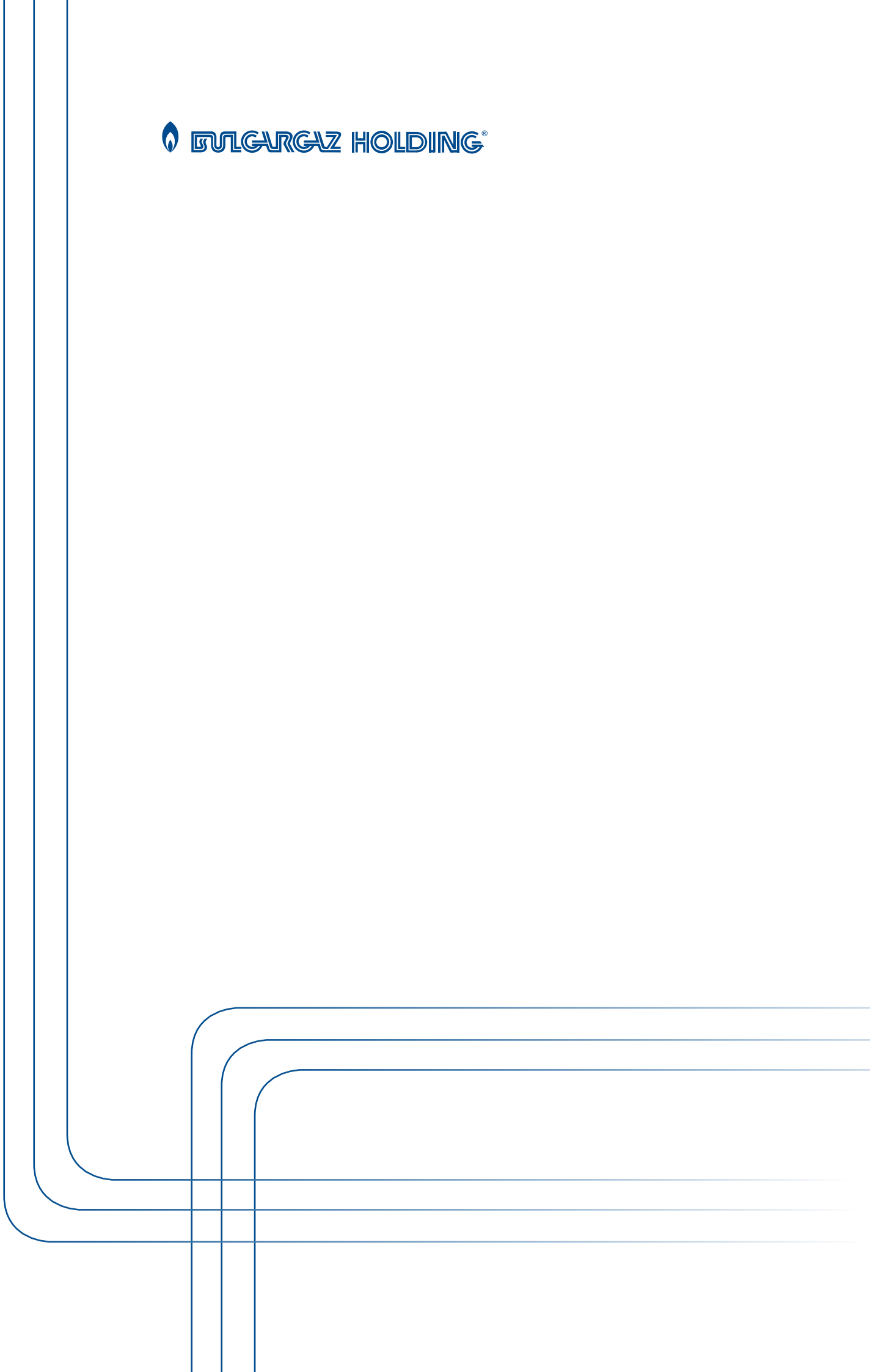






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Profile

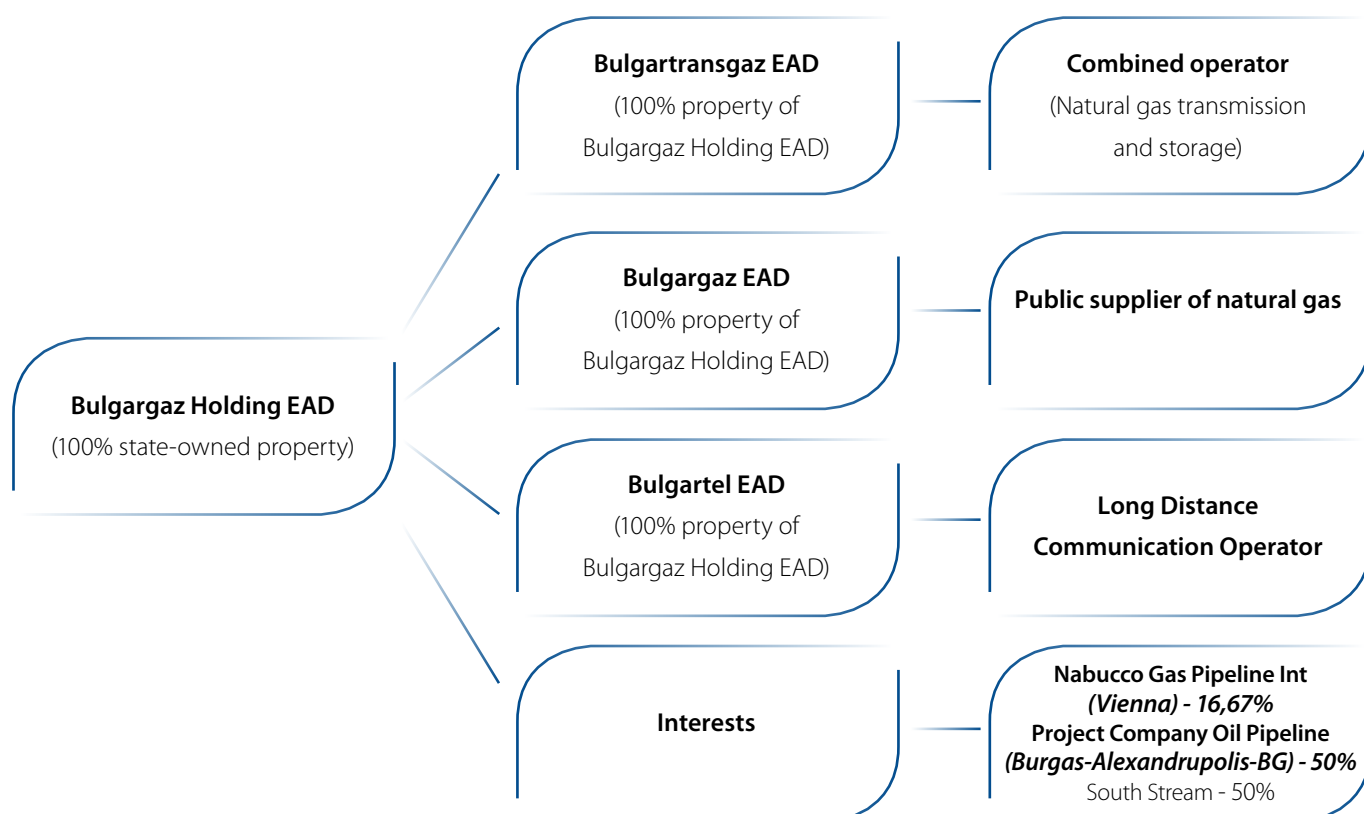
Subject to the provisions of the Energy Act (2003/2006), which introduces the requirements of European Directive 2003/55/EC, in 2006 there were undertaken measures to restructure the existing integrated company Bulgargaz EAD. The purpose of the restructure was a legal and organizational split-off of the activities related to natural gas transmission from the activities related to natural gas supply.

As a result of the measures undertaken, on 15.01.2007 the Sofia City Court registered the unbundling of Bulgargaz EAD into Bulgargaz Holding EAD through the split-off of newly established single

member business companies – Bulgartransgaz EAD performing the functions of a combined operator and Bulgargaz EAD performing the functions of a public supplier of natural gas.

With the completed unbundling the Bulgargaz Group was established, having as its parent company Bulgargaz Holding EAD and three wholly owned subsidiaries – Bulgartransgaz EAD, Bulgargaz EAD and Bulgartel EAD.

Bulgargaz Group as of 15.01.2007



Profile

Bulgargaz Holding EAD is a single member jointstock company with one hundred percent stateowned property.

The Minister of economy and energy exercises the rights of a single owner of the capital of Bulgargaz Holding EAD and resolves on the matters within the competence of the General Meeting thereof.

Bulgargaz Holding EAD participates in the capital and the management of companies in the field of the delivery, transport, transit, storage and public supply of natural gas, telecommunications services, provision of coordination among companies, in view of implementing a unified policy in the field of natural gas, information service, analytical and control activity, participation in international investment projects, etc.

Bulgargaz Holding EAD also pays particular attention to the activities pertaining to:

- ♦ Survey of the possibilities and participation of the company in projects related to natural gas production;
- ♦ Search and provision of alternative energy sources and routes, with participation of the company in projects such as Nabucco, Burgas Aleksandrupolis, South Stream, etc.;
- ♦ Enhancing and expanding the position concerning the transit transmission of energy resources;
- ♦ Survey of the possibilities and future participation in the building of cross-border gas pipelines;
- ♦ Survey of the possibilities for participation of the company in the building of new gas storages and liquefied gas terminals;
- ♦ Active participation of the company in the regional energy market in Southeastern Europe (Energy Community).



Management. Board of Directors

Bulgargaz Holding EAD is managed by a Board of Directors. The company is represented by a Chief Executive Officer.

Board of Directors



Valentin Ivanov
Chairperson of the BoD



Lyubomir Denchev
Member of the BoD and
Chief Executive Officer



Kiril Ananiev
Member of the BoD



Kiril Gegov
Member of the BoD



Valentin Radomirsky
Member of the BoD

Legal and Regulatory Framework

The requirements of European gas directives 2003/55/EC, 2004/67/EC have been implemented in Bulgarian legislation. European Regulation 1775/2005 also forms part of the national legislation.

The business of the subsidiaries of Bulgargaz Holding EAD is determined by specialized legislation regulating public relations in the field of energy and more specifically the transmission, storage and trade in natural gas:

- ♦ **The Energy Act, (2003/2006)** - regulates public relations pertaining to the execution of activities of production, import and export, transmission, transit transmission, distribution of electric and thermal power and natural gas, trade in electric and thermal power and natural gas, and use of renewable energy sources, as well as the powers of state authorities in terms of the determination of energy policy, regulation and control. Chapter twelve of the Energy Act regulates in most general terms public relation with respect to gas supply, which are developed further in a number of delegated legislation enactments:
- ♦ Ordinance on licensing activities in the field of energy;
- ♦ Ordinance on the conditions and the procedure of executing the activity of an operator of gas transmission and gas distribution networks;
- ♦ Ordinance on the connection to gas transmission and gas distribution networks;
- ♦ Ordinance on the structure and safe operation of transmission and distribution gas pipelines, of natural gas facilities, installations and equipment;
- ♦ Ordinance on the technical rules and norms for designing, building and use of sites and facilities for natural gas transmission, storage, distribution and supply;
- ♦ Ordinance on the procedure of implementing a restrictive regime, temporary suspension or limitation of the production or supply of electric power, thermal power and natural gas;
- ♦ Ordinance on the regulation of natural gas prices;
- ♦ Ordinance on the servitudes of energy sites;
- ♦ Ordinance on the contents, structure, conditions and procedure of information provision;
- ♦ Regulations on the trade in natural gas;
- ♦ Regulations on the access to the gas transmission network;



Legal and Regulatory Framework

- ♦ **Energy Efficiency Act**, which regulates public relations pertaining to the implementation of the state policy for increasing energy efficiency and rendering energy efficient services;
- ♦ **Environmental Protection Act** and the Ordinance on the conditions and procedure of preparing environmental impact assessments;
- ♦ **Electronic Communication Act**, which regulates the activities of Bulgartel EAD in its capacity of Long Distance Telecommunication Operator.

The regulation of the activities in the field of energy is carried out by the independent specialized body – the State Energy and Water Regulatory Commission (SEWRC).

In the field of natural gas, the activities subject to licensing on part of the SEWRC pursuant to the Energy Act are:

- ♦ Natural gas transmission;
- ♦ Natural gas storage;
- ♦ Public supply of natural gas;
- ♦ Transit transmission of natural gas.

The powers of the SEWRC include price regulation and the following are subject to regulation by the Commission:

- ♦ The prices at which the Public Supplier sells natural gas;
- ♦ The price of natural gas transmission along the gas transmission network;
- ♦ The price of natural gas storage;
- ♦ The prices of connection to the networks.



Participation in Significant Energy Projects

Nabucco Project

The Nabucco Project is among the important European energy infrastructure projects for building a transcontinental gas pipeline for natural gas transmission from the Caspian region, the Middle East and North Africa to Central and Western Europe.

The great importance of the project to the EU was evidenced by the fact that in September 2007, at the proposal of the EC a special project coordinator was appointed in view of process acceleration.

