

PORT VARNA - EAD
FINANCIAL STATEMENTS
AND
AUDITOR'S REPORT

December 31, 2016

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STATEMENT OF FINANCIAL POSITION
as of December 31, 2016

	Notes	December 31, 2016 BGN'000	December 31, 2015 BGN'000
Non-current assets			
Property, plant and equipment and intangible assets	3	32,974	27,726
Available-for-sale investments	4	169	169
Deferred tax assets	5	107	394
Total non-current assets		33,250	28,289
Current assets			
Inventories	6	4,005	3,267
Trade and other receivables	7	5,664	5,726
Cash and bank balances	8	20,391	15,346
Total current assets		30,060	24,339
Total assets		63,310	52,628
Equity			
Share capital	9	8,494	8,494
Retained earnings		37,324	29,518
Total equity		45,818	38,012
Non-current liabilities			
Non-current bank loans	10	4,329	2,412
Non-current liabilities to employees	11	2,980	2,775
Total non-current liabilities		7,309	5,187
Current liabilities	12	10,183	9,429
Total liabilities		17,492	14,616
Total equity and liabilities		63,310	52,628

Executive Director: (signed)
Petar Seferov

Registered Auditor: (signed)

Chief Accountant: (signed)
Violeta Zlatkova

March 22, 2017

The accompanying notes are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
for the year ended December 31, 2016

	<i>Notes</i>	Year ended December 31, 2016 BGN'000	Year ended December 31, 2015 BGN'000
Revenue	13	73,371	67,686
Other income	14	674	629
Total revenue and other income		74,045	68,315
Construction expenditure capitalised		172	100
Raw materials and consumables used	15	8,068	8,934
Hired services	16	8,330	8,094
Employee benefits expense	17	38,135	37,967
Depreciation and amortisation expenses		5,169	4,354
Other expenses	18	1,079	1,001
Total operating expenses		60,781	60,350
Finance income	19	47	55
Finance costs	20	124	177
Total finance income/(costs)		(77)	(122)
Profit/(loss) before tax		13,359	7,943
Tax income/(expenses)	21	(1,342)	(803)
Profit for the year		12,017	7,140
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Actuarial gain/(loss)		(343)	(533)
Tax income/(expenses)		34	-
Other		-	90
Other comprehensive income for the year		(309)	(443)
Total comprehensive income for the year		11,708	6,697

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Registered Auditor: (signed)

Chief Accountant: (signed)

Violeta Zlatkova

March 22, 2017

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STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2016

	Share capital	Legal and additional reserves	Properties revaluation reserve	Profit/ (loss)	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Balance at January 1, 2015	8,494	8,642	9,981	6,322	33,439
Transfer to retained earnings	-	6,322	-	(6,322)	-
Payment of dividends	-	(2,124)	-	-	(2,124)
Total comprehensive income for the year	-	(482)	39	7,140	6,697
Balance at December 31, 2015 (as previously reported)	8,494	12,358	10,020	7,140	38,012
Adjustments	-	104	(471)	-	(367)
Balance at December 31, 2015	8,494	12,462	9,549	7,140	37,645
Transfer to retained earnings	-	7,140	-	(7,140)	-
Payment of dividends	-	(3,535)	-	-	(3,535)
Properties revaluation reserve transferred to retained earnings	-	437	(437)	-	-
Total comprehensive income for the year	-	(309)	-	12,017	11,708
Balance at December 31, 2016	8,494	16,195	9,112	12,017	45,818

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March 22, 2017

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STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2016

	Year ended December 31, 2016 BGN'000	Year ended December 31, 2015 BGN'000
Cash and cash equivalents at the beginning of the year	15,346	11,781
Cash flows from operating activities		
Receipts from customers and other debtors	82,844	75,816
Payments to suppliers and other creditors	(26,520)	(25,854)
Payments for salaries, social security and other	(38,628)	(37,856)
Dividends paid	(3,535)	(2,123)
Taxes paid	(1,665)	(981)
Other cash flows generated by operating activities	22	35
Net cash generated by operating activities	12,518	9,037
Cash flows from investing activities		
Payments for property, plant and equipment	(10,566)	(3,893)
Proceeds from disposal of property, plant and equipment	336	-
Net cash used in investing activities	(10,230)	(3,893)
Cash flows from financing activities		
Proceeds from borrowings	4,694	-
Repayment of borrowings	(1,838)	(1,447)
Payment for interest on borrowings	(101)	(128)
Net cash generated by/ (used in) financing activities	2,755	(1,575)
Net increase in cash and cash equivalents	5,043	3,569
Effects of exchange rate changes on cash and cash equivalents	2	(4)
Cash and cash equivalents at the end of the year	20,391	15,346

Executive Director: (signed)
Petar Seferov

Registered Auditor: (signed)

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Violeta Zlatkova

March 22, 2017

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**NOTES TO THE FINANCIAL STATEMENTS
as of December 31, 2016**

1. General information

PORT VARNA - EAD (the Company) is a joint-stock company with 100% state participation. Initially, in 1991, it was registered as a limited liability company as a result of the separation of the assets and liabilities of Navigation Maritime Bulgare. In 1997 the legal form was changed to a sole owner joined-stock company. The property rights of the state regarding Port Varna – EAD are executed by the Ministry of Transport, Information Technology and Communications. The Company is registered in the Commercial Register to the Registry Agency under Unified Identification Code 103061301. The address of management of the Company is Varna, 1, Slaveikov Square. The main activity of the Company is related to cargo handling services, cargo storage and other port services. Port Varna provides also a series of additional services related to the servicing of ships as water supply, provision of telephone, electricity, rental of port technical equipment, etc. It includes two separate ports: Varna East and Varna West. As of December 31, 2016 the Company has 1,554 employees (2015: 1,619).

