“B U L G A R G A Z” E A D

COMPANY’S FINANCIAL STATEMENT

FOR THE YEAR ENDED DECEMBER 31st, 2007

WITH INDEPENDENT AUDITORS’ REPORT THEREON

Bulgargaz EAD *Company's financial statement for the year ended December31st , 2007*

INCOME STATEMENT
Of " BULGARGAZ" EAD for the year ended at December 31st, 2007

In thousands of BGN

	Note	2007	Restatement of previous year for the period Oct, 1st – Dec 31st, 2006
Revenue from sale of natural gas		1 086 281	268 867
Other operating income	2	214 489	43 921
Total operating income		**1 300 770**	**312 788**
Cost of goods sold	3	(967 427)	(243 193)
Impairment losses	4	(6 518)	(19 488)
Cost of materials	5	(55 734)	(54)
Hired services	6	(164 204)	(30 285)
Depreciation and amortization of assets	11, 12	(74)	(4)
Salaries and remuneration	7	(1 038)	(40)
Social security	7	(139)	(5)
Other operating expenses	8	(107)	(10)
Operating profit		**105 529**	**19 709**
Net financial income/expenses	9	(15 265)	(5 529)
Profit before tax		**90 264**	**14 180**
Income tax expense	10	(8 864)	(10 172)
Net profit for the year		**81 400**	**4 008**

Z. KIRKOVA
Chief Accountant

D. GOGOV
Executive Director

The financial statement was approved by The Board of Directors on March 18th, 2008.
The Income Statement is to be read in conjunction with the notes and as a forming part of the financial statement.

Специализирано одиторско предприятие "Бонев Софт Експерт" София Рег. №021

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Bulgargaz EAD *Company's financial statement for the year ended December31st , 2007*

BALANCE SHEET
Of " BULGARGAZ" EAD as at December 31st, 2007

In thousands of BGN

	Note	2007	Restatement of previous year for the period Oct, 1st – Dec 31st, 2006
Assets			
Non-current assets			
Property, plant and equipment	11	186	119
Intangible assets	12	18	55
Long-term receivables	13	132 192	41 435
Deferred tax assets	18	16 976	16 917
Total non-current assets		**149 372**	**58 526**
Current assets			
Inventory	14	125 821	90 090
Trade and other receivables	15	184 138	299 972
Cash and cash equivalents	16	104 411	0
Total current assets		**414 370**	**390 062**
Total assets		***563 742***	***448 588***
Equity			
Share capital	17	304 391	304 391
Adjustments			47 386
Reserves		47 964	69
Retained earnings from previous year		(2 394)	
Retained earnings from current year		81 400	413
Total equity		***431 361***	***352 259***
Liabilities			
Non-current liabilities			
Long-term loan liabilities		14 000	
Deferred tax liabilities	18	6	11
Total non-current liabilities		**14 006**	**11**
Current liabilities			
Short-term loan liabilities		7 000	
Trade and other payables	20	111 303	96 318
Retirement compensation liabilities		72	
Total current liabilities		**118 375**	**96 318**
Total liabilities		***132 381***	***96 329***
Total equity and liabilities		***563 742***	***448 588***

Z. KIRKOVA
Chief Accountant

D. GOGOV
Executive Director

The financial statement was approved by The Board of Directors on March 18th, 2008.
The Balance Sheet is to be read in conjunction with the notes and as a forming part of the financial statement.

Рег. №021

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Bulgargaz EAD *Company's financial statement for the year ended December31st , 2007*

STATEMENT OF CASH FLOWS
Of " BULGARGAZ" EAD for the year ended at December 31st, 2007

