050)	(23%)
Cash and cash equivalents	16 399	15 965	434	3%
<b>Total Assets</b>	<b>529 372</b>	<b>354 207</b>	<b>175 165</b>	<b>49%</b>
<b>Equity</b>	<b>148 348</b>	<b>77 400</b>	<b>70 948</b>	<b>92%</b>
<b>Loss for the period</b>	<b>(18 730)</b>	<b>(1 629)</b>	<b>(17 101)</b>	<b>1050%</b>
Long-term liabilities	170 882	106 599	64 283	60%
Short-term liabilities	210 142	170 208	39 934	23%
<b>Total Liabilities</b>	<b>381 024</b>	<b>276 807</b>	<b>104 217</b>	<b>38%</b>
Total revenue	190 251	334 573	(144 322)	(43)%
Operating revenue	161 616	325 343	(163 727)	(50)%
Total expenses	208 981	336 202	(127 221)	(38)%
Operating expenses	178 888	316 145	(137 257)	(43)%

The main ratios characterizing the financial condition of Bulgaria Air AD are:

Financial indicators	2020	2019
<b>Profitability ratios</b>		
Profitability of sales ratio	(0.116)	(0.005)
<b>Efficiency ratios</b>		
Cost efficiency ratio	0.9104	0.9952
Revenue efficiency ratio	1.0984	1.0049
<b>Liquidity ratios</b>		
Current ratio	0.3831	0.5718



Quick ratio	0.3536	0.5342
Immediate liquidity ratio	0.0780	0.0938
<b>Solvency ratios</b>		
Solvency ratio	0.3893	0.2796
Debt ratio	2.5684	3.5763
Load factor for Int. scheduled flights %	61.57	76.87
Load factor for Dom. scheduled flights %	57.73	79.62
Receivables Turnover	10	17
Days sales outstanding	37	21

The above brief analysis shows that as of 31 December 2020 the profitability of the airline is still negative, due to the reported loss.

#### 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 trade with financial assets for speculative purposes, nor does it issue options.

As a result of the use of financial instruments, 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. The Company's foreign transactions, initially denominated in US Dollars, Russian Rubbles and British Pounds, are those that expose the Company to currency risk.

The Company has short-term trade payables, related party payables and other liabilities denominated in US-Dollars, British Pounds, Russian Rubbles 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. The Company has loans received denominated in Russian Rubbles. 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.

As at 31 December 2020 the Company is exposed to interest rate risk on its bank loans, which have a variable interest rate. All other liabilities of the Company have a fixed interest rate.

As at 31.12.2020 the Company has received loans from two commercial banks, which have a variable interest rate. The interest rate on part of the loans includes a variable component, which is formed on the basis of a quarterly EURIBOR and a fixed margin. The interest rate on other loans includes a variable component, which is determined on the basis of a base interest rate (BIR), plus a fixed risk premium.

### **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 for default on receivables of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. When costs are not too high, external credit ratings and reports on customers and other counterparties are obtained and used. Although for a significant part of the sales payments are received in advance in order to reduce credit risk, the Company reports an increase in credit risk due to the Covid-19 pandemic, which worsened the financial condition and creditworthiness of the most companies operating in the aviation sector.

The Company's policy is to deal only with creditworthy counterparties. As an additional measure to mitigate the credit risk, 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, which are described in note 39.2 of the financial statements. The credit risk for cash and cash equivalents is considered negligible, as the counterparties are well-known reputable banks.

### **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 at various times, 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 cash in current bank accounts to meet its liquidity requirements for up to 30-day periods. In Estimating and managing the liquidity risk, the Company takes into account the expected cash flows from financial instruments, in particular available cash and trade receivables. Available cash resources and trade receivables do not significantly exceed current cash flow needs.

In 2020, the airline faced serious liquidity challenges as a result of the suspension of flights with the introduction of restrictive measures. The global Covid-19 pandemic is having a negative impact on both the aviation business as a whole and related activities. This made it necessary to unite the efforts of different sectors to get through this difficult period.

Some of the measures were proposed and applied to the entire aviation industry (deferral of flight fee payments, discounts for regular payment, reduction of the amount of paid deposits). Apart from that, the management of the Company managed to negotiate deferral of payments with other creditors. Such agreements have been reached with regard to aircraft lease payments, landing and servicing fees with some of the suppliers, etc. An agreement has been reached with some of the lessors to release part of the cash from accumulated maintenance reserves.

#### Other price risks

The Company is exposed to a 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 and 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 2020, the Company does not hold publicly tradable securities which may result in a risk exposure.

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

- In 2020, the remunerations accrued for the Company's Board of Directors members are short-term and are summarized as follows:

	2020 BGN'000	2019 BGN'000
Short-term remunerations		
- Salaries and compensations	(243)	(223)
- Social security expenses	(7)	(11)
	<b>(250)</b>	<b>(234)</b>

- Participation of members of the Board of Directors in other companies, as unlimited liability partners, ownership of more than 25% of the share-capital of other entities, as well as participation in the management of other companies as procurators, managers or members of Boards.

As at 31 December 2020, the members of the Board of Directors (BD) have the following participation in other companies:

Member of the Board of Bulgaria air AD	Company	Type of participation
Hristo Todorov Todorov as an individual and as a representative of Bulgarian Airways Group EAD	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 and CEO
	Dream Air EAD	Member of the BD and CEO
	Fly-lease EOOD	Manager
	Airport Services Bulgaria EAD	Member of the BD and CEO
	Swissport Bulgaria AD	Member of the BD and CEO
	Airport Consult EOOD	Manager
	Airline Hemus Air EAD	Member of the BD and CEO
	Tiburland EOOD	Manager and Sole owner
Georgi Ivanov Georgiev	National Association of children summer camps	Member of the BD
	Bulgaria Air, Technic EOOD	Manager
Miroslav Slavchev Petkov	Bulgaria Air AD	Member of the BD
	Swissport Bulgaria AD	Procurator
	Chimexport EOOD	Manager and Sole owner

The Board members 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 objectives**

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 objectives 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 2020, the management of Bulgaria Air AD continues to implement a programme 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.

The efforts of the Company are aimed at continuous improvement of the offered services and products. The Company 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 2020 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 a modern airplane fleet;
- ✓ Improved efficiency in business management;
- ✓ Significantly improved quality of the offered transport service;
- ✓ Optimized costs.

The strategic objectives 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 a highly qualified staff.

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

Implementation of two major projects has started:

- replacement of main airline fleet management software;
- implementation of a new software package for repair and maintenance of aircrafts.

The development of five software packages in order to optimize the work and reduce costs in various areas and the purchase and implementation of software packages allowing expansion and improvement of the main product of the airline are planned and forthcoming.

## **VII. Future development of Bulgaria Air AD**

Considering the development of the international situation in the conditions of the coronavirus pandemic, which continues in 2021 and the dynamically changing entry restrictions in each country, it makes impossible the optimal planning of the flight program, forecasting the expected number of passengers and revenues. In this complex and dynamic situation, the efforts of the management of the Company are focused on a timely response to changes in the restrictions and requirements for air transport and are aimed at:

- Continuity of activity in crisis situations;
- Our priority remains maintaining a high level of flight safety, strict implementation of EASA recommendations for Covid-19 measures;
- Revision and continuous updating of the annual plan and budget for 2021 depending on the possible development of the hitherto unknown situation;
- Cost optimization – negotiating with lessors and service providers to extend payment deadlines/terms;
- Change in the procedure for processing complaints in order to reduce the processing time and administrative costs;
- Signing contracts for ground handling services for charter destinations with the real ground operators and renegotiating those on regular lines in order to exclude some of the services offered and reduce the costs for ground handling.

## **VIII. Actions in the field of research and development**

In 2020 and 2019, the Company did not carry out any actions in the field of research and development.

## **IX. Events after the reporting period**

No adjusting events or significant non-adjusting events have occurred between the date of the financial statement and the date of its authorization for issue except for the following non-adjusting events:

- With the occurrence of the second wave of Covid-19 EBO, respectively BNB decided to reactivate Guideline EBA/GL/2020/02 on legislative and non-legislative moratoria on loan repayments, with a new deadline of 31 March 2021, replacing the previous deadline 30 September 2020. The Company took advantage of the opportunity to defer and settle due liabilities to banks and rescheduled part of its liabilities to banks under the new mitigation conditions.
- At the beginning of March 2021, the Company entered into a lease agreement for an Airbus 320-200 aircraft with an intermediary lessor for a period of 11 years. The aircraft was delivered to Sofia Airport in March 2021. As of the date of preparation of these financial statements, the aircraft has not yet been put into operation, as preparatory actions are being carried out in connection with ensuring all necessary activities related to airworthiness.
- In connection with the ongoing global pandemic of Covid-19, described in Note 2 to these financial statements, by Decision №72 of 26.01.2021 of the Council of Ministers the term of the emergency epidemic situation in Bulgaria has been extended until 30 April 2021. As the

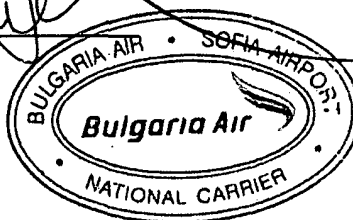
situation and supportive measures taken by the state authorities are extremely dynamic, the management is not able to assess the effect of the Coronavirus pandemic over the future financial condition and performance of the Company, but considers that the continuing impact will continue to have a negative effect on the Company's activity.



Date: 25.03.2021

Chief Executive Officer:  
/Hristo Todorov/

Procurator:  
/Bistra Marinkova/



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## INDEPENDENT AUDITOR'S REPORT

To the shareholders of  
**Bulgaria Air AD**  
1, Brussels Blvd., Sofia

### Report on the Audit of the Financial Statements

#### Qualified Opinion

We have audited the financial statements of **Bulgaria Air AD** (the Company), which comprise the statement of financial position as at 31 December 2020 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, except for the effects of the matter described in the "Basis for Qualified Opinion" section of our report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020 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 Qualified Opinion

As at 31 December 2020 the Company reports intangible assets with a carrying amount of BGN 101 995 thousand. In performing the annual impairment test, the Company has not identified a need for impairment of intangible assets, despite taking into account the existing uncertainties and the imposed restrictions on the activities of companies operating in the aviation industry as one of the most affected by the Covid-19 pandemic. The assessment took into account the effects of the measures taken in response to the deteriorating economic situation, related to continued financial support from owners, monitoring and control of cash inflows and outflows, analysis of existing flight capacity and its revision in the short term, consistent with the current situation, assistance in renegotiating the terms with key suppliers of the airline in order to optimize costs and effectively manage liquidity flows, as well as steps have been taken to engage international experts with proven experience in crisis management in the field of aviation.

As a result of our audit procedures, we have not been able to obtain sufficient and appropriate audit evidence about the recoverable amount of the intangible assets and, in particular, that it exceeds their carrying amount in the face of existing uncertainties and limitations for companies operating in the aviation industry as a result of the Covid-19 pandemic. Accordingly, we have not been able to determine whether and to what extent additional adjustments would be required for impairment losses on intangible assets in accordance with the requirements of IAS 36 Impairment of Assets as of 31 December 2020 in preparing the accompanying financial statements of the Company.

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 Code of Ethics for Professional Accountants (including International Independent Standards) issued by the International Ethics Standards Board for 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 qualified opinion.

#### Material Uncertainty Related to Going Concern

At the beginning of 2020, due to the spread of a new coronavirus (Covid-19), difficulties in the business and economic activity of a number of enterprises and entire economic sectors appeared worldwide. One of the most affected are companies operating in the transport industry, in particular the aviation industry. Therefore,

the impact of the coronavirus epidemic (Covid -19) in Bulgaria, in Europe and around the world poses a major risk for the conduction and continuation of the airlines' operations.

We pay attention to Note 2 Basis for preparation of the financial statement where detailed information is disclosed about the event, its strong impact and negative effects on the activities of the airline for the year, as well as the actions taken and planned by management in applying the principle of going concern.

The Company registered a loss for the period amounting to BGN 18 730 thousand, a negative cash flow from operating activities amounting to BGN 4 988 thousand, and current liabilities exceed current assets at the end of the reporting period by BGN 129 627 thousand. The Company's management has taken a number of measures in order to reduce the possible negative effects and limit losses in the context of the deteriorating economic situation, so as to adequately address the risks and existing conditions. These measures are related to active actions to ensure business continuity in crisis situations, creating a safe environment for passengers, staff and aircrafts in strict compliance with all anti-epidemic measures, optimizing the Company's costs, revising the flight program, renegotiating conditions with key suppliers of the airline, even stricter monitoring and control of cash inflows and outflows, as well as steps have been taken to engage experts with internationally proven experience in crisis management in the field of aviation. The financial support from the owners of the airline continues. Despite the uncertain business environment, the Company's management has prepared an annual plan and financial budget for 2021 in several scenarios with different degrees of probability for their manifestation depending on the possible development of the epidemiological situation.

As the situation and the measures taken by the state authorities are extremely dynamic and beyond the control of the Company, the management is not able to assess the exact quantitative parameters of the impact of the coronavirus pandemic on the future financial condition and results of its activities but believes that the negative effect will continue to be felt on the activities of the airline in 2021. This in turn could lead to a change in the carrying amounts of the company's assets, which are determined in the financial statements in a number of judgments and assumptions with a high degree of subjectivity by the management, taking into account the most reliable information available at the date of the estimates.

These circumstances, together with the other matters set out in Note 2, indicate that there is significant uncertainty that could cast significant doubt on the Company's ability to continue as a going concern without the support of the owners or other sources of financial support.

Our opinion is not modified in respect of this matter.

#### **Emphasis of Matter**

As disclosed in Notes 4.2, 4.11 and 8 to the financial statements, the Company has adopted a change in its accounting policy regarding the subsequent measurement of assets from the Aircrafts and engines group, including right-of-use assets.

For the current reporting period the change has led to the formation of a revaluation reserve in the amount of BGN 99 084 thousand before taxes and increase in the assets from the group of right-of-use assets in the statement of financial position.

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

Management is responsible for the other information. The other information comprises the annual activity 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 reached the conclusion that the other information is materially misstated with regard to the financial information and the related disclosures in the management report due to the effect of the matter described in section "Basis for qualified opinion" above.



### **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 scepticism 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 activity 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 annual activity report is consistent with the financial statements for the same reporting period, on which we have issued qualified opinion in the section "Report on the Audit of the Financial Statements" above;
- (b) the annual activity 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 annual activity report, except for the effect of the matter described in section "Information Other than the Financial Statements and Auditor's Report Thereon" of "Report on the Audit of the Financial Statements".

Grant Thornton Ltd.

Audit firm

Mariy Apostolov

Managing partner

Registered auditor responsible for the audit



26 April 2021.

Bulgaria, Sofia, 26, Cherni Vrah Blvd.

## Statement of financial position as at 31 December

	Note	31 December 2020 BGN'000	31 December 2019 BGN'000 <i>restated</i>	1 January 2019 BGN'000 <i>restated</i>
<b>Non-current assets</b>				
Aircrafts and spare engines	6	1 482	1 854	932
Property, plant and equipment	7	281	337	2 996
Right-of-use assets	8	344 015	144 011	-
Investment property	9	274	274	406
Intangible assets	10	101 995	106 106	110 283
Investments in subsidiaries	11	628	200	200
Investments in joint ventures	12	182	-	-
Deferred tax assets	13	-	4 093	3 752
<b>Non-current assets</b>		<b>448 857</b>	<b>256 875</b>	<b>118 569</b>
<b>Current assets</b>				
Aircraft spare parts	14	5 808	5 952	5 300
Inventories	15	395	452	524
Short-term financial assets	16	18 000	18 000	18 000
Related party receivables	35.1	1 297	2 899	21 099
Trade receivables	17	11 148	21 999	11 052
Other receivables	18	27 468	32 065	22 159
Cash and cash equivalents	19	16 399	15 965	15 111
<b>Current assets</b>		<b>80 515</b>	<b>97 332</b>	<b>93 245</b>
<b>Total Assets</b>		<b>529 372</b>	<b>354 207</b>	<b>211 814</b>

Prepared by:

Bistra Marinkova

Executive Director:

Kristo Todorov

Chief accountant and Procurement

Date: 25.03.2021

Audited according to the auditor's report dated 26.04.2021:

Grant Thornton Ltd.  
Audit Firm



Mariy Apostolov

Registered auditor responsible for the audit  
Managing partner

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

Equity and liabilities	Note	31 December 2020 BGN'000	31 December 2019 BGN'000 <i>restated</i>	1 January 2019 BGN'000 <i>restated</i>
<b>Equity</b>				
Share capital	20.1	120 000	120 000	120 000
Reserves	20.2	69 050	68 548	63 659
Revaluation reserve	20.3	89 176	-	-
Accumulated loss		(129 878)	(111 148)	(109 477)
<b>Total equity</b>		<b>148 348</b>	<b>77 400</b>	<b>74 182</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Lease liability	21	158 936	100 953	-
Long-term borrowings	22	-	56	475
Long-term liabilities to related parties	35.2	7 285	4 733	-
Pension-employee obligations	23.2	541	857	728
Deferred tax liabilities	13	4 120	-	-
Trade payables	24	-	-	8 114
<b>Non-current liabilities</b>		<b>170 882</b>	<b>106 599</b>	<b>9 317</b>
<b>Current liabilities</b>				
Trade payables	24	64 971	66 691	64 692
Short-term borrowings	22	32 972	11 912	11 860
Short-term related party payables	35.2	49 938	26 465	28 734
Lease liability	21	36 486	33 068	-
Pension and other employee obligations	23.2	1 709	4 163	3 328
Tax liabilities	26	226	497	460
Provisions	25	639	1 966	1 534
Other liabilities	26	23 201	25 446	17 707
<b>Current liabilities</b>		<b>210 142</b>	<b>170 208</b>	<b>128 315</b>
<b>Total liabilities</b>		<b>381 024</b>	<b>276 807</b>	<b>137 632</b>
<b>Total equity and liabilities</b>		<b>529 372</b>	<b>354 207</b>	<b>211 814</b>

Prepared by:

Bistra Marinova

Executive Director:

Hristo Todorov

Chief accountant and Procurator

Date: 25.03.2021

Audited according to the auditor's report dated 26.04.2021:

Grant Thornton Ltd.  
Audit Firm



Mariy Apostolov  
Registered auditor responsible for the audit  
Managing partner

The accompanying notes on pages from 6 to 70 form an integral part of the financial statements.