The length of the future gas pipeline will be 3300 km, of which nearly 400 km – on Bulgarian territory, and maximal transport capacity – 31 billion cubic meters of natural gas per annum. The deadline for commissioning the Nabucco gas pipeline is the year 2013.

The shareholders in the company Nabucco Gas Pipeline International GmbH, incorporated in 2004, are the following gas companies: Botas AS - Turkey, Bulgargaz Holding EAD – Bulgaria, Transgaz S.A. - Romania, MOL Plc – Hungary, OMV Gas & Power GmbH – Austria, and as of February 2008 RWE AG - Germany too. Each shareholder holds an equal share of 16,67% in the company.

In 2007 the national Nabucco companies in Austria, Hungary, Romania and Bulgaria were incorporated too.

On May 29, 2008, the Steering Committee of the Nabucco Gas Pipeline International GmbH company announced an update of the expected investment expenses, which are currently estimated to EUR 7,9 billion.

The Nabucco gas pipeline will allow diversification of both sources and transmission routes for natural gas supply to Europe and our country. The competition on the local supply market will be enhanced. There will be created a possibility for direct participation of Bulgaria in the single European gas market.

Burgas Aleksandrupolis Project

The Burgas Aleksandrupolis Project is a new route for transmitting Russian oil from Central Asia and the Caspian region to Europe, an alternative to the overloaded traffic through Bosphorus and the Dardanelles.

The oil will be transported in tankers through the Black Sea from the Russian port of Novorosiysk to the Bulgarian port of Burgas. The further transmission of oil will be carried out along a gas pipeline with a length of 280 km, of which 155 km on Bulgarian territory, to the Greek port of Aleksandrupolis.

The governments of Bulgaria, Greece and Russia signed a tripartite agreement for cooperation in the construction and operation of the oil pipeline, pursuant to which at the beginning of February 2008 in Amsterdam, the Netherlands, Trans Balkan Pipeline BV – the national project company, which will be the owner of the oil pipeline, was incorporated. The share held by Russia in that company is 51%, and Greece and Bulgaria hold a share of 24.5% each.

The share in the company of the Bulgarian party is held by a joint-stock company registered in 2007 “Proektna Kompaniya Neftoprovod Burgas - Aleksandrupolis BG” AD, in which equal shares are held by Bulgargaz Holding EAD and Technoexportstroy EAD.

The expected quantity of oil transited along the oil pipeline is 35 million/tons of oil annually, with a possibility to increase capacity to 50 million/tons.

Participation in Significant Energy Projects

South Stream Project

The South Stream Project is for building a gas pipeline for transmission of natural gas from Russia to Italy and Austria through the territory of Bulgaria along the Black Sea bottom, and the project works were commenced with the Memorandum between Gazprom and Eni signed in June 2007.

At the beginning of 2008, the Russian party signed bilateral inter-government agreements with Bulgaria, Serbia, Hungary and Greece.

Pursuant to the Inter-government agreement signed in January 2008 between the governments of Bulgaria and Russia, the project works on Bulgarian territory will be carried out by a joint venture established specially for the project and

registered in Bulgaria, in which the Bulgarian and Russian parties will have equal interest. The shareholder in the future company on Bulgarian part will be Bulgargaz Holding EAD.

It is planned that the annual capacity of the new gas pipeline will be 30 billion cubic meters, and the planned length of the gas pipeline through the Black Sea is about 900 km, laid at depth of 2000 m. There are two directions of the route of the gas pipeline on the territory of Bulgaria – northern and southern.



Financial Statements of Bulgargaz Holding EAD for 2007

Individual balance statement of Bulgargaz Holding EAD for 2007

	Current year (BGN thousand)	Previous year * (BGN thousand)
Assets		
Fixed assets		
Property, plant and equipment	13 488	13 936
Intangible assets	247	322
Investments	1 041 481	1 041 239
Receivables from affiliated parties	17 000	-
Assets on deferred taxes	162	365
Trade and other receivables	10	13
Fixed assets total	1 072 388	1 055 875
Current assets		
Material stock	60	52
Trade receivables and other receivables	555	1 636
Receivables from affiliated parties	24 574	4 986
Cash funds and cash equivalents	58 295	150 456
Financial assets available for sale	1 097	-
Total amount of current assets	84 581	157 130
Assets total	1 156 969	1 213 005
Equity and reserves		
Shareholders' equity	1 000 000	860 000
Reserves	54 907	44 840
Profit carried forward	73 355	254 544
Total amount of equity and reserves	1 128 262	1 159 384
Liabilities		
Long-term debts		
Liabilities on deferred tax	222	472
Trade and other debts	211	-
Debts for compensation for retirement	84	1 653
Long-term debts total	517	2 125
Short-term debts		
Trade and other debts	4 507	4 467
Debts to affiliated parties	23 143	46 801
Debts for compensation for retirement	14	228
Deferred financing	526	-
Short-term debts total	28 190	51 496
Liabilities total	28 707	53 621
Equity and liabilities total	1 156 969	1 213 005

Individual income statement of Bulgargaz Holding EAD for 2007

	Current year (BGN thousand)	Previous year * (BGN thousand)
Continued operation		
Income from trade of goods and services	23 142	228
Other operating income	1 917	10
Reporting value of sold goods	(242)	(202)
Reintegrated depreciations	274	-
Materials	(312)	(234)
Outsourcing	(1 764)	(815)
Amortizations	(906)	(1 168)
Personnel expenses	(3 118)	(995)
Social security expenses	(655)	(230)
Other operating expenses	(1 179)	(960)
Operating profit / (loss) (continued operation)	17 157	(4 366)
Financial income	683	1 207
Financial expenses	(3 136)	(5 570)
Net financial income /(expenses)	(2 453)	(4 363)
Profit before taxes (continued operation)	14 704	(8 729)
Expenses for profit taxes	(1 570)	-
Net profit / (loss) for the period (continued operation)	13 134	(8 729)
Suspended operation		
Net profit for the period (suspended operation)		107 459
Net profit for the period	13 134	98 730

Individual cash flow statement of Bulgargaz Holding EAD for 2007

	Current year (BGN thousand)	Previous year * (BGN thousand)
Operating activity		
Net profit /(loss) before taxes	14 704	(8 536)
Corrections:		
Amortizations	906	1 168
Spoilage of material stock	4	-
Depreciation of trade and other receivables	(274)	-
Provisions and accrual of compensations for retirement	(1 805)	317
Missed revaluation rate margins, net	3 107	5 248
Investment operation profit	(65)	-
(Increase) / decrease of receivables	(29 321)	24
(Increase) / decrease of material stock	(12)	20
(Increase) / decrease of debts	(28 070)	780
Donations from the reserves	(169)	-
Profit taxes paid	(2 461)	-
Net operating cash flows	(43 456)	(979)
Net operating cash flows (suspended operations)		62 461
Investment operation		
Purchase of fixed assets	(668)	(131)
Acquired investments	(927)	-
Received dividends	65	-
Net investment operation cash flows	(1 530)	(131)
Net investment operation cash flows (suspended operations)		(11 839)
Financial operation		
Paid dividends	(44 412)	(50 081)
Exchange rate margins	(2 763)	(5 248)
Net financial operation cash flows	(47 175)	(55 329)
Net financial operation cash flows (suspended operations)		(6 888)
Net increase of cash funds and cash equivalents	(92 161)	(56 439)
Net increase of cash funds and cash equivalents (suspended operations)		43 734
Cash funds and cash equivalents at the start of the period	150 456	163 161
Cash and cash equivalents at the end of the period	58 295	150 456

*The financial report for the previous reporting period of 2006 has been recalculated.
The accountancy date according to the Restructuring plan is 01.10.2006.

Financial Statements of Bulgargaz Holding EAD for 2007

Individual shareholder's equity report of Bulgargaz Holding EAD as at 31.12.2007

	Registered equity (BGN thousand)	Reserves (BGN thousand)	Reserves from revaluat.to just. value (BGN thousand)	Revaluation reserve (BGN thousand)	Non-allocated profit (BGN thousand)	Total* (BGN thousand)
Balance as at January 1st, 2006	825 311	65 564		186 986	32 760	1 110 621
Registered profit for 2006 (revaluated)					98 730	98 730
Dividends on the profit for the previous year					(50 081)	(50 081)
Bonuses of the profit carried forward from the previous year					(62)	(62)
Allocation of profit carried forward from the previous year		11 129			(11 129)	
Donations		(131)				(131)
Increase of equity	34 689	(34 689)				
Transformation of revaluation reserve to non-allocated profit for property, plant and equipment, transferred due to restructuring				(183 469)	183 469	
Revaluation of property, plant and equipment 880 880				880		880
Liability under deferred tax from revaluation of property, plant and equipment and change of tax rate				(69)		(69)
Diminishing of non-allocated profit with the amount of liability on deferred tax					(18 544)	(18 544)
Provisions for assets, servicing the transit gas main					(4 905)	(4 905)
Other expenses for previous years					(193)	(193)
Corrections of accountancy errors				(1 361)	24 499	23 138
Balance as at December 31st, 2006 (revaluated)	860 000	41 873		2 967	254 544	1 159 384
Balance as at January 1st, 2007	860 000	41 873		2 967	254 544	1 159 384
Registered profit for 2007					13 134	13 134
Increase of equity	140 000				(140 000)	
Dividends on the profit for the previous year					(44 412)	(44 412)
Allocation of profit from the previous year		9 870			(9 870)	
Bonuses of the profit from the previous year					(55)	(55)
Donations		(168)				(168)
Transformation of revaluation reserve to non-allocated profit for property, plant and equipment, transferred due to restructuring				(6)	6	
Other changes					8	8
Revaluation of financial assets available for sale			412			412
Liability on deferred revaluation tax to justified value of financial assets available for sale			(41)			(41)
Balance as at December 31st, 2007	1 000 000	51 575	371	2 961	73 355	1 128 262

*The financial report for the previous reporting period of 2006 has been recalculated.

The accountancy date according to the Restructuring plan is 01.10.2006.

REPORT OF THE INDEPENDENT AUDITOR

To
the single shareholder of the equity of
Bulgargaz Holding EAD

Financial statement report

After performing audit of the applied individual financial statement of Bulgargaz Holding EAD ("The company"), including the individual balance statement as at December 31, 2007 and individual income report, individual report of changes in shareholder's equity, individual annual cash flow report for the year ending at this date and the summarized declaration of annual accountancy policy and other explanatory annexes. The Company individual financial statement, executed by the Company as at December 31st, 2006 has been audited by another auditor, said auditor issuing an audit report dated March 30, 2007, expressing its unqualified auditor opinion.

Responsibility of the Management for the financial statement

The company management shall be responsible for the preparation and reliable presentation of this individual financial statement in compliance with the International Financial Reporting Standards, applicable for the European Union. This responsibility shall include: development, implementation and support of internal control system, related to execution and correct presentation of financial reports, not containing any significant errors, deviations or discrepancies, caused by fraud or error, selection and application of appropriate accountancy policies; and composing approximate reporting evaluations, reasonable under the specified juncture.

Auditor responsibility

We shall be responsible for expressing our audit opinion on this individual financial report on the basis of the executed audit. We have also performed audit on the data corrections for the preceding period as described in note 2 (b), considered for the revaluation of the financial statements, executed as at December 31st, 2006. In our opinion such corrections are appropriate and correctly applied. Our audit has been conducted in compliance with the International Audit Standards. The standards shall enforce compliance with the ethical requirements and planning of the audit in a way allowing us to be reasonably convinced in lack of substantial inaccuracies, errors and discrepancies.

The audit shall include execution of procedures with the purpose of obtaining audit proof of the amounts and publications represented in the individual financial statement. The selected procedures shall depend on the auditor evaluation, including evaluation of risks of substantial inaccuracies, errors and discrepancies in the financial statement, regardless of being caused by fraud or error. The auditor shall consider the internal control system for such risk evaluations, related to the execution and reliable presentation of the financial statement by the enterprise in order to develop audit procedures, appropriate for such circumstances, but

not for the purpose of expressing opinion on the efficiency of the company internal control system. The audit shall also include evaluation of the relevance of the applied accountancy policies and the feasibility of the approximate accountancy evaluations executed by the management, as well as evaluation of the integral performance in the financial report.

We hereby consider the audit proof we have received shall be appropriate and sufficient to formulate our expressed opinion.

Opinion

In our opinion the individual financial statement shall represent the Company financial status as at December 31st, 2007 and the individual financial operating results and individual cash flows for the year ending at December 31st, 2007 in compliance with the International Financial Reporting Standards applicable for the European Union in a true and correct way.

Report on other legal and supervisory provisions

Annual report of the Company operation in compliance with the provisions of article 33 of the Accountancy Act

In compliance with the provisions of the Accountancy Act, we also reported the archive financial information prepared by the Company management and submitted to the Annual Company Operating Report in compliance with article 33 of the Accountancy Act shall comply in all relevant aspects with the financial data, contained in the annual financial statement of the Company for the year, ending December 31st, 2007. The Company management shall be held responsible for the execution of the annual operation report, approved by the Company Board of Directors on May 17th, 2008.