As of the date of preparation of the present financial statements the Company is managed by a Board of Directors consisting of three persons and is represented by the Executive Director and by the Chairman of the Board of Directors. The present financial statements were approved for issue by the Board of Directors on March 22, 2017.

2. Basis of preparation of the financial statements and accounting principles

2.1. Basis of preparation

The annual closing of accounts and preparation of annual financial statements for 2016 is carried out in accordance with the Accountancy Act, which entered into force from January 1, 2016. Under that Act the local enterprises are entitled to apply either the International Accounting Standards approved by the European Union (IAS) or the National Accounting Standards, approved by the Bulgarian Government (NAS). All companies of public interest are obliged to prepare its financial statements in accordance with the requirements of IAS. Companies that are not defined as public interest entities may apply NAS. Those companies that have adopted and apply IAS under the repealed Accountancy Act of 2002 may continue with their application in the future. In the preparation of the annual financial statements for 2015 and in prior years the Company has applied IAS. The Company's management believes that it is appropriate to continue their application in the future. Therefore, the present annual financial statements are prepared under the International Accounting Standards, issued by the International Accounting Standards Board and approved by the European Union. As of December 31, 2016 the IAS include the International Accounting Standards, the International Financial Reporting Standards (IFRS), Interpretations of the Standing Interpretations Committee and Interpretations of the International Financial Reporting Interpretations Committee. The IAS and the Interpretations are reissued annually and after the formal approval of the European Union become applicable for the year, in which they are issued. Most of them are not yet applicable to the Company's activity due to the specific issues discussed. The Company has complied with all standards and interpretations that are applicable to its activities and that are officially approved by the European Union as of the date of preparation of these financial statements. Since the adoption of these new standards, interpretations or amendments, which entered into force on January 1, 2016 and at a later date, there have been no changes in the accounting policy of the Company. Moreover, the management of the Company does not consider necessary to disclose in the annual financial statements the name of the International Accounting Standards and Interpretations that have been amended, whether formally approved by the European Union or not and that are in force since 2016 and in future periods if they do not relate to or seriously affect its activity. Such disclosure of the names of Standards and Interpretations could lead to misunderstanding or mislead of the users of the information from the present financial statements.

NOTES TO THE FINANCIAL STATEMENTS
as of December 31, 2016
(continued)

2.2. Applicable measurement base

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and/or liabilities to their fair value as of the end of the reporting period as far as it is required by the relevant accounting standards and as far as this value can be reliably measured. All such deviations from the historical cost convention are disclosed in the further disclosure of accounting principles. All figures and disclosures for 2016 and 2015 are presented in thousands of Bulgarian Lev (BGN) unless otherwise stated.

2.3. Fair value measurement

Some accounting standards permit initial and subsequent measurement of certain assets and liabilities at their fair value. The accounting standards require fair value measurement of certain financial assets and liabilities at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability at the measurement date. The fair value of a liability reflects the effect of non-performance risk. Where possible the Company measures the fair value of an asset or liability using quoted prices in active markets that the entity can access. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. When quoted prices in active markets are not available the Company applies valuation techniques that maximizes the relevant observable inputs and minimises unobservable inputs. The chosen valuation technique captures all factors that market participants would take into account when pricing the asset or liability. The fair value concept assumes that financial instruments which will be realized through the market. In most cases, however, especially regarding current trade receivables and payables as well as borrowings granted, the Company expects them to be realized or settled through their collection or payment at the due date. Therefore, such financial instruments are reported at their nominal value or amortized cost. The majority of financial assets and liabilities are current so, their fair value approximates their carrying amount. The management of the Company believes that under the existing circumstances the fair value of the financial instruments reported in the statement of financial position are most adequate and reliable for the purposes of financial reporting.

2.4. Comparative figures

According to the Bulgarian accounting legislation and the requirement of IAS, the reporting year ends as of December 31 and entities are obliged to present financial statements as of the same date together with comparative figures for the prior year. If the Company has retrospectively amended its accounting policy or has restated or reclassified certain items, it presents comparative figures for two prior periods in the statements of financial position and in the corresponding notes as follows:

- a) as of the end of the prior reporting period;
- b) as of the end of the earliest comparative reporting period.

Regarding the rest of the elements of the financial statements and the corresponding notes, the comparative figures are presented only as of the end of the prior reporting period.

NOTES TO THE FINANCIAL STATEMENTS
as of December 31, 2016
(continued)

2.5. Use of accounting estimates

The preparation of the financial statements in conformity with IAS requires the management to apply some accounting assumptions and accounting estimates which affect the reported assets and liabilities, and the disclosure of contingent assets and liabilities as of the date of the preparation of the financial statements, as well as the reported amounts of income and expenses during the reporting period. All accounting estimates and assumptions are based on the best estimate performed by the management as at the date of the financial statements. The actual results may differ from the results presented in the accompanying financial statements.

2.6. Functional currency and presentation currency

Functional currency is the currency of the primary economic environment in which an entity operates and in which an entity primarily generates and expends cash. The functional currency of the Company is Bulgarian Lev (BGN) which is the national currency of Bulgaria, and has been pegged to the EURO at a fixed exchange rate of EUR 1: BGN 1.95583. The exchange rates of BGN to the other foreign currencies are determined by the Bulgarian National Bank (BNB) applying the exchange rate of EURO to the respective currency on the international markets. Transactions denominated in foreign currency are initially recorded at the official exchange rate of BNB as of the date of the transaction. Cash, receivables and liabilities, denominated in foreign currency are stated at the exchange rate of BGN to the respective functional currency as at the transaction date. As of December 31 the assets and liabilities are stated at the closing exchange rate of BGN to the respective functional currency as of the end of the reporting period. The foreign exchange rate differences arising upon the settlement of these monetary positions or at restatement of these positions at rates, different from those when initially recorded, are reported as financial income or financial expenses for the period in which they arise.