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

	Note	31 December 2020 BGN'000	31 December 2019 BGN'000 <i>restated</i>
Traffic revenue	27	106 594	266 685
Other income	28	55 022	58 658
<b>Revenue from operating activities</b>		<b>161 616</b>	<b>325 343</b>
Hired services expenses	29	(68 592)	(159 612)
Cost of materials	30	(28 895)	(83 875)
Employee benefits expenses	23.1	(11 282)	(17 325)
Depreciation and amortization of non-financial assets	6,7,8,10	(59 660)	(41 933)
Impairment of financial assets	39.2	(2 148)	(363)
Other expenses	31	(8 311)	(13 037)
<b>Operating expenses</b>		<b>(178 888)</b>	<b>(316 145)</b>
<b>Operating profit/(loss)</b>		<b>(17 272)</b>	<b>9 198</b>
Finance costs	32	(30 093)	(20 057)
Finance income	32	26 940	8 878
<b>Loss before tax</b>		<b>(20 425)</b>	<b>(1 981)</b>
Income tax income	33	1 695	352
<b>Loss for the year</b>		<b>(18 730)</b>	<b>(1 629)</b>
<b>Other comprehensive income/(loss)</b>			
<b>Components that are not reclassified to profit or loss:</b>			
Remeasurement of defined benefit obligations	23.2	502	(221)
Revaluation of right of use assets	20.3	99 084	-
Income tax relating to components that are not classified to profit or loss	33	(9 908)	(11)
<b>Other comprehensive income/(loss) for the year, net of taxes</b>		<b>89 678</b>	<b>(232)</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>70 948</b>	<b>(1 861)</b>

Prepared by:

Bistra Marinkova

Chief accountant and Procurator

Executive Director:

Hristo Todorev

Date: 25.03.2021

Audited according to the auditor's report dated 26.04.2021:

Grant Thornton Ltd.

Audit Firm

Mariy Apostolov

Registered auditor responsible for the audit

Managing partner



The accompanying notes on pages from 6 to 70 form an integral part of the financial statements.

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

All amounts are presented in BGN'000

	Share capital	Common reserves	Other reserves	Reserve for capital increase	Reserve from remeasurements of defined benefit obligation	Accumulated loss	Total equity
Balance 1 January 2019	120 000	317	642	62 180	520	(63 212)	120 447
Effect of correction of error (Note 5)	-	-	-	-	-	(46 265)	(46 265)
Balance 1 January 2019 (restated)	120 000	317	642	62 180	520	(109 477)	74 182
Loss for the year	-	-	-	-	-	(1 629)	(1 629)
Other comprehensive loss	-	-	-	-	(190)	(42)	(232)
Total comprehensive loss for the year	-	-	-	-	(190)	(1 671)	(1 861)
Additional contributions from the owner	-	-	-	5 079	-	-	5 079
Transactions with owners	-	-	-	5 079	-	-	5 079
Balance 31 December 2019 (restated)	120 000	317	642	67 259	330	(111 148)	77 400

All amounts are presented in BGN'000

	Share capital	Common reserves	Other reserves	Reserve for capital increase	Revaluation reserve	Reserve from remeasurements of defined benefit obligation	Accumulated loss	Total equity
Balance 1 January 2020	120 000	317	642	67 259	-	330	(111 148)	77 400
Loss for the year	-	-	-	-	-	-	(18 730)	(18 730)
Remeasurement of defined benefit obligation	-	-	-	-	-	502	-	502
Revaluation of right-of-use assets	-	-	-	-	99 084	-	-	99 084
Tax effect on other comprehensive income	-	-	-	-	(9 908)	-	-	(9 908)
Total other comprehensive income	-	-	-	-	89 176	502	(18 730)	70 948
Balance 31 December 2020	120 000	317	642	67 259	89 176	832	(129 878)	148 348

Prepared by:  
Bistra Marinova  
Chief accountant and Procurator

Executive Director:  
Miroslav Todorov

Date: 25.03.2021

Audited according to the auditor's report dated 26.04.2021

Grant Thornton Ltd.  
Audit Firm



Marin Apostolov  
Registered auditor responsible for the audit  
Managing partner

The accompanying notes on pages from 6 to 70 form an integral part of the financial statements.

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

	Note	31 December 2020 BGN'000	31 December 2019 BGN'000
<b>Operating activities</b>			
Cash receipts from customers		129 265	313 383
Cash paid to suppliers		(103 934)	(231 939)
Cash paid for operating lease instalments		(20 491)	(20 380)
Cash paid to employees and social security institutions		(14 521)	(19 544)
Taxes paid excluding corporate income tax		(2 583)	(2 667)
Funding received from the State	28	1 057	-
Other operating cash (outflows)/inflows		6 219	396
<b>Net cash flows from operating activities</b>		<b>(4 988)</b>	<b>39 249</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(41)	(569)
Purchase of intangible assets		(183)	(78)
Loans granted		-	(1 403)
Loan repayments received		139	140
Interest received		51	-
Acquisition of right-of-use assets		(3 825)	-
Payments to increase investment in a subsidiary	11	(428)	-
Payments for repairments of leased assets		(17 452)	(7 232)
<b>Net cash flows from investing activities</b>		<b>(21 739)</b>	<b>(9 142)</b>
<b>Financing activities</b>			
Proceeds from borrowings	22.1	66 844	31 291
Repayment of borrowings	22.1	(17 315)	(21 218)
Interest paid	22.1	(704)	(875)
Payments under lease agreements	22.1	(19 640)	(38 005)
Other payments for financing activities	22.1	(298)	(355)
<b>Net cash flows from financing activities</b>		<b>28 887</b>	<b>(29 162)</b>
Net change in cash and cash equivalents		2 160	945
Cash and cash equivalents, beginning of year		15 965	15 111
Exchange gains from cash and cash equivalents		(1 654)	(91)
Effect of expected credit losses		(72)	-
<b>Cash and cash equivalents, end of year</b>	19	<b>16 399</b>	<b>15 965</b>

Prepared by:

Bistra Marinkova

Chief accountant and Procurator

Executive Director:

Hristo Todorov

Date: 25.03.2021

Audited according to the auditor's report dated 26.04.2021:

Grant Thornton Ltd.

Audit Firm

Marly Apostolov

Registered auditor responsible for the audit

Managing partner

The accompanying notes on pages from 6 to 70 form an integral part of the financial statements:

## 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 UIC 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 2020 Bulgaria Air AD is managed and represented by the executive directors: Mr. Hristo Todorov Todorov and the procurator Mrs. Bistra Tsvetkova Marinkova, only together.

As of the date of preparation of these financial statements Bulgaria Air AD is managed and represented by the executive director Hristo Todorov Todorov and the procurator Bistra Tsvetkova Marinkova, only together.

As of 31 December 2020 and as of the date of preparation of the annual financial statements for 2020, the Company has a Board of Directors (Board of Directors) composed of:

- Hristo Todorov Todorov – member of the Board and executive director
- Miroslav Slavchev Petkov – member of the Board
- Georgi Ivanov Georgiev – member of the Board
- Bulgarian Airways Group EAD – member of the Board, represented by Hristo Todorov Todorov.

In 2020 there were changes in the structure and composition of the management bodies of Bulgaria Air AD, as follows:

On 3 February 2020 two new members were enrolled in the Board of Directors - Georgi Ivanov Georgiev and Miroslav Slavchev Petkov.

On 9 April 2020 two members of the Board of Directors were deleted - Mariana Angelova Bajdarova and Yanko Valkov Georgiev.

On 28 July 2020 was deleted from the Board of Directors - Yordan Antonov Karamalakov.

The company is included in the consolidation of Bulgarian Airways Group EAD, registered in the Republic of Bulgaria, which has a bond issue registered on the Bulgarian Stock Exchange, Sofia. The owner of Bulgarian Airways Group EAD is Chimimport AD, registered in the Republic of Bulgaria, which also prepares consolidated financial statements and whose equity instruments are listed on the Bulgarian Stock Exchange, Sofia.

In relation to the implementation of its main activity, Bulgaria Air AD is a member of the International Air Transport Association (IATA). The organization represents, manages and serves the aviation industry in the world.

During 2020 Bulgaria Air AD operates with the following types of aircrafts:

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

As at 31 December 2020 the Company does not have own airplanes.

As of 31 December 2020 Bulgaria Air AD has 253 employees and the average number of employees for the year is 257.

In 2020, as a result of the outbreak of the coronavirus pandemic (Covid-19), serious changes occurred in the volume of activity 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 2019) unless otherwise stated.

Management is responsible for the preparation and fair presentation of the information in these financial statements.

The financial statements are individual because the Company has used the consolidation exemption in accordance with paragraph 4 of IFRS 10 "Consolidated Financial Statements". Consolidated financial statements meeting the requirements of International Financial Reporting Standards have been prepared for public use by Bulgarian Airways Group EAD and Chimimport AD. The address at which these consolidated financial statements can be obtained is Sofia, 2 Stefan Karadja Str.

In the financial statements of the Company the investments are reported at cost.

On 11 March the World Health Organization declared the spread of the new COVID-19 virus a pandemic. With the increase in the number of infected and the high mortality, the resulting economic and social insecurity, both from the pandemic itself and from the unprecedented measures to limit it, has led to serious disruptions in the activities of many sectors and a sharp economic downturn. This was accompanied by a record capital outflow from emerging economies, a collapse in world trade and a collapse in oil demand. As a result of the economic consequences of measures taken by almost every country in the world to control the infection, the World Bank has announced that it expects the biggest global recession since World War II.

### ***State of emergency in Bulgaria from 13 March 2020 to 13 May 2020***

On 13 March 2020, the National Assembly decided to declare a state of emergency for a period of one month. On 24 March 2020, the Parliament adopted the "Law on Measures and Actions during the State of Emergency, declared by a decision of the National Assembly of 13 March 2020, and on overcoming the consequences." Subsequently, the state of emergency was extended for another month and remained in force until 13 May 2020.

### ***Emergency epidemic situation in Bulgaria from 14 May 2020 to 30 April 2021***

On 13 May 2020, the Council of Ministers declared an epidemic emergency situation, in force from 14 May 2020, which was extended periodically before its expiration. As of the date of the preparation of these financial statements, the emergency epidemic situation was extended by the government until 30 April 2021.

### ***Effect of Covid-19 on the Company's financial statements in 2020***

The COVID-19 pandemic is a major shock to the global and European economies. As with any crisis, it is perfectly normal for more cyclical sectors to feel tensions much faster and much more strongly than non-cyclical ones. Some of the measures taken to limit the spread of the virus were related to travel bans, quarantine, social distancing and the closure of non-essential services. This caused significant disruption to businesses around the world, which led to an economic slowdown and had a direct negative effect on the activities of airlines, which limited flights to urgent ones or related to the delivery of goods and mail. Therefore, one of the most affected sectors was the transport sector and in particular the aviation industry, in which Bulgaria Air AD operates. The impact of the epidemic is defined as the main risk for carrying out normal activities, including the continuation of activities for all airlines. It is already having a significant negative economic impact, with aviation being one of the main sectors affected. The pressure on aviation is unprecedented. It is facing a drastic reduction and even suspension of tourist and business travel. The International Air Transport Association (IATA) has reported a total 70% drop in air traffic in Europe for 2020, with a recovery expected to be slow and gradual over several years. According to experts, the sector has lost USD 84 billion in 2020 due to the pandemic, with losses projected to reach a total of USD 157 billion by the end of 2021.

Despite the positive expectations associated with significant progress in the development of several vaccines against COVID-19, the last few months of 2020 have seen a gradual return to more restrictive measures by a number of governments to control the subsequent waves of the pandemic in the autumn - winter season in

Europe and the USA. At the end of 2020, a National Plan for vaccination of the population against COVID-19 was prepared, and its implementation as of the date of the financial report is in its early stage. Its action is coordinated with the EU's Common Coronavirus Vaccine Strategy, as the European Commission and Member States have agreed on joint action at EU level to ensure the supply of sufficient vaccines and to support the development of vaccines.

The imposed and constantly changing requirements and restrictive measures, in connection with the restriction of the spread of Covid-19, for entry into the countries to which Bulgaria Air operates flights have an extremely large and negative effect on passenger traffic and demand for air transportation. In general, the measures and conditions for entering a country change dynamically, a few days before each flight. The trend, which took shape in 2020, with a clear decline in business travel, the mass ban on tourist travel and the implementation of mainly ethnic and epidemiologically determined tourist passenger traffic continues to this day.

The effect of the pandemic is that virtually 100% of business traffic is missing, and this has affected the destinations used mainly for business travel before the pandemic.

In quantitative and qualitative terms, the effects on the Company's performance for 2020 can be summarized as follows:

- reduction of 50% of the flight program for 2020 compared to 2019 for Bulgaria Air. For the summer 2020 season Bulgaria Air has fulfilled only 8% of the planned charter program.
- Decrease in revenues from charter flights by 90% compared to the same prior period.
- For 2020, the airline reported a 60% drop in sales from travel agencies, 45% of its online sales and 58% of the company's offices in the country and abroad. Revenues from flights in 2020 decreased by a total of 50% compared to 2019.
- For 2020, the airline reported a significantly higher percentage of passengers who did not show up for their flight - between 20-30 passengers per flight in 2020 compared to an average of 3-5 passengers in 2019.
- For most of the fixed costs in 2020 there were no mechanisms for their optimization or reduction, despite the reduced volume of activity / lease payments, maintenance, insurance, etc./
- Staff cuts were made and more than 80 staff were laid off in 2020 just because of the Covid-19 pandemic, but key staff remained. This led to the need to pay benefits under the labour insurance legislation.
- Delay in the implementation of the activities of the Technical Directorate related to the planned repairs and technical maintenance of the aircraft due to delays in the supply of materials and spare parts by suppliers, as well as those related to maintaining the continuing airworthiness of the aircraft. The lack of staff was cited as a reason for non-compliance with deadlines.

Despite the challenges facing the airline, the management, along with its staff where possible, managed to optimize costs, but also to guarantee and ensure the safe operation in the conditions of Covid-19. Bulgaria Air was one of the few airlines in Europe that did not interrupt its operations, albeit to a different volume than normal. Some of the flights were merged due to the reduced number of passengers and in order to reduce costs, but it was still possible to travel during the pandemic. Some flights were combined (for example, from Sofia to Frankfurt and from Sofia to Berlin on the Sofia-Frankfurt-Berlin-Sofia flight) to use one aircraft and one crew instead of two. With a small number of passengers, this proved to be an effective method of reserving two destinations and offering a service during the pandemic. Many European airlines have stopped the entire operation pending a possible decision. This has led to a number of other difficulties, such as the expiration of permits and certificates for pilots and flight attendants, the payment of aircraft parking fees at airports and other costs related to compensation and indemnity for passengers.

During the summer holiday months, when travel restrictions were partially lifted, the partial recovery of flights failed to restore business volumes to a sufficient and even satisfactory extent compared to the same period of last year. Despite the signs of a slight recovery from month to month, the realized revenues from flights performed during the autumn-winter season remained far lower compared to the same period of 2019.

#### **Application of the going concern principle**

Even at the date of preparation of these financial statements, travel bans, quarantine measures and restrictions are in force. Businesses have to deal with challenges related to reduced revenues and disrupted supply chains. The pandemic has led to significant volatility in the financial and commodity markets in Bulgaria and worldwide. Various governments, including Bulgaria, have announced measures to provide both financial and non-financial assistance to the affected sectors and affected business organizations.

The Company reports a loss for the period of BGN 18 730 thousand and a negative cash flow from operating activities of BGN 4 988 thousand. Current liabilities exceed current assets by BGN 129 627 thousand. Plans and forecasts depend on uncertain future events concerning the degree of recovery of the business, the economic activity of the population and the abolition of the restrictive measures for travel.

These circumstances indicate the existence of material uncertainty, which may cast significant doubts about the Company's ability to continue to operate as a going concern without the support of the owners and other sources of funding.