KPMG Bulgaria OOD

Sofia, May 20th, 2008

37 "Fritjof Nansen" Street

Sofia 1142

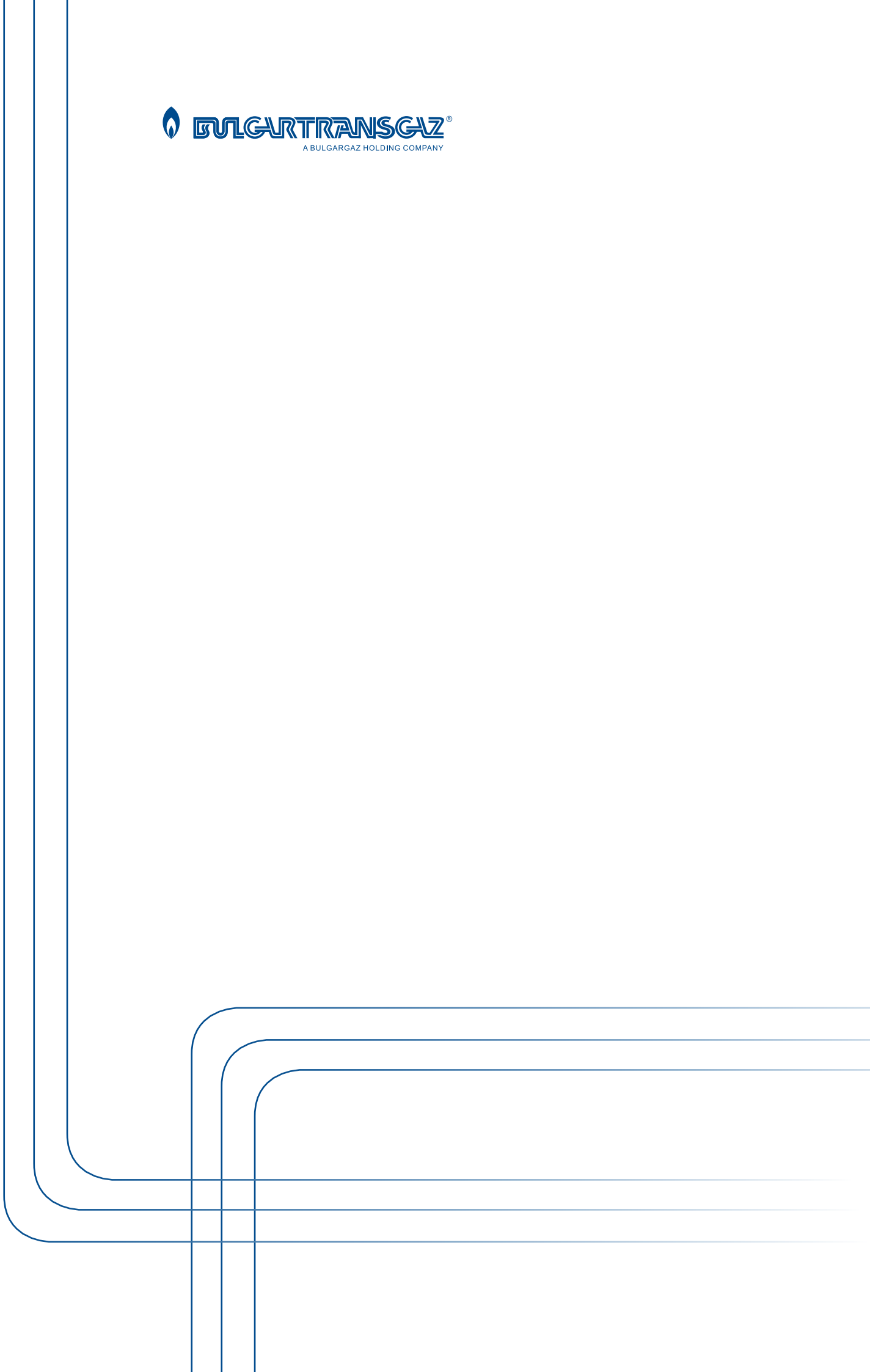
Republic of Bulgaria

Krasimir Hadzhidinev
Manager

Antoaneta Boycheva
Certified Auditor



0332 Антоанета Бойчева
Печатен знак



On January 15, 2007, the Sofia City Court registered the unbundling of Bulgargaz EAD in Bulgargaz Holding EAD through a split-off of newly incorporated single member business companies, one of which was Bulgartransgaz EAD. As a result of that unbundling, the activities related to natural gas transmission, transit transmission and storage, together with the respective assets were transferred to the newly registered operator company – Bulgartransgaz EAD.

Bulgartransgaz EAD performs its functions of a combined operator for natural gas transmission and storage in accordance with the following licenses

issued by the State Energy and Water Regulatory Commission (SEWRC):

- ♦ For natural gas transmission;
- ♦ For transit transmission of natural gas;
- ♦ For natural gas storage.

Pursuant to the provisions of the Energy Act, only one license for natural gas transmission is issued for the territory of the country. Such license was issued by the SEWRC to Bulgartransgaz EAD – the company appointed as the gas transmission operator in Bulgaria.

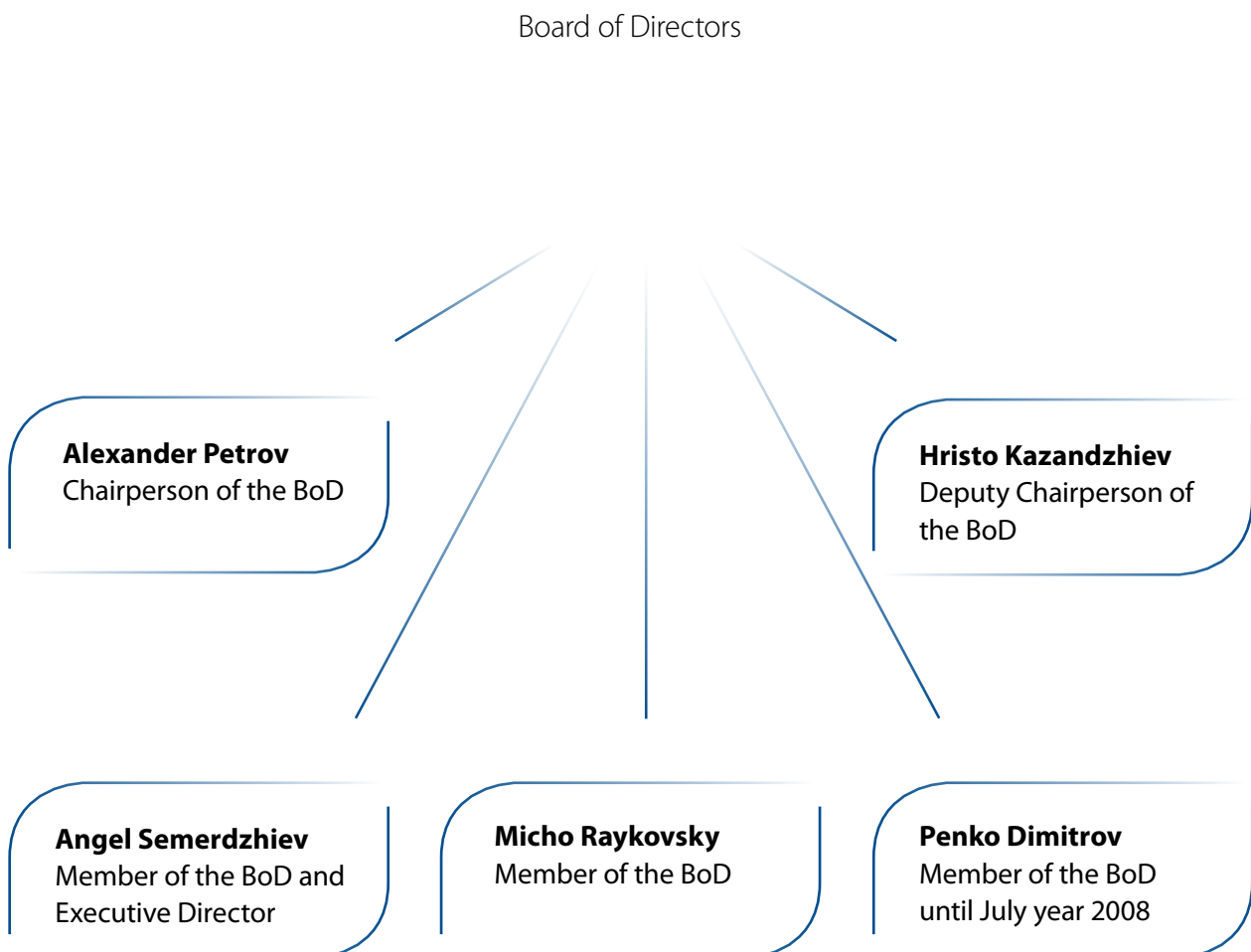


Management. Board of Directors

Bulgartransgaz EAD is a single member joint-stock company.

The owner of 100% of the capital of Bulgartransgaz EAD is Bulgargaz Holding EAD.

The company is managed by a Board of Directors. Bulgartransgaz EAD is represented by an Executive Director.



Gas Infrastructure

Bulgartransgaz EAD is owner and operator of annularly built gas transmission network with highpressure branches for transmission of natural

gas to consumers and gas distribution companies in Bulgaria, of Chiren Underground Gas Storage, and of network for natural gas transit transmission.



- Gas transmission network for consumers in the Republic of Bulgaria:
 - Main gas pipeline with high-pressure branches – 1700 km;
 - Three compressor stations with total installed capacity of 49 MW;
 - Gas pressure-reduction stations – 68;
 - Gas measuring stations – 8.
- Gas transmission network for transit transmission of natural gas:
 - Transit main gas pipeline with a total length of 945 km;
 - Six compressor stations with a total capacity of 214 MW.

- Total length of the main gas pipelines (under item 1 and item 2) – 2645 km.
- Compressor stations (under item 1 and item 2) – 9 in number with total installed capacity of 263 MW.
- Chiren Underground Gas Storage with one compressor station – with total capacity of 10 MW.

Natural Gas Transmission

As a transmission operator Bulgartransgaz EAD provides:

- ♦ Integral management and reliable functioning of the gas transmission system;
- ♦ Natural gas transmission through the gas transmission system and measurement thereof in compliance with quality requirements;
- ♦ Maintenance of the sites and facilities of the gas transmission system in compliance with the technical requirements and work safety regulations by meeting the European requirements for environmental protection;
- ♦ Gas transmission network development;
- ♦ Maintenance and development of all auxiliary networks.



Natural Gas Transit Transmission

Natural gas is transited through the territory of the Republic of Bulgaria to countries of the Balkan region – Turkey, Greece and Former Yugoslav Republic of Macedonia.

The year 2007 was the twentieth year as of the beginning of natural gas transit through the country. The first quantities of natural gas transited in 1987 – 0,4 billion cubic meters, were directed to Turkey.

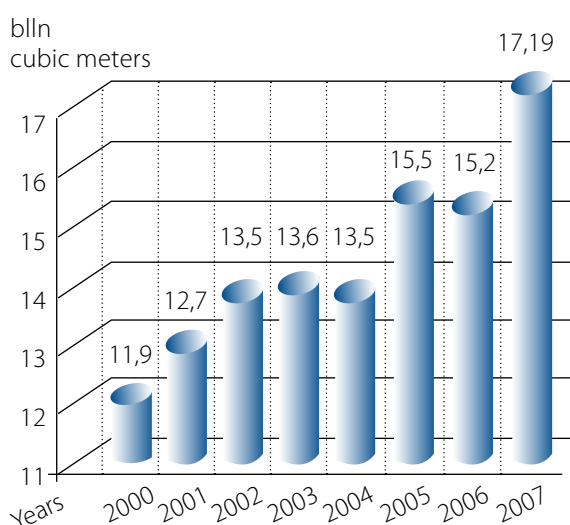
The quantity of transited natural gas in 2007 is 17,190 billion cubic meters, or by 13,16% more in comparison with 2006.

The quantity of natural gas transited to Turkey in 2007 is 13,9 billion cubic meters (Bcm), which is by 12,72 % more in comparison with 2006.

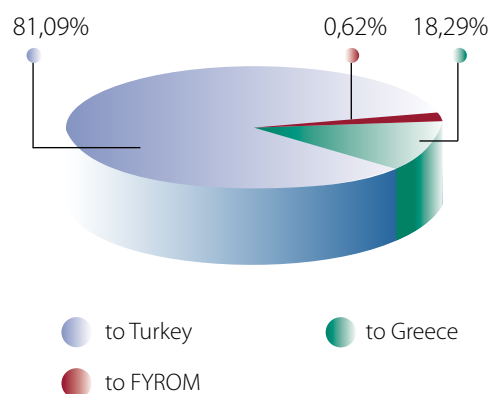
The quantity of natural gas transited to Greece in 2007 is 3,1 billion cubic meters (Bcm), or by 14,76 % more in comparison with 2006.

The quantity of natural gas transited to Former Yugoslav Republic of Macedonia in 2007 is 0,1 billion cubic meters (Bcm), or by 27,21% more in comparison with 2006.

Transited natural gas, 2000 - 2007



Transit transmission of natural gas, 2007



Natural Gas Storage

The Chiren Underground Gas Storage (Chiren UGS) is the only natural gas storage on the territory of Bulgaria. It was created on the basis of the depleted gas condensate field of the same name.