The closing exchange rate of the Bulgarian Lev to the US Dollar at the end of the current and prior reporting periods is as follows:

December 31, 2016:	USD 1 = BGN 1.85545
December 31, 2015:	USD 1 = BGN 1.79007

The financial statements presentation currency of the Company is also the BGN.

2.7. Financial risks management

The Company's activities expose it to a variety of financial risks. Market risk is the risk that the fair value of future cash flows of the financial instruments will fluctuate as a result of changes in market prices, including currency (foreign exchange) risk, interest rate risk, and other price risk. Credit risk is the risk that the financial instrument counterparties could cause each other financial losses should they fail to perform as contracted. Liquidity risk is the risk that the Company is unable to meet its obligations when they fall due. The existing financial risks to the Company are currently identified, measured and monitored using various control mechanisms in order to set adequate prices of services provided by the Company and the cost of borrowings. Furthermore, management is adequately evaluating the market terms of its investments and the forms of keeping free liquid resources, thus not allowing the unjustified risk concentration. Ongoing risk management is carried-out by the management of the Company in accordance with the policy adopted by the Board of Directors. The latter has approved the basic principles of general financial risk management, based on which are developed specific procedures for the management of individual specific risks such as currency, interest, credit and liquidity risk and the risk of using non-derivative instruments. The policy for management of these risks is summarised below:

**NOTES TO THE FINANCIAL STATEMENTS
as of December 31, 2016
(continued)**

2.7. Financial risks management (continued)

2.7.1 Foreign currency risk

The Company's purchases, sales and borrowings are mainly in euros. As the exchange rate of the Bulgarian Lev to the Euro is fixed at 1.95583, the foreign currency risk arising from the euro exposition of the Company is minimal. The Company's operations in other foreign currencies are insignificant in the total volume of transactions. At present the Company has no practice of hedging foreign currency exposure.

2.7.2. Interest risk

The Company's activity is subject to the risk in fluctuations in interest rates to the extent that interest-yielding assets and interest-bearing liabilities are subjected to interest fluctuations at different times and in varying degrees. The Company's financial assets comprise mainly of interest-free receivables and short-term deposits with fixed interest rate. The main financial liabilities of the Company include interest-free short-term trade payables and interest-bearing loans. The bank loans have been negotiated with a floating rate, determined by a fixed margin over a three-month or one-month EURIBOR, due to which the Company is exposed to a risk of changes in market interest rates. The risk of possible changes in interest rates of the one-month and three-month EURIBOR is not significant to the Company.

2.7.3. Price risk

The Company is exposed to a price risk, primarily due to the variable trends in fuel prices – diesel, fuel oil and gas oil, which are consumed in large quantities in its activity. The Company does not hedge the risk of changes in commodity prices.

2.7.4. Credit risk

Credit risk is the risk that the Company's clients will not be able to pay the amounts of trade receivables due in full and in time. The trade receivables are presented in the statement of financial position net of allowance for doubtful debts. The Company has minimised the credit risk as the management applies strict policy on collection of trade and other receivables and possesses significant amount of liquid assets.

2.7.5. Liquidity risk

The Company's exposure to liquidity risk, which is expressed in the unconditional repayment of all obligations upon their maturity, is not significant. The Company sustains significant levels of cash and a policy of financing working capital and non-current assets from accumulated profit, generating enough free funds.

2.7.6. Capital risk management

With capital management the Company aims to continue as a going concern, to maintain optimal capital structure and continuously improve the financial performance indicators despite changes in economic conditions. The management of the Company monitors the availability and structure of capital based on debt ratio.

NOTES TO THE FINANCIAL STATEMENTS

as of December 31, 2016

(continued)

2.8. Definition and valuation of the statement of financial position elements

2.8.1. Property, plant and equipment

Property, plant and equipment are stated at revalued amount, less accumulated depreciation and impairment. Upon initial recognition they are valued at cost comprising purchase price, import duties and any costs directly attributable to bringing the asset to working condition. Directly attributable costs include costs of site preparation, initial delivery and handling costs, installation and assembly costs, professional fees, non-refundable taxes, costs of capitalised interest on qualifying assets, etc. The Company has approved a threshold amounting to BGN 500 and the amount of acquired assets below it, regardless of having the features of property, plant and equipment, are recorded as current expense at the time of acquisition.

The Company has chosen the revaluation model for subsequent measurement of property, plant and equipment at their revalued amount, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is performed by licensed appraisers normally at a period of 3 – 4 years. The Company has adopted a materiality threshold for the purposes of revaluation – 14 % for vehicles and 5 % for all other property, plant and equipment. As of December 31, 2014 an overall review and assessment of price changes of property, plant and equipment was performed by independent certified appraisers. As a result of the review, it was found that the carrying amount of assets did not significantly differ from their fair value and no revaluation was needed as of the date of the financial statements.

The repair and maintenance costs are recognized as current expense in the period in which they occur. Subsequent costs for replacing certain key parts and aggregates, or improvement and reconstruction are capitalised to the carrying amount of the asset and its remaining useful life as of the date of capitalisation is reviewed.

The carrying amount of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that it might significantly differ from their recoverable amount. If any such indicators exist, their carrying amount is reduced to their recoverable amount. An impairment loss is recognized immediately in profit or loss unless the asset is carried at revalued amount. Then impairment loss is charged as a revaluation decrease and is recognised in other comprehensive income. If the impairment loss exceeds the amount of the revaluation surplus, the difference is charged as a current expense in the statement of comprehensive income.

Property, plant and equipment are derecognised from the statement of financial position on disposal or sale. The gain or loss arising from derecognition is presented net in the statement of comprehensive income. The part of the revaluation reserve related to the derecognised asset is transferred to retained earnings and presented in the statement of changes in equity.