In thousands of BGN

	Note	2007	Restatement of previous year for the period Oct, 1st – Dec 31st, 2006
Cash flows from operating activities			
Net profit / (loss) before tax		**90 264**	**14 180**
Adjustments for:			
Depreciation and amortization	11, 12	74	4
Reject of property, plant and equipment	8	1	
Licenses written off	8	15	
Unrealized income of assets			(190)
Impairment of trade and other receivables	4	6 518	19 488
Provisions		(160)	(4 905)
Accruals for retirement compensation		130	
Changes in deferred taxes			
Unrealized exchange differences from revaluations, net		15 445	5 514
Operating profit before changes			
in working capital		**112 287**	**34 091**
(Increase) / decrease in receivables		13 844	(64 046)
(Increase) / decrease in inventory		(35 731)	691
Increase / (decrease) in payables		33 694	29 265
(Increase) / decrease in restricted amounts			
Cash flows from operating activities		***124 094***	***1***
Corporate income tax paid		(8 039)	
Net cash flows from operating activities		***116 055***	***1***
Cash flows from investing activities			
Purchase of non-current assets		(120)	(1)
Net cash flow from investing activities		***(120)***	***(1)***
Cash flows from financing activities			
Dividends paid		(2 297)	
Net cash flows from financing activities		**(2 297)**	-
Net increase / (decrease)			
in cash and cash equivalents		**113 638**	-
Effect of exchange rate changes		(9 227)	
Net increase / decrease			
in cash and cash equivalents as restated		**104 411**	-
Cash and cash equivalents			
as at January 1st	**16**	***0***	***0***
Cash and cash equivalents			
as at December 31st	**16**	***104 411***	***0***

Z. KIRKOVA
Chief Accountant

D. GOGOV
Executive Director

The financial statement was approved by The Board of Directors on March 18th, 2008.
The Statement of Cash Flows is to be read in conjunction with the notes and as a forming part of the financial statement.

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ София Рег. №021 Бонев Софт Експерт ООД

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STATEMENT OF CHANGES IN EQUITY
Of " BULGARGAZ" EAD for the year ended at December 31st, 2007

In thousands of BGN

	Note	Shared capital	Legal reserves	Revaluation reserves	Retained earnings/(loss)	Total
Balance as at October 1st, 2006		**-**	**-**	**-**	**-**	**-**
Constitutive capital		**304 391**				**304 391**
Adjustments						**47 386**
Recognized profit for 2006		**-**	**-**	**-**	**4 008**	**4 008**
Dividends from profit for previous year		**-**				
Retained earnings for previous years		**-**				
Bonus payments from profit for previous years		**-**				
Donations		**-**				
Reversal of deferred tax liability related to revaluation reserve	18	**-**		**(8)**		**(8)**
Transformation from revaluation reserve to retained earnings of property, plant and equipment written off		**-**		**-**		
Revaluation of non-current assets: increase		**-**		**78**		**78**
decrease				**(1)**		**(1)**
Other changes		**-**			**(3 595)**	**(3 595)**
Balance as at December 31st, 2006		**351 777**	**0**	**69**	**413**	**352 259**
Balance as at January 1st, 2007		**351 777**	**0**	**69**	**413**	**352 259**
Constitutive capital Transfer into reserves		**(47 386)**	**47 386**			
Recognized profit for 2007		**-**	**-**	**-**	**81 400**	**81 400**
Dividends from profit for previous year		**-**			**(2 296)**	**(2 296)**
Distribution of profit from previous years		**-**	**510**		**(510)**	**-**

Bulgargaz EAD *Company's financial statement for the year ended December31st, 2007*

Bonus payments from profit for previous years		-				
Donations		-				
Reversal of deferred tax liability related to revaluation reserve	18	-				
Transformation from revaluation reserve to retained earnings of property, plant and equipment written off		-		(1)	1	
Revaluation of non-current assets: increase decrease		-				
Other changes		-			(2)	(2)
Balance as at December 31st, 2007		**304 391**	**47 896**	**68**	**79 006**	**431 361**

Z. KIRKOVA
Chief Accountant

D. GOGOV
Executive Director

The financial statement was approved by The Board of Directors on March 18th, 2008.
The Statement of Changes in Equity is to be read in conjunction with the notes and as a forming part of the financial statement.