The Chiren UGS is used to regulate the seasonal fluctuation in the consumption of natural gas in the country and ensure supply security.

During year 2007 in Chiren UGS 333,0 million cubic meters of natural gas owned by Bulgargaz EAD and other traders were injected and were withdrawn 333,2 million cubic meters.

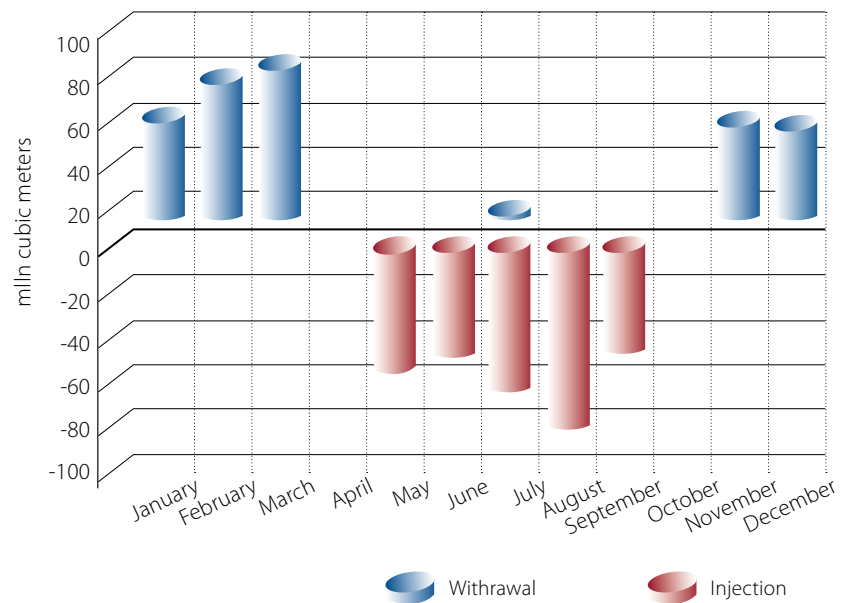
To utilize the productivity of rock layers where natural gas is stored as efficiently as possible, in 2006 a new operational deviated well E-70 was built and commissioned industrially in the storage facility for the first time in Bulgaria. The deviated well increased the trade capacities of the storage facility. When under a withdrawal mode, the daily capacity of this well exceeds by over two and a half times the average daily capacity of the other similar vertically drilled injection withdrawal wells.

Based on the high efficiency of this type of deviated wells, a new operational well of this type will be commissioned at the end of 2008.



Natural Gas Storage

Withdrawal and injection of natural gas in the Chiren UGS in 2007



Financial Statements of Bulgartransgaz EAD for 2007

Balance statement of Bulgartransgaz EAD as at 31.12.2007

	Current year (BGN thousand)	Previous year * (BGN thousand)
Assets		
Fixed assets		
Property, plant and equipment	615 918	634 831
Intangible fixed assets	837	1 103
Deferred tax assets	369	9
Fixed assets total	617 124	635 943
Current assets		
Material stock	32 783	30 003
Trade and other receivables	43 171	73 821
Deposits provided to affiliated parties	23 000	
Cash funds and cash equivalents	66 097	4
Current assets total	165 051	103 828
Assets total	782 175	739 771
Equity and reserves		
Shareholder's equity	731 313	731 313
Changes from correction	(47 386)	(47 386)
Accumulated profit	75 715	38 781
Reserves	4 573	3 617
Equity and reserve total	764 215	726 325
Liabilities		
Long-term debts		
Deferred tax liabilities	2 330	3 402
Debts for compensation for retirement	1 990	
Long-term debts total	4 320	3402
Short-term debts		
Trade and other debts	11 617	7 969
Debts for compensation for retirement	258	
Financing	1 765	2075
Short-term debts total	13 640	10 044
Liabilities total	17 960	13 446
Equity and liabilities total	782 175	739 771

Income statement of Bulgartransgaz EAD for 2007

	Current year (BGN thousand)	Previous year * (BGN thousand)
Income from transfer of natural gas	70 855	16 635
Income from low pressure network	262	221
Income from natural gas storage	6 135	649
Income from transferred natural gas	67 867	13 711
Other operating income	5 244	3 113
Operating income total	150 363	34 329
Reporting value of sold goods	(155)	(40)
Technological expenses	(19 761)	(5 219)
Materials	(3 468)	(1 476)
Outsourcing)	(11 741)	(2 013)
Amortizations	(39 363)	(9 516)
Personnel expenses	(20 160)	(3 923)
Social security expenses	(4 026)	(948)
Other operating expenses	(1 303)	(356)
Operating profit	50 386	10 838
Net financial income/expenses	(2 891)	(174)
Profit before taxation	47 495	10 664
Taxation expenses	(4 762)	96
Net profit for the period	42 733	10 760

Cash flow statement of Bulgartransgaz EAD for 2007

	Current year (BGN thousand)	Previous year * (BGN thousand)
Operating cash flows	-	-
Net profit/loss before taxes	47 495	10 664
Corrections:		
Amortization	39 363	9 516
Profit from property, plant and equipment		
Spoilage of property, plant and equipment	213	63
Deregistered licenses	42	
Material stock spoilage	19	11
Non-implemented income from assets	(620)	(16)
Revaluation of assets		
Depreciation of trade and other receivables		
Provisions and accrual of compensations for pensioning and compensated leaves of absence	3 295	589
Non-implemented revaluation rate margins, net	3 047	170
Profit from sale of assets		
Operating profit before changes to the turnover equity	92 584	20 997
(Increase) / decrease of receivables	1 617	(11 227)
(Increase) / decrease of material stock	(1 823)	(2 874)
(Increase) / decrease of obligations to	1 938	763
(Increase) / decrease of blocked cash funds		-
Operating cash flows	94 586	7 659
Paid profit taxes	(7 000)	
Change of deferred taxes	2	
Net operating cash flows	87 588	7 659
Investment operation cash flows		
Purchase of fixed assets	(14 376)	(7 655)
Acquired investments		
Sale of fixed assets		
Net investment operation cash flows	(14 376)	(7 655)
Financial operation cash flows		
Credit payments		
Interest and credit payments		
Paid dividends	(4 843)	
Net financial operation cash flows	(4 843)	
Net increase / decrease of cash flows and equivalents	68 369	4
Change in currency exchange rates	(2 276)	
Net increase/decrease of cash funds and equivalents, revaluated	66 093	4
Cash funds and cash equivalents at the beginning of the period	4	
Cash funds and cash equivalents at the end of the period	66 097	4

*The financial report for the previous reporting period of 2006 has been recalculated.
The accountancy date according to the Restructuring plan is 01.10.2006.

Financial Statements of Bulgartransgaz EAD for 2007

Shareholder's equity statement of Bulgartransgaz EAD as at 31.12. 2007

	Registered equity (BGN thousand)	Reserves (BGN thousand)	Revaluated reserve (BGN thousand)	Non-allocated profit (loss) (BGN thousand)	Total* (BGN thousand)
Balance as at January 1st, 2007	731 313		3 617	(8 605)	726 325
Correction change	(47 386)			47 386	
Approved profit for the current year				42 733	42 733
Allocation of profit from the previous year		1 076		(1 076)	
Bonuses of profit from the previous year					
Donations					
Ex-post /occurrence/ of taxes originated from the revaluation reserve					
Transformation of revaluation reserve into non-allocated profit of deregistered property, plant and equipment			(119)	119	
Revaluation of fixed tangible assets, including increases and decreases			(1)		(1)
Increase of shareholder's equity at the expense of collected profits/reserves					
Dividends				(4 842)	(4 842)
Balance as at December 31st, 2007	731 313	1 076	3 497	28 329	764 215
Correction change	(47 386)			47 386	

*The financial report for the previous reporting period of 2006 has been recalculated.
The accountancy date according to the Restructuring plan is 01.10.2006.

REPORT OF THE INDEPENDENT AUDITOR

To the Shareholders of Bulgartransgaz EAD

We have performed audit of the applied financial statement of BULGARTRANSGAZ EAD (the Company), including the balance statement as at December 31, 2007 and income report, individual report of changes in shareholder's equity, individual annual cash flow report for the year ending at this date and the summarized declaration of annual accountancy policy and other explanatory annexes, as well as the management report.

Responsibility of the Management for the financial statement

The company management shall be responsible for the preparation and reliable presentation of this individual financial statement in compliance with the International Financial Reporting Standards. This responsibility shall include: development, implementation and support of internal control system, related to execution and correct presentation of financial reports, not containing any significant errors, deviations or discrepancies, caused by fraud or error, selection and application of appropriate accountancy policies; and composing approximate reporting evaluations, reasonable under the specific juncture.

Auditor responsibility

We shall be responsible for expressing our audit opinion on this individual financial report on the basis of the executed audit. Our audit has been performed in compliance with the professional requirements of the International Audit Standards. The standards shall enforce compliance with the ethical requirements and planning of the audit in a way allowing us to be reasonably convinced in lack of substantial inaccuracies, errors and discrepancies.

The audit shall include execution of procedures with the purpose of obtaining audit proof of the amounts and publications represented in the financial statement. The selected procedures shall depend on the auditor evaluation, including evaluation of risks of substantial inaccuracies, errors and discrepancies in the financial statement, regardless of their occurrence being caused by fraud or error. The auditor shall consider the internal control system for such risk evaluations, related to the execution and reliable presentation of the financial statement by the enterprise in order to develop audit procedures, appropriate for such circumstances, but not for the purpose of expressing opinion on the efficiency of the company internal control system.

The audit shall also include evaluation of the relevance of the applied accountancy policies and the feasibility of the approximate accountancy evaluations executed by the management, as well as evaluation of the integral performance in the financial report.

We hereby consider the audit

Opinion

In our opinion the financial statement is reliably and in all relevant aspects representing the Company financial status as at December 31, 2007 and the financial operating results and cash flows for the year ending at December 31st, 2007 in compliance with the International Financial Reporting Standards, approved by the European Commission, in a true and correct way.

Without implying any reservations, we hereby note according to specifications in the explanatory notes by company experts, certain suggestions of error in the evaluation and a possible undervaluation of fixed assets have been made and certain actions have been made as regards to this. Due to the specific type of assets and limitation of information, the company has not received sufficiently reliable data regarding the value of assets and the effect of their contingent revaluation. Thus the statement does not include any contingent changes and this fact has only been noted. The Management plans to continue the data collection operation and upon reaching a reliable effect it shall be reported in the periods to follow.

Report on other legal requirements

The Company Management shall be responsible for the composition of the annual operation report of the Company. Comparative qualitative and value data for periods before the company separation have also been included in the approved report.

The financial information represented in the Annual Company Operation Report for 2007 shall correspond to the information contained in the Company annual financial statement, executed as at 31.12.2007 on the grounds of the International Financial Reporting Standards, adopted by the European Commission.

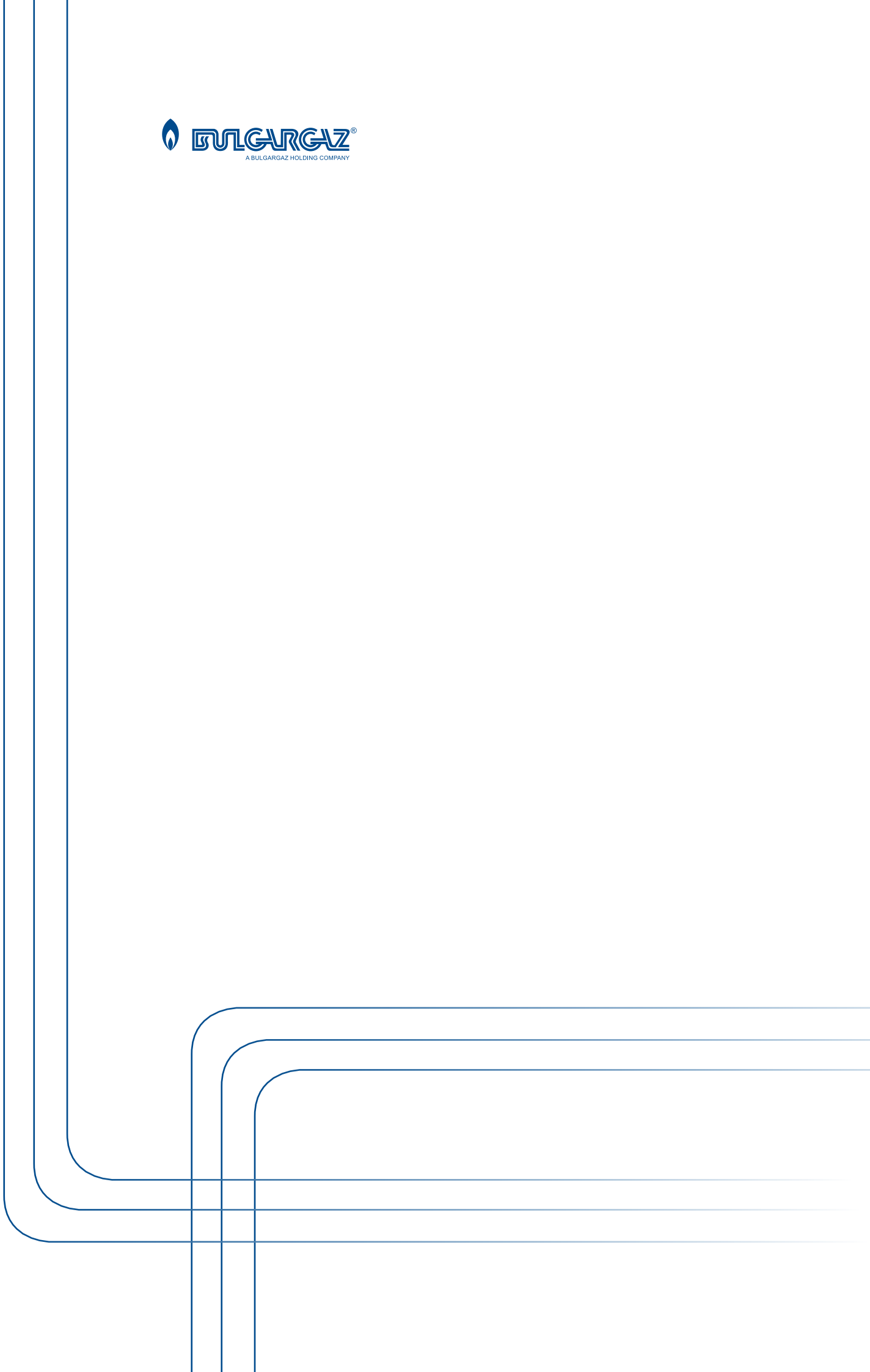
Bonev Soft Expert OOD
Specialized Audit Company
Sofia, 29.04.2008