In order to ensure the continuity of activities in the current environment, including reducing all possible negative effects, the Company's management promptly performed a detailed analysis of all options for limiting losses and took the necessary measures and actions as follows:

- There is a plan for business continuity in crisis situations, which was activated after the declaration of the state of emergency, and efforts are aimed at creating a safe environment for both passengers and staff and strict compliance with anti-epidemic measures;
- In accordance with the instructions of the authorities and other bodies (EASA), measures have been taken to physically protect personnel, including the cabin crew of aircraft and passengers, who are at direct risk of infection in compliance with the relevant instructions of the authorities - supply of personal protective equipment, limiting the accumulation of people to less than 2 m from each other, placing transparent safety screens at the points of contact, industrial disinfection of the premises, banning the access of outsiders, daily temperature measurement of employees, etc.;
- Conducting regular (daily and even hourly) meetings between the departments, directorates, control units and management in order to continuously monitor and be ready to react in a complicated situation;
- Disinfection of aircraft after each flight and compliance on board aircraft with all recommendations of EASA / European Union Aviation Safety Agency / including equipment with air Hepa filters, which destroy 99% of all viruses and bacteria. Also have successfully implemented the innovative Honeywell UV Cabin System II machine, so as to provide a completely sterile salon through a UV disinfection system.
- Conducting awareness campaigns;
- Travel, meetings and staff movements are restricted, and remote access to staff work is provided. Where the specifics of work do not allow remote work, work is organized so that no more than two employees work in one room. The offices and premises of the Company are equipped with the necessary protective and disinfection equipments, as daily disinfection is performed;
- Grouping of permanent crews to work on a rotation basis, in order to limit the damage to the number of available crews and employees in the event of infection and quarantine;
- The Operations Center continues to operate in a continuous mode so as to ensure flight safety;
- Optimization of catering costs related to safety measures - the recommendations are to minimize traffic in the passenger compartments of aircraft, the sale of goods on board is suspended, as well as the loading of newspapers and other magazines. According to EASA recommendations, only safety instructions may be in the seat pockets;
- Negotiation of the conditions under the contracts for operational leasing of aircraft, as more favourable conditions were achieved under the contracts for aircraft rental, in the part of payment terms, release of accumulated maintenance reserves, etc.;
- The deadlines for the payment of overflight fees collected by Eurocontrol, as well as some of the air navigation fees with the help of the branch organizations in the sector have been extended;
- 4-hour working hours were introduced and respectively reduced remuneration for part of the staff for whom the fulfilment of responsibilities allowed this;
- Reduction of part of the staff, which in turn led to optimization of all internal processes, rules and procedures. The reduced volume of work allowed for a careful analysis of the advantages and disadvantages of the organizational structure, the various personnel evaluation systems and the procedures in the field of human resources management;
- In case of cancelled flights, passengers who want to postpone their trip can take advantage of various options offered by the airline;
- In order to maintain employment and support business, Bulgaria Air AD takes advantage of the financial incentives provided by the state. Since the middle of 2020, the Company has applied under "Measure 60/40" under the Council of Ministers № 151 of 03.07.2020 to assist employers to maintain the employment of employees in a state of emergency. Compensations from the State amount to 60% of the amount of social security income and social security contributions at the expense of the employer. The Company has been approved for a state aid grant under the Operational Program "Human Resources Development" 2014-2020, a project of the Employment Agency BG05M9OP001-1.104-001 "Short-term employment support in response to the Covid-19 pandemic", which aims to provide support to enterprises whose economic activity is directly affected by the adverse impact of the state of emergency imposed in the country, in enterprises carrying out economic activities in the relevant sectors, one of which is transport;

- Revision of the annual plan and budget for 2021 and development of several scenarios with different degrees of probability for their manifestation depending on the possible development of the hitherto unknown situation.

As a result of all the measures, the confidence of passengers for a safe and secure flight has increased. We have been able to recover a large number of international destinations, with the exception of those that have been forcibly cancelled due to bans imposed by the countries concerned. With the introduction of the new policies and procedures, the quality of the provided services has improved, as well as the communication between the employees.

The management expects based on the future forecasts and the measures undertaken, as well as the continued financial support from the owners that the Company will be able to continue its operations and settled its obligations in ordinary course of business without sale of assets and significant change of its operating activities.

The forecasts and budgets made for the future development of the Company, in accordance with the possible changes in its commercial activity, indicate that the Company should continue its activity normally and that the provided financing is sufficient. As a result of the review of the activity, the Board of Directors expects that the Company has sufficient resources to continue its operational activities in the foreseeable future and considers that the going concern principle has been applied appropriately.

### 3 Changes in accounting policy

#### 3.1 New standards adopted as at 1 January 2020

The Company has adopted the new accounting pronouncements which have become effective this year, and are as follows:

##### **IAS 1 and IAS 8 (amended) - Definition of Material, effective from 1 January 2020, adopted by the EU**

The amendments aim to use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting. The amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

The Company has considered that 0.5% of total assets, total liabilities, total revenues or total expenses is an appropriate quantitative measure of materiality.

##### **Amendments to References to the Conceptual Framework in IFRS Standards, effective from 1 January 2020, adopted by the EU**

The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

##### **IFRS 3 (amended) - Definition of a Business, effective from 1 January 2020, adopted by the EU**

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term "outputs" is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

**Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform, effective from 1 January 2020, adopted by the EU**

The proposed update includes elements to reflect the new disclosure requirements introduced by the amendments to IFRS 9, IAS 39 and IFRS 7

**Amendment to IFRS 16 Leases Covid 19 - Related Rent Concessions, issued on 26 September 2020, effective from 1 June 2020, adopted by the EU**

A lessee may elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that applies the exemption accounts for COVID-19-related rent concessions as if they were not lease modifications.

**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 2020 and have not been adopted early by the Company. Management anticipates that all relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement.

Information on those expected to be relevant to the Company's financial statements is provided below.

**Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current effective from 1 January 2023 not yet adopted by the EU**

The amendments in Classification of Liabilities as Current or Non-current affect only the presentation of liabilities in the consolidated statement of financial position — not the amount or timing of recognition of any asset, liability, income or expenses, or the information that entities disclose about those items. They:

- clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

**Amendments to IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment IAS 37 Provisions, Contingent Liabilities and Contingent Assets effective from 1 January 2022 not yet adopted by the EU**

- IFRS 3 Business Combinations – Update on references to the Conceptual Framework with amendments to IFRS 3 'Business Combinations' that update an outdated reference in IFRS 3 without significantly changing its requirements.
- IAS 16 Property, Plant and Equipment – „Proceeds before Intended Use" amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets - The changes in Onerous Contracts — Cost of Fulfilling a Contract specify that the 'cost of fulfilling' a contract comprises the 'costs that relate

directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts.

#### **Annual Improvements 2018-2020 effective from 1 January 2022 not yet adopted by the EU**

- IFRS 1 First-time Adoption of International Financial Reporting Standards - The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.
- IFRS 9 Financial Instruments - The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
- IFRS 16 Leases - The amendment to 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.
- IAS 41 Agriculture - The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in IFRS 13.

The following amendments are not expected to have a material impact on the Company's financial statements

- Amendments to IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment IAS 37 Provisions, Contingent Liabilities and Contingent Assets effective from 1 January 2022 not yet adopted by the EU
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9 effective from 1 January 2021 not yet adopted by the EU
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 effective from 1 January 2021 not 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 2023, not yet adopted by the EU.

The Company has made a change in its accounting policy, which is not required by a change in the applicable accounting standards, details of which are disclosed in Appendices 4.2 and 4.11.

## **4 Significant accounting policies**

### **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 Presentations 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.

The statement of financial position presents two comparative periods when the Company applies accounting policy retrospectively, recalculates retrospectively items in the financial statements or reclassifies items in the financial statements and this has a significant effect on the information in the statement of financial position at the beginning of the previous period. More information on reclassification is provided in Note 5.

In order to achieve presentation in the financial statements, giving more relevant information about the effect of operations and other events or conditions on the financial condition of the Company, some of the elements are presented differently compared to the financial statements for 2019. The change concerns only the manner of

presentation of elements of the Statement of profit or loss and other comprehensive income and the Statement of financial position for 2019 and does not relate to the manner of their assessment.

During the reporting period the management of the Company has adopted a change in the method of subsequent measurement of the assets of the Aircraft group (aircraft), including right of use assets. Detailed information is presented in Note 4.11. The change in the method has not led to the need to take into account effects on the amounts of aircraft or the amounts of equity items as they were presented in previous reporting periods. The Company has analysed the carrying amounts and concluded that they do not differ materially from their fair values. For the current reporting period the change has led to the formation of a revaluation reserve in the amount of BGN 99 084 thousand, included in line Right of use assets in the statement of financial position (Note 8).

#### 4.3 Foreign currency translation

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

#### 4.4 Revenue

The Company's main source of revenue is flight revenue – internal, international and charter.

##### Recognition and measurement of customer contracts revenue

In order to establish how to account for the revenue, the Company uses the following 5 steps:

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

### Flight revenue

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

Flight 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 transportation 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 flight 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.

Type of good/service	Nature and timing for fulfilling of the performance obligation, incl. significant payment conditions	Recognition of income under IFRS 15
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 performed. 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 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.	Revenue from flights is recognized over time.
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 performed.	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

Type of good/service	Nature and timing for fulfilling of the performance obligation, incl. significant payment conditions	Recognition of income under IFRS 15
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 outside 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.

#### 4.5 Contract assets and liabilities

The Company recognises contract assets and/ or liabilities when one of the parties in the contract has fulfilled its obligations depending on the relationship between the business of the company and the payment by the client. The Company presents separately any unconditional right to remuneration as a receivable. The receivable is the unconditional right of the company to receive remuneration.

A contract liability is presented in the statement of financial position where a customer has paid an amount of consideration prior to the entity performing by transferring the related good or service to the customer.

The Company recognises contract assets when performance obligations are satisfied, and payment is not due on behalf of the client. A contract asset is the right of a company to receive remuneration in exchange for the goods or services that the company has transferred to a customer.

Subsequent the Company measures a contract asset in accordance with IFRS 9 Financial Instruments.

#### 4.6 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.

#### **4.7 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'.

#### **4.8 Income tax**

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 4.23.

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.

#### **4.9 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 recognises a dividend from a subsidiary in profit or loss in its separate financial statements when its right to receive the dividend is established.

#### **4.10 Investments in joint ventures**

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Company accounts for its interest in the joint operation at cost and recognises in relation to its interest in the joint operation.

A joint operation is a joint venture in which the parties (joint managers) who have joint control of the entity are entitled to the assets and liabilities of the entity.

A jointly controlled asset is a joint venture through which the parties (joint venture partners) who have joint control of the entity are entitled to the entity's net assets.

The joint venture recognizes its interest in the jointly controlled asset as an investment and accounts for that investment using the equity method in accordance with IAS 28 Investments in associates and joint ventures, unless the entity is exempt from applying the equity method.

The Company reports its shareholding in a joint venture at cost.

#### 4.11 Aircraft, engines and other property, plant and equipment

An item of aircrafts, engines and property, plant and equipment are 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 **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, this group of assets 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.

Subsequent measurement of the aircraft assets, including right of use assets classified in the same group, is subsequently measured at fair value at the date of revaluation less depreciation and impairment losses. Revaluations are presented in the statement of comprehensive income and are reported at the expense of equity (revaluation reserve), if they are not preceded by previously accrued expenses. Upon sale or write-off of the revalued asset, the remaining revaluation reserve is recorded at the expense of retained earnings.

At the end of each reporting period, part of the revaluation reserve is realized in accordance with the use of the asset by the enterprise. The amount of the revaluation is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the cost of acquisition.

The revalued amount represents the fair value of the asset at the date of revaluation, less subsequent depreciation and accumulated impairment losses.

The fair value of aircrafts is determined on the basis of market evidence presented in a report prepared by an independent licensed appraiser. Revaluation of aircraft is performed every 3 years. When fair values change significantly over a shorter period, revaluations may be made more frequently.

Depreciation of an item of aircrafts, engines and other property, plant and equipment are 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

The Company applies the same accounting policy for depreciation of right of use assets as for its own assets classified in the respective groups.

Right of use assets related to aircraft lease agreements (and spare engines) are divided into components based on their value and technical characteristics. The useful life of the components of the assets that constitute the maintenance condition of the aircraft and its key components will continue until the relevant component of the

aircraft no longer meets the return conditions set out in the lease agreement. The useful life of the residual asset component (which is not related to the maintenance status of the underlying asset) is the lease term.

#### **Maintenance reserve costs**

Amounts related to aircraft maintenance (maintenance reserves) are recognized either as current expenses for the period or as part of the value of the respective asset depending on the nature of the repair / maintenance.

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 amount to BGN 700.

#### **4.12 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.

#### **4.13 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 4.4.

#### **4.14 Leases**

##### **4.14.1 The Company as a lessee**

For any new contracts entered into, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Company has the right to direct the use of the identified asset throughout the period of use.

The Company assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

##### **Measurement and recognition of leases as a lessee**

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

The company uses a different incremental interest rate for leased aircrafts and leased real estate.

To determine the incremental interest rate for a lease obligation on leased real estate, the Company:

- uses, where possible, the applicable interest rate of the last third-party financing, adjusted to reflect changes in the financing conditions that have occurred since that last financing.

In order to determine the incremental interest rate for a lease obligation on leased aircrafts, the Company:

- uses, where possible, the applicable interest rate on recent third-party financing, adjusted to reflect changes in financing conditions that have occurred since that last financing and a mark-up reflecting the additional risk associated with the asset itself, currency risk and liquidity risk related with the longer term of leases than the term of financing.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

After initial measurement, the liability is reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

In the statement of financial position, right-of-use assets and lease liabilities are presented as a separate line item.

#### **Rent discount on lease contracts**

The Company has applied the amendment to IFRS 16 for leases under which there is a reduction in leases as a result of Covid-19. The Company applies the reporting simplification, which allows it not to assess whether the allowable discounts on leases that are a direct consequence of the Covid-19 pandemic are modifications to the lease. The Company applies the reporting facility consistently in contracts with similar characteristics and in similar circumstances. For lease discounts on lease agreements for which the Company decides not to apply the facility or which do not meet the requirements for application of the facility in IFRS 16, the Company applies a modification to the lease agreement.

#### **4.14.2 The Company as a lessor**

As a lessor the Company classifies its leases as either operating or finance leases.

*A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset and classified as an operating lease if it does not.*

The assets under operating leases are represented in the statement of financial position and are amortised in accordance with the amortisation policy for similar assets and the requirements of IAS 16 Property, plant and equipment or IAS 38 Intangible assets. The Company receives revenue from renting its investment property under operating leases. Rent revenue is recognised on a straight line basis over the period of the lease contract.

#### **4.15 Test for 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.

#### **4.16 Financial instruments**

##### **4.16.1 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.

#### **4.16.2 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.

#### **4.16.3 Subsequent measurement of financial assets**

##### **Financial instruments 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.

#### **Significant increase in credit risk**

IFRS 9 does not define what is a significant increase in credit risk. When determining if there has been a significant increase in credit risk, the Company takes into account both qualitative and quantitative supporting future information, which relates to unfavourable changes in the debtor's economic and financial situation and which may affect his ability to fulfil his obligations and his operating results.

#### **4.16.4 Impairment of financial assets**

IFRS 9 impairment requirements use more forward-looking information to recognise expected credit losses – the "expected credit loss" (ECL) model.

Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost/ FVOCI, trade and other receivables and related party receivables.

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.

Under this forward looking approach, there is a distinction between:

- Financial instruments whose credit score has not been significantly deteriorated in comparison to their initial recognition or have a low credit risk (Stage 1) and
- Financial instruments whose credit score has significantly deteriorated in comparison to their initial recognition or whose credit risk is not low (Stage 2)
- Stage 3 encompasses financial assets for which there is objective evidence of impairment as of the reporting date. The Company does not hold assets in this category.

12-month expected credit losses are recognized for the first category, while expected losses for the entire term of the financial instruments are recognized for the second category. Expected credit losses are defined as the difference between all contractual cash flows due to the Company and the cash flows it actually expects to receive ("cash shortage"). This difference is discounted at the original effective interest rate (or with the loan-adjusted effective interest rate).

The calculation of expected credit losses is determined on the basis of the probabilistic weighted estimate of credit losses over the expected maturity of financial instruments.

#### **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 related party receivables 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.

Trade receivables comprise a large number of clients in a few number of industries. To calculate expected credit loss the Company groups the clients by their industry and age structure of the receivables, using the 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 receivables 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 receivable;
- 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.
- Effects of Covid-19 over the owner's operations

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 receivable;
- 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;
- effects of Covid-19 over related parties' operations
- 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.

#### **4.16.5 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.

#### 4.17 Inventory

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, than 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.

#### 4.18 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.

The Company's reserves are comprised of:

- Other reserves comprise amounts, formed under requirements of the effective legislation
- Additional capital contributions – sums received as additional cash contributions from the majority owner
- reserves from revaluation of liabilities under defined benefit plans – includes actuarial profit or loss from changes in the demographic or financial assumptions and returns on the defined benefit plan's assets

The revaluation reserve of non-financial assets includes gain or loss from revaluation of non-financial assets.

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.

#### 4.20 Pension and other employee obligations

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

A defined contribution plan is a pension plan under which the Company pays fixed contributions into state plans in accordance with the Bulgarian labour legislation. The Company has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution. Contributions to the plans are recognized as an expense in the period that relevant employee services are received.

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.

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

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.

Actuarial gains and losses are recognized in the other comprehensive income.

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.

#### 4.21 Government grants

Grants provided by the state (government grants) are assistance from the government in the form of transfer of resources to the Company in exchange for past or future compliance with certain conditions regarding the operational activities of the Company. They exclude those forms of government assistance that cannot reasonably be valued and transactions with the government that cannot be distinguished from the Company's normal commercial transactions.