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1. Legal status

In compliance with Directive 2003/55/EU of the European Union and an auditor's report on the Plan of Transformation, the Board of Directors of Bulgargaz EAD by Protocol No 162 dated October 27th, 2006 approved a Plan of transformation of Bulgargaz EAD by separating from it of solely owned joint-stock companies according Art.262 of Commerce Act. The sole owner of the capital of the newly founded companies is Bulgargaz Holding EAD.

Bulgargaz EAD (The Company) is a joint-stock company, registered in compliance with Commerce Act, situated in Sofia. **In compliance with Decision No 1, dated January 15th, 2007** Sofia City Court put in the Register of trade companies under No 113068, volume 1534, page 35 No 16440/2006 sole owned trade company Bulgargaz EAD, ICC 2106164400.

The newly founded company Bulgargaz EAD deals with public supply of natural gas and the purchases and supplies connected to it; purchase of natural gas in order to deposit it in gas depository; marketing research and analysis of natural gas market.

- ✓ License No L-214-14/ Nov 29th, 2006 for public supply of natural gas. The term of the license is 35 years.

2. Material accounting policies

a) Statement of compliance

This financial statement has been prepared in accordance with International Financial Reporting Standards (IFRS/IAS), which comprise of standards and interpretations approved by the Committee of the European Union, applicable at the date of its preparation.

b) Basis of preparation

The financial statement is presented in Bulgarian Leva (BGN), rounded to the nearest thousand. Historic cost has been used as a basis for preparation with the exception of property, plant and equipment, which are presented at revalued amount, less accumulated depreciation.

International Standards for Financial Reports (ISFR) and interpretations not yet adopted
ISFR 8 Operating segments (effective from January 1st, 2009). The Standard demands reporting of segments on base of entity's components which the Management reviews in taking operational decisions. Operating segments are entity's components for which discrete financial information is available that is regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Entity's opinion is that ISFR 8 does not affect entity's operations.

IFRIC 11 ISFR 2 Group and Treasury Share Transactions (effective for periods starting at or after March 1st, 2007). The Interpretation demands an agreement for transfers, based on an entity's equity instruments, for which an entity receives goods or services to be accounted for share-based payment transactions, nevertheless the way of receiving the necessary equity instruments. The Interpretation also gives directions whether a payment agreement, based on equity instruments of the entity's parent, for which an entity receives goods or services, to be accounted for as equity-settled or as cash-settled in entity's financial statement. Entity's opinion is that IFRIC 11 does not affect entity's operations.

The Company operates in compliance with Bulgarian legislation and prepares its financial statements in accordance with IFRS/IAS. The Company has consistently applied the accounting policies during the periods presented in the report.

c) Comparative information

In cases when presentation or classification of items of the financial report have been changed, comparative information is restated in order to gain comparison with current period. Such restatements are necessary in order to present in deeper detail items from the Balance Sheet, Income Statement and notes to the financial statement.

Recalculation of comparative information

The adjustment in the amount of liabilities towards Bulgartransgaz EAD, which originated from incorrectly defined ratio during separation, is registered in 2007. Previous financial statements are recalculated as follows: Reduction of long-term liabilities with BGN 12 990 thousand; reduction of short-term liabilities with BGN 34 366 thousand; adjustment in equity for BGN 47 386 thousand. In compliance with the decision of the owner a specific reserve is formed, which purpose is only share capital increase.

There have been stated forfeits in greater amount than actual from a client that has paid partially his liabilities not in the accounts determined. As a result from the adjustment in 2007 the opening balance of gained earnings is decreased with BGN 4 691 thousand. Revenues from forfeit for 2006 are decreased with BGN 1 290 thousand; decrease in corporate tax with BGN 857 thousand and increase in VAT receivables with BGN 1 110 thousand, trade receivables decrease with BGN 6 658 thousand.

d) Estimations and valuations

In the course of application of the accounting policy the management of the Company has to make evaluations. Evaluations about the need of impairment of receivables have been done at the date of preparation of the financial report.

nty of valuations

The management of the Company has to make certain valuations in order to prepare the financial report in compliance with IFRS. These valuations influence the information presented in the financial report about the amounts of assets, liabilities, incomes and expenses. It is possible the actual results to differ the valuations.