17 Dimitar Manov Street
Sofia, Republic of Bulgaria

Manager
Zhivko Bonev

Registered Auditor
Trayana Hristova





On January 15, 2007, the Sofia City Court registered the unbundling of Bulgargaz EAD in Bulgargaz Holding EAD through a split-off of newly incorporated single member business companies, one of which was Bulgargaz EAD. As a result of that unbundling, the activities related to natural gas purchase and sale, together with the respective long-term contracts were transferred to the newly registered public supplier company – Bulgargaz EAD.

Pursuant to the provisions of the Energy Act, only one license for public supply of natural gas is issued for the territory of the country. Such license was issued by the State Energy and Water Regulatory Commission (SEWRC) to Bulgargaz EAD – the company appointed as the Public Supplier in Bulgaria.

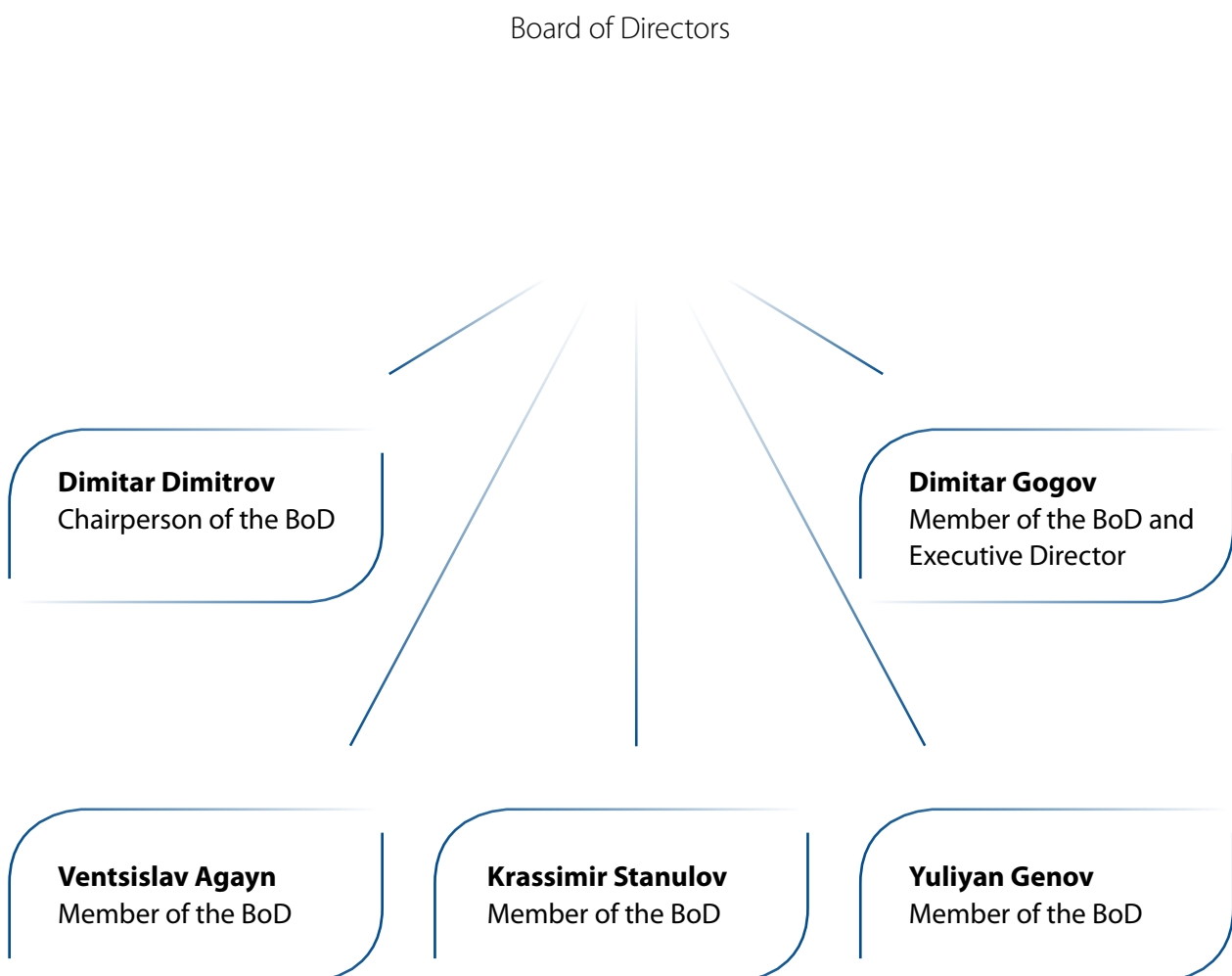


Management. Board of Directors

Bulgargaz EAD is a single member joint-stock company.

The owner of 100% of the capital of Bulgargaz EAD is Bulgargaz Holding EAD.

The company is managed by a Board of Directors. Bulgargaz EAD is represented by an Executive Director.



Sources of Natural Gas Supply

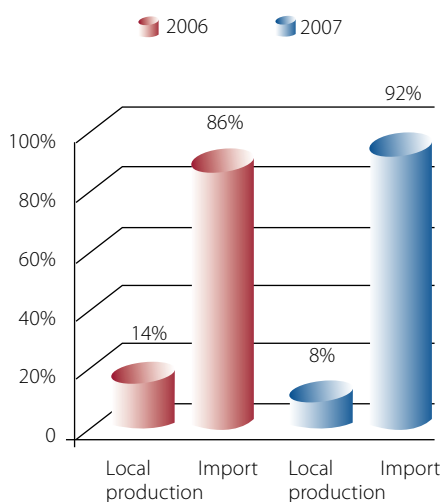
The basic activity of Bulgargaz EAD is natural gas supply on the territory of Bulgaria and reliable supply of the customers of the company with natural gas in accordance with the contractual requirements for quantity and quality.

In 2007 for the needs of Bulgaria, Bulgargaz EAD supplied 3,7 billion cubic meters of natural gas, and there is a growth of 1,73% in the volume of supplies as compared to 2006.

The basic quantities for natural gas supply – about 92% are provided through import from one source – the Russian Federation, and the remaining average of 8% are from local production.

In order to ensure the supply of natural gas to its customers, Bulgargaz EAD entered into a contract for natural gas transmission with the gas transmission operator.

Natural supply gas sources



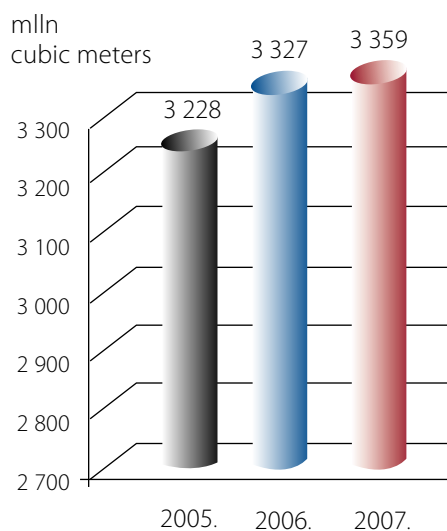
Public Supply of Natural Gas

In 2007 Bulgargaz EAD sold on the domestic market 3,359 billion cubic meters of natural gas, and the specific characteristic for that year is that the gas transmission operator is a customer of the company too and buys gas for its technological needs.

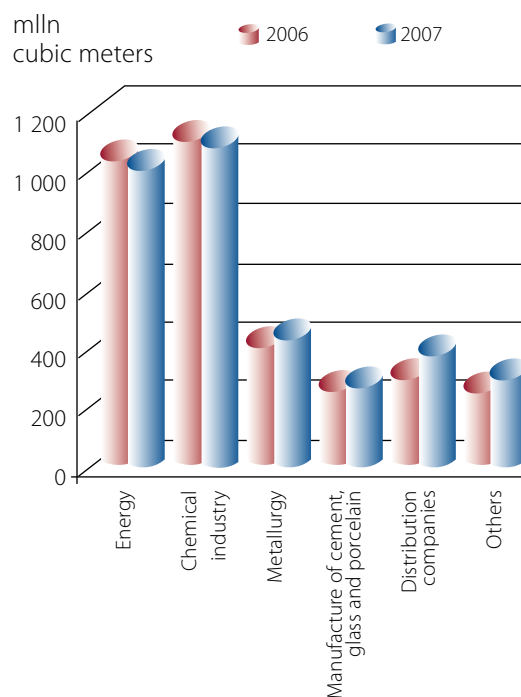
Customers of Bulgargaz EAD in 2007 are most natural gas public suppliers/end suppliers licensed by the SEWRC – 42 in number, and 220 natural gas users.

The structure of natural gas sales as per economy sectors has been relatively constant over the last years, and gas consumption has been largest in the sectors of chemistry – 31,85 %, energy – 29,65 % and metallurgy – 11,97 %.

Sale of natural gas in Bulgaria



Structure of natural gas consumption as per economic branches



Public Supply of Natural Gas

The trend of increasing the share of gas public suppliers/end suppliers in the natural gas market continues, and in 2007 10,77% of all supplies of the Public Supplier were realized to end customers through them. For comparison, in 2006 that share was 8,95%.

In order to cover seasonal fluctuation in natural gas consumption and to ensure supplies security, Bulgargaz EAD provided for injection and storage in Chiren UGS – 0,332 billion cubic meters of natural gas, and the withdrawn quantities are 0,288 billion cubic meters.

To use the natural gas storage service, the company has concluded a contract with Bulgartransgaz EAD in its capacity of a holder of license for natural gas storage.

Trends in natural gas prices

The year 2007 marked a significant increase in oil prices on the international market. That growth naturally exerted influence on natural gas prices too, which follow the same increase trend with a certain delay in time and at a slower rate.

In 2007 the import prices at which Bulgargaz EAD bought natural gas increased by an average of 18% as compared to the previous year.

In Bulgaria import prices play a decisive role in the formation of the price of natural gas for sale by the public supplier – Bulgargaz EAD, as more than 90% of the supplies within the country are provided through import.