Government grants, including non-monetary grants at fair value, are not recognized unless there is reasonable assurance that:

- The company will meet the conditions related to them; and
- Donations will be received.
- The Company recognizes government grants as revenue over the periods necessary to compare them with the related costs they are intended to offset, using a systematic basis.

Government grants related to depreciable assets are recognized as revenue over the useful life of the asset over which the depreciation is charged. Government grants related to expenses are recognized in the statement of financial position when the related expense is reported.

The grants provided by the state of the Company are related to amounts related to government funding under the Council of Ministers № 151 / 03.07.2020 as a measure to maintain the employment of employees after the period of emergency caused by the pandemic by COVID -19 for the period from July to September 2020 and its extension for the next three months, namely from October to December 2020 - / supplemented and amended by CMD № 278 / 12.10.2020 /. The measure continues in 2021, as supplemented and amended by CMD № 416 / 30.12.2020, and includes the period January-March 2021.

Grant funding was also received under the Operational Program "Human Resources Development" 2014-2020, project of the Employment Agency BG05M9OP001-1.104-001 "Short-term employment support in response to the Covid-19 pandemic", which aims to provide support to enterprises whose economic activity is directly affected by the adverse impact of the state of emergency imposed in the country, in enterprises carrying out economic activities in the relevant sectors, one of which is the transport sector.

The Company has met the conditions and requirements for payment of compensation under the abovementioned measures to maintain employment. Revenue from government grants is recognized in the statement of profit or loss and other comprehensive income under "Other revenue". Receivables from the state under the employment retention program are recognized in the statement of financial position under "Trade and other receivables".

#### 4.22 Provisions, contingent liabilities and contingent assets

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the 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.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted to their present values, where the time value of money is material.

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.

#### **4.23 Significant management judgements in applying the accounting policy**

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 4.24.

##### **4.23.1 Revenue from ticket sales with expired validity**

The company mainly provides passenger transport services, which are recognized over time and during the period for which the air ticket is issued. Revenue from the passenger transport service is recognized when the performance obligation is met, i.e. the transport is actually performed. In the cases when the clients have purchased tickets, but the period of validity of the air tickets has expired and they cannot be used by the client, the Company writes off the value of the recognized liability under the contract as other income. The corresponding proportion of airport charges attributable to the value of airline tickets sold for which the carriage was not performed due to the expiry of its period of validity is also written off from liabilities and recognized as other income. The reporting of expired ticket revenues and airport charges is based on statistical information extracted from the registers and databases maintained by the airline. It is the Management's judgement to decide whether the expiration of the validity for each ticket when not being used, gives grounds for recognition of revenue. The value of revenue from expired tickets over the reporting period is presented in note 27.

##### **4.23.2 Revenue from ticket sales when the flights have 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.

Since the beginning of 2019, there have been changes in IATA Resolution 735d, one of which is the abolition of the FIM (Flight Interruption Manifest) as a document with which involuntary re-routing and / or flight interruption is performed. This is done only with an electronic ticket. The reason is that FIM is a paper document on which no alternative electronic has been created. Therefore, IATA Resolution 735e has been dropped, and airlines may use FIM and other paper documents such as excess baggage receipts in the event of a bilateral flight interruption. The change in IATA resolutions has led to new texts in RAM (Revenue Accounting Manual). In Chapter A2, item 2.6, the rules for settlement with the FIM are no longer indicated, while those for a planned schedule change.

Due to the bilateral agreement between the airlines for the use of FIM, the practice remained, after receiving the FIM invoice, the receiving airline (performing the flight) within four months from the date of issuance of the invoice according to the rules of Chapter A10, item 4.1. of RAM to re-debit based on the prorated value. Upon receipt of the re-debit invoice, the incurred settlement is closed. After the expiration of the four-month period for objections / re-debits /, the unsubmitted amounts are recognized as income. In 2020 on the Airline's flights there was only one FIM issued by Air France on which a re-debit invoice was received.

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 2020 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.

#### **4.23.3 Revenue from ticket sales 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 contribution received in respect to the initial sale is distributed between bonus points (award credits) and other sale components. The Company distributes the transaction price between the substantive law and the other performance obligations specified in the contract, based on their relatively independent selling price. 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. Revenue from substantive law is recognized on the earlier of the date on which the customers have used the points and the date on which they expire.

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. The value of prize credits is not material and is included in the in the amount of payables for sold tickets in note 26.

#### **4.23.4 Allowance 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 exceeds 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. The carrying amount of the greenhouse gas emission quotas is presented in note 25.

#### **4.23.5 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.

#### 4.23.6 Term of lease contracts

In determining the lease term, management takes into account all the facts and circumstances that create an economic incentive to exercise the option of extension or not to exercise the option of termination. Extension options (or periods after termination options) are included in the lease term only if it is reasonably certain that the lease is extended (or not terminated).

Most options for extending office and vehicle contracts are not included in the lease obligations, as the company can replace the assets without significant costs or changes in business.

Some aircraft leases contain extension options. For these contracts, management considers the following factors as most appropriate:

- Significant penalties for termination (or non-renewal), usually the company is certain that it will extend (or not terminate).
- If improvements to leases are expected to have a significant residual value, the company will normally extend the term of the contract with reasonable certainty (or will not terminate the termination).
- In other cases, the Company reviews other factors, including the historical duration of the lease and the costs and changes in operations required to replace the leased asset.

The lease term is revalued if the option is actually exercised (or not exercised) or the Company undertakes to exercise it (or does not exercise it). The reasonable assurance assessment is reviewed only if a significant event or significant change in circumstances occurs that affects that assessment and is under the control of the lessee. During the current financial year the management of the Company has not established a financial effect from the revision of the leasing conditions.

#### 4.24 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.

##### 4.24.1 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 4.15). 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.

At the end of the reporting period, the Company performed the annual test to determine whether the recoverable amount of non-financial assets exceeds their carrying amount, taking into account the deteriorating economic environment due to the Covid-19 pandemic and the industry in which the airline operates, as well as existing uncertainties and the restrictions imposed on the activities of companies in the aviation industry, which continue to register a decline in aviation revenues and related cash flows. The assessment also takes into account the effects of the measures taken in response to the deteriorating economic situation by the management. In addition, the following factors were considered, such as factors related to the ongoing financial support from the owners, monitoring and control of inflows and outflows, analysis of the existing capacity for flight operations and its revision in the short term, taking into account the current situation, assistance in renegotiating conditions with key airline suppliers in order to optimize costs and effectively manage liquidity flows.



The management of the Company has taken a number of measures, incl. and steps to engage international experts with proven experience in aviation crisis management.

The test results show that the recoverable amount of the non-financial assets exceeds their carrying amount and therefore no impairment losses were recognized during the reporting period. The conclusions of the management are also supported by estimates of an independent external appraiser based on a combination of the net asset value method and the estimated cash flow method with a discount factor of 12.68%. In determining the applicable discount factor, an adjustment was made in relation to market risk, the uncertain business environment and risk factors that are specific to individual companies - cash-generating units.

#### **4.24.2 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).

#### **4.24.3 Useful life of depreciable assets**

Management reviews the useful lives of depreciable assets at each reporting date. At 31 December 2020 management assesses that the useful lives represent the expected utility of the assets to the Company. The carrying amounts are analysed in note 6,7 and 10. Actual results, however, may vary due to technical obsolescence, particularly relating to aircraft and engines, software and IT equipment.

#### **4.24.4 Recognition of maintenance reserve expenses**

For leased aircrafts, the minimum necessary costs are provided to maintain specific future lease obligations when those obligations are certain. The amount of the expected maintenance costs is based on estimates of the costs that will be required for significant repairs and maintenance (heavy maintenance) that will be required to perform the obligation. The value of these costs is reported as a current expense when the need for the service arises and it is actually performed if it has not been previously included in the amount of the asset with the right of use. The amount of expected costs is reviewed on an annual basis for each contract separately.

#### **4.24.5 Inventory**

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 5 808 thousand (2019: BGN 5 952 thousand) is affected by use and type of the aircraft park.

#### **4.24.6 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 607 thousand (2019: BGN 1 243 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.

#### **4.24.7 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 40).

Management uses reports from independent licensed appraisers to determine the fair value of non-financial and financial assets. They are based on market data and assumptions that market participants would accept in the valuation of an asset, which are adjusted for the specific features of the Company's assets. The extent and direction of this adjustment depends on the number and characteristics of the observed market transactions with similar assets that have been used for valuation purposes. Although the data is a subjective judgment, management believes that the final estimate would not be significantly affected by other possible assumptions at the current reporting date. In the context of the Covid -19 pandemic, these estimates may differ from the actual prices that would have been determined in a fair market transaction between informed and willing parties at the end of the reporting period.

#### **4.24.8 Lease contracts – determining the appropriate discount rate for valuation of leasing liabilities**

When the Company cannot easily determine the interest rate included in the lease, it uses its differential interest rate (IBR) to determine the value of the lease obligations. IBR is the interest rate that the Company would have to pay to borrow for a similar period and with a similar guarantee in order to obtain the funds necessary to acquire an asset with a similar value and characteristics of the asset in a similar economic environment. Therefore, the IBR reflects what the Company "should pay", which requires an estimate when no observable interest rates are available (for example, for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the term and the terms of the lease. The Company assesses IBR using, where possible, the applicable interest rate on recent third-party financing, adjusted to reflect changes in financing conditions that have occurred since the last financing, and a margin reflecting additional risk associated with the asset itself; currency risk and liquidity risk related to the longer term of the lease agreements as compared to the term of the financing.

#### **4.24.9 Provisions**

##### **Provision on allowances for trading greenhouse gas emissions (CO2)**

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 25.

##### **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.

#### **4.24.10 Other liabilities**

The amount recognized as a deferred revenue from services amounting to BGN 143 thousand (2019: BGN 2 905 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 regard 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 2020 there are no deliveries of fuel as well as landing fees, flying and attendance services that have not been invoiced (2019: BGN 0 thousand).

## 5 Effect from an error correction

When performing the annual inventory count of assets and liabilities at the end of the reporting period, it was identified that for court receivables with a carrying amount of BGN 46 265 thousand as of 31.12.2018 and BGN 44 414 thousand as of 31.12.2019. (after recognized impairment in 2019), for which the respective procedural actions were taken, there was a hypothesis for lack of collectability in the period before 01.01.2019. Therefore, the Company's management has assessed that there are grounds for writing off the receivables from the company's patrimony, provided that there is no data or other information that could lead to events or circumstances that in turn could lead to different conclusions, assumptions or judgments. The Company has reported the correction of the error in accordance with the applicable IAS 8. The following tables show the adjustments recognized for each separate item in the financial statements as of 01.01.2019 and 01.01.2020

Statement of financial position	31 December 2018 BGN '000	Reduction for error correction BGN '000	31 December 2018 (restated) BGN '000
<b>Assets</b>			
Non-current assets	118 569	-	118 569
<b>Current assets</b>			
Aircraft spare parts	5 300	-	5 300
Inventory	524	-	524
Short-term financial assets	18 000	-	18 000
Related party receivables	21 099	-	21 099
Trade receivables	11 055	-	11 052
Other receivables	68 421	(46 265)	22 159
Cash and cash equivalents	15 111	-	15 111
Current assets	139 510	(46 265)	93 245
<b>Total assets</b>	<b>258 079</b>	<b>(46 265)</b>	<b>211 814</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	120 000	-	120 000
Reserves	63 659	-	63 659
Accumulated loss	(63 212)	(46 265)	(109 477)
<b>Total equity</b>	<b>120 447</b>	<b>(46 265)</b>	<b>74 182</b>
<b>Liabilities</b>			
Non-current liabilities	9 317	-	9 317
Current liabilities	128 315	-	128 315
<b>Total liabilities</b>	<b>137 632</b>	<b>-</b>	<b>137 632</b>
<b>Total liabilities and equity</b>	<b>258 079</b>	<b>(46 265)</b>	<b>211 814</b>

Statement of financial position	31 December 2019 BGN '000	Reduction for error correction BGN '000	31 December 2019 (restated) BGN '000
<b>Assets</b>			
Non-current assets	256 875	-	256 875
<b>Current assets</b>			
Aircraft spare parts	5 952	-	5 952
Inventory	452	-	452
Short-term financial assets	18 000	-	18 000
Related party receivables	2 899	-	2 899
Trade receivables	21 999	-	21 999
Other receivables	76 479	(44 414)	32 065
Cash and cash equivalents	15 965	-	15 965
Current assets	141 746	(44 414)	97 332
<b>Total assets</b>	<b>398 621</b>	<b>(44 414)</b>	<b>354 207</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	120 000	-	120 000
Reserves	68 548	-	68 548
Accumulated loss	(66 734)	(44 414)	(111 148)
<b>Total equity</b>	<b>121 814</b>	<b>(44 414)</b>	<b>77 400</b>
<b>Liabilities</b>			
Non-current liabilities	106 599	-	106 599
Current liabilities	170 208	-	170 208
<b>Total liabilities</b>	<b>276 807</b>	<b>-</b>	<b>276 807</b>
<b>Total liabilities and equity</b>	<b>398 621</b>	<b>(44 414)</b>	<b>354 207</b>

Statement of profit or loss and other comprehensive income	2019 BGN '000	Reduction for error correction BGN '000	2019 (restated) BGN '000
<b>Operating revenue</b>	<b>325 343</b>	<b>-</b>	<b>325 343</b>
Cost of materials	(83 875)	-	(83 875)
Hired services expenses	(159 612)	-	(159 612)
Employee benefits expenses	(17 325)	-	(17 325)
Depreciation and amortization of non-financial assets	(41 933)	-	(41 933)
Impairment of financial assets	(2 214)	1 851	(363)
Other expenses	(13 037)	-	(13 037)
<b>Operating expenses</b>	<b>(317 996)</b>	<b>1 851</b>	<b>(316 145)</b>
<b>Operating profit</b>	<b>7 347</b>	<b>1 851</b>	<b>9 198</b>
Finance costs	(20 057)	-	(20 057)
Finance income	8 878	-	8 878
<b>Loss before tax</b>	<b>(3 832)</b>	<b>1 851</b>	<b>(1 981)</b>
Income tax income	352	-	352
<b>Loss for the year</b>	<b>(3 480)</b>	<b>1 851</b>	<b>(1 629)</b>
<b>Other comprehensive loss for the year</b>	<b>(232)</b>	<b>-</b>	<b>(232)</b>
<b>Total comprehensive loss for the year</b>	<b>(3 712)</b>	<b>1 851</b>	<b>(1 861)</b>

Accumulated loss  
BGN '000

Expected credit loss expenses	(46 265)
<b>Cumulative effect – increase of accumulated loss as of 1 January 2019</b>	<b>(46 265)</b>
Correction for expected credit loss expenses recognized in 2019	1 851
<b>Cumulative effect – increase of accumulated loss as of 1 January 2020</b>	<b>(44 414)</b>

The carrying amount of aircrafts, engines and aircraft equipment is presented in the statement of financial position as of 31 December 2020 as follows:

	Engines BGN'000	Improvements for aircrafts BGN'000	Equipment for aircrafts BGN'000	Assets under construction BGN'000	Total BGN'000
<b>Gross carrying amount</b>					
Balance at 1 January 2020	3 531	73	983	174	4 761
Additions	-	-	-	23	23
Transfers	-	-	197	(197)	-
Balance at 31 December 2020	3 531	73	1 180	-	4 784
<b>Depreciation</b>					
Balance at 1 January 2020	(2 200)	(70)	(637)	-	(2 907)
Depreciation	(317)	(1)	(77)	-	(395)
Balance at 31 December 2020	(2 517)	(71)	(714)	-	(3 302)
<b>Gross carrying amount</b>					
Balance at 1 January 2020	1 014	2	466	-	1 482

	Engines BGN'000	Improvements for aircrafts BGN'000	Equipment for aircrafts BGN'000	Assets under construction BGN'000	Total BGN'000
<b>Gross carrying amount</b>					
Balance at 1 January 2019	2 848	73	633	-	3 554
Additions	-	-	-	1 207	1 207
Transfers	683	-	350	(1 033)	-
Balance at 31 December 2019	3 531	73	983	174	4 761
<b>Depreciation</b>					
Balance at 1 January 2019	(1 926)	(63)	(633)	-	(2 622)
Depreciation	(274)	(7)	(4)	-	(285)
Balance at 31 December 2019	(2 200)	(70)	(637)	-	(2 907)
<b>Carrying amount as of 31 December 2019</b>	1 331	3	346	174	1 854

The Company has no aircrafts and engines pledged as security for its borrowings as of 31 December 2020. The Company does not have obligations to acquire its own aircrafts from the Group.