(e) Foreign currency

Transactions in foreign currencies are translated to BGN at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are revalued to BGN at the foreign exchange rate ruling at that date. Foreign exchange differences are recognized in the income statement.

(f) Property, plant and equipment

(1) Owned assets

Property, plant and equipment are stated at revalued amount, less accumulated depreciation and impairment losses (refer to accounting policy (k)).

Items of property, plant and equipment are stated at cost at the date of their acquisition. The cost includes the purchase price, custom duties and non-recoverable taxes as well as all direct expenses incurred to bring the asset into use. The cost of assets under construction includes materials stated at cost and expenses incurred in relation to construction contracts.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted as separate items of property, plant and equipment.

(2) Assets under lease contracts

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses (refer to accounting policy (k)).

(3) Subsequent expenditures

Subsequent expenditure for change of a part of an asset is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment and can be reliably measured. All other expenditure is recognized in the income statement as incurred.

(4) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment.

Land is not depreciated. The used depreciation rates are based on the determinate useful lives as follows:

• Buildings	15-25 years
• Machines	3-10 years
• Equipment	15-25 years
• Computer systems	2-3 years
• Vehicles	7-13 years
• Other depreciable assets	7 years

Depreciation of an asset starts from the date of acquiring the asset. Depreciation of an asset constructed by the Company itself starts from the beginning of the month during which the asset is put into use.

(g) Intangible assets

Intangible assets acquired by the Company are stated at cost less accumulated amortization and impairment losses (refer to accounting policy (k)).

(1) Subsequent expenditures

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of intangible assets and can be reliably measured. All other expenditure is recognized in the income statement as incurred.

(2) Amortization

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Patents and licenses are amortized on the basis of their valid term.
The estimated useful lives of intangible assets are as follows:

• Licenses for public supply of natural gas	35 years
• Software	2-3 years

(h) Trade and other receivables

Trade and other receivables are stated at their cost, less the impairment losses on the basis of their estimated recoverable amount (refer to accounting policy (k)).

(i) Inventory

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. The cost of inventories at their consumption is based on the weighted average principle.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits.

(k) Impairment of assets

The carrying amount of the Company's assets, of investment property, inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement or against revaluation reserve, when appropriate.

(1) Calculation of recoverable amount

The recoverable amount of the Company's receivables is calculated for individual clients with significant liabilities as at the balance sheet date, on the basis of historical information for debt collection.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.
The factors used during assessment of present value of estimated future cash flows in order to determine impairment losses of receivables are:

- ✓ Non-current receivables with variable interest rate are discounted with current effective interest rate, determined in the contract.
- ✓ Non-current receivables with no interest rate determined are discounted with the rate reflecting inflation effects.
- ✓ During assessing impairment losses of receivables the agreed cash flows are reduced with the rate of non-collectivity of the last three years. Information about history of payments of deferred receivables is also considered.
- ✓ If there are any other terms concerning separate clients, agreed cash flows are additionally reduced.

Group impairment of financial assets. Groups are determined according industries and regions. If there is information about difficulties in debt collection about certain group of clients available, historic data about experience of loss is used and modified in order to reflect current situation. The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(2) Reversals of impairment

In respect of receivables and other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(l) Share capital

The capital of the Company is presented at historical cost at the date of registration.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at cost, less relevant transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost. Any difference between cost and redemption value is recognized in the income statement over the period of the borrowings on an effective interest basis, which is close to the nominal rate due to the nature and conditions of the loan agreements.

(n) Provisions

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money. Where it is appropriate, other specific to the liability risks are taken into consideration.

(o) Liability for retirement compensation to employees

(1) Defined contribution plans

The Company's contributions for engagement to transfer amounts in compliance with defined contribution plan are recognized in the Income statement as incurred.

The Company participates in a defined contribution plan for additional pension and it pays monthly BGN 60 for additional pension insurance for each of its employees on a labour contract. The expenses are recognized in the Income statement as incurred.