Financial Statements of Bulgargaz EAD for 2007

Balance statement of Bulgargaz EAD as at 31.12.2007

	Current year (BGN thousand)	Previous year * (BGN thousand)
Assets		
Fixed assets		
Property, plant and equipment	186	119
Intangible fixed assets	18	55
Long-term receivables	132 192	41 435
Assets on deferred taxes	16 976	16 917
Fixed assets total	149 372	58 526
Current assets		
Material stock	125 821	90 090
Trade receivables and other receivables	184 138	299 972
Cash funds and cash equivalents	104 411	0
Current assets total	414 370	390 062
Asset total	563 742	448 588
Equity and reserves		
Registered capital	304 391	304 391
Changes from corrections		47 386
Reserve	47 964	69
Retained profit for the previous year	(2 394)	
Retained profit for the current year	81 400	413
Equity and reserves total	431 361	352 259
Liabilities		
Fixed liabilities		
Long-term debts	14 000	
Liabilities on deferred tax	6	11
Long-term debts total	14 006	11
Short-term debts		
Current debts	7 000	
Trade and other debts	111 303	96 318
Debts for compensation for retirement	72	
Short-term debts total	118 375	96 318
Liabilities total	132 381	96 329
Equity and liabilities total	563 742	448 588

Income Statement of Bulgargaz EAD for 2007

	Current year (BGN thousand)	Previous year * (BGN thousand)
Income from sale of gas	1 086 281	268 867
Other operating income	214 489	43 921
Total operating income:	1 300 770	312 788
Reported value of sold goods	(967 427)	(243 193)
Depreciation losses	(6 518)	(19 488)
Materials	(55 734)	(54)
Outsourcing	(164 204)	(30 285)
Amortizations	(74)	(4)
Personnel expenses	(1 038)	(40)
Social security expenses	(139)	(5)
Other operating expenses	(107)	(10)
Operating profit	105 529	19 709
Net financial income/expenses	(15 265)	(5 529)
Profit before interest and tax	90 264	14 180
Tax expenses	(8 864)	(10 172)
Net profit for the period	81 400	4 008

Cash flow statement of Bulgargaz EAD for 2007

	Current year (BGN thousand)	Previous year * (BGN thousand)
Operating cash flow	-	-
Net profit/loss before taxes	90 264	14 180
Corrections:		
Amortization	74	4
Spoilage of properties, plant and equipment	1	
Deregistered licenses	15	
Missed asset income		(190)
Depreciation of trade and other receivables	6 518	19 488
Provisions	(160)	(4 905)
Accrual of retirement compensations	130	
Changes in deferred taxes		
Missed rate revaluation margins, net	15 445	5 514
Operating profit before changes in working capital	112 287	34 091
(Increase) / decrease of receivables	13 844	(64 046)
(Increase) / decrease of material stock	(35 731)	691
(Increase) / decrease of debts	33 694	29 265
(Increase) / decrease of blocked cash funds		
Operating cash flows	124 094	1
Paid corporate gain taxes	(8 039)	
Net operating cash flows	116 055	1
Investment operation cash flows		
Purchase of fixed assets	(120)	(1)
Net investment operation cash flows	(120)	(1)
Financial operations cash flows		
Allocated dividends	(2 297)	
Net financial operations cash flows	(2 297)	
Net cash funds and cash equivalents increase / decrease	113 638	
Change in currency rates	(9 227)	
Revaluated net increase/decrease of cash funds and cash equivalents	104 411	
Revaluated net increase/decrease of cash funds and cash equivalents	0	0
Cash funds and cash equivalents at the end of the period	104 411	0

*The financial report for the previous reporting period of 2006 has been recalculated.
The accountancy date according to the Restructuring plan is 01.10.2006.

Financial Statements of Bulgargaz EAD for 2007

Shareholders' equity statement of Bulgargaz EAD as at 31.12.2007

	Registered equity (BGN thousand)	Reserves (BGN thousand)	Revaluation reserve (BGN thousand)	Non-allocated profit (loss) (BGN thousand)	Total* (BGN thousand)
Balance as at October 1st, 2006					
Basic capital	304 391				304 391
Changes from corrections	47386				47386
Registered profit for the current year				4 008	4 008
Dividends from the profit for the previous year					
Profit from previous years					
Profit bonuses from the previous year					
Donations					
Ex-post of tax liability originating from revaluated reserve			(8)		(8)
Transformation of revaluated reserve to non-allocated profit of deregistered property, plant and equipment					
Revaluation of PPEs, including increase			78		78
Revaluation of PPEs, including 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
Basic capital					
Reallocation to reserve	(47 386)	47 386			
Registered profit for the current year				81 400	81 400
Dividends from the profit for the previous year				(2 296)	(2 296)
Allocation of profit from previous years		510		(510)	
Profit bonuses from the previous year					
Donations					
Ex-post of tax liability originating from revaluated reserve					
Transformation of revaluated reserve to non-allocated profit of deregistered property, plant and equipment			(1)	1	
Revaluation of PPEs, including increase					
Revaluation of PPEs, including decrease					
Other changes				(2)	(2)
Balance as at December 31st, 2007	304 391	47 896	68	79 006	431 361

*The financial report for the previous reporting period of 2006 has been recalculated.
The accountancy date according to the Restructuring plan is 01.10.2006.

REPORT OF THE INDEPENDENT AUDITOR

To the Shareholders of Bulgargaz EAD

We have performed audit of the applied financial statement of Bulgargaz EAD (the Company), including the balance statement as at December 31, 2007 and income report, individual report of changes in shareholder's equity, individual annual cash flow report for the year ending at this date and the summarized declaration of annual accountancy policy and other explanatory annexes.

Responsibility of the Management for the financial statement

The company management shall be responsible for the preparation and reliable presentation of this individual financial statement in compliance with the International Financial Reporting Standards. This responsibility shall include: development, implementation and support of internal control system, related to execution and correct presentation of financial reports, not containing any significant errors, deviations or discrepancies, caused by fraud or error, selection and application of appropriate accountancy policies; and composing approximate reporting evaluations, reasonable under the specific juncture.

Auditor responsibility

We shall be responsible for expressing our audit opinion on this individual financial report on the basis of the executed audit. Our audit has been performed in compliance with the professional requirements of the International Audit Standards. The standards shall enforce compliance with the ethical requirements and planning of the audit in a way allowing us to be reasonably convinced in lack of substantial inaccuracies, errors and discrepancies.

The audit shall include execution of procedures with the purpose of obtaining audit proof of the amounts and publications represented in the financial statement. The selected procedures shall depend on the auditor evaluation, including evaluation of risks of substantial inaccuracies, errors and discrepancies in the financial statement, regardless of the reasons for their occurrence. The auditor shall consider the internal control sys-

tem for such risk evaluations, related to the execution and reliable presentation of the financial statement by the enterprise in order to develop audit procedures, appropriate for such circumstances, but not for the purpose of expressing opinion on the efficiency of the company internal control system. The audit shall also include evaluation of the relevance of the applied accountancy policies and the feasibility of the approximate accountancy evaluations executed by the management, as well as evaluation of the integral performance in the financial report.

We hereby consider the audit proof we have received shall be appropriate and sufficient to formulate our expressed audit opinion.

Opinion

In our opinion the financial statement is reliably and in all relevant aspects representing the Company financial status as at December 31, 2007 and the financial operating results and cash flows for the year ending at December 31st, 2007 in compliance with the International Financial Reporting Standards, approved by the European Commission, in a true and correct way.

Report on other legal requirements

The annual operation report for 2007 shall comply with the financial statement for this period.

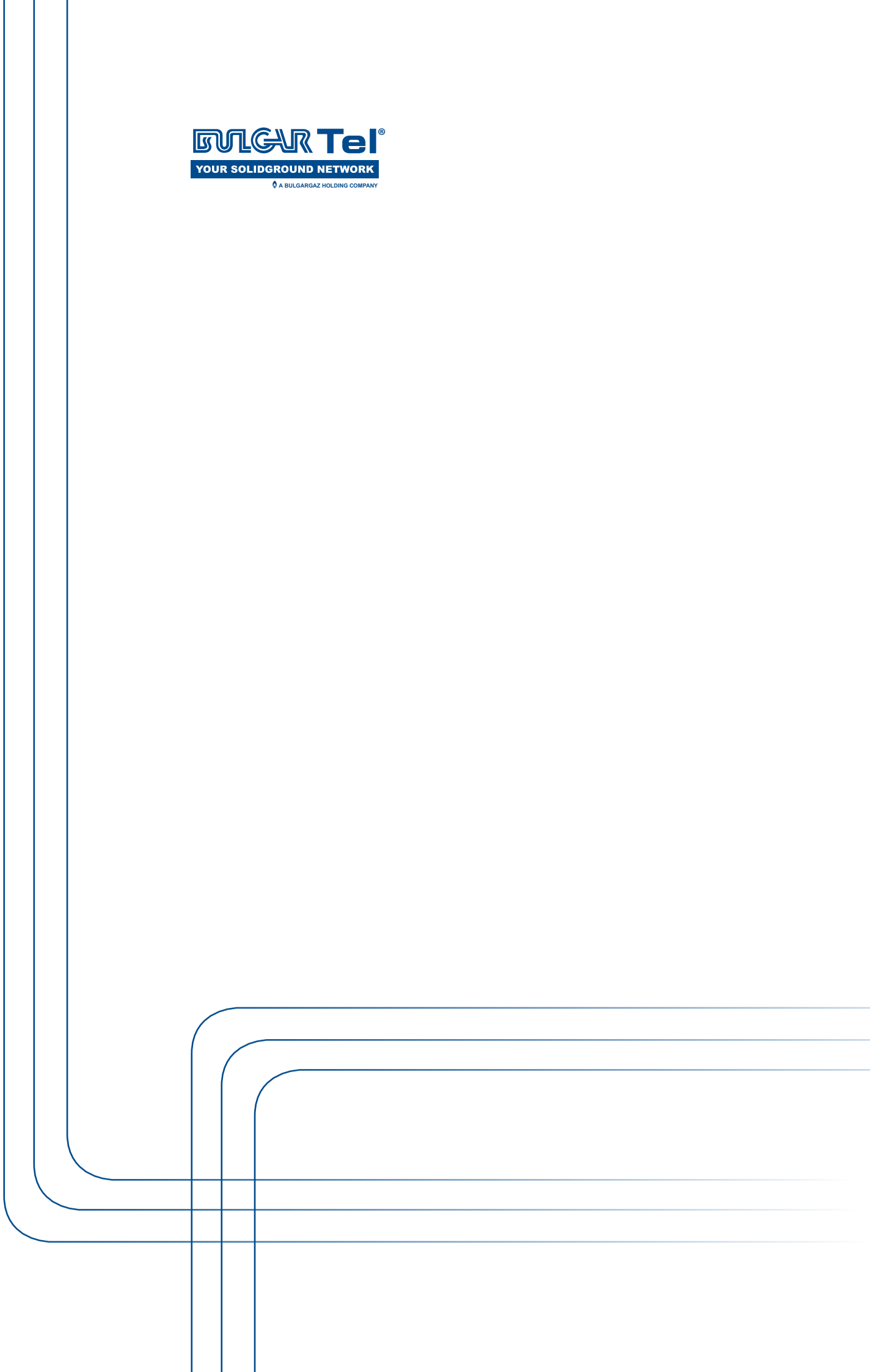
Bonev Soft Expert OOD
Specialized Audit Company
Sofia, 18.03.2008

17 Dimitar Manov Street
Sofia, Republic of Bulgaria

Manager
Zhivko Bonev

Registered Auditor
Trayana Hristova





Bulgartel EAD is a subsidiary of Bulgargaz Holding EAD, having as its business object - commercial, marketing and engineering activity in the field of telecommunications, building, use and maintenance of telecommunications networks and information systems and rendition of telecommunications and information services.

Bulgartel EAD is an alternative telecommunications operator of the "carrier of the carriers" type, providing on the Bulgarian and European markets leased national and international lines, reliable and user-friendly telecommunications services for data, video and transaction transfer and superimposed IP services with guaranteed quality.

Target Market

The target market of the company is telecommunications operators, Internet providers and system integrators, as well as corporate customers with big international traffic and developed branch network in Bulgaria and abroad.

The market niche of Bulgartel EAD is the provision of a naturally protected transfer medium to telecom operators.



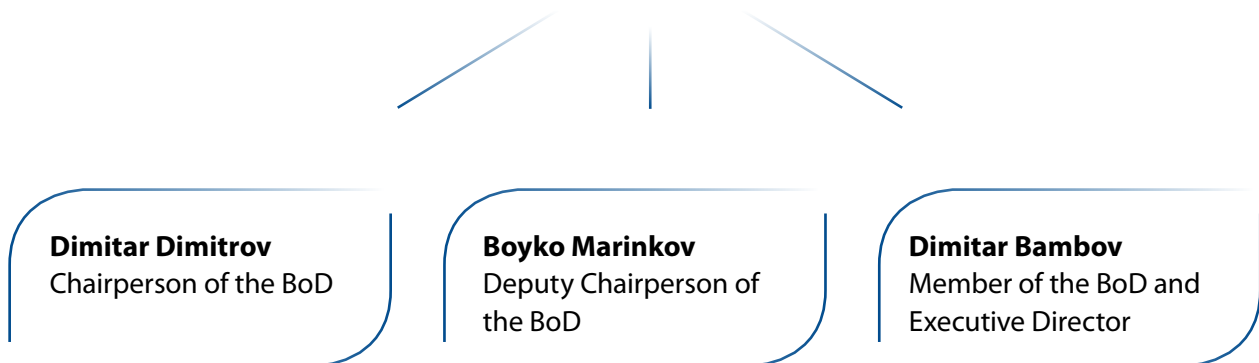
Management. Board of Directors

Bulgartel EAD is a single member joint-stock company, 100% property of Bulgargaz Holding EAD.

It was incorporated with ruling dd. 30.11.2004 of the Sofia City Court, Company Division, under company case No. 13115/2004.

The company is managed by a Board of Directors. Bulgartel EAD is represented by an Executive Director.

Board of Directors



Business Concept

Bulgartel EAD aims at providing to its partners and users reliable and user-friendly telecommunications services for starting-up and developing their

business by saving efforts and investments in transfer medium, and re-directing them to professionalism in service rendition.