2.8.2. Intangible assets

Intangible assets are originally valued at cost comprising purchase price and any installation costs incurred, less accumulated amortisation and impairment. The carrying amount of intangible assets is subject of a review for impairment when there are indications that the carrying amounts differ substantially from their recoverable amount. Impairment losses are recognized in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

as of December 31, 2016

(continued)

2.8. Definition and valuation of the statement of financial position elements (continued)

2.8.3. Inventories

Inventories are recorded at cost comprising purchase price and any purchase costs incurred. Upon consumption, the cost of inventories is calculated using the weighted average cost method. At the year - end inventories are valued at the lower of cost or net realizable value.

2.8.4. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Company recognises a financial asset or a financial liability in its statement of financial position when, and only when, the Company becomes party to the contractual provisions of the instrument.

At initial recognition financial assets/ (liabilities) are designated at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Financial assets are derecognised when, and only when the contractual rights to the cash flows from the financial asset expire, or the Company transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Financial liabilities are removed from the statement of financial position when, and only when, they are extinguished—i.e. when the obligation specified in the contract is discharged or cancelled or expires. The Company classifies financial assets and liabilities as subsequently measured in the current and prior reporting periods as trade and other receivables, cash and bank balances, current and non-current liabilities. Classification under each category depends on the purpose and the term of the respective contract.

(a) Available-for-sale financial assets

The Company presents as available-for-sale financial assets investments in other companies that ensure up to 20% of the voting rights. These investments are measured at cost less impairment, if any.

(b) Trade and other receivables

Trade and other receivables in BGN are valued at nominal value and those in foreign currency are revalued at the closing exchange rate of the Bulgarian National Bank as of December 31, 2016, less allowance for doubtful debts. The allowance is provided when there is certainty about the non-collectiveness of the trade receivables till the maturity date. The indications for impairment are considerable financial difficulties of the debtor, probable debtor insolvency or non-fulfilment of the terms of the contract and payments delay from the maturity date. In assessing the collectability of receivables the management analyses not the individual outstanding receivables from counterparties but the entire exposure of each counterparty in order to establish the feasibility of collecting receivables. In establishing high uncertainty about the collectability of a receivable, an assessment is made how it is secured to guarantee its collectability. The allowance for doubtful debts is determined by applying the following percentage:

Up to 90 days past due	– no allowance charged.
91 - 180 days	- 20 %.
Over 181 days	- 50 %.
By decision of management	- 100 %.

NOTES TO THE FINANCIAL STATEMENTS
as of December 31, 2016
(continued)

2.8. Definition and valuation of the statement of financial position elements (continued)

2.8.4. Financial instruments (continued)

(b) Trade and other receivables (continued)

The allowance for doubtful debts is reported in the statement of financial position as reduction in the value of receivables and allowances are presented in the statement of comprehensive income as current expenses. If a receivable is non-collectable and there is an allowance accrued, the receivable is written-off by decrease of the respective allowance account. The reversal of the allowance for doubtful debts of trade receivables is reported in the statement of comprehensive income as decrease in the item, in which the allowance was previously recorded.

(c) Cash and bank balances

Cash and cash equivalents are stated at nominal value and cash in foreign currency is stated at the closing exchange rate of BNB as of December 31, 2016. For cash flow purposes cash and cash equivalents include non-restricted cash at banks and in hand.

(d) Non-current liabilities

Non-current liabilities in BGN are valued at face value and those in foreign currency are valued at the closing exchange rate of the Bulgarian National Bank as of December 31, 2016.

(e) Current liabilities

Current liabilities in BGN are valued at face value and those in foreign currency are valued at the closing exchange rate of the Bulgarian National Bank as of December 31, 2016.

2.8.5. Share capital

The subscribed share capital is represented by the amount of the actually paid shares. Share capital is entered in the Trade Register to the amount subscribed by the shareholders and it has to be fully paid within two years.

2.8.6. Legal and other reserves

The reserves of the Company are formed by allocating its financial results for the period after corporate income tax. The reserves of the Company can be used only by decision of the sole shareholder under the Commercial Act and the Articles of Association of the Company.

2.8.7. Properties revaluation reserve

Properties revaluation reserve is formed as a result of the excess of revalued amount over the carrying amount of an item of property, plant and equipment. The revaluation surplus recognised in the properties revaluation reserve is transferred to retained earnings when the asset is derecognised. The effect of deferred taxes on properties revaluation reserve is recognized directly in equity.

NOTES TO THE FINANCIAL STATEMENTS
as of December 31, 2016
(continued)

2.8. Definition and valuation of the statement of financial position elements (continued)

2.8.8. Employee benefits

(a) Defined contribution plans

The Government of the Republic of Bulgaria is responsible for the ensuring of the statutory minimum threshold of the pensions pursuant to defined contributions plans. The expenses of the Company for transferring of funds pursuant to the defined contributions plans are recognized in the statement of comprehensive income upon their occurrence.

(b) Annual paid leave

The Company recognizes as a payable the non-discounted amount of the estimated expenses for annual paid leave, expected to be paid to the employees for the past reported period.

(c) Retirement benefits

Pursuant to the requirements of the Labour Code, upon termination of the employment contract the employees are entitled to retirement benefits amounting to two gross monthly salaries when the overall length of service of the employee in the Company is less than 10 years, or six gross monthly salaries, when the overall length of service is more than consecutive 10 years. The Company records as an expense the discounted amount of the accrued retirement benefit obligations and an interest expense based on an estimation made by a licensed actuary.