(2) Annual paid leave

The Company recognizes as a liability the undiscounted amount of the expenses for annual paid leave, expected to be paid to the employees in the future for their work in the previous reporting period.

(3) Liability for retirement compensations to employees

In accordance with the requirements of Labour code and Collective Labour Contract on termination of the labour contract of an employee, who has become entitled to retirement, the Company is obliged to pay compensation amounting to double his gross monthly salary. If the employee has been employed with the Company or in other company in the energy sector for the last ten years, the amount of the compensation due is six times his gross monthly salary.

(p) Trade and other payables

Trade and other payables are stated at cost.

(q) Revenue

(1) Goods sold and services rendered

Revenue is recognized in the income statement when the natural gas is supplied to the customer. Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognized in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, connected costs or if there is probability of refusing the goods.

(2) Government grants

Financing for fixed assets is recognized in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Company will comply with the conditions attached to it. Revenue from financing of fixed assets is recognized in the income statement based on the estimated useful life of the asset.

(r) Technological losses relating to natural gas

The Company has reported technological losses from transmission of natural gas on the territory of Republic of Romania.

(s) Net financial income/expenses

Net financing income/expenses comprise interest income and expense and other financial income and expense.

Interest income is recognized in the income statement as it accrues, taking into account the effective yield of the assets. Income is recognised only if there is probability for the Company to gain economic benefits.

All interest expenses and other expenses resulting from the borrowing agreements are recognized in the same period as part of the net financing costs. The interest expense component of finance lease payments is recognized in the income statement using the effective interest rate method.

(t) Income tax

Income tax on the profit for the year comprises current and deferred taxes. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly to equity, in which case it is also recognized in equity.

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

Deferred tax is provided using the balance sheet liability method, corresponding to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: reputation not recognized for tax purposes; initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

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

1. **Gross profit from sale of natural gas**

In thousands of BGN		2007	2006
Revenue from sale of natural gas		1 086 281	268 867
Cost of natural gas		(967 427)	(243 193))
Gross profit		**118 854**	**25 674**

Revenue from sales includes revenue from sale of natural gas supplied in compliance with contracts with local and foreign suppliers. The natural gas is sold on the local market only. Selling prices are fixed by an order of the Chairman of the State Commission on Energy and Water Regulation.

2. **Other operating income**

In thousands of BGN	2007	2006 restatement
Revenue from transit fee*	142 292	33 507
Revenue from received fuel gas on transit	55 592	4 516
Fines and penalties for overdue receivables	16 447	
Revenue from reversed technological losses	1	993
Other – reversed provisions	157	4 905
	214 489	**43 921**

* Revenue from transit fee is in compliance with trade agreement with Gazexport.

3. **Cost of goods sold**

In thousands of BGN	2007	2006
Cost of natural gas sold	(968 819)	(241 208)
Technological losses of natural gas	1 392	(1 985)
Cost of materials sold		
	(967 427)	**(243 193)**

4. **Impairment losses**

In thousands of BGN	2007	2006
Reversed impairment of receivables	8 720	10 777
Impairment of receivables	(15 238)	(30 265)
Impairment of property, plant and equipment		
	(6 518)	**(19 488)**

5. Cost of materials

In thousands of BGN	2007	2006
Gas for compressor stations of transit system*	(55 592)	
Fuel gas	(57)	(48)
Raw materials	(85)	
Other		(6)
	(55 734)	**(54)**

* Gas for compressor stations of transit system is provided in compliance with agreement for transit of natural gas to third parties.

6. Hired services

In thousands of BGN	2007	2006
Repairs	(2)	(1)
Property tax and fees	(640)	(2)
Insurance	(81)	-
Communications	(25)	(3)
Deposit	(5 614)	(3 540)
Transmission	(70 791)	(12 810)
Transit to third parties	(67 867)	(13 710)
License fees	(175)	(1)
Service maintenance	(2)	-
Consulting services	(27)	(213)
Services on management contract	(18 549)	-
Others – court fees	(431)	(5)
	(164 204)	**(30 285)**

* Hired services are mainly for performing Company's activity.