Network

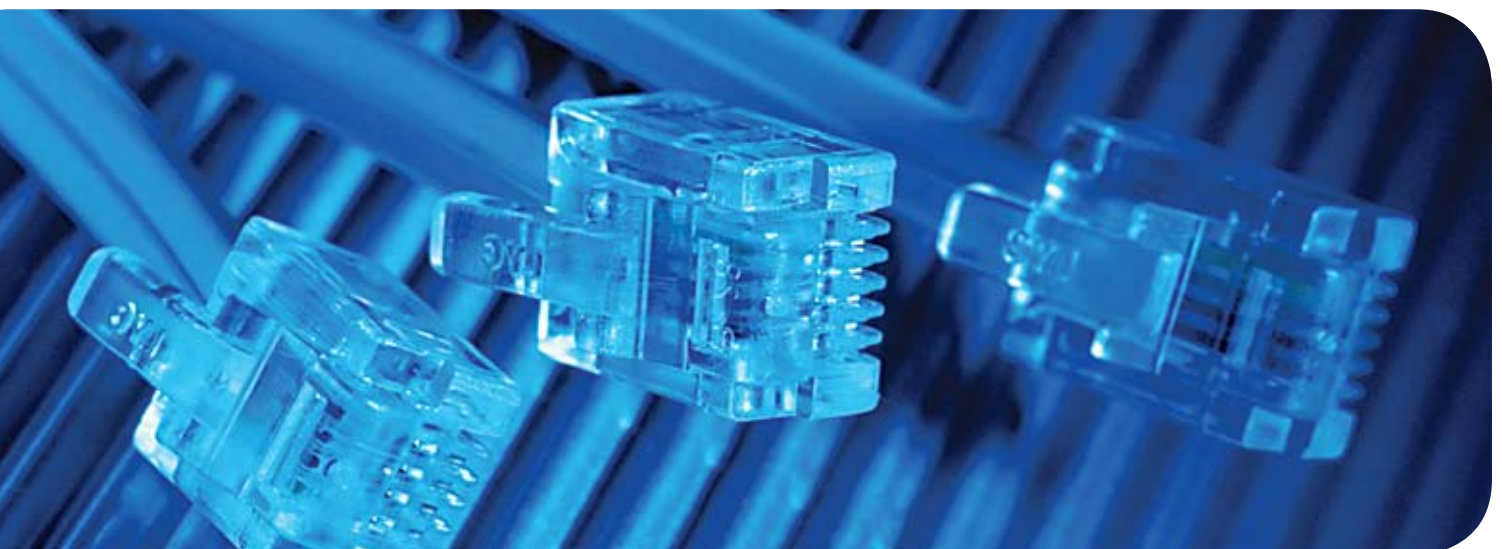
The linear network topology is based on 8 pairs of single-mode fiber optic cable G.652, located in the servitude of existing main gas pipelines, thus

making the network of Bulgartel EAD an excellently and naturally protected network.

Technologies

The current highly competitive environment of telecom operators requires flexible services and equipment allowing easy and economical increase in transfer capacity, to be compatible with the equipment of different vendors, in accordance with the approved industrial standards. Currently all services rendered by Bulgartel EAD are based on SDH equipment of Cisco-ONS15454. All major and end nodes of the fiber optic network are equipped with additional STM 1, STM 4 , E1 and E3 cards, as well as 100/1000 BaseT Ethernet ports of the switches Cisco Catalyst 3750 and 6500, which allows to Bulgartel EAD to offer the full range of fiber optic and electric interfaces satisfying the specific user needs of telecommunications operators and Internet providers.

Due to the rocketing needs of capacity conditioned by the increasing needs of business applications, a process of technological expansion of the network to the established standards in telecommunications – DWDM, has been started. The leading manufacturer in this field Infinera has been selected as a vendor of the equipment. Through the new technology Bulgartel EAD will have practically unlimited capacity within its network. The transfer equipment of Bulgartel EAD will allow a quick, easy and economically efficient increase of the transfer capacity and is compatible with the equipment of customers in accordance with the established industrial standards.



International Partners

Interconnection of Bulgartel EAD network on the one side with the networks of Romtelecom RDS, Prime Telecom and Pantel on the other side at Bulgarian border with Romania enables the company to provide services not only to the national, but also to the European market. The connection to the global network is realised via Tier 1 operators, and the access to these – via fully fibreoptical terrestrial, symmetric and fully backed-up connections.

Real fact is the interconnection with telecommunications network of the biggest Turkish operator - Turk Telekom, which will allow telecommunications operators in the Middle East reach European and global traffic exchange centers in the shortest way. The building of a second crossborder connection in the direction of Turkey with the purpose of backing up traffic and access to the networks of Turkish alternative telecom operators is going on.



Services

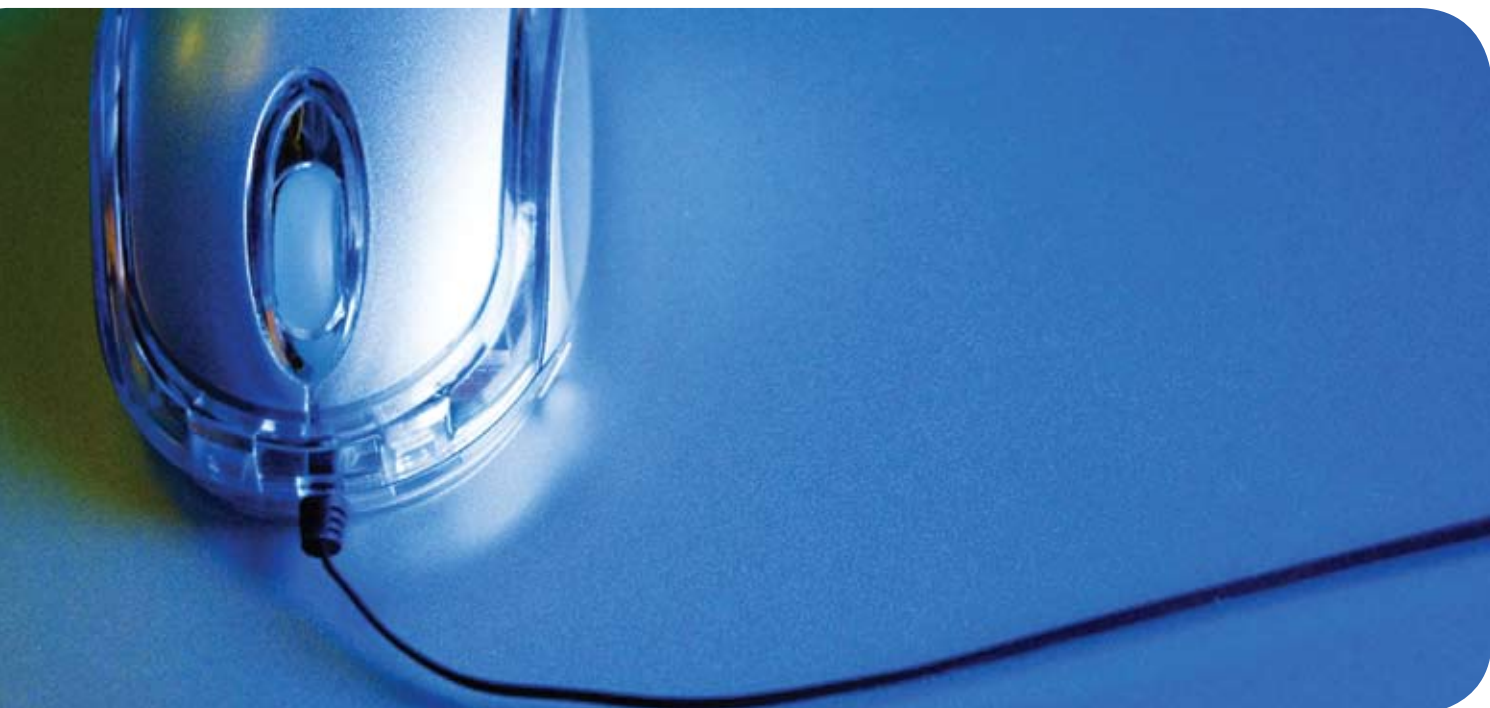
The services rendered by Bulgartel EAD are as follows:

1. Leased lines (national and international).
2. IP international connectivity – Bulgartel EAD offers to its customers access to the backbone network of all operators in Frankfurt (Ankotel and Itenos), Germany, and also to NX DATA Bucharest.
3. Collocation of communications equipment.

4. Data transfer: national and international.

The end points of presence where Bulgartel EAD renders this service are Sofia, Plovdiv, Stara Zagora, Varna, Burgas.

Bulgartel EAD provides to its customers a possibility of surveillance of the loading of the ports used thereby through web interface.



Maintenance

The clients of Bulgartel EAD receive reliable, highspeed connections between the end points of the network provided on the basis of naturally protected transmission network with excellent quality and at competitive prices.

The servicing of the customers is carried out by personal technical experts and additional 24-hour 7-day access of the Bulgartel EAD National Network Monitoring and Management Centre specialists.

A modern, customer-addressed system has been introduced for support, registration and follow-up of occurring events, prioritized in accordance with their critical level in view of the services rendered, which guarantees reliable and good-quality servicing of all product groups from one place.

SLA

Despite the fact that the Bulgarian telecommunications market is characterized by high price sensitiveness, the factor “service quality”, reflected in the relevant SLA (Service Level Agreement), is beginning to gain an increasing weight in the choice of an operator.

To meet the increasing needs of quality services, Bulgartel EAD is under a process of introducing a quality management system ISO 9000.



Financial Statements of Bulgartel EAD for 2007

Balance statement of Bulgartel EAD as at 31.12.2007

	Current year (BGN thousand)	Previous year (BGN thousand)
Assets		
Fixed assets		
Property, plant and equipment	6421	3461
Intangible fixed assets	1170	1378
Assets on deferred taxes	6	2
Fixed assets total	7597	4841
Current assets		
Current assets	26	144
Expenses paid in advance	19	224
Trade and other receivables	1637	756
Cash funds and cash equivalents	1637	986
Current assets total	3319	2110
Asset total	10916	6951
Equity and reserves		
Registered capital	5500	5500
Reserve	1171	376
Accumulated profit	515	811
Capital and reserve total	7186	6687
Liabilities		
Long-term debts		
Debts on financial leasing	7	28
Deferred tax liabilities	160	58
Debts for compensation for retirement	3	1
Credit debts	3000	
Long-term debts total	3170	87
Short-term debts		
Trade and other debts	538	134
Debts for financial leasing	22	43
Current debts total	560	177
Liabilities total	3730	264
Equity and liabilities total	10916	6951

Cash flow statement of Bulgartel EAD for 2007

	Current year (BGN thousand)	Previous year (BGN thousand)
Operating cash flows	-	-
Net profit/loss before taxes	614	927
Corrections:		
Amortization	723	440
Correction from expenses for interest		
Accrual of retirement compensations		
Change in deferred taxes	99	(30)
Operating profit before changes in working capital	1436	1337
(Increase) / decrease of material stock	118	(144)
(Increase) / decrease of receivables	(677)	1091
(Increase) / decrease of debts	376	11
Operating cash flows	1253	2295
Paid corporate gains taxes	(79)	(75)
Net operating cash flows	1174	2220
Investment operation cash flows		
Purchase of fixed assets	(3477)	(3146)
Net investment operation cash flows	(3477)	(3146)
Financial operations cash flows		
Financial leasing payments	(46)	(77)
Credit payments		
Paid interest		
Proceeds from credits	3000	
Net financial operations cash flows	2954	(77)
Net increase /-(decrease) of cash funds and cash equivalents	651	(1003)
Cash funds and cash equivalents at the beginning of the period	986	1989
Cash funds and cash equivalents at the end of the period	1637	986

Income Statement of Bulgartel EAD for 2007

	Current year (BGN thousand)	Previous year (BGN thousand)
Приходи	4378	3508
Приходи от продажба на стоки	152	
Други приходи от дейността	56	17
Общо приходи от дейността	4586	3525
Материали	(89)	(67)
Външни услуги	(2372)	(1817)
Амортизации	(723)	(440)
Разходи за персонала	(378)	(172)
Разходи за социално осигуряване и надбавки	(169)	(77)
Други разходи за дейността	(58)	(20)
Балансова стойност на продадените активи	(145)	
Печалба от оперативна дейност	652	932
Нетни финансови приходи/разходи	(38)	(5)
Печалба преди данъци	614	927
Разходи за данъци	(99)	(111)
Нетна печалба за периода	515	816

Financial Statements of Bulgartel EAD for 2007

Shareholders' equity statement of Bulgartel EAD as at 31.12.2007

	Registered equity (BGN thousand)	Statutory reserves (BGN thousand)	Other reserves (BGN thousand)	Other profit allocations (BGN thousand)	Non-allocated profit / (loss) (BGN thousand)	Total (BGN thousand)
Balance as at January 1st, 2006	5500				371	5871
Registered profit for 2006					816	816
Increase of shareholders' equity at the expense of the owners						
Allocation of profit from the preceding year		38	338		(376)	
Balance as at December 31st, 2006	5500	38	338		811	6687
Balance as at January 1st, 2007	5500	38	338		811	6687
Registered profit for 2007					515	515
Increase of shareholders' equity at the expense of the owners						
Allocation of profit from the preceding year		81	714		(811)	(16)
Balance as at December 31st, 2007	5500	119	1052		515	7186

REPORT OF THE INDEPENDENT AUDITOR

To The General Assembly of Shareholders of Bulgartel EAD

We have audited the accompanying financial statements of "BULGARTEL" EAD, which comprise the balance sheet as at December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design

audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.¹³ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Bulgartel EAD as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Management's report for the financial period is in accordance with annual financial statements.