2.9. Depreciation and amortization

The Company consistently applies the straight-line depreciation method. Depreciation is not charged on land and assets under construction before they are completed and put into operation. The depreciation and amortization rates for the class of assets are as follows:

Classes of assets	2016	2015
Buildings	25	25
Installations and equipment	15-25	25
Machinery and equipment	5-13	5-13
Leasehold improvements	6	6
Other property, plant and equipment	6	5-7
Software	5	5

The management of the Company has determined depreciation rates for the classes of assets on the grounds of their expected useful lives. As of the year end the management of the Company performs a review of the expected useful lives and carrying amounts of the assets for indications for impairment and/or change of depreciation rates.

2.10. Provisions

Provisions are accrued in the statement of comprehensive income and recognized in the statement of financial position when an entity has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

**NOTES TO THE FINANCIAL STATEMENTS
as of December 31, 2016
(continued)**

2.10. Provisions (continued)

Provisions are discounted where the effect of the time value of money is material, using discount rate, which shall be pre-tax rate and shall reflect current market assessments of the time value of money and if appropriate, risks specific to the liability.

2.11. Finance lease

Finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. The assets acquired under finance lease are recognized at the lower of their fair value as of the date of acquisition or the present value of the minimum lease payments. The existing liability to the lessor is presented in the statement of financial position as a finance lease liability. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance charge is recognized in the statement of comprehensive income.

2.12. Income and expenses recognition

Income and expenses are accrued when incurred, regardless of the date of the cash flow. Income and expenses recognition is based on the principal for matching costs and revenues. Income and expenses denominated in foreign currencies are translated into BGN at the rate of exchange ruling at the date of the accrual.

2.12.1. Revenue from rendering of services

Revenue from rendering of services is recognized in the statement of comprehensive income when the entity has transferred to the buyer the significant risks and rewards of ownership. Revenue from provision of cargo handling services is recognized upon completion of unloading, transporting and loading of each load. Revenue from fees for storage of goods is recognized in the period to which they relate. Revenue from rendering of services is recognised in the statement of comprehensive income by reference to the stage of completion of the transaction at the end of the reporting period. The stage of completion of a transaction is determined by surveys of work performed. When the outcome of a transaction cannot be estimated reliably and it is not probable that the costs incurred will be recovered, revenue is not recognised.

2.12.2. Finance income/ (costs)

Interest income and expenses are accrued based on the current negotiated interest rate and the amount of the related receivable or payable. They are accrued directly in the statement of comprehensive income as incurred. Interest expenses on bank loans are calculated and recognised in the statement of comprehensive income using the effective interest method. Finance income and costs are presented net in the statement of comprehensive income.

2.12.3. Income from government grants

Government grants related to depreciable assets are recognized in profit or loss over the periods and in proportions in which depreciation expense is recognized on those assets, acquired as a result of the grants after all conditions of the agreement are met. Government grants are recognized in profit or loss over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate.

NOTES TO THE FINANCIAL STATEMENTS
as of December 31, 2016
(continued)

2.13. Taxation

According to the Bulgarian tax legislation, for 2016 the Company is subject to a corporate tax, which is 10 % of the taxable profit (2015 – 10 %). For 2017 the rate of corporate tax is 10 %.

The Company accounts for deferred taxes on the basis of the balance sheet liability method. Deferred tax is provided for temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, deferred tax is also recognized in other comprehensive income or directly in equity respectively. Deferred tax assets and liabilities should be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. The deferred tax liabilities should be recognized for all taxable temporary differences. The deferred tax assets should be recognized when it is probable that taxable profits will be available against which the deferred tax assets can be utilized.

2.14. Dividends

Dividends are reported as decrease in the net assets against a current liability to the shareholders in the period the dividends are approved for distribution.

2.15. Related parties

For the purposes of these financial statements, the sole shareholder, companies under common control, key management personnel, together with the close members of their families, including companies controlled by them are considered and referred to as related parties.

3. Property, plant and equipment and intangible assets

	December 31, 2016 BGN'000	December 31, 2015 BGN'000
Property, plant and equipment	32,918	27,677
Intangible assets	56	49
Total	32,974	27,726

NOTES TO THE FINANCIAL STATEMENTS
as of December 31, 2016
(continued)

3. Property, plant and equipment and intangible assets (continued)

3.1. Property, plant and equipment

	Land and buildings	Machinery and equipment	Vehicles	Other	Assets under construction	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Cost:						
Balance at January 1, 2015	1,560	61,340	11,774	983	158	75,815
Additions	16	3,406	91	70	292	3,875
Transferred	-	414	7	1	(422)	-
Disposals	-	(240)	(80)	(18)	-	(338)
Balance at December 31, 2015	1,576	64,920	11,792	1,036	28	79,352
Additions	26	1,261	2,104	164	7,115	10,670
Transferred	1	7,105	-	23	(7,129)	-
Disposals	(302)	(506)	(2,326)	(116)	-	(3,250)
Balance at December 31, 2016	1,301	72,780	11,570	1,107	14	86,772
Accumulated depreciation:						
Balance at January 1, 2015	852	35,991	10,048	750	-	47,641
Depreciation expense	64	3,730	475	63	-	4,332
Eliminated on disposal	-	(201)	(80)	(17)	-	(298)
Balance at December 31, 2015	916	39,520	10,443	796	-	51,675
Depreciation expense	63	4,395	626	66	-	5,150
Eliminated on disposal	(100)	(486)	(2,271)	(114)	-	(2,971)
Balance at December 31, 2016	879	43,429	8,798	748	-	53,854
Carrying amount at December 31, 2015	660	25,400	1,349	240	28	27,677
Carrying amount at December 31, 2016	422	29,351	2,772	359	14	32,918

The carrying amount of the assets provided as collateral on bank credits amounts to BGN 13,240 thousand (December 31, 2015: BGN 7,902 thousand).