7. Personnel expenses and social security

In thousands of BGN	2007	2006
Personnel expenses	**(1 038)**	**(40)**
Salary and remuneration	(760)	(30)
Unused paid leave	(36)	
Retirement compensation costs	(72)	
Social costs	(170)	(10)
Social security on unused paid leave	(8)	
Pension and health security	(131)	(5)
	(1 177)	**(45)**

8. Other operating expenses

In thousands of BGN	2007	2006
One-off taxes	(11)	(2)
Business trips	(36)	(3)
Reject of property, plant and equipment	(1)	
Training	(9)	
Others	(50)	(5)
	(107)	**(10)**

9. *Net financing costs*

In thousands of BGN	2007	2006
Interest expense/income (net)	242	
Exchange rate losses/income (net)	(15 446)	(5 514)
Other financial expenses (net)	(61)	(15)
	(15 265)	**(5 529)**

10. Income tax expense

Basic components of income tax expense

In thousands of BGN	Note	2007	Restatement of previous year for the period Oct, 1st – Dec 31st, 2006
Current tax expense		8 929	4 349
Deferred tax expense related to origin and reversal of temporary differences		95	(2 249)
Temporary difference from previous years used for reduction of deferred tax expense		(160)	(411)
Deferred tax expense (income) deriving from reduction of tax rate			8 458
Tax expense		**8 864**	**10 172**

Relation between tax expense and accounting profit

In thousands of BGN	Note	2007	Restatement of previous year for the period Oct, 1st – Dec 31st, 2006
Accounting profit		90 264	14 180
Tax at applicable tax rate 15 per cent (2005 :15 per cent)		9 026	2 126
Tax effect from non-deductible expenses		(2)	(1)
Temporary difference from previous years used for reduction of deferred tax expense		(160)	(411)
Decrease (Increase) of deferred tax due to reduction of tax rate			8 458
		8 864	**10 172**

11. Property, plant and equipment

In thousands of BGN

	Land and buildings	Plant and equipment	Vehicles	Fixtures and fitting	Assets under constructi on	Total
Cost						
Balance as at January 1st, 2007		47	19	56		122
Acquisitions				101		101
Disposals				(1)		(1)
Transfers						
Balance as at December 31st, 2007		**46**	**19**	**156**		**222**
Depreciation						
Balance as at January 1st, 2007		1	0	2		3
Depreciation charge for the year		7	3	23		33
Disposals						
Balance as at December 31st, 2007		**8**	**3**	**25**		**36**
Carrying amount						
As at January 1st, 2007		**46**	**19**	**54**		**119**
As at December 31st, 2007		**39**	**16**	**131**		**186**

12. Intangible assets

In thousands of BGN

	Software	Patents and licenses	Other	Total
Cost				
Balance as at January 1st, 2007	41	14		55
Acquisitions	4	15		19
Disposals		-14		(14)
Transfers				
Balance as at December 31st, 2007	**45**	**15**		**60**
Amortization				
Balance as at January 1st, 2007	1			1
Amortization charge for the year	41			41
Disposals				
Balance as at December 31st, 2007	**41**			**42**
Carrying amount				
As at January 1st, 2007	**41**	**14**		**55**
As at December 31st, 2007	**3**	**15**		**18**

13. Long-term receivables

In thousands of BGN	**2007**	**2006**
Receivables from sale of natural gas	193 362	55 389
Less impairment	(61 170)	(13 954)
Receivables from sale of natural gas net of impairment	**132 192**	**41 435**

Long-term receivables from sale of natural gas include receivables with repayment schedule exceeding one year. For the latter there are forfeits agreed with variable interest rate on the basis of the basic interest rate plus addition.