## 7 Property, plant and equipment

The Company's property, plant and equipment comprise of 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	Acquisition expenditure BGN'000	Improvements on leased assets BGN'000	Total BGN'000
<b>Gross carrying amount</b>							
Balance as of 1 January 2020	280	1 947	661	738	28	1 894	5 548
Acquisitions	-	-	-	-	20	-	20
Transfers	-	19	-	1	(20)	-	-
Disposals	-	(3)	-	-	-	-	(3)
Balance as of 31 December 2020	280	1 963	661	739	28	1 894	5 565
<b>Depreciation</b>							
Balance as of 1 January 2020	(105)	(1 865)	(661)	(686)	-	(1 894)	(5 211)
Depreciation	(11)	(54)	-	(11)	-	-	(76)
Disposals	-	3	-	-	-	-	3
Balance as of 31 December 2020	(116)	(1 916)	(661)	(697)	-	(1 894)	(5 284)
<b>Carrying amount as of 31 December 2020</b>	<b>164</b>	<b>47</b>	<b>-</b>	<b>42</b>	<b>28</b>	<b>-</b>	<b>281</b>

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	Buildings BGN'000	Machines, equipment, IT equipment BGN'000	Vehicles BGN'000	Office equipment BGN'000	Acquisition expenditure BGN'000	Improvements on leased assets BGN'000	Total BGN'000
<b>Gross carrying amount</b>							
Balance at 1 January 2019	280	1 884	661	729	28	7 307	10 889
Reclassification to right of use assets	-	-	-	-	-	(5 375)	(5 375)
Balance at 1 January 2019 (adjusted after initial effect of IFRS 16)	280	1 884	661	729	28	1 932	5 514
Additions	-	-	-	1	71	-	72
Transfers	-	63	-	8	(71)	-	-
Reclassification to intangible assets	-	-	-	-	-	(38)	(38)
Balance at 31 December 2019	280	1 947	661	738	28	1 894	5 548
<b>Depreciation</b>							
Balance at 1 January 2019	(94)	(1 805)	(657)	(676)	-	(4 661)	(7 893)
Reclassification to right of use assets	-	-	-	-	-	2 750	2 750
Balance at 1 January 2019 (adjusted after initial effect of IFRS 16)	(94)	(1 805)	(657)	(676)	-	(1 911)	(5 143)
Reclassification to intangible assets	-	-	-	-	-	17	17
Depreciation	(11)	(60)	(4)	(10)	-	-	(85)
Balance at 31 December 2019	(105)	(1 865)	(661)	(686)	-	(1 894)	(5 211)
<b>Carrying amount at 31 December 2019</b>	<b>175</b>	<b>82</b>	<b>-</b>	<b>52</b>	<b>28</b>	<b>-</b>	<b>337</b>

The Company does not have material contractual commitment for purchasing property, plant and equipment which has to be paid out in 2021.

As at 31 December 2020, 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".

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## 8 Right-of-use assets

Right-of-use assets include aircraft, buildings, vehicles, improvements on leased assets and initial costs related to leased assets. The carrying amount can be analysed as follows:

	Aircrafts	Vehicles	Buildings	Acquisition expenditure for leased assets	Improvements on leased assets	Total right-of-use assets
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
<b>Gross carrying amount</b>						
Balance as of 1 January 2020	161 585	-	2 452	4 420	15 568	184 025
Additions	106 524	-	-	-	47 001	153 525
Revaluation	99 084	-	-	-	-	99 084
Transfer	-	403	-	(3 842)	5 725	2 286
Balance as of 31 December 2020	367 193	403	2 452	578	68 294	438 920
<b>Depreciation</b>						
Balance as of 1 January 2020	(32 924)	-	(604)	-	(6 486)	(40 014)
Depreciation	(32 924)	(53)	(604)	-	(21 310)	(54 891)
Balance as of 31 December 2020	(65 848)	(53)	(1 208)	-	(27 796)	(94 905)
<b>Carrying amount as of 31 December 2020</b>	<b>301 345</b>	<b>350</b>	<b>1 244</b>	<b>578</b>	<b>40 498</b>	<b>344 015</b>

	Aircrafts	Buildings	Expenditures on acquisition of leased assets	Improvements on leased assets	Total right-of-use assets
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
<b>Gross carrying amount</b>					
Balance at 1 January 2019	161 585	2 452	-	-	164 037
Effect of initial application of IFRS 16 Leasing	-	-	-	-	-
Effect of initial application of IFRS 16 Leases related to initial costs (improvements to leased assets)	-	-	-	5 375	5 375
Effect of initial application of IFRS 16 Leases related to initial costs (prepaid rents)	-	-	-	4 355	4 355
Balance as at 1 January after the effect of initial application of IFRS 16	161 585	2 452	-	9 730	173 767
<b>Additions</b>					
Balance at 31 December 2019	161 585	2 452	4 420	5 838	174 295
<b>Depreciation</b>					
Balance at 1 January 2019	-	-	-	-	-
Initial costs associated with leased assets (effect of IFRS 16 Leasing)	-	-	-	(2 750)	(2 750)
Balance as at 1 January after the effect of initial application of IFRS 16	-	-	-	(2 750)	(2 750)
Depreciation	(32 924)	(604)	-	(3 736)	(37 264)
Balance at 31 December 2019	(32 924)	(604)	-	(6 486)	(40 014)
<b>Carrying amount at 31 December 2019</b>	<b>128 661</b>	<b>1 848</b>	<b>4 420</b>	<b>9 082</b>	<b>144 011</b>



In 2020, the Company has entered into three operating lease agreements with an option to purchase three aircraft at the end of the term for each of the agreements, respectively. The acquired aircraft are of the Airbus type A-320. In 2020, the Company's management has determined that the appropriate method for the subsequent measurement of the assets of the Aircraft group is through the revaluation model in accordance with IAS 16. As a result, the aircrafts were valued by licensed appraiser and their fair value was determined at total worth BGN 301 million. The respective revaluation for the period amounting to BGN 99 million has been recognized. During the fair value analysis and the transition to the revaluation model, the management concluded that there is no reason to calculate the effect for prior period from retrospective application of the change, as their carrying amounts are a reasonable estimate of their fair values.

If the acquisition cost model had been applied, the transfer values of the revalued assets of the Aircraft group would have amounted to BGN 202 261 thousand (2019: BGN 128 661 thousand). The revalued amount includes a revaluation reserve before taxes in the amount of BGN 99 084 thousand, which is not subject to distribution to the owners of the Company.

According to a pledge agreement, the option to acquire the three aircrafts was provided as collateral for the Company's obligations to the owner.

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

The initial costs related to leased assets amounting to BGN 578 thousand as of 31.12.2020 represent costs incurred for major repairs, inspections and maintenance of leased aircraft and / or engines and other parts of aircraft that cover operating cycles for aircraft longer than one year.

Improvements to leased assets include repairs to leased aircrafts and / or engines and other parts of aircraft performed during prior reporting periods.

The lease obligations corresponding to the rights to use are presented in Note 21 Lease liabilities.

The Company has performed the annual test for impairment of non-financial assets, including the right-of-use assets taking into account the effects of the Covid-19 pandemic and the expectations for the rate of recovery. The results show that as of 31.12.2020 the carrying amount of the assets do not exceed their recoverable amount.

## 9 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 42.2.

The carrying amount of investment property presented in the statement of financial position is as follows:

	<b>Investment property</b> <b>BGN'000</b>
Carrying amount as at 1 January 2020	<u>274</u>
Carrying amount as at 31 December 2020	<u>274</u>

Rental income from investment property amounts to BGN 250 thousand. (2019: BGN 250 thousand), included within 'Rental income' in 'Other income' in the Statement of profit or loss and other comprehensive income. The direct operating expenses amounting to BGN 3 thousand. (2019: 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.

The Company does not have a contractual agreement to acquire investment properties which has to be settled in 2021.

## 10 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:

	Software BGN'000	Licenses BGN'000	Right of ownership BGN'000	Acquisition expenditure BGN'000	Total BGN'000
<b>Gross carrying amount</b>					
Balance as of 1 January 2020	3 207	1 405	127 121	-	131 733
Additions	-	-	-	187	187
Transfers	184	-	-	(184)	-
Balance as of 31 December 2020	3 391	1 405	127 121	3	131 920
<b>Depreciation</b>					
Balance as of 1 January 2020	(3 149)	(1 361)	(21 117)	-	(25 627)
Depreciation	(47)	(13)	(4 238)	-	(4 298)
Balance as of 31 December 2020	(3 196)	(1 374)	(25 355)	-	(29 925)
<b>Carrying amount as of 31 December 2020</b>	<b>195</b>	<b>31</b>	<b>101 766</b>	<b>3</b>	<b>101 995</b>
	Software BGN'000	Licenses BGN'000	Right of ownership BGN'000	Acquisition expenditure BGN'000	Total BGN'000
<b>Gross carrying amount</b>					
Balance at 1 January 2019	3 132	1 341	127 121	-	131 594
Additions, separately acquired	-	10	-	91	101
Transfer	75	16	-	(91)	-
Reclassification from property, plant and equipment	-	38	-	-	38
Balance at 31 December 2019	3 207	1 405	127 121	-	131 733
<b>Depreciation</b>					
Balance at 1 January 2019	(3 101)	(1 331)	(16 879)	-	(21 311)
Reclassification from property, plant and equipment	-	(17)	-	-	(17)
Depreciation	(48)	(13)	(4 238)	-	(4 299)
Balance at 31 December 2019	(3 149)	(1 361)	(21 117)	-	(25 627)
<b>Carrying amount at 31 December 2019</b>	<b>58</b>	<b>44</b>	<b>106 004</b>	<b>-</b>	<b>106 106</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.

The 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 differ and therefore significant 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).

As disclosed in Notes 4.24.1 and 4.15, the Company has performed the annual test for impairment of intangible assets, taking into account the uncertainties caused by the Covid-19 pandemic. The results show that the

recoverable amount of intangible assets is close to their carrying amount and no impairment losses were recognized for the period.

## 11 Investments in subsidiaries

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

Name of the subsidiary	2020 BGN'000	share %	2019 BGN'000	Share %
Bulgaria Air Technic EOOD	628	100%	200	100%
	<b>628</b>		<b>200</b>	

The investment in subsidiary is recognized in the Company's financial statements at cost.

In 2020, the Company has made additional cash contributions to the subsidiary due to the start of the active business operations in Bulgaria Air Technic EOOD.

During 2020 and 2019 the Company received no dividends from its subsidiary.

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

## 12 Investments in joint ventures

The Company has an investment in three joint ventures - consortia, which were established to unite efforts and activities to provide services for the provision of airline tickets for passenger transport and whose scope of activity is to prepare offers and participate in procedures for public procurement.

The Company has voting rights in three consortiums: Bulgaria Air - Posoka DZZD, Bulgaria Air - Posoka Com DZZD and Bulgaria Air and Posoka DZZD. The joint ventures were established in Bulgaria together with Posoka Com OOD. Investments are carried at cost. The date of the joint ventures' financial statements is 31 December. The financial information for the joint ventures may be summarized as follows:

Name of joint venture	2020 Investment amount BGN'000	share %	2020 Revenue BGN'000	2020 Financial result of the period BGN'000	31.12.2020 Net assets BGN'000
Bulgaria Air – Posoka DZZD	-	90	1 061	10	156
Bulgaria Air – Posoka Com DZZD	-	90	-	(1)	14
Bulgaria Air and Posoka DZZD	182	70	2 199	2	78
	<b>182</b>				

In 2020 and 2019, Bulgaria Air AD did not receive dividends from the joint ventures.

One of the most affected sectors by the spread of Covid-19 is the transport sector and in particular the aviation industry as well as the hotel sector, in which the joint ventures of Bulgaria Air AD operate. In 2020, a deterioration in the performance of the joint ventures Bulgaria Air - Posoka DZZD and Bulgaria Air and Posoka DZZD was registered.

While Bulgaria Air - Posoka Com DZZD does not operate, as the Consortium was established to participate in a specific public procurement, which has already expired.

The Company has no contingent liabilities or other commitments, related to the investments.

### 13 Deferred tax assets and liabilities

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

Deferred tax (assets)/liabilities	1 January 2020	Recognized in profit and loss	Recognized in other comprehensive income	31 December 2020
	BGN'000	BGN'000	BGN'000	BGN'000
<b>Non-current assets</b>				
Non-current tangible and intangible assets	(662)	417	9 908	9 663
<b>Current assets</b>				
Impairment of trade receivables	(41)	(160)	-	(201)
<b>Non-current liabilities</b>				
Pension employee obligations	(73)	-	-	(73)
<b>Current liabilities</b>				
Trade payables	(221)	139	-	(82)
Pension employee obligations	(18)	14	-	(4)
Other employee obligations	(152)	83	-	(69)
Tax loss	(2 926)	(2 188)	-	(5 114)
	<b>(4 093)</b>	<b>(1 695)</b>	<b>9 908</b>	<b>4 120</b>
Recognized as:				
<b>Deferred tax (assets)/liabilities</b>	<b>(4 093)</b>			<b>4 120</b>

Deferred taxes for the period ending 31 December 2019 are presented as follows:

Deferred tax assets	1 January 2019	Recognized in profit and loss	Recognized in other comprehensive income	31 December 2019
	BGN'000	BGN'000	BGN'000	BGN'000
<b>Non-current assets</b>				
Non-current tangible and intangible assets	(261)	(401)	-	(662)
<b>Current assets</b>				
Impairment of trade receivables	(37)	(4)	-	(41)
<b>Non-current liabilities</b>				
Pension employee obligations	(73)	-	-	(73)
<b>Current liabilities</b>				
Trade payables	(179)	(42)	-	(221)
Pension employee obligations	(19)	(10)	11	(18)
Other employee obligations	(123)	(29)	-	(152)
Tax loss	(3 060)	134	-	(2 926)
	<b>(3 752)</b>	<b>(352)</b>	<b>11</b>	<b>(4 093)</b>
Recognized as:				
<b>Deferred tax (assets)</b>	<b>(3 752)</b>			<b>(4 093)</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 33 provides additional information concerning the tax expense of the Company.

All deferred tax assets (including tax losses and other tax credits) are included in the statement of financial position.

As of 31.12.2020 the tax losses of the Company amount to BGN 51 124 thousand. The utilization of the deferred tax asset depends on the realization of future taxable profits.

The term in which the Company is entitled to deduct tax losses is in the next 5 financial years.

### 14 Aircraft spare parts

The spare parts for airplanes worth BGN 5 808 thousand (2019.: BGN 5 952 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 exceeds 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.

## 15 Inventories

	2020 BGN'000	2019 BGN'000
Goods	155	234
Catering utensils	91	93
Catering other	45	54
Airplane fuel	35	43
Fuel and lubricant materials	24	16
Other	45	12
	<b>395</b>	<b>452</b>

As at 31 December 2020 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 2020 goods amounting to BGN 152 thousand (2019: BGN 230 thousand) are pledged as collateral according to a loan granted by Texim bank AD.

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

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

	2020 BGN'000	2019 BGN'000
Long-term financial assets measured at fair value through other comprehensive income	<b>18 000</b>	<b>18 000</b>

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 variable return from the investment and it is classified as a financial asset at fair value through other comprehensive income in initial application of IFRS 9. Acquired shares are denominated in BGN and are not traded on a public stock exchange.

An independent licensed appraiser has assessed the fair value of the share of Bulgaria Air AD in equity of the foreign legal entity as of the end of each reporting period. The results show that the fair value is a very close approximation of the carrying amount of the investment at 31 December 2020, which is its acquisition cost.

## 17 Trade receivables

	2020 BGN'000	2019 BGN'000
Trade receivables, gross	12 154	22 098
Impairment	(1 006)	(99)
Trade receivables, net	<b>11 148</b>	<b>21 999</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.

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

	2020 BGN'000	2019 BGN'000
Balance at 1 January	99	366
Amounts written-off	-	(315)
Impairment loss recovered	(47)	-
Impairment loss	954	48
<b>Balance at 31 December</b>	<b>1 006</b>	<b>99</b>

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

	2020 BGN'000	2019 BGN'000
<b>Financial assets</b>		
Receivables from sales of airplane tickets by representative offices and BSP agents abroad	2 383	4 002
Direct sales of airplane tickets in the country and abroad	306	1 212
Sales of cargo and mail	95	187
Charter flights receivables	25	564
Other trade receivables	3 928	5 486
Receivables on operating lease of airplanes	-	8 694
<b>Total Financial assets</b>	<b>6 737</b>	<b>20 145</b>
<b>Non-financial assets</b>		
Advances for lease contracts	3 553	-
Advances for spare parts purchases	639	1 366
Advances for landing and maintenance fees	219	488
<b>Total non-financial assets</b>	<b>4 411</b>	<b>1 854</b>
<b>Total trade receivables</b>	<b>11 148</b>	<b>21 999</b>

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.

The significant decrease in trade receivables as of 31.12.2020 compared to 31.12.2019 is mainly due to the lack of agreements for renting out aircrafts to other airlines / operators as a result of the Covid-19 pandemic. The collapse of the aviation industry and the restriction in the demand for air services has led to this decline for the Company.

In the reporting year 2020, the specific credit risk is mainly related to the difficult financial situation of all companies operating in aviation and related services.

# 18 Other receivables

	2020 BGN'000	2019 BGN'000 Restated	01.01.2019 BGN'000 Restated
<b>Financial Assets:</b>			
Awarded and court receivables	263	334	334
Guarantees	1 797	2 288	2 440
Loans granted	20 409	23 224	485
Grant funding receivables	544	-	-
Other financial receivables	4 663	4 881	9 197
Impairment	(1 867)	(698)	(383)
<b>Total Financial Other Assets</b>	<b>25 809</b>	<b>30 029</b>	<b>12 073</b>
<b>Non-financial Assets:</b>			
Prepaid expenses	1 653	2 001	10 080
Other	6	35	6
<b>Total Non-financial Other Assets</b>	<b>1 659</b>	<b>2 036</b>	<b>10 086</b>
	<b>27 468</b>	<b>32 065</b>	<b>22 159</b>

The loans granted to the Company are related to a cession contract for loans from a third party. The principal of the ceded amount is BGN 13 334 thousand as of 31.12.2020, the agreed annual interest rate is from 4% to 9%. The loans are granted in euros, dollars and Russian rubbles and the repayments are made in the same currency. The loans are unsecured and have a repayment due date in 2021.