On the grounds of a permanent contract with Bulgarian Ports Infrastructure Company the Company is using buildings and facilities that are public state property to a total amount of BGN 191,462 thousand, which are used for providing port services related to cargo handling.

NOTES TO THE FINANCIAL STATEMENTS
as of December 31, 2016
(continued)

3. Property, plant and equipment and intangible assets (continued)

3.1. Property, plant and equipment (continued)

The carrying amount of fully depreciated assets used in the activity of the Company is as follows:

	Land and buildings BGN'000	Machinery and equipment BGN'000	Vehicles BGN'000	Other BGN'000	Total BGN'000
Balance at December 31, 2015	-	1,719	2,563	596	4,878
Balance at December 31, 2016	346	8,494	3,787	637	13,264

3.2. Intangible assets

Intangible assets include software. The carrying amount is formed by the reduction of cost of BGN 270 thousand (December 31, 2015: BGN 259 thousand) by the accumulated amortisation of BGN 214 thousand (December 31, 2015: BGN 210 thousand). The annual amortisation of intangible assets amounting to BGN 19 thousand (2015: BGN 22 thousand) is recognized in the statement of comprehensive income.

4. Available-for-sale investments

The Company participates with 8.9% in the share capital of Oiltanking Bulgaria, whose main activity is construction and development of independent terminals, receipt, storage, distribution, processing and maintenance of liquid chemical products. The Company operates a terminal for sulphuric acid located in the town of Devnya, Industrial Zone, Varna West Port. Due to the inability to determine the fair value of the shares of that company, the Company's participation is valued at cost.

5. Deferred tax assets

As of December 31, 2016 the components of the deferred tax assets/(liabilities) are as follows:

	December 31, 2016 BGN'000	December 31, 2015 BGN'000
Deferred tax assets		
Effect of unused paid leave	228	247
Effect of actuarial losses	138	-
Effect of employee retirement benefits	113	127
Effect of allowance for doubtful debts	56	40
Effect of provisions	38	39
Effect of impairment loss on property, plant and equipment	27	27
Other	1	1
Total	601	481
Deferred tax liabilities		
Difference between the carrying amount and tax base of depreciable assets	(494)	(87)
Total	(494)	(87)
Deferred tax assets	107	394

NOTES TO THE FINANCIAL STATEMENTS
as of December 31, 2016
(continued)

5. Deferred tax assets (continued)

The movement of the deferred tax assets in 2015 is as follows:

	December 31, 2016 BGN'000	December 31, 2015 BGN'000
Recognised in the statement of comprehensive income	46	-
Recognized in the properties revaluation reserve	(333)	170
Total:	(287)	170

6. Inventories

	December 31, 2016 BGN'000	December 31, 2015 BGN'000
Spare parts	1,570	1,564
Auxiliary materials	1,546	900
Fuel and lubricants	462	374
Basic materials	423	426
Other	4	3
Total:	4,005	3,267

7. Trade and other receivables

	December 31, 2016 BGN'000	December 31, 2015 BGN'000
Trade receivables	4,001	3,982
Allowance for doubtful debts	(51)	(75)
Trade receivables, net	3,950	3,907
Advances	1,030	854
VAT refundable	613	569
Litigation and writs	507	543
Allowance for doubtful debts	(507)	(323)
Litigation and writs, net	-	220
Income tax overpaid	-	67
Other receivables	71	109
Total:	5,664	5,726

Age of trade receivables that are not past due is as follows:

	December 31, 2016 BGN'000	December 31, 2015 BGN'000
Up to 30 days	3,480	2,784
31 - 90 days	422	821
Total:	3,902	3,605

NOTES TO THE FINANCIAL STATEMENTS
as of December 31, 2016
(continued)

7. Trade and other receivables (continued)

Age of past due and impaired trade receivables is as follows:

	December 31, 2016 BGN'000	December 31, 2015 BGN'000
91 - 180 days	6	241
181 - 365 days	6	20
366 days - 2 years	15	21
Over 2 years	21	20
Total:	48	302

Movement of allowance for doubtful debts is as follows:

	Impairment of trade receivables BGN'000	Impairment of litigation and writs BGN'000	Total BGN'000
Balance at January 1, 2015	(117)	(314)	(431)
Impairment losses recognised on receivables	(20)	(20)	(40)
Impairment losses reversed	56	3	59
Amounts written off during the year as uncollectible	6	8	14
Balance at December 31, 2015	(75)	(323)	(398)
Impairment losses recognised on receivables	(10)	(205)	(215)
Impairment losses reversed	28	6	34
Amounts written off during the year as uncollectible	6	15	21
Balance at December 31, 2016	(51)	(507)	(558)

8. Cash and bank balances

	December 31, 2016 BGN'000	December 31, 2015 BGN'000
Cash in foreign currency	10,239	9,212
Cash in BGN	10,152	6,134
Total:	20,391	15,346

9. Share capital

As of December 31, 2016 the share capital of the Company is divided into 8,494 thousand shares with nominal value of BGN 1 each. The Company is 100 % state participation and the rights of sole owner are exercised by the Ministry of Transport, Information Technology and Communications.

NOTES TO THE FINANCIAL STATEMENTS
as of December 31, 2016
(continued)

10. Non-current bank loans

In prior reporting periods the Company has entered into a bank loan for the purchase of two 63-ton mobile cranes. The final term for repayment of the loan is August 1, 2018. The negotiated interest is equal to the 3-month Euribor plus a fixed mark-up. The repayment of the bank loan is made in equal instalments and an interest on the diminishing balance. As of December 31, 2016 the total amount of the loan amounts to BGN 2,417 thousand, including a non-current portion to the amount of BGN 965 thousand and a current portion of BGN 1,452 thousand. As collateral a registered pledge is set on the two 63-ton mobile cranes and the pertaining accessories to a total amount of BGN 7,440 thousand.