Payment date of long-term receivables during the years:

2009	2010	2011	2012 and after
31 377	30 265	29 471	41 079

14. Inventory

In thousands of BGN	2007	2006
Natural gas	125 816	90 090
Materials	5	
Work in progress		
Finished goods		
Other		
	125 821	**90 090**

* In compliance with the Plan of Transformation the Company reports the operating amount of natural gas stored in gas-depository Chiren as at December 31st, 2007 without the buffering gas which belongs to the assets of Bulgartransgaz EAD (the second of the separated companies) and without the amount of natural gas as at December 31st, 2007 in the gas-pipe GIS Isakcha-Negru Wody Romania.

15. Trade and other receivables

In thousands of BGN	2007	2006 restatement
Trade receivables from sale of natural gas and transit fee	143 797	236 150
Less impairment and uncollectibility	(3 348)	(43 726)
Receivables from sale of natural gas, net of impairment	140 449	192 424
Court and awarded receivables related to sales	131 263	154 271
Less impairment and uncollectibility	(131 263)	(154 271)
Court and awarded receivables to sales, net of impairment	0	0
Receivables from related parties	3 327	35 169
Recoverable taxes		1 967
Prepayments and deferred expenses	40 362	70 412
	184 138	**299 972**

Less impairment of trade receivables from sales of natural gas is calculated by taking into consideration the individual risk for each debtor, his history of arranging his debts and observation of the payment schedule.

Less impairment of court receivables is calculated by taking into consideration the results from court cases and the opinion of the Management about their collectivity.

The actual cash flows generated by payment of clients may vary from the forecast used for estimation. This estimation is used for less impairment of trade receivables because of financial difficulties of basic clients.

Trade receivables

	Long-term trade receivables	Trade receivables with payment date within 1 year		
		Receivables from sales of natural gas with payment date within 1 year	Court and awarded receivables	Total receivables with payment date within 1 year
Value				
Balance as at January 1st, 2007	55 389	236 150	154 271	390 421
Accruals		1 438 462	24	1 438 486
Paid		(1 391 065)	(2 121)	(1 393 186)
Written-off			(22 688)	(22 688)
Transfers	137 973	(139 750)	1 777	(137 973)
Balance as at December 31st, 2007	**193 362**	**143 797**	**131 263**	**275 060**
Impairment				
Balance as at January 1st, 2007	13 954	43 726	154 271	197 997
Accruals	12 746	1 490	1 002	2 492
Reversal	(6 025)	(1 159)	(1 536)	(2 695)
Written-off	0	0	(22 688)	(22 688)
Transfers	40 495	(40 709)	214	(40 495)
Balance as at December 31st, 2007	**61 170**	**3 348**	**131 263**	**134 611**
Balance-sheet value				
Balance as at January 1st, 2007	**41 435**	**192 424**	**-**	**192 424**
Balance as at December 31st, 2007	**132 192**	**140 449**	**-**	**140 449**

16. Cash and cash equivalents

In thousands of BGN	**2007**	**2006**
Cash in hand	67	0
Cash at bank	104 344	0
Deposits		
Cash as at December 31st, 2007	**104 411**	0

17. Share capital

The share capital consists of 304 391 thousand registered shares with a par value of BGN 1.
The sole owner is Bulgargaz Holding EAD.

Legal reserves

Legal reserves are allocated from retained earnings for previous years in compliance with the Bulgarian legislation.

Revaluation reserves

The revaluation reserve has been formed from revaluation of property, plant and equipment.

The revaluation reserve is not distributable to shareholders under the Bulgarian legislation.

Dividends

Dividends are fixed on an annual basis in compliance with the State Budget Act. The dividend for 2007 is fixed to 50 per cent after a 10 per cent deduction for the reserve fund upon distribution of profit until reaching 10 per cent of share capital as determined by the Bulgarian legislation. The dividend is accrued further to a decision of the sole owner of the Company's capital.

In compliance with Order of the Council of Ministers No 15/February 1st, 2008 the Company deducts the accounted decrease of revenues during fourth quarter of 2007 as a consequence from sales of natural gas at prices lower than determined by Decision No 70/October 1st, 2007 issued by State Commission on Energy and Water Regulation.