Receivables from grant funding in the amount of BGN 544 thousand are related to government programs to support businesses from the negative impacts of the Covid-19 pandemic. Since the middle of 2020, the Company has applied under "Measure 60/40" under the Council of Ministers № 151 of 03.07.2020 to assist employers to maintain the employment of employees in a state of emergency. Compensations from the state amount to 60% of the amount of insurance income and social security contributions at the expense of the employer. The mentioned above grants in the amount of BGN 544 thousand were received in 2021. Prepaid expenses at the end of each reporting period are mainly paid insurance premiums for aircraft, technical documentation costs and commissions.

Other receivables in the amount of BGN 4 663 thousand (2019: BGN 4 881 thousand) represent receivables on pre-invoiced expenses, receivables for established deficits and deductions of materially responsible persons, claims and others.

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 1 169 thousand. (2019: BGN 315 thousand after the correction of an error for written-off receivables for which an impairment loss in the amount of BGN 1 851 thousand had been recognized) was recognized in the statement of profit or loss and other comprehensive income within Impairment of financial assets. 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:

	2020 BGN'000	2019 BGN'000 Restated	2018 BGN'000 Restated
Balance at 1 January	698	383	375
Adjustment for expected credit losses from impairment of other receivables	1 169	315	59 322
Amounts written-off (uncollectable)	-	-	(59 314)
<b>Balance at 31 December</b>	<b>1 867</b>	<b>698</b>	<b>383</b>

## 19 Cash and cash equivalents

	2020 BGN'000	2019 BGN'000
Cash at banks	2 020	782
Cash in hand	36	93
Restricted cash	14 415	15 090
Impairment	(72)	
	<b>16 399</b>	<b>15 965</b>

Substantial portion of restricted cash in the amount of BGN 12 544 thousand (2019: BGN 13 071 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:

	2020 BGN'000	2019 BGN'000
Cash at in hand and in bank accounts:		
- Euro	710	338
- US dollars	45	25
- Lebanon dinar	72	151
- Bulgarian leva	1 133	72
- Russian rubble	-	62
- British pound	19	218
- Other	5	9
Cash at in hand and in bank accounts	<b>1 984</b>	<b>875</b>
- Bulgarian leva	102	5
- US dollars	14 147	14 821
- Euro	166	264
Restricted cash:	<b>14 415</b>	<b>15 090</b>
<b>Total Cash and cash equivalents</b>	<b>16 399</b>	<b>15 965</b>

The total value of the blocked cash that is used to secure trade obligations or liabilities under received bank loans amounts to EUR 85 thousand, USD 999 thousand and BGN 102 thousand.

The Company has assessed the expected credit losses on cash and cash equivalents. In 2020 the Company has recognized expected credit losses on cash in banks in the amount of BGN 72 thousand.

## 20 Equity

### 20.1 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.



## 20.2 Reserves

Company's reserves are as follows:

	Common reserves	Other reserves	Reserves for capital increase	Reserve from remeasurements of defined benefit obligations	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Balance as at 1 January 2019	317	642	62 180	520	63 659
Additional contributions from the owner			5 079		5 079
Remeasurement of defined benefit obligations				(190)	(190)
Balance as at 31 December 2019	317	642	67 259	330	68 548
Balance as at 1 January 2020	317	642	67 259	330	68 548
Remeasurement of defined benefit obligations				502	502
Balance as at 31 December 2020	317	642	67 259	832	69 050

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 67 259 thousand (2019.: BGN 67 259 thousand) represent contributions for capital increase made by the major shareholder.

## 20.3 Revaluation reserve

During the reporting period the Company has assumed that the assets of the group of aircraft will be subsequently measured at revalued amount.

An assessment was performed by an external independent appraiser and it was established that the fair value of the aircraft (including right-of-use assets) exceeds their carrying amount as of the valuation date by BGN 99 084 thousand. A tax effect at a rate of 10% was also reported and a deferred tax liability in the amount of BGN 9 908 thousand was recognized. A revaluation reserve in the amount of BGN 89 176 thousand was formed as of 31.12.2020. The revalued amount of the aircrafts as of the previous reporting periods is very close approximation to their carrying amount.

Detailed information on revalued assets is presented in Note 8.

## 21 Lease liabilities

	2020 BGN'000	2019 BGN'000
Lease liabilities – non-current portion	158 936	100 953
Lease liabilities – current portion	36 486	33 068
<b>Lease liabilities</b>	<b>195 422</b>	<b>134 021</b>

The main activity of the airline is performed through aircraft that are leased under operating lease agreements. All contracts have been reviewed regarding IFRS 16 effective from 1 January 2019 and are recognized right of use assets and a lease liability. Detailed information about the groups of right of use assets is presented in Note 8.

Except short-term leases and leases of low-value assets, each lease is presented in the statement of financial position as a right of use asset and a lease liability. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the lease liability and asset.

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company. Leases are either non-

cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term. The Company is prohibited from selling or pledging the underlying leased assets as security. For leases over aircraft, premises and vehicles, the Company must keep the leased assets in a good condition and return them in their original state or according to agreed requirements at the end of the lease. Further, the Company must insure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

Future minimum lease payments at 31 December 2020 were as follows:

	Minimum lease payments due						Total BGN'000
	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	
<b>31 December 2020</b>							
Lease payments	43 793	41 994	32 189	23 726	23 508	65 625	<b>230 835</b>
Finance charges	(7 307)	(7 211)	(5 573)	(4 489)	(3 505)	(7 328)	<b>(35 413)</b>
<b>Net present values</b>	<b>36 486</b>	<b>34 783</b>	<b>26 616</b>	<b>19 237</b>	<b>20 003</b>	<b>58 297</b>	<b>195 422</b>

	Minimum lease payments due						Total BGN'000
	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	
<b>31 December 2019</b>							
Lease payments	39 064	37 294	30 115	19 433	10 191	15 405	<b>151 502</b>
Finance charges	(5 996)	(4 323)	(2 839)	(1 597)	(989)	(1 737)	<b>(17 481)</b>
<b>Net present values</b>	<b>33 068</b>	<b>32 971</b>	<b>27 276</b>	<b>17 836</b>	<b>9 202</b>	<b>13 668</b>	<b>134 021</b>

The Company has negotiated discounts with its lessors for most of its leased assets (aircraft and office space) as a result of the severe impact of the Covid-19 pandemic during the year. The Company applies the practical expedient for the Covid-19-related deferral of leases in connection with aircraft leases and the reduction of office space rentals during the period of the state of emergency in connection with Covid-19. The Company continues to account for reductions in leases related to aircraft and office space in accordance with other applicable guidance in IFRS 16. The amount recognized in profit or loss for the period that reflects changes in lease payments arising from reductions in leases related to Covid-19, to which the Company has applied the practical expedient, amounts to BGN 4 thousand.

#### Leases that are not recognized as a liability

The Company has chosen not to recognize a lease obligation if they are short-term (leases with an expected term of 12 months or less) or if they lease low-value assets. Payments made under these leases are recognized as an expense on a straight-line basis. In addition, some variable lease payments cannot be recognized as a lease liability and are recognized as an expense as incurred.

Leases that do not qualify for recognition as a liability are recognized in profit or loss for the period and presented in Note 29 Hired services expenses.

As of 31 December 2020 the Company has committed to payments under short-term leases and the total amount of commitments as of that date is BGN 133 thousand.

The cost of variable lease payments that are not recognized as a liability under the lease includes lease payments and maintenance expenses based on quantitative non-financial indicators of the use of the underlying asset.

Interest expenses under lease agreements included in financial expenses for the year ended 31 December 2020 are BGN 5 933 thousand (2019: BGN 7 604 thousand).

The total outgoing cash flow for leasing contracts for the year ended 31 December 2020 is BGN 19 640 thousand (2019: BGN 38 005 thousand).

## 22 Borrowings

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

	Short-term		Long-term	
	2020 BGN'000	2019 BGN'000	2020 BGN'000	2019 BGN'000
Bank loans	23 155	11 912	-	56
Trade loans	9 817	-	-	-
<b>Total carrying amount</b>	<b>32 972</b>	<b>11 912</b>	<b>-</b>	<b>56</b>

### Bank Loans

On 03.01.2020, the Company received an overdraft loan from a commercial bank in the amount of BGN 2 million. The agreed loan has a maturity date of 30.04.2020. Based on the annex to the existing loan agreement signed on 24.04.2020, the parties agree that the last due instalment in the amount of BGN 1 million will be repaid on 30.09.2020 instead of 30.04.2020. The need to sign an annex arises from difficulties as a result of imposed measures in connection with Covid-19. The renegotiation is in accordance with the Procedure for Deferral and Establishment of Due Debts to Banks and Their Subsidiaries - Financial Institutions approved by the BNB in connection with the state of emergency imposed by the National Assembly of the Republic of Bulgaria on 13.03.2020. The loan was repaid on 30 September 2020.

As of 31.12.2020 the Company has concluded the following contracts for bank loans:

Contract for bank loan for provision of working capital with maturity date on 1 February 2021. The principal on the loan as at 31.12.2020 amounts to BGN 279 thousand and is fully distributed as short-term part. The annual interest rate represents the Bank's basis interest rate plus a contractual margin 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 (HLC)" and connecting corridor, located in Sofia, Slatina, Sofia Airport.

Contract for bank overdraft concluded on 1 August 2018 for working capital with a repayment term on 20 August 2021. The annual interest rate is equal to the Basis Interest Rate of the Bank plus a contractual margin 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. The total amount of goods is BGN 220 thousand.

Bank loan-overdraft agreement concluded on 25.09.2020 for working capital with maturity on 20.09.2023. The annual interest rate is in the amount of the basic interest rate of the bank plus a contractual margin of 1.3 points. The loan is secured by a Special Pledge Agreement on all current and future receivables on the accounts of Bulgaria Air AD opened with the creditor bank.

The Company has 4 contracts for bank loans for working capital with a maturity date on 31 October of 2022., 31 January 2021, 31 March 2022 and 2 loans with a maturity date on 30 December 2021. The annual interest rate on loans is 3% and 4%, on the loan contract concluded in 2020, + 3M Euribor, but not less than 4%. The loans are 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 Chimimport AD.

### Trade loans

In 2020, the Company received a loan from a third, unrelated party in the amount of BGN 14 million. The loan is unsecured, with a market interest rate and maturity of 1.9.2021. As of 31.12.2020 the loan obligation amounts to BGN 9 817 thousand, of which BGN 37 thousand interest liability.

## 22.1 Reconciliation of payables, arising from financial activity

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

	Long-term loans	Short-term loans	Lease liabilities	Short-term loans from related parties	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
<b>1 January 2020</b>	<b>56</b>	<b>11 912</b>	<b>14 487</b>	<b>134 021</b>	<b>160 476</b>
<b>Cash flows:</b>					
Principal repayments	(56)	(7 144)	(10 115)	-	(17 315)
Interest repayments	-	(634)	(70)	-	(704)
Other payments for financial activities	-	(298)	-	-	(298)
Payments under lease agreements	-	-	-	(19 640)	(19 640)
Proceeds	-	32 000	34 844	-	66 844
<b>Net cash flow from financing activities</b>	<b>(56)</b>	<b>23 924</b>	<b>24 659</b>	<b>(19 640)</b>	<b>28 887</b>
<b>Non-cash:</b>					
Interest accrued	-	703	174	5 933	6 810
Charged fees and commissions	-	298	-	-	298
Exchange rates	-	-	-	(8 621)	(8 621)
New lease obligations	-	-	-	102 996	102 996
Received loan against settlement of liabilities	-	-	1 342	-	1 342
Offsetting of receivables and loan liabilities	-	(3 865)	2 683	(19 267)	(20 449)
<b>Total non-monetary changes</b>	<b>-</b>	<b>(2 864)</b>	<b>4 199</b>	<b>81 041</b>	<b>82 376</b>
<b>31 December 2020</b>	<b>-</b>	<b>32 972</b>	<b>43 345</b>	<b>195 422</b>	<b>271 739</b>

	Long-term loans	Short-term loans	Lease liabilities	Short-term loans from related parties	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
<b>1 January 2019</b>	<b>475</b>	<b>11 860</b>	<b>-</b>	<b>14 679</b>	<b>27 014</b>
<b>Initial effect of applying IFRS 16</b>	<b>-</b>	<b>-</b>	<b>164 037</b>	<b>-</b>	<b>164 037</b>
<b>Restated opening balance as at 1 January 2019</b>	<b>475</b>	<b>11 860</b>	<b>164 037</b>	<b>14 679</b>	<b>191 051</b>
<b>Cash flows:</b>					
Principal repayments	-	(11 222)	-	(9 996)	(21 218)
Interest repayments	-	(820)	-	(55)	(875)
Other payments for financial activities	-	(355)	-	-	(355)
Payments under lease agreements	-	-	(38 005)	-	(38 005)
Proceeds	-	17 531	-	13 760	31 291
<b>Net cash flow from financing activities</b>	<b>-</b>	<b>5 134</b>	<b>(38 005)</b>	<b>3 709</b>	<b>(29 162)</b>
<b>Non-cash:</b>					
Interest accrued	-	413	7 604	280	8 297
Charged fees and commissions	-	355	-	-	355
Exchange rates	-	-	3 166	-	3 166
Reclassification	(419)	419	-	(1 564)	(1 564)
Received loan against settlement of liabilities	-	-	-	2 462	2 462
Subordinated debt	-	-	-	(5 079)	(5 079)
Offsetting of receivables and loan liabilities	-	(6 269)	(2 781)	-	(9 050)
<b>Total non-monetary changes</b>	<b>(419)</b>	<b>(5 082)</b>	<b>7 989</b>	<b>(3 901)</b>	<b>(1 413)</b>
<b>31 December 2019</b>	<b>56</b>	<b>11 912</b>	<b>134 021</b>	<b>14 487</b>	<b>160 476</b>

## 23 Employee remuneration

### 23.1 Employee benefit expense

Expenses recognized for employee benefits include:

	2020 BGN'000	2019 BGN'000
Wages, salaries	(8 815)	(14 217)
Social security costs	(1 549)	(2 385)
Compensations in compliance with Labour Code	(1 844)	(362)
Unused compensated leaves	778	(276)
Pension provisions	148	(85)
	<b>(11 282)</b>	<b>(17 325)</b>

### 23.2 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:

	2020 BGN'000	2019 BGN'000
<b>Long-term</b>		
Pension provisions	541	857
Long-term pensions	<b>541</b>	<b>857</b>
<b>Short-term</b>		
Wages	565	1 743
Unused compensated leaves	576	1 354
Social security expenses	502	680
Short-term pension provisions	66	386
Short-term pension and other employee obligations	<b>1 709</b>	<b>4 163</b>

The current portion of these liabilities represents the Company's obligations to its current and former employees that are expected to be settled during 2021.

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 2020, 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:

	2020 BGN'000	2019 BGN'000
Provision for retirement at the beginning of the period	1 243	922
Increase in pension provisions due to retirement age occurrence	(374)	350
Discount	12	14
Compensation paid to personnel	(274)	(43)
	<b>607</b>	<b>1 243</b>

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:

	2020 BGN'000	2019 BGN'000
Defined benefit obligations at 1 January	1 243	922
Current service cost	128	129
Interest cost	12	14
Actuarial (gains)/losses	(502)	221
Benefits paid	(274)	(43)
<b>Defined benefit obligations at 31 December</b>	<b>607</b>	<b>1 243</b>

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

	2020	2019
Discount rate	1%	1,50%
Expected rate of salary increases	1%	1%
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:

	2020 BGN'000	2019 BGN'000
Current service cost	(128)	(129)
Interest cost	(12)	(14)
<b>Total expenses, recognized in the profit or loss</b>	<b>(140)</b>	<b>(143)</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 32).

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

	2020 BGN'000	2019 BGN'000
Actuarial (gains)/loss due to changes in demographic assumptions	(502)	221
<b>Total expenses, recognized in other comprehensive income</b>	<b>(502)</b>	<b>221</b>

Based on the Company's past experience the payments under the defined benefits plans for 2021 are expected to be BGN 66 thousand.

The weighted average duration of the obligation of payments of defined benefits as at 31 December 2020 is 5 years (2019: 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 following table summarizes the sensitivity analysis and the effects of changes in these actuarial assumptions on the defined benefit liability at 31 December 2020:

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)	(11)	11
<b>Salary growth rate</b>	<b>1%</b>	<b>1%</b>
Increase / (decrease) in the defined benefit liability (BGN '000)	(42)	48

<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)	44	(43)

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.

## 24 Trade payables

	2020 BGN'000	2019 BGN'000
<b>Short-term</b>		
Trade and other payables	64 011	65 903
Advances received	960	788
<b>Total short-term trade payables</b>	<b>64 971</b>	<b>66 691</b>
<b>Total trade payables</b>	<b>64 971</b>	<b>66 691</b>

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

	2020 BGN'000	2019 BGN'000
Payables related to landing and maintenance of aircrafts	25 773	30 288
Lease liabilities and short-term operating lease of airplanes payables, due	16 922	10 301
Airplane fuel payables	4 314	5 594
Other services payables	7 530	6 396
Air navigation services liabilities	4 485	5 076
Spare parts supplies	2 238	4 258
Catering, supplies and services	552	998
Received advances from customers for tickets sale	960	788
Other trade payables	2 197	2 992
	<b>64 971</b>	<b>66 691</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.