In the current reporting periods the Company has entered into a bank loan for the purchase of a mobile port crane and pertaining equipment. The final term for repayment of the loan is July 1, 2021. The negotiated interest is equal to the 1-month Euribor plus a fixed mark-up. The repayment of the bank loan is made in equal instalments and an interest on the diminishing balance. As of December 31, 2016 the total amount of the loan amounts to BGN 4,306 thousand, including a non-current portion to the amount of BGN 3,364 thousand and a current portion of BGN 942 thousand. As collateral a registered pledge is set on the mobile port crane and the pertaining equipment to a total amount of BGN 5,800 thousand.

11. Non-current liabilities to employees

	December 31, 2016 BGN'000	December 31, 2015 BGN'000
Retirement benefit obligation	2,625	2,422
Non-current portion of litigation	355	353
Total:	2,980	2,775

Retirement benefit obligation is as follows:

	December 31, 2016 BGN'000	December 31, 2015 BGN'000
Present value of retirement benefit obligation on January, 1	2,422	1,471
Current service cost	238	282
Interest cost	68	75
Actuarial gains/losses recognised in other comprehensive income	343	1,040
Actuarial gains/losses recognised in profit and loss	16	-
Benefits paid	(462)	(446)
Total:	2,625	2,422

The present obligation is estimated at 2.5% interest rate, which is 30 basis points lower than the one used in the prior year. This is a result of the downward trend in yields on long-term government bonds issued in Bulgaria. In the previous estimate a 1.0% annual increase of salaries is assumed for 2017 and for each subsequent year. There is a change in the current estimate and 10.0% annual increase of salaries for 2017 and 1.0% for 2018 and for each subsequent year is assumed.

NOTES TO THE FINANCIAL STATEMENTS
as of December 31, 2016
(continued)

11. Non-current liabilities to employees (continued)

The weighted average duration of the defined benefit obligation by age and length of service is 6.4 years. The management has made the following estimate for the expected payments on retirement benefits over the next five years:

	Retirement by age and length of service BGN'000	Retirement due to illness BGN'000	Total BGN'000
Payments in 2017	354	10	364
Payments in 2018	362	10	372
Payments in 2019	266	10	276
Payments in 2020	300	10	310
Payments in 2021	289	9	298

12. Current liabilities

	December 31, 2016 BGN'000	December 31, 2015 BGN'000
Employees	3,128	3,317
Current portion of non-current bank loans	2,394	1,456
Advances from customers	1,404	1,240
Trade payables	1,122	1,275
Social security	829	1,024
Taxes	611	592
Guarantees	531	318
Government grants	112	115
Litigation	17	55
Payables to the budget for a rent contribution	8	27
Other payables	27	10
Total:	10,183	9,429

Payables to employees and social security include unused paid leave to the amount of BGN 126 thousand (December 31, 2015: BGN 186 thousand).

The Company has received as government grants machines and equipment as well as certain spare parts for special purposes. As government grants are presented also the funds received under:

- a) Operational Programme "Human Resources Development", grants scheme BG051PO001-2.3.03 „Safe work” – for the project “Better working conditions in Port Varna EAD to the amount of BGN 6 thousand.
- b) Joined Operational Programme “Black Sea Basin 2007 – 2013”, Agreement for partnership to Grant Agreement № 2.1.1.77205.364 MIS-ETC 2264/12.07.2013, project “Ensuring the security of transit containers – SETRACON” to the amount of BGN 2 thousand.

NOTES TO THE FINANCIAL STATEMENTS
as of December 31, 2016
(continued)

13. Revenue

	Year ended December 31, 2016 BGN'000	Year ended December 31, 2015 BGN'000
Revenue from reloading	59,802	55,647
Revenue from storage	12,364	11,648
Other	1,205	391
Total:	73,371	67,686

14. Other income

	Year ended December 31, 2016 BGN'000	Year ended December 31, 2015 BGN'000
Rent of buildings	473	494
Contribution to the state budget from rental income	(237)	(247)
Gain/(loss) on sale of assets	246	46
Income from litigation	52	50
Income from insurance indemnities	20	10
Penalties for damages	18	5
Surplus/(shortage) of assets	12	16
Income from government grants	2	214
Written-off liabilities	-	34
Other income	88	7
Total:	674	629

15. Raw materials and consumables used

	Year ended December 31, 2016 BGN'000	Year ended December 31, 2015 BGN'000
Fuel and lubricants	2,601	2,901
Electricity	1,888	2,099
Spare parts	843	922
Major production materials	830	713
Tyres	600	760
Water	518	843
Current assets and consumables	386	277
Stationary and consumables	204	182
Work clothes and uniforms	198	237
Total:	8,068	8,934

NOTES TO THE FINANCIAL STATEMENTS
as of December 31, 2016
(continued)

16. Hired services

	Year ended December 31, 2016 BGN'000	Year ended December 31, 2015 BGN'000
Remuneration for use of port infrastructure	3,733	3,746
Security	966	948
Auto services, prophylactic and repair	950	748
Transportation of employees	658	651
Sewage costs, cleaning and waste treatment	529	348
Advertising	383	537
Insurance	253	227
Costs for cleaning services	244	209
Administrative services	228	255
Moving of vessels and rental equipment	131	153
Subscription	125	123
Civil contracts	99	101
Audit services	19	16
Services of damage elimination	12	32
Total:	8,330	8,094

17. Employee benefits expense

	Year ended December 31, 2016 BGN'000	Year ended December 31, 2015 BGN'000
Salaries	23,035	23,164
Fringe benefits	8,568	7,983
Social security	6,121	6,309
Retirement benefits	322	357
Unused paid leave	75	126
Social security on unused paid leave	14	28
Total:	38,135	37,967

NOTES TO THE FINANCIAL STATEMENTS
as of December 31, 2016
(continued)