18 Deferred tax assets and liabilities

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities as at December 31st, 2007 are connected to the following balance sheet items:

In thousands of BGN

	December 31st, 2007		**December 31st, 2006**	
	Assets	***Liabilities***	***Assets***	***Liabilities***
Property, plant and equipment		(6)		11
Inventory				
Trade receivables	16 964		16917	
Liabilities	12			
Net tax assets/(liabilities)		**16 970**		**16 906**

Deferred tax for 2007 is based on the effective tax rate applied by the Company, which is 10 per cent and represents the statutory corporate income tax rate for 2008.

19. Interest-bearing loans and borrowings

The Company has accepted liabilities for interest-bearing loans from the Holding. With Protocol No 16 dated December 21st, 2007 the Board of Directors of Bulgargaz Holding agrees to give a loan within the Company. A contract is signed on December 28th, 2007 for the amount of BGN 21 000 thousand. The term for repayment is 24 month, 6-month gratis period, with interest rate basic interest rate plus two points.

20. Trade and other payables

In thousands of BGN	**2007**	**2006 restatement**
Trade payables	103 111	92 762
Incl. Suppliers of natural gas	65 645	19 347
Related parties	31 767	40 599
Pre-paid amounts from clients	5699	32 816
Corporate tax payables	32	0
Personnel payables	73	11
Social security payables	1	
VAT payable	8 017	
Other payables to the State budget	2	1
Other payables	67	3 544
Incl. Guarantees	62	62
	111 303	**96 318**

* The largest trade payables reported in 2007 are the liabilities to related parties.

22. Financial instruments

Interest rate risk

The Company has no exposure to interest rate risk.

Credit risk

The Company is exposed partially to credit risk as it has significant exposure of trade receivables and fines for overdue receivables.
The management of the Company has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

Foreign exchange risk

Financial assets and liabilities (short-term) in USD as at December 31st, 2007

Trade receivables	9 216
Cash	50 345
Trade liabilities	(55 901)
Total	**3 660**

All payables related to natural gas supplies under trade contracts are in USD. Since the State Commission on Energy and Water Regulation introduces changes in the selling price of the natural gas considering the BGN/USD exchange rate changes, the Company is not exposed to a material foreign exchange risk.

Bulgargaz EAD *Company's financial statement for the year ended*
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23. Retirement compensation liabilities

Liabilities for defined gains for age and experience retirement

In thousands of BGN	*2007*
Present value of liabilities as at December 31st, 2007	72
Discount rate	5,70%
Future increase of salaries	6%

Average age of retirement
Males from 60 to 63 years Females from 57 to 60 years

Annual percentage of disposals /discharges, leaves/ in age groups

18 - 30 years	5 per cent
31 - 40 years	3 per cent
41 - 50 years	2 per cent
51 - 60 years	1 per cent
over 60 years	0 per cent

Income of key personnel of the Company for 2007:

- ✓ Salaries and remuneration BGN 120 thousand,
- ✓ Social expenses BGN 25 thousand,
- ✓ Social securities BGN 7 thousand,
- ✓ Unused paid leave and social security BGN 1 thousand

24. Related parties

Reporting of related parties

Related companies	Sales to related parties	Purchase from related parties	Receivables from related parties	Liabilities to related parties
Short-term				
Bulgargaz Holding EAD		(18 751)	116	12 545
Bulgartransgaz EAD	20 423	(144 306)	3 211	26 222
Bulgartel EAD		(5)		
Total	20 423	(163 062)	3 327	38 767
Long-term				
Bulgargaz Holding EAD				14 000

The Company has a significant volume of transactions with related parties as a part of the Holding.
Sales and Purchase between related parties arise at normal market prices. There are no transactions performed at special terms and there are no guarantees given or received, connected to accounts with related parties.

25. Subsequent events

The management of The Company declares that for the period after the financial report date until the date of the preparation of the financial statements no significant and/or material non-adjusting events took place concerning the activities of The Company the non-disclosure of which could influence the truthful and fair presentation in the financial statements.

Z. KIRKOVA
CHIEF ACCONTANT

D. GOGOV
EXECUTIVE DIRECTOR

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