## 25 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 639 thousand as at 31 December 2020.

To meet its obligations for 2020, by 30 April 2021, the Company must obtain additional 11 283 number of allowances for carbon emissions amounting to BGN 639 thousand, 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 2020, verified by an accredited expert.

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

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	2020 BGN'000	2019 BGN'000
<b>Short-term</b>		
Carrying amount as at 1 January	1 966	1 534
Accrued provisions	639	1 966
Amounts utilized	(1 966)	(1 534)
<b>Carrying amount as at 31 December</b>	<b>639</b>	<b>1 966</b>

## 26 Other receivables

	2020 BGN'000	2019 BGN'000
Tickets sold	18 662	20 121
Guarantees from tickets sales agents and other similar	4 378	2 201
Deferred income	143	2 905
Tax liabilities other than income tax liabilities	226	497
Other	18	219
	<b>23 427</b>	<b>25 943</b>

Payables regarding tickets sold, amounting to BGN 18 662 thousand. (2019: 20 121 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 IFRS 15, these amounts are treated as a contract liability.

Deferred income at the amount of BGN 143 thousand. (2019: BGN 2 905 thousand) is related to the prepaid amounts according to operating lease agreements for aircraft and prepaid charter flights.

## 27 Traffic revenue

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

	2020 BGN'000	2019 BGN'000
International scheduled flights	83 385	159 385
International charter flights	8 361	82 525
Domestic scheduled flights	9 751	19 233
Income from tickets and taxes with expired validity	3 914	3 698
Ticket issuance charges	1 183	1 844
	<b>106 594</b>	<b>266 685</b>

Traffic revenue includes 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 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.



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

Route	2020 BGN'000	2019 BGN'000
Sofia – Amsterdam – Sofia	17 282	19 016
Sofia – Paris – Sofia	10 627	16 824
Sofia – Brussels – Sofia	3 880	12 834
Sofia – London – Sofia	9 707	13 433
Sofia – Madrid – Sofia	3 698	10 190
Other international flights	38 191	87 088
	<b>83 385</b>	<b>159 385</b>

The reason for the decline in revenue is the imposed and constantly changing requirements and limitations, in connection with to the restrictions of the spread of Covid-19. This applies to both incoming and outgoing passenger traffic. The Covid-19 pandemic has an extremely large and negative effect on passenger traffic and demand for air travel.

For the same reasons, the charter program in 2020 was relatively weak in terms of volume and revenues compared to 2019. The structure of charter activity changed. Following the cancellation of the announced charter flights under the concluded contracts for the traditional markets such as Russia and Israel, the Company performed single flights requested by foreign trade organizations for transportation of workers abroad. Charter flights to Nigeria and China represent 22% of operating revenues, followed by flights to Russia-10%, to Israel - 8% and other countries with a lower contribution rate Denmark (1.54%), Turkey (1.54%), Maldives (1.42%).

Charter destination	2020 BGN'000	2019 BGN'000
Nigeria	1 029	-
China	797	-
Russia	866	27 338
Israel	653	16 197
Poland	45	11 572
Slovakia	-	9 357
Denmark	129	4 795
Maldives	119	-
Greece	62	1 751
Spain	99	811
Turkey	129	775
Other	4 433	9 929
	<b>8 361</b>	<b>82 525</b>

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

Route	2020 BGN'000	2019 BGN'000
Sofia – Varna – Sofia	8 827	17 688
Sofia – Burgas – Sofia	566	542
Other combined domestic flights	358	1 003
	<b>9 751</b>	<b>19 233</b>

The Covid-19 pandemic has a significant negative economic impact on aviation.

The effect of the pandemic is that business traffic stops altogether. This affected destinations used mainly for pre-pandemic business travel. This drop in demand necessitated a drastic reduction or even suspension for a certain period of time of the weekly frequencies of flights to Brussels, Berlin, Frankfurt, etc., some of the flights had to be stopped due to lack of traffic. Tourist traffic, on the other hand, has decreased by more than 80%, permanent bans on tourist travel and requirements that passengers cannot always meet are the main reason for

this. The only travellers in a pandemic are sailors, ethnic trafficking, people visiting relatives and travellers as a matter of urgency.

All this necessitated a reduction of 50% of the flight program for 2020 compared to 2019 for Bulgaria Air and a corresponding reporting of a drastic decline in revenues from operating activities.

In 2020, we had 3 133 flights compared to 6 376 in 2019. Some major business travel destinations, such as Brussels, Berlin, Frankfurt, as well as Amsterdam and Paris, have significantly reduced passenger traffic, necessitating a massive reduction in flights, although since the announcement of the Covid-19 pandemic, the airline has sought to minimize cancelled flights.

In the charter program, the statistics are very indicative of the impact of Covid-19 on aviation. For the summer 2020 season Bulgaria Air has fulfilled only 8% of the planned charter program.

For 2020, the airline reports a significantly higher percentage of passengers who did not show up for their flight. Statistics show that if in 2019 there are on average between 3-5 missing passengers on a flight, then in 2020 there are already between 20-30 passengers on a flight. This makes it extremely difficult to forecast flight revenues. The reasons are mainly the restrictions that are being introduced locally in order to limit the spread of Covid-19.

As of 31 December the Company has reported balances on the contracts with customers as follows:

	2020 BGN'000	2019 BGN'000
<b>Receivables from contracts with customers</b>		
Trade receivables (note 17)	11 148	21 999
Related party receivables (note 35.1)	1 289	2 890
<b>Contract liabilities</b>		
Performance obligations in respect of non-scheduled tickets for scheduled flights (note 26)	(18 662)	(20 121)
Implementation obligations in relation to prepaid charging for charter flights	(143)	-
Performance obligations in relation to prepaid remuneration for other services	-	(17)
Payment Obligation (note 24)	(960)	(788)

## 28 Other revenue

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 IFRS 16.

	2020 BGN'000	2019 BGN'000
<b>Revenue from contracts with customers in the scope of IFRS 15</b>		
Consulting services	3 000	2 220
Fines and penalties	2 457	3 699
Advertising revenue	564	650
Commissions	464	979
Revenue from sale of goods	380	867
Consultancy, technical, telecommunication and transport services	88	123
Revenue from sale of materials	47	41
Other	4 240	2 902
<b>Rental income under IFRS 16</b>		
Aircraft leases	5 657	26 107
Other rent	1 197	1 200
<b>Other income outside the scope of IFRS 15 and IFRS 16</b>		
Reversed maintenance reserve	34 283	9 566
State grant funding revenues	1 601	-
Revenue from court cases	-	8 281
Written-off liabilities to suppliers	957	2 023
Insurance claims	87	-
	<b>55 022</b>	<b>58 658</b>

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

	2020 BGN'000	2019 BGN'000
<b>Revenue recognized over time</b>		
Consulting services	3 000	2 220
Fines and penalties	2 457	3 699
Commissions	464	979
Advertising revenue	564	650
Consultancy, technical, telecommunication and transport services	88	123
Other	4 240	2 902
<b>Revenue recognized at a point in time</b>		
Revenue from sale of goods	380	867
Revenue from sale of materials	47	41
	<b>11 240</b>	<b>11 481</b>

Revenue from fines and penalties is related to defaults on the contractual terms on behalf of the Company's customers. They include cancelation flight fees, fees for failing to comply with deadlines, prorated 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 5 657 thousand (2019: BGN 26 107 thousand) is related to lease agreements (sub-leasing) with two other airlines abroad. Aircrafts are wet leased (with crew). In 2020, due to the Covid-19 pandemic, the demand for rental aircraft was virtually stopped due to the very limited market.

As of the date of preparation of these financial statements Bulgaria Air AD is in the process of continuous market research in this direction and offering free capacity.

As of the date of preparation of these financial statements Bulgaria Air AD does not have short-term operating lease agreements for aircrafts.

The Company has concluded contracts for subleasing premises that are rented by it. As a lessor of premises, the Company has realized rental income in the amount of BGN 1 197 thousand (2019: BGN 1 200 thousand), presented in position Other leases.

The Company leases investment properties under operating lease agreements. Detailed information is presented in Note 9.

Detailed information regarding the state grant funding revenues is presented in Note 4.21.

## 29 Hired services expenses

	2020 BGN'000	2019 BGN'000
Landing and maintenance charges – local and international	(20 179)	(53 958)
Operating lease and maintenance expenses (note 29.1)	(13 011)	(39 547)
Overflight fees – local and international	(9 699)	(21 091)
Reservation system	(5 846)	(11 823)
Maintenance, repair and technical services expenses	(5 523)	(8 133)
Commission expense	(2 486)	(4 474)
Lease of premises and other leases (note 29.1)	(2 138)	(2 616)
Lease of engines and spare parts	(1 652)	(2 197)
Insurances	(1 460)	(1 319)
Catering	(682)	(2 822)
Advertising	(653)	(914)
Block seat expenses	(347)	(4 168)
Consultancy, audit and legal services	(299)	(617)
Other	(4 617)	(5 933)
	<b>(68 592)</b>	<b>(159 612)</b>

Other hired services expenses are related to subscriptions, taxes and fees, transport services, training, crew accommodation expenses, printing and other services.

### 29.1 Rental expenses, outside the scope of IFRS 16

	2020 BGN'000	2019 BGN'000
Short-term leases	3 238	20 432
Non-leasing components	11 910	21 731
	<b>15 148</b>	<b>42 163</b>

The Company has accepted for certain lease agreements, which were previously reported as operating lease and have a residual lease term of less than 12 months or are for the lease of low-value assets, to use the facilitated transition to the new standard, according to which assets with the right of use are not recognized, but a lease expense under the straight-line method is reported for the remaining term of the contract.

The non-leasing components represent amounts for the maintenance of the aircraft, due under the leasing contracts, for which the Company has chosen a separate reporting approach.

### 30 Cost of materials

	2020 BGN'000	2019 BGN'000
Aircraft fuel	(21 853)	(74 595)
Aircraft spare parts	(4 694)	(6 661)
Other	(2 348)	(2 619)
	<b>(28 895)</b>	<b>(83 875)</b>

### 31 Other expenses

	2020 BGN'000	2019 BGN'000
Business trips	(2 500)	(6 063)
Returns, irregularity and fines	(2 490)	(3 118)
Accruals on provision for greenhouse gas emissions allowances	(1 597)	(2 430)
Cost of goods sold	(279)	(547)
Re-debits	(50)	(150)
Tax expenses	(5)	(4)
Other	(1 390)	(725)
	<b>(8 311)</b>	<b>(13 037)</b>

### 32 Financial cost and finance income

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

	2020 BGN'000	2019 BGN'000
Interest expenses for financial liabilities carried at amortized cost		
- interest on leasing	(5 933)	(7 604)
- borrowings	(877)	(693)
- interest on late payments to suppliers	(3 489)	(989)
<b>Total interest expenses for financial liabilities carried at amortized cost</b>	<b>(10 299)</b>	<b>(9 286)</b>
Interest on tax liabilities and legal claims	(62)	(898)
Interest expenses on defined benefit obligations	(12)	(14)
<b>Total interest expenses</b>	<b>(10 373)</b>	<b>(10 198)</b>
Other finance costs		
- bank fees and commissions	(302)	(359)

	2020 BGN'000	2019 BGN'000
currency exchange rate losses	(19 418)	(9 500)
<b>Total other finance costs</b>	<b>(19 720)</b>	<b>(9 859)</b>
<b>Total finance cost</b>	<b>(30 093)</b>	<b>(20 057)</b>

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

	2020 BGN'000	2019 BGN'000
Interest income on financial assets carried at amortized cost including:		
- loans granted	983	2 530
- trade and other receivables	-	9
<b>Total interest income on financial assets carried at amortized cost</b>	<b>983</b>	<b>2 539</b>
Currency exchange rate gains	25 957	6 339
<b>Finance income</b>	<b>26 940</b>	<b>8 878</b>

### 33 Income tax income

The relationship between the expected tax expense based on the applicable tax rate in Bulgaria of 10 % (2019: 10 %) and the reported tax expense actually in the statement of profit or loss and other comprehensive income can be reconciled as follows:

	2020 BGN'000	2019 BGN'000
Loss for the year before tax	(20 425)	(1 981)
Tax rate	10%	10%
<b>Expected tax expense</b>	<b>-</b>	<b>-</b>
Tax effect of adjustments for tax-exempt income	8 282	5 054
Tax effect of adjustments for non-deductible expenses	(8 021)	(5 572)
Tax loss carried forward	-	(143)
<b>Current tax income</b>	<b>-</b>	<b>-</b>
Deferred tax income:		
Origination and reversal of temporary differences	1 695	352
<b>Income tax income</b>	<b>1 695</b>	<b>352</b>
<b>Deferred tax (expense)/income recognized directly in other comprehensive income</b>	<b>(9 908)</b>	<b>(11)</b>

Note 13 provides information on the deferred tax assets and liabilities.

### 34 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 37.

### 34.1 Transactions with owners

Transactions with owners are related to the major owner Bulgarian Airways Group EAD and ultimate owner Chimimport AD.

	2020 BGN'000	2019 BGN'000
Administrative-management services received	(360)	(487)
Rendered services	-	6
Interest expenses	(16)	(80)
Additional capital contributions through a subordinated debt	-	5 079
Amounts received under a contract for temporary financial contribution	21 217	4 969
Transformation of trade liabilities into a loan received	-	2 462
Transformation of a dividend obligation into a loan received	1 342	-
Repaid loans	(4 769)	-

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 for replacement of liabilities from 2020 and 2019, trade liabilities of Bulgaria Air AD to related parties under common control are transformed as a loan obligation to Bulgarian Airways Group EAD.

### 34.2 Transactions with subsidiaries

	2020 BGN'000	2019 BGN'000
Interest expenses on borrowings	(2)	(4)
Services received	34	-
Increase of investment in a subsidiary	428	-

### 34.3 Transactions with other related parties

	2020 BGN'000	2019 BGN'000
Sales of goods and services	3 740	3 719
Purchases of goods and services	(12 979)	(22 568)
Acquisition of software	(179)	-
Interest, taxes and commission expenses	(333)	(421)
Loans received	13 627	8 791
Loans repaid	(5 023)	9 986
Transformation of trade liabilities into a loan received	2 673	-
Acquisition of an investment in joint venture	182	-

### 34.4 Transactions with key management personnel

Key management personnel remuneration includes the following expenses:

	2020 BGN'000	2019 BGN'000
Short-term employee benefits	-	-
Wages	(243)	(223)
Social security costs	(7)	(11)
	<u>(250)</u>	<u>(234)</u>

**35 Related party balance at year end**  
**35.1 Related party receivables**

	2020 BGN'000	2019 BGN'000
Receivables from owners	8	9
Receivables from other related parties	1 289	2 890
<b>Short-term related party receivables</b>	<b>1 297</b>	<b>2 899</b>

The main part of the receivables from other related parties in the amount of BGN 1 289 thousand (2019: 2 890 thousand) is related to trade payables arising from provided consulting services, sale of airline tickets, leases and other.

Receivables from related parties are not secured.

In 2020 and 2019, no expected credit losses were recognized for receivables from related parties.

**35.2 Related party payable**

	2020 BGN'000	2019 BGN'000
<b>Non-current payables</b>		
Other related parties	7 285	4 733
<b>Total non-current payables to related parties</b>	<b>7 285</b>	<b>4 733</b>
<b>Current payables</b>		
Owners	25 089	7 659
Subsidiaries	286	282
Other related parties	24 563	18 524
<b>Total current payables to related parties</b>	<b>49 938</b>	<b>26 465</b>

The liabilities to the majority owner are formed mainly in respect with a concluded loan agreement which has an option for prolonging. The loan is secured by a pledge agreement on an option to acquire three aircrafts and is agreed at market interest rates. In 2020, as a result of the severe impact of the Covid-19 pandemic, which significantly affected the airline's business, the terms of the contract were renegotiated in order to alleviate the liquidity of the Company. The payables as of 31.12.2020 amount to BGN 24 896 thousand (2019: BGN 6 951 thousand). The remaining part of the balance of the payable represents trade payables in the amount of BGN 193 thousand (2019: BGN 708 thousand) are due in connection with ordinary commercial transactions.

According to a contract concluded on 14.12.2020, the Company has received a loan from a related party in the amount of BGN 2 673 thousand. The loan should be repaid by 15.12.2022. The loan is provided at market interest rate and is secured. A codebtor of the loan is the owner of the lender, and the future dividend, which will be distributed from the lender to the owner, has the right to be set off against the loan obligation.

The payables to the subsidiary are related to a loan agreement, which should be settled in 2021 through mutual offsets with forthcoming additional instalments, which the airline will make to start the active activity of the subsidiary. The loan is not secured.

The payables to other related parties amounting to BGN 24 563 thousand (2019: BGN 18 524 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 9 074 thousand. (2019: BGN 11 391 thousand);
- liabilities under bank credit cards amounting to BGN 83 thousand (2019: BGN 222 thousand);
- a received trade loan from a related party - a commercial company, whose amount, together with the accrued and outstanding interest, is BGN 15 406 thousand as at 31 December 2020 (2019: BGN 6 911 thousand). The loan is short-term with a repayment term in 2020 and renegotiated for 2021 for financial support as a result of the negative effects of the pandemic on the airline's liquidity flows. The loan is not secured.

No collateral or guarantees related to liabilities to related parties have been provided.