18. Other expenses

	Year ended December 31, 2016 BGN'000	Year ended December 31, 2015 BGN'000
Local taxes and fees	489	410
Allowances for impairment and write-off of receivables, net	188	(15)
Entertainment costs	132	66
Donations	80	39
Tax on expenses	62	43
Waste of property, plant and equipment and inventory	44	77
Business trips	40	32
Costs for enhancing qualification	18	12
Litigation costs	16	26
Impairment of inventories	-	261
Provision for litigation	-	38
Other expenses	10	12
Total:	1,079	1,001

19. Finance income

	Year ended December 31, 2016 BGN'000	Year ended December 31, 2015 BGN'000
Income from interest	31	36
Exchange rate gain	16	19
Total:	47	55

20. Finance costs

	Year ended December 31, 2016 BGN'000	Year ended December 31, 2015 BGN'000
Interest expenses	100	136
Bank charges and fees	10	15
Exchange rate loss	14	26
Total:	124	177

NOTES TO THE FINANCIAL STATEMENTS
as of December 31, 2016
(continued)

21. Tax income/ (expenses)

As of December 31, 2016 the reconciliation of the tax income/ (expenses) is as follows:

	Year ended December 31, 2016 BGN'000	Year ended December 31, 2015 BGN'000
Accounting profit/(loss) before tax	13,359	7,943
Tax benefit/(expense) at the applicable tax rate	(1,336)	(794)
Tax effect of permanent differences	(6)	(9)
Tax income/(expenses)	(1,342)	(803)

As of December 31, 2016 the components of the tax income/ (expenses) are as follows:

	Year ended December 31, 2016 BGN'000	Year ended December 31, 2015 BGN'000
Current tax expense	(1,338)	(883)
Tax effect of temporary tax differences	46	80
Tax income/(expenses)	(1,342)	(803)

22. Dividends

In 2016 the Company distributes part of the profit for the prior 2015 to the amount of BGN 7,140 thousand and in accordance with the Statute and para 1 and 3 of Order № 2 of Council of Ministers dated February 18, 2017 as follows:

- a) Dividends – BGN 3,535 thousand
- b) Reserves – BGN 3,535 thousand.

23. Adjustments in prior periods

In the current reporting period the Company made adjustments to the opening balance of accumulated reserves. These adjustments relate to the allocation in prior years between properties revaluation reserve and other reserves of the Company as well as the related temporary tax differences. The net effect of the adjustments is a decrease in reserves by BGN 367 thousand.

24. Related party transactions

The Company discloses transactions and terms thereof with the following related parties:

Ministry of Transport, Information Technology and Communications	Sole shareholder
Bulgarian Ports Infrastructure Company	Company under common control
Stefan Atanasov Minkov	Chairman of the Board of Directors
Petar Ivov Seferov	Executive Director
Dimitar Yordanov Atanasov	Member of the Board of Directors

NOTES TO THE FINANCIAL STATEMENTS
as of December 31, 2016
(continued)

24. Related party transactions (continued)

Transactions during the year and the outstanding receivables as of December 31, 2016 are stated out below:

	Type of transaction	Turnover	Outstanding receivables	Turnover	Outstanding receivables
		2016 BGN'000	2016 BGN'000	2015 BGN'000	2015 BGN'000
Bulgarian Ports Infrastructure Company	Services	3,776	8	3,798	5
Total			<u>8</u>		<u>5</u>

Transactions during the year and the outstanding payables as of December 31, 2016 are stated out below:

	Type of transaction	Turnover	Outstanding payables	Turnover	Outstanding payables
		2016 BGN'000	2016 BGN'000	2015 BGN'000	2015 BGN'000
Bulgarian Ports Infrastructure Company	Services	4,162	94	4,210	218
Total			<u>94</u>		<u>218</u>

The remuneration of the Board of Directors for 2016 amounts to BGN 113 thousand (2015: BGN 108 thousand).

There are no unusual terms or conditions associated with these transactions or variances from the market prices. The outstanding balances at year-end are not secured. No guarantees are given or received regarding the receivables and payables to related parties. A review for impairment is performed each financial year based on an analysis of the financial position of the related party and the market on which it operates.

Executive Director: (signed)
 Petar Seferov

Chief Accountant: (signed)
 Violeta Zlatkova

March 22, 2017
 Varna

*Unofficial translation of the original in Bulgarian.
 In case of any divergences the Bulgarian version is prevailing*

INDEPENDENT AUDITOR'S REPORT

**To the Shareholder of
Port Varna - EAD
Varna**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Port Varna - EAD (the Company), which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies from page 2 to page 26.

In our opinion the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Accounting Standards as adopted by the European Union (IASs).

Basis for Opinion

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

Other Matter

The annual financial statements of the Company for the year ended December 31, 2015 were audited by another registered auditor. An auditor's report was issued on April 11, 2016 with unmodified opinion on these financial statements.

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

Management is responsible for the other information. The other information comprises the annual report on the activities, prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the financial statements and our auditor's report thereon. This report is set from page 27 to page 34.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

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 our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IASs 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.

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 the Independent Financial Audit Act and ISAs 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 an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ✓ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ✓ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ✓ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ✓ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are

inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- ✓ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management 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

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the annual report on the activities, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines of the professional organization of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants, approved by its Management Board. These procedures concern verifying the existence and verifying the form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act applicable in Bulgaria.

Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

- ✓ The information included in the annual report on the activities for the financial year for which the financial statements have been prepared is consistent with those financial statements.
- ✓ The annual report on the activities has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Nikolay Kolev (signed)
Registered Auditor

Anton Svrakov (signed)
Managing Partner

March 22, 2017
Varna

*Unofficial translation of the original in Bulgarian.
In case of any divergences the Bulgarian version is prevailing*