For the year ended 31 December 2015

1. Corporate information

The individual financial statements of FLAG JCS (the Company) for the year ended 31 December 2015, were authorized for issue by a decision of the Board of Directors dated 23 March 2016.

FLAG JSC is a joint-stock company incorporated by virtue of Decision No 1 dated 4 July 2007 under company file 10151/2007 of the Sofia City Court, having its seat in the city of Sofia, Sofia Region, Bulgaria. The financial year of the Company ends on 31 December.

These financial statements are individual financial statements, and have been prepared in accordance with the requirements of the law effective in Bulgaria.

The company has made arrangements and consolidated financial statements for 2015 will be prepared in accordance with IFRS, as adopted by the European Union and in force in 2015. In line with the tentative schedule the management expects that the consolidated report will be finalised and approved by the Board of Directors by 30 April 2016 at the latest and will thereafter be available to third parties.

The core activity of the Company includes financing of municipal infrastructure and other projects for consideration and co-financing the development and implementation of projects of the European Union.

As at 31 December 2015 the shareholders of the Company include:
Republic of Bulgaria represented by the Minister of Regional Development and Public Works - 100 percent.

2.1 Basis of preparation of the financial statements

The individual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). They have been prepared under the historical cost convention.
The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.2 o).

Adoption of new and revised IFRSs
During the current year the Company adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2015. This adoption did not have a material effect on the accounting policies of the Company.

At the date of approval of these financial statements, standards and interpretations were issued by the International Accounting Standards Board (IASB) which were not yet effective. Some of them were adopted by the European Union and others not yet. The Board of Directors expects that the adoption of these accounting standards in future periods will not have a material effect on the financial statements of the Company.

Standards issued by IASB/IFRIC and endorsed by EU, but not yet effective and not early adopted
Standards issued but not yet effective and not early adopted up to the date of issuance of the Company's financial statements are listed below. The Company intends to adopt those standards when they become effective.

Amendments to IAS 1 Presentation of Financial Statements: Disclosure Initiative
These amendments are effective for annual periods starting on or after 1 January 2016. The Company is in the process of assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2012-2014 Cycle
These set of amendments impacts four standards: IFRS 5 Non-current assets held for sale and discontinued operations regarding methods of disposal, IFRS 7 Financial instruments: Disclosures, (with consequential amendments to IFRS 1) regarding servicing contracts, IAS 19 Employee benefits regarding discount rates, IAS 34 Interim financial reporting regarding disclosure of information. These improvements are effective for annual periods starting on or after 1 January 2016. The Company is in the process of assessing the impact of the improvements on its financial statements.

2.1 Basis of preparation of the financial statements (continued)

Amendments to IAS 27 Equity Method on Separate Financial Statements
These amendments are effective for annual periods starting on or after 1 January 2016. The Company is in the process of assessing the impact of the amendments on its financial statements.

Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture: Bearer Plants
These amendments are effective for annual periods starting on or after 1 January 2016. The Company is in the process of assessing the impact of the amendments on its financial statements.

Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization
These amendments are effective for annual periods starting on or after 1 January 2016. The Company is in the process of assessing the impact of the amendments on its financial statements.

Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
These amendments are effective for annual periods starting on or after 1 January 2016. The Company is in the process of assessing the impact of the amendments on its financial statements.

Standards issued by IASB, but not yet effective and not yet endorsed by EU

IFRS 9 *Financial Instruments*
The new standard is effective for annual periods beginning on or after 1 January 2018. The Company is in process of assessing the impact of the new standard on its financial position or performance.

IFRS 14 Regulatory Deferral Accounts
The new standard is effective for annual periods starting on or after 1 January 2016. Endorsement process is postponed by EU for indefinite period. The Company is in process of assessing the impact of the new standard on its financial statements.

IFRS 15 Revenue from Contracts with Customers
The new standard is effective for annual periods starting on or after 1 January 2018. The Company is in the process of assessing the impact of the new standard on its financial statements.

IFRS 16 Leases
The new standard is effective for annual periods starting on or after 1 January 2019. The Company is in the process of assessing the impact of the new standard on its financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28: Investment entities: Applying the Consolidation Exception.

These amendments are effective for annual periods starting on or after 1 January 2016. The Company is in the process of assessing the impact of the amendments on its financial statements.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The effective date is deferred indefinitely. The adoption of these amendments by EU is postponed. The Company is in the process of assessing the impact of the amendments on its financial statements.

Amendment to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses
These amendments are effective for annual periods starting on or after 1 January 2017. The Company is in the process of assessing the impact of the amendments on its financial statements.

Amendment to IAS 7: Disclosure Initiative
These amendments are effective for annual periods starting on or after 1 January 2017. The Company is in the process of assessing the impact of the amendments on its financial statements.

2.2 Summary of significant accounting policies

a) Foreign currency conversion

The financial statements are presented in Bulgarian Levas (BGN), which is the Company's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the end of each month by applying the closing exchange rate published by the Bulgarian National Bank for the last working day of the respective month. All foreign currency differences are recognised in the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the exchange rate as at the date of the initial transaction (acquisition).

b) Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or due based on the agreed payment terms, net of discounts, rebates, and other sales taxes or customs duties. The Company analyses its selling arrangements against specific criteria to determine whether it acts as a principal or as an agent. It has concluded that it acts as principal in all such arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Interest income

Interest income is recognised using the effective interest rate, i.e. the interest rate that discounts exactly the estimated future cash flows over the estimated useful life of the financial instrument, or a shorter period where appropriate, to the carrying amount of the financial asset.

The calculation includes all fees and consideration paid or received to/from the parties to the contract that are an integral part of the effective interest rate, transaction costs and any other premiums or discounts.

Interest income is included in finance income in the statement of comprehensive income.

Service delivery

The income from service delivery is recognised in the period in which the services were delivered.

c) Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date. Management analyses the individual items of the tax return for which the applicable tax provisions are subject to interpretation and recognises provisions where appropriate.

Current income tax is recognised directly in the equity (and not in the statement of comprehensive income) where the tax relates to items that have been recognised directly in the equity.

c) Taxes

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.2 Summary of significant accounting policies (continued)

c) Taxes (continued)

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed by the Company at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset by the Company only if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

d) Financial instruments – initial recognition and subsequent measurement

- **Financial assets**

Initial recognition

Financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, or loans and receivables, or held-to-maturity investments, or available-for-sale financial assets, or derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place (regular purchases) are recognised on the trade (transaction) date, which is the date that the Company commits to purchase or sell the asset.

Financial assets of the Company include cash and cash equivalents, loans granted, trade and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification, as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method (EIR), less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised as other expenses in the statement of comprehensive income.