### 36 Non-monetary transactions

During 2020 and 2019 the Company has entered into the following non-cash investing activities for which the use of cash and cash-equivalents is not required, and which are not reflected in the cash flow statement as follows:

- Increase of the Company's reserves by transforming loan liabilities to the majority owner and concluding a contract for subordinated debt in the amount of BGN 5 079 thousand as at 31.12.2019..
- Transformation of trade payables into trade loans in the amount of BGN 1 342 thousand (2019: BGN 2 462 thousand).
- Repayment of liabilities on short-term loans by offsetting with receivables from a related party with which a joint activity is carried out in the amount of BGN 3 865 thousand (2019: BGN 6 269 thousand).

### 37 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.

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.

Bank guarantees are issued from one commercial banks in favour of the Company at the amount of BGN 100 thousand, EUR 85 thousand, as well as letters of credit amounting to USD 999 thousand. The bank guarantees are issued to secure Company's trade payables.

In favour of Bulgaria Air AD there are 4 signed guarantee contracts in the amount of BGN 18.54 million with a guarantor the indirect majority owner to secure receivables of a commercial bank under credit agreements concluded in 2018, 2019 and 2020.

### Tax liabilities

The latest tax audits of the Company have been performed by the tax authorities as follows:

- Corporate tax - until 31 December 2012;
- VAT – until 31 December 2012;
- Personal income tax – until 31 December 2012;
- Social security – until 31 December 2012.

The management of the Company does not consider that there are significant risks as a result of the dynamic fiscal and regulatory environment in Bulgaria, which would require adjustments in the financial statements for the year ended 31 December 2020.

### 38 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:

	2020 BGN'000	2019 BGN'000	2018 BGN'000
<b>Debt instruments measured at amortised cost:</b>			
Trade and other receivables	33 829	52 906	42 669
Cash and cash equivalents	16 399	15 965	15 111
<b>Financial assets measured at fair value through other comprehensive income:</b>			
Equity instruments	18 000	18 000	18 000
	<b>68 228</b>	<b>86 871</b>	<b>75 780</b>



Financial liabilities measured at amortized cost	2020 BGN'000	2019 BGN'000	2018 BGN'000
<b>Long-term liabilities</b>			
Lease liabilities	158 936	100 953	-
Trade and other liabilities	7 285	4 733	8 114
Borrowings	-	56	475
	<b>166 221</b>	<b>105 742</b>	<b>8 589</b>
<b>Short-term liabilities</b>			
Trade and other liabilities	118 345	94 788	94 751
Lease liabilities	36 486	33 068	-
Borrowings	32 972	11 912	11 860
	<b>187 803</b>	<b>139 768</b>	<b>106 611</b>

See note 4.16 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 measured at fair value are presented in note 40.1. Description of the risk management objectives and policies of the Company related to the financial instruments is presented in note 39.

### 39 Financial instruments 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 38. 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. Priority of the management is to secure 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.

#### 39.1 Market risk analysis

##### 39.1.1 Foreign currency risk

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

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 liabilities are carried at amortized cost. Lease liabilities are also denominated in US dollars.

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. The Company has loans receivables in Russian rubbles.

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	USD BGN'000
<b>31 December 2020</b>			
Financial assets	26 975	963	5 429
Financial liabilities	(219 280)	(456)	(35)
<b>Total exposure</b>	<b>(192 305)</b>	<b>507</b>	<b>5 394</b>
<b>31 December 2019</b>			
Financial assets	48 120	1 636	6 939
Financial liabilities	(154 322)	(286)	(53)
<b>Total exposure</b>	<b>(106 202)</b>	<b>1 350</b>	<b>6 886</b>

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 (+/- 6.50 %) (for 2019: +/- 1.90 %)
- GBP (+/- 5.57 %) (for 2019 +/- 4.80 %)
- RUB (+/- 0.23 %) (for 2019 +/- 0.10 %)

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 6.5 % (2019.: 1.90 %) and GBP by 5.57 % (2019.: 4.80 %) and RUB by 0.23 % (2019.: 0.10 %), respectively, then this would have had the following impact:

	Effect over the net financial result for the year			
	USD BGN'000	GBP BGN'000	RUB BGN'000	Total BGN'000
31 December 2020	(12 500)	28	12	(12 459)
31 December 2019	(2 018)	65	7	(1 946)

If the exchange rate of the Bulgarian lev against the US dollar falls by 6.5% (2019: 1.90%), against the British pound falls by 5.57% (2019: 4.80%) and against the Russian ruble falls by 0.23% (2019: 0.10 %), then this change will be reflected as follows:

	Effect over the net financial result for the year			
	USD BGN'000	GBP BGN'000	RUB BGN'000	Total BGN'000
31 December 2020	12 500	(28)	(12)	12 459
31 December 2019	2 018	(65)	(7)	1 946

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 2020 compared to 2019 is due to the significant volatility of the USD in 2020.

### 39.1.2 Interest rate risk

As at 31 December 2020, 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 2020, 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 +/- 8.82 % 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 +/-13.78 %. These changes are

considered to be possible based on observations of current market conditions. All other parameters are accepted as constant.

	Net financial result for the year	
	Increase in interest rates BGN'000	Increase in interest rates BGN'000
<b>31 December 2020</b>		
Debt in BGN (3M EURIBOR 0.10 %)	(1 514)	1 514
Debt in EUR (BIR plus 12M EURIBOR 0.10 %)	(506)	506

	Equity	
	Increase in interest rates BGN'000	Decrease in interest rates BGN'000
<b>31 December 2020</b>		
Debt in BGN (3M EURIBOR 0.10 %)	(1 514)	1 514
Debt in EUR (BIR plus 12M EURIBOR 0.10 %)	(506)	506

	Net financial result for the year	
	Increase in interest rates BGN'000	Decrease in interest rates BGN'000
<b>31 December 2019</b>		
Debt in BGN (3M EURIBOR 0.10 %)	(398)	398
Debt in EUR (BIR plus 12M EURIBOR 0.20 %)	(190)	190

	Equity	
	Increase in interest rates BGN'000	Decrease in interest rates BGN'000
<b>31 December 2019</b>		
Debt in BGN (3M EURIBOR 0.53 %)	(398)	398
Debt in EUR (BIR plus 12M EURIBOR 1.95 %)	(190)	190

### 39.1.3 Other price risks

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%.

### 39.2 Credit risk

Credit risk is the risk that a counterparty will not pay its obligation to the Company. The Company is exposed to this risk in connection with trade receivables from customers, incl. and from related parties, receivables from granted loans (cessions) and other financial receivables. 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

	2020 BGN'000	2019 BGN'000	2018 BGN'000
<b>Classes of financial assets – carrying amounts</b>			
<b>Debt instruments measured at amortised cost:</b>			
Related party receivables	1 283	2 732	21 071
Trade receivables	6 737	20 145	9 528
Other receivables	25 809	30 029	12 070
Cash and cash equivalents	16 399	15 965	15 111
<b>Financial assets measured at fair value through other comprehensive income:</b>			
Equity instruments	18 000	18 000	18 000
	<b>68 228</b>	<b>86 871</b>	<b>75 780</b>

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. Although a significant proportion of sales revenues are received in advance in order to reduce credit risk the Company reported an increase in credit risk as a result of the Covid-19 pandemic, which worsened the financial condition and creditworthiness of most companies operating in the aviation sector.

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

As at 31 December 2020 and 31 December 2019 financial assets, representing receivables from sale of tickets, are pledged as collateral for bank loans.

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.

The Group applies the IFRS 9 simplified approach of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

In determining the amount of expected credit losses, a part of trade and other receivables are assessed on an individual basis in order to assess the specific characteristics of each client and the credit risk of the Company in relation to the respective counterparty. The rest are assessed on a collective basis as they have similar credit risk characteristics. They are grouped according to the number of days elapsed, the geographical location of customers and the terms of payment.

The expected loss rates are based on the payment profile for sales over the past 3 years as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. However, given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period. Trade and other receivables are written off (i.e. derecognised) when there is no reasonable expectation of recovery. Failure to make payments within more than 2 years from the invoice date and failure the Company to engage on alternative payment arrangement is considered indicators of no reasonable expectation of recovery.

In applying the model for calculating expected credit losses, the Company's management has taken into account the deteriorating economic situation caused by Covid-19 - the pandemic, liquidity difficulties in business in general and deteriorating credit quality for companies in the most affected industries. Where applicable, a higher discount rate was applied to reflect the increase in credit risk.

The closing balance of expected credit losses on trade receivables as at 31 December 2020 shall be equal to the opening balance of expected credit losses on financial assets as follows:

Movement in expected credit losses	Trade receivables BGN'000	Other financial receivables incl. loans granted BGN'000	Cash and cash equivalents	Total BGN'000
Balance as at 1 January 2020	(99)	(698)	-	(797)
Expected credit loss recognised during the year	(954)	(1 169)	(72)	(2 195)
Impairment loss reversed	47	-	-	47
<b>Balance as at 31 December 2020</b>	<b>(1 006)</b>	<b>(1 867)</b>	<b>(72)</b>	<b>(2 945)</b>

An reconciliation of the movement of expected credit losses by types of receivables for 2019 is presented in the table below:

Movement in expected credit losses	Trade receivables	Other financial receivables incl. loans granted	Total
	BGN'000	BGN'000	BGN'000
Balance as at 1 January 2021	(366)	(383)	(749)
Expected credit loss recognised during the year	(48)	(315)	(363)
Impairment written-off (uncollectable)	315	-	315
Balance as at 31 December 2021	(99)	(698)	(797)

### 39.3 Liquidity risk

Liquidity risk is the risk arising from the Company not being able to meet its obligations.

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 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.

In 2020, the airline faced serious liquidity challenges as a result of the suspension of flights with the introduction of restrictive measures. The global Covid-19 pandemic is having a negative impact on both the aviation business as a whole and related activities. This made it necessary to unite the efforts of different sectors to get through this difficult period.

Some of the measures were proposed and applied to the entire aviation industry /deferral of flight fee payments, discounts for regular payment, reduction of the amount of paid deposits/. Apart from that, the management of the Company managed to negotiate deferral of payments with other creditors. Such agreements have been reached regarding aircraft lease payments, landing and servicing fees with some of the suppliers, etc. An agreement has been reached with some of the lessors to release part of the cash from accumulated maintenance reserves.

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

31 December 2020	Short-term Within 1 year BGN'000	Long-term 1 to 5 years BGN'000	Long-term Over 5 years BGN'000
Trade and bank loans	32 972	-	-
Lease liabilities	36 486	100 639	58 297
Trade payables	64 011	-	-
Related party payables	49 938	7 285	-
Other liabilities	4 396	-	-
	<b>187 803</b>	<b>107 924</b>	<b>58 297</b>

31 December 2019	Short-term Within 1 year BGN'000	Long-term 1 to 5 years BGN'000	Long-term Over 5 years BGN'000
Trade and bank loans	11 912	56	-
Lease liabilities	33 068	87 285	13 668
Trade payables	65 903	-	-
Related party payables	26 465	4 733	-
Other liabilities	2 420	-	-
	<b>139 768</b>	<b>92 074</b>	<b>13 668</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.

#### 40 Fair value measurement

##### 40.1 Fair value measurement of financial instruments

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. This hierarchy is based on the significance of inputs used in measuring the fair value of the financial assets and liabilities:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 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 from Level 3 in Level 1 or/and Level 2.

Level 3	2020 BGN'000	2019 BGN'000
<b>Financial assets</b>		
Shares that are not traded on a stock exchange	18 000	18 000
<b>Total</b>	<b>18 000</b>	<b>18 000</b>

##### 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.

Financial assets at fair value through other comprehensive income are not traded on an exchange and no market price is available for them. The Company determines their fair value through techniques for calculating present value and / or net assets with the support of an independent external appraiser. The measurement of fair value is based on input information about the specific entity. This information is not based on observed market data and is adjusted for certain risks and with an appropriate discount rate. The valuation is based on the net assets of the entity 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.

##### 40.2 Fair value measurement of non-financial instruments

Non-financial assets of the Company measured at fair value are classified as aircrafts, 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 aircrafts as at 31 December 2020, including those classified as right-of-use assets, is BGN 301 million.

Fair value of the Company's aircraft assets is estimated on appraisals performed by independent, professionally qualified valuator and subsequent confirmation. Fair value is based on the comparative approach (market analogues). When assessing the assets specific factors such as aircrafts' technical condition, current use, the uniqueness of the structure and market situation 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 assets 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.

The fair value of the Company's aircrafts was determined on the basis of reports of independent licensed appraisers as of 31 December, with a report dated from 6 January 2021. The assessment took into account the impact of the COVID 19 pandemic factors on the aviation equipment market. It is accepted that this factor, mainly for the most common narrow-body aircraft, such as the evaluated ones, which are mainly on the secondary market, has an impact not on the specific purchase prices but on the change in the ratio between leasing and

purchase-sale, in favour of the former. (according to the analysis of "AIRCRAFT MONITOR", for the period September 2020 - December 2020 on the market of aviation equipment and financing of aviation transactions).

When using the methods of the comparative approach, a comparative study of the information from the established market value of the object at the time of the assessment is carried out, i.e.. now. It is based on the thesis "a reasonable buyer will not pay for an object more than the value of an analogous object available for purchase" and is used in determining the value based on data on recent transactions for purchase - sale with similar objects or with sufficiently adjusted values of existing sales offers. Thus, the ultimate goal of the methods of the comparative (market) approach is to determine the market value.

The following steps were taken in the valuation using the market approach:

- market research and proposals for the sale of similar objects, i.e.. such objects that are most comparable to the assessed object;
- selection of analogues;
- collection, study and verification of the information for each selected object - for the sale price and offer prices, payment of the transaction, technical characteristics and conditions for sale;
- analysis and comparison of each object with assessments of technical characteristics and conditions of sale;
- adjustment of the selling prices or the offer prices for each of the comparable objects in accordance with the available differences between them and the evaluated object.

Significant unobserved data are related to the correction for the factors specific to the Company's aircrafts. The extent and direction of this adjustment depends on the number and characteristics of the observed market transactions with similar assets that have been used for valuation purposes. Although these data are a subjective judgment, management believes that the final assessment would not be significantly affected by other possible assumptions. The main factors influencing the price are:

- number of passengers for which the aircraft is equipped;
- the flight hours since the start of operation of the aircraft;
- number of landings since the beginning of the operation of the aircraft;
- the condition of the aircraft engines;
- the years of operation of the airplane from the date of its manufacture;
- aircraft equipment;
- the condition of the interior and the condition of the paint and varnish coating of the aircraft body;
- the technical condition of the aircraft.

When using the market approach, the value of the object of evaluation is determined in comparison with the sales prices of identical or similar objects. The basis for using this approach is the fact that the value of the object of evaluation is directly related to the selling price of similar objects, which is the initial value for risk assessment in operations for the purpose of evaluation - for financial reporting purposes. Each comparable sale is compared with the evaluated object according to its most important parameters. The price of comparable sales is adjusted to reflect significant differences between them.

The Company's non-financial assets, which are measured periodically at fair value, are classified in level 3 of the fair value hierarchy.

Fair value is presented in the relevant asset class presented in Notes 6 **Error! Reference source not found.** and 8.

#### **41 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.

According to the requirements of the Civil Aviation Act (CAA), each air carrier must at all times have an equity of not less than BGN 160 thousand. The company fulfils the externally imposed legal requirements, including of the competent body for financial stability.

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. In the conditions of uncertain situation for the aviation sector, the Company relies on the financial support of the sole owner and the ultimate parent company to continue to operate.

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

	2020 BGN'000	2019 BGN'000
Equity	148 348	77 400
+Subordinated debt	15 776	14 183
<b>Adjusted capital</b>	<b>164 124</b>	<b>91 583</b>
Debt	365 248	262 624
- Cash and cash equivalents	(16 399)	(15 965)
<b>Net debt</b>	<b>348 849</b>	<b>246 659</b>
<b>Adjusted capital to net debt</b>	<b>2,13</b>	<b>2,69</b>

#### 42 Post-reporting date events

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of its authorization for issue, except for the following non-adjusting events:

- With the occurrence of the second wave of Covid-19 EBO, respectively BNB decided to reactivate Guideline EBA/GL/2020/02 on legislative and non-legislative moratoria on loan repayments, with a new deadline of 31 March 2021, replacing the previous deadline 30 September 2020. The Company took advantage of the opportunity to defer and settle due liabilities to banks and rescheduled part of its liabilities to banks under the new mitigation conditions.
- At the beginning of March 2021, the Company entered into a lease agreement for an Airbus 320-200 aircraft with an intermediary lessor for a period of 11 years. The aircraft was delivered to Sofia Airport in March 2021. As of the date of preparation of these financial statements, the aircraft has not yet been put into operation, as preparatory actions are being carried out in connection with ensuring all necessary activities related to airworthiness.
- In connection with the ongoing global pandemic of Covid-19, described in Note 2 to these financial statements, by Decision №72 of 26.01.2021 of the Council of Ministers the term of the emergency epidemic situation in Bulgaria has been extended until 30 April 2021. As the situation and supportive measures taken by the state authorities are extremely dynamic, the management is not able to assess the effect of the Coronavirus pandemic over the future financial condition and performance of the Company, but considers that the continuing impact will continue to have a negative effect on the Company's activity.

#### 43 Authorization for issuance of the financial statements

Financial statements as at 31 December 2020 (including comparative information) are authorized for issuance by the Board of Directors on 25 May 2021.