BISIKOM – 61 EOOD
Sofia, 10.06.2008

Mladost – 1, Bl.91B, entr.G, app.84
Sofia,
Republic of Bulgaria

Registered auditor
Boyko Kostov


(подпис на аудитора)



Bulgargaz Holding EAD Consolidated Financial Statements

Consolidated financial statement for
the year ending December 31, 2007

	2007	2006 (recalculated)
BGN thousand		
Assets		
Fixed assets		
Property, plant, equipment and installation	633 187	648 352
Intangible assets	2 247	2 757
Investments	99	35
Trade and other receivables	132 201	41 447
Assets on deferred taxes	17 513	17 367
Fixed assets total	785 247	709 958
Current assets		
Inventory	158 690	120 289
Trade and other receivables	199 888	288 950
Cash and cash equivalents	230 440	151 446
Financial assets available for sale	1 097	-
Current assets total	590 115	560 685
Asset total	1 375 362	1 270 643
Equity and reserves		
Shareholders equity	1 000 000	860 000
Reserves	250 266	237 941
Profit carried forward	13 180	78 146
Equity and reserves total	1 263 446	1 176 087
Liabilities		
Long-term debts		
Liabilities on deferred taxes	2 308	22 300
Trade and other receivables	12 729	26
Obligations for compensation for retirement	2 077	1 654
Long-term debts total	17 114	23 980
Short-term debts		
Trade and other debts	92 167	68 273
Debts for retirement benefits	344	228
Deferred financing	2 291	2 075
Short-term debts total	94 802	70 576
Liabilities total	111 916	94 556
Equity and liabilities total	1 375 362	1 270 643

Consolidated income statement
For the annual period ending December 31, 2007

	2007	2006 (recalculated)
BGN thousand		
Income from sale of goods and services	1 070 742	989 989
Other operating income	163 247	162 601
	1 233 989	1 152 590
Reporting value of goods sold	(947 547)	(887 776)
Technological expenses	(19 761)	(19 899)
Depreciation of receivables	(6 244)	(19 054)
Inventory	(3 923)	(4 357)
Outsourcing	(11 272)	(9 119)
Amortization	(39 823)	(40 798)
Personnel expenses	(22 910)	(16 840)
Social contribution expenses	(4 990)	(4 008)
Other operating expenses	(2 554)	(2 137)
Operating profit	174 965	148 602
Financial income	1 019	955
Financial expenses	(21 665)	(12 623)
Financial expenses – net	(20 646)	(11 668)
Losses from investments in associated companies	(178)	-
Profit before taxation	154 141	136 934
Expenses for profit taxes	(15 368)	(27 533)
Net profit for the period	138 773	109 401

Bulgargaz Holding EAD Consolidated Financial Statements

Consolidated cash flow statement
For the annual period as at December 31, 2007

	2007	2006 (recalculated)
BGN thousand		
Operation		
Net profit before taxes	154 141	136 934
Corrections for:		
Amortization	39 823	40 798
Losses from investments in associated companies	178	-
Income from financing	(310)	(368)
Income from interest	(1 019)	(955)
Unused sick leave accruals	1 109	639
Retirement benefits accruals	540	316
Depreciation of trade and other receivables	6 244	19 054
Non-implemented rate margins from revaluations, net	8 656	6 927
Income from revaluation of investments	(412)	-
(Increase) / decrease of receivables	(14 312)	(72 022)
((Increase) / decrease of inventory	(38 915)	(38 390)
(Increase) / decrease of debts	12 967	(3 373)
Paid profit taxes	(17 500)	(15 368)
Net operating cash flow	151 190	74 192
Investment operation		
Purchase of property, plant and equipment	(20 444)	(28 398)
Purchase of fixed intangible assets	(55)	(1 736)
Paid interest	948	955
Acquired investments available for sale	(685)	-
Acquired long-term investments	(242)	-
Net investment operation cash flows	(20 478)	(29 179)
Financial operation		
Paid dividends	(51 550)	(50 081)
Paid bank loan	-	(6 647)
Donations	(168)	-
Net financial operation cash flows	(51 718)	(56 728)
Net increase of cash and cash equivalents	78 994	(11 715)
Cash and cash equivalents at the beginning of the period	151 446	163 161
Cash and cash equivalents at the end of the period	230 440	151 446

Bulgargaz Holding EAD Consolidated Financial Statements

Consolidated equity statement

	Registered equity	Reserves	Reserves from revaluation to justified value	Revaluated reserve	Unallocated profit	Total
Balance as at January 1, 2006	825 311	65 564	-	186 986	33 131	1 110 992
Deregistered trade receivable	-	-	-	-	(4 258)	(4 258)
Effect on assets on deferred taxes of deregistered trade receivable	-	-	-	-	663	663
	825 311	65 564	-	186 986	29 536	1 107 397
Certified profit for 2006 (revaluated)	-	-	-	-	109 401	109 401
Dividends from the profit for 2005	-	-	-	-	(50 081)	(50 081)
Bonuses from the profit for 2005	-	-	-	-	(61)	(61)
Allocation of profit for 2005	-	11 505	-	-	(11 505)	-
Donations	-	(131)	-	-	-	(131)
Equity increase	34 689	(34 689)	-	-	-	-
Transformation into unallocated profit of deregistered property, plant and equipment	-	-	-	(183 469)	183 469	-
Effect from decrease of tax rate of assets on deferred tax originating from revaluated reserve	-	-	-	9 096	-	9 096
Revaluation of properties, plant and equipment	-	-	-	4 656	-	4 656
Change from provisions for assets servicing the transit gas pipeline, transferred to Transgaz S.A.	-	-	-	-	(4 905)	(4 905)
Other expenses for previous years	-	-	-	-	(193)	(193)
Changes to liability on deferred tax	-	-	-	-	221	221
Correction of accountancy errors	-	-	-	178 422	(177 735)	687
Balance as at December 31, 2006 (revaluated)	860 000	42 249	-	195 691	78 147	1 176 087

Balance as at January 1, 2007	860 000	42 249	-	195 691	78 147	1 176 087
Certified profit for 2007	-	-	-	-	138 773	138 773
Increase of equity	140 000	-	-	-	(140 000)	-
Dividends from the profit for 2006	-	-	-	-	(51 550)	(51 550)
Allocation of profit for 2006	-	12 251	-	-	(12 251)	-
Bonuses from the profit for 2006	-	-	-	-	(55)	(55)
Donations	-	(168)	-	-	-	(168)
Transformation of revaluated reserve into unallocated profit for deregistered property, plant and equipment	-	-	-	(126)	126	-
Revaluation of FTA, including increases / (decreases)	-	-	-	(2)	-	(2)
Other changes	-	-	-	-	(10)	(10)
Revaluation of financial assets available for sale	-	-	412	-	-	412
Liability on deferred tax from revaluation to justified value of financial assets available for sale	-	-	(41)	-	-	(41)
Balance as at December 31, 2007	1 000 000	54 332	371	195 563	13 180	1 263 446

Bulgargaz Holding EAD Consolidated Financial Statements

REPORT OF THE INDEPENDENT AUDITOR

To the single owner of the equity of Bulgargaz Holding EAD

Financial statement report

We have performed audit of the applied consolidated financial statement of Bulgargaz Holding EAD (the Group), including balance statement as at December 31, 2007 and income statement, statement of equity change, cash flow statement for the year ending at that date and the summarized reporting of the substantial reporting policies and other explanatory applications. The consolidated financial statement of the Company, executed as at December 31, 2006 has been audited by another auditing company issuing audit report dated June 29, 2007 and has expressed the following unqualified audit opinion.

Responsibility of the management for the financial statement

The company management shall be responsible for the execution and fair presentation of this financial statement in compliance with the IFRS applicable for the EU. This responsibility shall include: development, implementation and support of internal control system, related to the preparation and fair presentation of the financial statement, not containing material misstatements, deviations and discrepancies, regardless of being caused due to fraud or error; selection and application of appropriate accountancy policies; preparation of approximate accountancy evaluations, reasonable under the given juncture.

Responsibility of the auditor

Our responsibility is to express an opinion on these financial statements based on our audit. We also performed audit on the correction of data for the preceding year as describer in note 2 (b), taken into account for the recalculation of the financial statements, executed as at December 31 2006. In our opinion such corrections shall be relevant and have been applied correctly. With the exception of the specified under paragraphs 1, 2, 3 and 4, our audit has been performed in compliance of the requirements of the IAS. Those standards impose compliance with the ethical requirements and the planning and performance of the audit in a way to reasonably convince us the financial statement does not contain any significant misstatements, deviations and discrepancies.

The audit shall include performance of procures with the purpose of obtaining audit proof regarding the amounts and disclosures specified in the financial report. The selected procedures depend on the assessment of the auditor, including the evaluation of risk of any significant misstatements, deviations and discrepancies in the financial statements regardless of being due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. The audit is also evaluation of the relevant of the applied accounting policies and the justification of the approximate accounting evaluations made by the management, plus evaluation of the overall presentation in the financial statement.

We consider the audit we have performed provides sufficient and appropriate basis for our audit opinion.

Opinion

1 As specified in note 18 of the consolidated financial statement, in the Balance of the Group as at December 31, 2007 inventory of 28 106 thousand BGN have been reported, out of which inventory to a value of BGN 21,798 have low circulation rate. On the basis of the performed audit procedures we are reasonably convinced the balance value of the materials as at December 31, 2007 does not exceed their net executable value. Also according to the requirements of the International Audit standards, we have performed audit procedures in order to receive sufficient and adequate audit proof whether the initial balances have contained misstatements, deviations and discrepancies, having relevant effect on the annexed financial statements. We have not been present at the stock-taking of the inventory as at December 31, 2006 because this date precedes our appointment in our capacity as Company auditors. We could not become reasonably convinced of the security of the existence, correctness and the thoroughness of the information submitted for the available material stock as at December 31, 2006, as well as the ensuing effects on the reported income from sales in the financial accounts, including through application of alternative audit procedures.

2 As specified in note 15 of the consolidated financial statement, the Group shall report as fixed assets cushion gas located in the underground gas storage facility Chiren to the amount of BGN 142,985 and minimum quantities of gas required for the functioning of the main and transit gas pipelines for amounts equal to 5,004 thousand BGN and 4,560 thousand BGN respectively. As at the date of execution of the consolidated financial statement, the quantity of natural gas, due for amortization for the remaining lifecycle of the underground gas storage Chiren and the gas pipelines has not been determined and because of this we could not be sufficiently ascertained in the evaluation of the cushion gas and the minimum quantities of natural gas.

3 As specified in note 19 of the consolidated financial statement as at December 31, 2007, the Group shall report long-term and short-term trade and other receivables to a total value of BGN 332,089, net of depreciations. Statements to the amount of BGN 242,278 thousand, net of depreciation, shall be receivables from companies in a difficult financial status and due to this they have paid their debts out of time and with delay and/or have negotiated deferment payment plans. Under the conditions of limited information of the cash flows they could generate in the near future, we could not be reasonably convinced the receivables have been presented in compliance with the requirements of the IAS 39 "Financial instruments" as at December 31, 2007 and December 31, 2006, as well as in the evaluation of the resulting effects in the statement of income and deferred annual taxes.

4 As specified in note 29 (b) of the consolidated financial statement, a provision for debts for price for access to third party facilities of users connected to the gas transfer network have not been accrued as at the date of execution of the consolidated financial statement. As a result of the performed audit procedures, we have not been able to ascertain whether an obligation under the legal provisions exists for the Group.

In our opinion, with the exception of the effect from the corrections, if such exist, that could be determined as being required, in case we have been able to convince ourselves of the value of the assessment for the refundable amount of trade and other receivables, of initial and final balances of inventory, in the evaluation of the cushion gas and the minimum quantities of natural gas, as well as the obligation for price for access to third party facilities, mentioned in paragraphs from 1 to 4, the consolidated financial statement presents in a reliable way and in all relevant aspects the financial status of Bulgargaz Holding EAD as at December 31, 2007, as well as the consolidated financial results from the Group operation and the consolidated financial assets for the year ending at that date in compliance with the IFRS, approved for application by the EC.

Without qualifying our opinion to this end, we would like to accentuate upon the following facts, expressed by the Management in the notes to the consolidated financial statement:

1 As specified in note 3 (c) to the consolidated financial statement, the Group has taken steps to perform revaluation of property, plant and equipment in 2008, as a result of which possible changes in the value of assets could be reported.

2 As specified in note 29 (a) to the consolidated financial statement, no accruals have been made in relation to the trade with emissions of greenhouse gases have been performed. Following approval of the National plan for allocation of quotas for trade with greenhouse gases, in case of determining of lower quotas, debts in relation to exceeding of quotas allocated for the Group could possibly occur.

Report on other legal and supervisory requirements

The annual report for the operation of the Company according to the requirements of article 33 of the Accountancy Act

According to the provisions of the Accountancy Act, we hereby report the financial data recorded by the Management and submitted to the annual company operation statement according to article 33 of the Accountancy Act shall, shall comply in all relevant aspects to the financial information contained in the audited consolidated financial statement of the Company as at the year ending December 31, 2007. The Company Management shall be responsible for execution of the annual company operation statement, approved by the Board of Directors on June 30, 2008.

KMPG Bulgaria OOD
Sofia, June 30, 2008

Krasimir Hadzhidinev
Manager

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Antoaneta Boycheva
Certified Auditor



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